131 Consolidated financial statements

132 Consolidated statement of financial position
134 Consolidated income statement
135 Consolidated statement of comprehensive income
136 Consolidated statement of changes in equity
138 Consolidated statement of cash flows
139 Notes to the consolidated financial statements

139 Summary of accounting policies

139 General information
139 Basis of preparation
140 Initial application of standards, interpretations and amendments to standards and interpretations in the financial year
141 Standards, interpretations and amendments issued, but not yet adopted
143 Changes in accounting policies and changes in the reporting structure
143 Accounting policies
152 Judgments and estimates
155 Consolidated group
156 Business combinations and other transactions
158 Pro forma information
158 Principal subsidiaries
159 Consolidation methods
159 Currency translation

160 Notes to the consolidated statement of financial position

160 1 Cash and cash equivalents
160 2 Trade and other receivables
161 3 Inventories
161 4 Non-current assets and disposal groups held for sale
162 5 Intangible assets
166 6 Property, plant and equipment
167 7 Investments accounted for using the equity method
168 8 Other financial assets
168 9 Other assets
169 10 Financial liabilities
173 11 Trade and other payables
173 12 Provisions for pensions and other employee benefits
177 13 Other provisions
178 14 Other liabilities
178 15 Shareholders' equity

180 Notes to the consolidated income statement

180 16 Net revenue
180 17 Cost of sales
180 18 Selling expenses
180 19 General and administrative expenses
180 20 Other operating income
180 21 Other operating expenses
181 22 Finance costs
181 23 Share of profit/loss of associates and joint ventures accounted for using the equity method
182 24 Other financial income/expense
182 25 Income taxes
187 26 Profit/loss attributable to non-controlling interests
187 27 Earnings per share
188 28 Dividend per share
188 29 Average number of employees and personnel costs
189 30 Depreciation, amortization and impairment losses

190 Other disclosures

190 31 Notes to the consolidated statement of cash flows
191 32 Segment reporting
195 33 Contingent liabilities and assets
198 34 Disclosures on leases
200 35 Mid-term incentive plans (MTIPs)/Phantom share plan/ Share-based compensation plans
204 36 Disclosures on financial instruments
208 37 Risk management, financial derivatives, and other disclosures on capital management
213 38 Related party disclosures
213 39 Compensation of the Board of Management and the Supervisory Board
221 40 Declaration of conformity with the German Corporate Governance Code in accordance with § 161 AktG
221 41 Events after the reporting period
221 42 Auditors' fees and services in accordance with § 314 HGB

222 Responsibility statement

223 Auditors' report

Consolidated statement of financial position.

	Note	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Assets			
Current assets		**15,243**	**23,012**
Cash and cash equivalents	1	2,808	5,022
Trade and other receivables	2	6,889	6,757
Current recoverable income taxes	25	224	144
Other financial assets	8	2,372	2,001
Inventories	3	1,310	1,174
Non-current assets and disposal groups held for sale	4	51	6,527
Other assets	9	1,589	1,387
Non-current assets		**112,569**	**104,762**
Intangible assets	5	53,807	51,705
Property, plant and equipment	6	44,298	45,468
Investments accounted for using the equity method	7	7,242	147
Other financial assets	8	1,695	1,739
Deferred tax assets	25	5,129	5,162
Other assets	9	398	541
Total assets		**127,812**	**127,774**

	Note	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Liabilities and shareholders' equity			
Current liabilities		**26,452**	**24,794**
Financial liabilities	10	11,689	9,391
Trade and other payables	11	6,750	6,304
Income tax liabilities	25	545	511
Other provisions	13	3,193	3,369
Liabilities directly associated with non-current assets and disposal groups held for sale	4	–	1,423
Other liabilities	14	4,275	3,796
Non-current liabilities		**58,332**	**61,043**
Financial liabilities	10	38,857	41,800
Provisions for pensions and other employee benefits	12	6,373	6,179
Other provisions	13	1,628	2,161
Deferred tax liabilities	25	7,635	7,153
Other liabilities	14	3,839	3,750
Liabilities		**84,784**	**85,837**
Shareholders' equity	15	**43,028**	**41,937**
Issued capital		11,063	11,165
Treasury shares		(5)	(5)
		11,058	**11,160**
Capital reserves		51,635	51,530
Retained earnings including carryforwards		(24,355)	(20,951)
Total other comprehensive income		(2,017)	(3,576)
Total other comprehensive income directly associated with non-current assets and disposal groups held for sale		–	(2,162)
Net profit (loss)		1,695	353
Issued capital and reserves attributable to owners of the parent		**38,016**	**36,354**
Non-controlling interests		5,012	5,583
Total liabilities and shareholders' equity		**127,812**	**127,774**

Consolidated income statement.

	Note	2010 millions of €	2009 millions of €	2008 millions of €
Net revenue	16	**62,421**	**64,602**	**61,666**
Cost of sales	17	(35,725)	(36,259)	(34,592)
Gross profit		**26,696**	**28,343**	**27,074**
Selling expenses	18	(14,620)	(15,863)	(15,952)
General and administrative expenses	19	(5,252)	(4,653)	(4,821)
Other operating income	20	1,498	1,504	1,971
Other operating expenses	21	(2,817)	(3,319)	(1,232)
Profit from operations		**5,505**	**6,012**	**7,040**
Finance costs	22	(2,500)	(2,555)	(2,487)
Interest income		349	341	408
Interest expense		(2,849)	(2,896)	(2,895)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	23	(57)	24	(388)
Other financial income (expense)	24	(253)	(826)	(713)
Profit (loss) from financial activities		**(2,810)**	**(3,357)**	**(3,588)**
Profit before income taxes		**2,695**	**2,655**	**3,452**
Income taxes	25	(935)	(1,782)	(1,428)
Profit (loss)		**1,760**	**873**	**2,024**
Profit (loss) attributable to		**1,760**	**873**	**2,024**
Owners of the parent (net profit (loss))		1,695	353	1,483
Non-controlling interests	26	65	520	541
Earnings per share	27			
Basic	€	0.39	0.08	0.34
Diluted	€	0.39	0.08	0.34

Consolidated statement of comprehensive income.

	2010 millions of €	2009 millions of €	2008 millions of €
Profit (loss)	**1,760**	**873**	**2,024**
Actuarial gains and losses on defined benefit pension plans	(32)	(461)	227
Revaluation due to business combinations	(2)	(38)	0
Exchange differences on translating foreign operations			
Recognition of other comprehensive income in income statement	2,151	–	–
Change in other comprehensive income (not recognized in income statement)	1,547	(211)	(352)
Available-for-sale financial assets			
Recognition of other comprehensive income in income statement	0	0	0
Change in other comprehensive income (not recognized in income statement)	(3)	(4)	1
Fair value measurement of hedging instruments			
Recognition of other comprehensive income in income statement	0	8	(101)
Change in other comprehensive income (not recognized in income statement)	58	(56)	60
Share of profit (loss) of investments accounted for using the equity method	28	–	–
Other income and expense recognized directly in equity	0	11	(8)
Income taxes relating to components of other comprehensive income	(5)	138	(53)
Other comprehensive income	**3,742**	**(613)**	**(226)**
Total comprehensive income	**5,502**	**260**	**1,798**
Total comprehensive income attributable to	**5,502**	**260**	**1,798**
Owners of the parent	5,443	(261)	1,251
Non-controlling interests	59	521	547

Consolidated statement of changes in equity.

	Issued capital and reserves attributable to owners of the parent					
	Number of shares	Equity contributed			Consolidated shareholders' equity generated	
		Issued capital	Treasury shares	Capital reserves	Retained earnings incl. carryforwards	Net profit (loss)
	thousands	millions of €	millions of €	millions of €	millions of €	millions of €
Balance at January 1, 2008	**4,361,298**	**11,165**	**(5)**	**51,524**	**(16,218)**	**571**
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					571	(571)
Dividends					(3,386)	
Proceeds from the exercise of stock options	22			2		
Profit (loss)						1,483
Other comprehensive income					166	
Transfer to retained earnings					106	
Balance at December 31, 2008	**4,361,320**	**11,165**	**(5)**	**51,526**	**(18,761)**	**1,483**
Balance at January 1, 2009	**4,361,320**	**11,165**	**(5)**	**51,526**	**(18,761)**	**1,483**
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					1,483	(1,483)
Dividends					(3,386)	
Proceeds from the exercise of stock options				4		
Profit (loss)						353
Other comprehensive income					(333)	
Transfer to retained earnings					46	
Balance at December 31, 2009	**4,361,320**	**11,165**	**(5)**	**51,530**	**(20,951)**	**353**
Balance at January 1, 2010	**4,361,320**	**11,165**	**(5)**	**51,530**	**(20,951)**	**353**
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					353	(353)
Dividends					(3,386)	
Proceeds from the exercise of stock options				3	2	
Capital decrease	(40,001)	(102)		102	(400)	
Profit (loss)						1,695
Other comprehensive income					(52)	
Transfer to retained earnings					79	
Balance at December 31, 2010	**4,321,319**	**11,063**	**(5)**	**51,635**	**(24,355)**	**1,695**

Issued capital and reserves attributable to owners of the parent							**Non-controlling interests**	**Total shareholders' equity**
Total other comprehensive income						**Total**		
Translation of foreign operations millions of €	Revaluation surplus millions of €	Available-for-sale financial assets millions of €	Cash flow hedges millions of €	Other comprehensive income millions of €	Taxes millions of €	millions of €	millions of €	millions of €
(5,999)	**308**	**2**	**1,126**	**0**	**(344)**	**42,130**	**3,115**	**45,245**
						0	(2)	(2)
						0		0
						(3,386)	(545)	(3,931)
						2		2
						1,483	541	2,024
(357)		1	(41)	(11)	10	(232)	6	(226)
	(106)					0		0
(6,356)	**202**	**3**	**1,085**	**(11)**	**(334)**	**39,997**	**3,115**	**43,112**
(6,356)	**202**	**3**	**1,085**	**(11)**	**(334)**	**39,997**	**3,115**	**43,112**
						0	2,783	2,783
						0		0
						(3,386)	(840)	(4,226)
						4	4	8
						353	520	873
(221)	(38)	(6)	(48)	11	21	(614)	1	(613)
	(46)					0		0
(6,577)	**118**	**(3)**	**1,037**	**0**	**(313)**	**36,354**	**5,583**	**41,937**
(6,577)	**118**	**(3)**	**1,037**	**0**	**(313)**	**36,354**	**5,583**	**41,937**
						0	(23)	(23)
						0		0
						(3,386)	(612)	(3,998)
						5	5	10
						(400)		(400)
						1,695	65	1,760
3,734	(2)	(1)	85		(16)	3,748	(6)	3,742
	(79)					0		0
(2,843)	**37**	**(4)**	**1,122**	**0**	**(329)**	**38,016**	**5,012**	**43,028**

Consolidated statement of cash flows.

	Note	2010 millions of €	2009 millions of €	2008 millions of €
	31			
Profit (loss)		**1,760**	**873**	**2,024**
Depreciation, amortization and impairment losses		11,808	13,894	10,975
Income tax expense (benefit)		935	1,782	1,428
Interest income and interest expense		2,500	2,555	2,487
Other financial (income) expense		253	826	713
Share of (profit) loss of associates and joint ventures accounted for using the equity method		57	(24)	388
(Profit) loss on the disposal of fully consolidated subsidiaries		349	(26)	(455)
Other non-cash transactions		(21)	(230)	(147)
(Gain) loss from the disposal of intangible assets and property, plant and equipment		90	51	70
Change in assets carried as working capital		(243)	1,936	286
Change in provisions		(68)	(891)	493
Change in other liabilities carried as working capital		(209)	(1,818)	(130)
Income taxes received (paid)		(819)	(928)	(520)
Dividends received		412	29	13
Net payments from entering into or canceling interest rate swaps		265	242	–
Cash generated from operations		**17,069**	**18,271**	**17,625**
Interest paid		(3,223)	(3,456)	(3,431)
Interest received		885	980	1,174
Net cash from operating activities		**14,731**	**15,795**	**15,368**
Cash outflows for investments in				
Intangible assets		(2,978)	(1,598)	(1,799)
Property, plant and equipment		(6,873)	(7,604)	(6,908)
Non-current financial assets		(997)	(176)	(3,261)
Investments in fully consolidated subsidiaries and business units		(448)	(1,007)	(1,030)
Proceeds from disposal of				
Intangible assets		26	7	34
Property, plant and equipment		318	369	338
Non-current financial assets		162	99	102
Investments in fully consolidated subsidiaries and business units		4	116	778
Net change in short-term investments and marketable securities and receivables		491	(320)	611
Net change in cash and cash equivalents due to the first-time full consolidation of OTE		–	1,558	–
Other		(416)	(93)	(249)
Net cash used in investing activities		**(10,711)**	**(8,649)**	**(11,384)**
Proceeds from issue of current financial liabilities		30,046	3,318	39,281
Repayment of current financial liabilities		(34,762)	(9,314)	(44,657)
Proceeds from issue of non-current financial liabilities		3,219	5,379	6,477
Repayment of non-current financial liabilities		(149)	(93)	(96)
Dividend payments		(4,003)	(4,287)	(3,963)
Proceeds from the exercise of stock options		–	2	3
Share buy-back		(400)	–	–
Repayment of lease liabilities		(139)	(128)	(142)
Other		(181)	–	–
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, at the beginning of the year		**5,022**	**3,026**	**2,200**
Cash and cash equivalents, at the end of the year		**2,808**	**5,022**	**3,026**

Notes to the consolidated financial statements.
Summary of accounting policies.

General information.

The Deutsche Telekom Group (hereinafter referred to as “Deutsche Telekom” or the “Group”) is one of the world’s leading service providers in the telecommunications and information technology sector. Deutsche Telekom offers its customers all kinds of products and services for connected life and work. The Group reports on the four operating segments Germany, Europe, United States, and Systems Solutions, as well as on Group Headquarters & Shared Services.

The Company was entered as Deutsche Telekom AG in the commercial register of the Bonn District Court (Amtsgericht – HRB 6794) on January 2, 1995.

The Company has its registered office in Bonn, Germany. Its address is Deutsche Telekom AG, Friedrich-Ebert-Allee 140, 53113 Bonn.

The declaration of conformity with the German Corporate Governance Code required pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG) was released and made available to shareholders. This Declaration of Conformity can be found on the Deutsche Telekom website (www.telekom.com) via the following path: Investor Relations/ Corporate Governance/Declaration of Conformity.

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

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

The consolidated financial statements of Deutsche Telekom for the 2010 financial year were released for publication by the Board of Management on February 18, 2011.

Basis of preparation.

The consolidated financial statements of Deutsche Telekom have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the regulations under commercial law as set forth in § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB). All IFRSs issued by the International Accounting Standards Board (IASB), effective at the time of preparing the consolidated financial statements and applied by Deutsche Telekom, have been adopted for use in the EU by the European Commission. The consolidated financial statements of Deutsche Telekom thus also comply with IFRS as issued by the IASB. Therefore the term IFRS is used in the following.

The financial year corresponds to the calendar year. The consolidated statement of financial position includes comparative amounts for one reporting date. The consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows include two comparative years.

Presentation in the statement of financial position differentiates between current and non-current assets and liabilities, which are generally broken down further by their respective maturities in the notes to the financial statements. The consolidated income statement is presented using the cost-of-sales method. Under this format, net revenue is compared against the expenses incurred to generate these revenues, classified into cost of sales, selling, and general and administrative functions. The consolidated financial statements are prepared in euros.

The financial statements of Deutsche Telekom AG and its subsidiaries included in the consolidated financial statements were prepared using uniform group accounting policies.

Initial application of standards, interpretations and amendments to standards and interpretations in the financial year.

In the financial year, Deutsche Telekom applied the following IASB pronouncements and/or amendments to such pronouncements for the first time:

Pronouncement	Date of issue by the IASB	Title
IFRS 3/IAS 27	January 10, 2008	Business Combinations/Consolidated and Separate Financial Statements
IAS 39	July 31, 2008	Financial Instruments: Recognition and Measurement
IFRIC 17	November 27, 2008	Distribution of Non-Cash Assets to Owners
IAS 24	November 4, 2009	Related Party Disclosures
Annual Improvements Project	April 16, 2009	Improvements to IFRSs
IFRS 2	June 18, 2009	Share-based Payment

IFRS 3 "Business Combinations" and **IAS 27 "Consolidated and Separate Financial Statements."** The standards are the result of the second phase of the project undertaken jointly with the Financial Accounting Standards Board (FASB) to reform the accounting for business combinations. The revised IFRS 3 and IAS 27 were endorsed by the European Union in June 2009. Deutsche Telekom has applied the revised standards prospectively since January 1, 2010 to transactions and business combinations. The figures for prior-year periods have not been adjusted.

The main changes that the revised **IFRS 3** has made to the previous requirements are described below:

- The revised IFRS 3 gives the option of measuring non-controlling interests either at fair value or at the proportionate share of the net identifiable assets. This option can be exercised for each business combination individually.
- In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at the date the acquirer obtains control. Goodwill shall be determined as the difference between the remeasured carrying amount plus consideration transferred for the acquisition of the new shares, minus net assets acquired.
- Contingent consideration shall be measured at fair value at the acquisition date and classified either as equity, or as asset or liability at the acquisition date. Agreed contingent consideration shall be recognized subsequently in accordance with the classification determined at the acquisition date.
- Acquisition-related costs incurred in connection with business combinations shall be recognized as expenses.
- For changes in contingent considerations to be recognized at the acquisition date, goodwill cannot be remeasured subsequently.
- According to the revised IFRS 3, effects from the settlement of relationships existing prior to the business combination shall not be part of the exchange for the acquiree.
- In contrast to the previous version of IFRS 3, the revised standard governs the recognition and measurement of rights that were granted to another entity prior to the business combination and which are now reacquired as part of the business combination (reacquired rights).

The main changes that the revised **IAS 27** has made to the previous requirements are described below:

- Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control shall only be accounted for within equity.
- If a parent loses control of a subsidiary, it shall derecognize the consolidated assets and liabilities. The new requirement is that any investment retained in the former subsidiary shall be recognized at fair value at the date when control is lost; any differences resulting from this shall be recognized in profit or loss.
- When losses attributed to the non-controlling interests exceed the non-controlling interests in the subsidiary's equity, these losses shall be allocated in full to the non-controlling interests.

IAS 39 "Financial Instruments: Recognition and Measurement." The European Union endorsed the amendment to IAS 39 in September 2009. The amendment on eligible hedged items specifies that an entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable. Deutsche Telekom has observed the amendment to IAS 39 since January 1, 2010. The provisions are to be applied retrospectively. The amendment did not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

IFRIC 17 "Distribution of Non-Cash Assets to Owners." The European Union endorsed IFRIC 17 in November 2009. The interpretation provides guidance on the recognition and measurement of liabilities arising from dividends paid in the form of assets other than cash (e.g., property, plant and equipment) and clarifies how any difference between the carrying amount of the assets distributed and the fair value of the dividend paid should be accounted for. Deutsche Telekom has applied IFRIC 17 since January 1, 2010. The adoption of IFRIC 17 did not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

IAS 24 "Related Party Disclosures." In November 2009, the IASB issued amendments to IAS 24. Previously, entities that are controlled or significantly influenced by a government had been required to disclose information about all transactions with entities that are controlled or significantly influenced by the same state. The revised standard still requires disclosures that are important to users of financial statements. However, in the future, information that is costly to produce or that is of little value for users of financial statements will be exempt from this requirement. Only information on transactions that are individually or collectively significant is still to be disclosed. In addition, the definition of a related party was simplified and a number of inconsistencies were eliminated. The European Union endorsed these amendments in July 2010. The revised standard is effective retrospectively for financial years beginning on or after January 1, 2011. Earlier application is permitted. Deutsche Telekom has applied the amendment to IAS 24 since January 1, 2010. These amendments did not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

"Improvements to IFRSs." This is the second Annual Improvements Project which aims to amend twelve existing standards and interpretations. The European Union endorsed the amendments in March 2010. Deutsche Telekom has applied the amendments since January 1, 2010. The amendments did not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

IFRS 2 "Share-based Payment." These amendments clarify the accounting for group-settled share-based payment transactions. In these arrangements, the subsidiary receives goods or services from employees or suppliers, but its parent or another entity in the group must pay those suppliers. The European Union endorsed these amendments in March 2010. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The IASB additionally clarified that in IFRS 2 a "group" has the same meaning as in IAS 27 "Consolidated and Separate Financial Statements." The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions." As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. Deutsche Telekom has applied the amendment to IFRS 2 since January 1, 2010. The amendments did not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

Standards, interpretations and amendments issued, but not yet adopted.

In October 2009, the IASB issued an amendment to **IAS 32 "Financial Instruments: Presentation."** The European Union endorsed this amendment in December 2009. This amendment clarifies the classification of rights issues as equity or liabilities when the rights are denominated in a currency other than the issuer's functional currency. Previously, such rights issues had been accounted for as derivative liabilities. The amendment requires that if such rights are issued pro rata to an entity's shareholders for a fixed amount of currency, they are to be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is effective for financial years beginning on or after February 1, 2010. The amendment is not expected to have a material impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

In November 2009, the IASB issued **IFRS 9 "Financial Instruments."** The European Union has not yet endorsed the amendments. The standard is the result of the first of three phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9. IFRS 9 governs the classification and measurement of financial assets. The rules for impairment of financial instruments and hedge accounting are currently being revised by the IASB. IFRS 9 requires financial assets to be assigned to one of the following two measurement categories: "at amortized cost" or "at fair value." IFRS 9 also grants a fair value option which allows financial assets that would normally be assigned to the "at amortized cost" category to be designated as "at fair value" if the fair value designation would eliminate or significantly reduce measurement or recognition inconsistency.

It is mandatory to assign equity instruments to the “at fair value” category. If, however, the equity instrument is not held for trading, the standard allows an irrevocable option to be made at initial recognition to designate it as “at fair value” through other comprehensive income. Dividend income resulting from the equity instrument is recognized in profit or loss. IFRS 9 is effective for financial years beginning on or after January 1, 2013. The provisions are to be applied retrospectively. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

In November 2009, the IASB issued an amendment to its requirements on accounting for pension plans. The European Union endorsed the amendment in July 2010. The amendment is to **IFRIC 14 “Prepayments of a Minimum Funding Requirement,”** which is an interpretation of IAS 19 “Employee Benefits.” The amendment applies in limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover these requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendment has an effective date for mandatory adoption of January 1, 2011. Retrospective adoption is required. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

In November 2009, the IASB issued the interpretation **IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments.”** The European Union endorsed IFRIC 19 in July 2010. The interpretation provides guidance on how to interpret IFRS when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept equity instruments to settle the financial liabilities fully or partially. IFRIC 19 clarifies that the entity’s equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability fully or partially. In addition, these equity instruments are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. Any difference between the carrying amount of the financial liability and the initial measurement amount of the equity instruments issued is included in the entity’s profit or loss for the period. The interpretation is effective for financial years beginning on or after July 1, 2010. The adoption of IFRIC 19 is not expected to have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows.

In May 2010, the IASB published pronouncements as part of its third **Annual Improvements Project** containing amendments to six standards and one interpretation. The European Union has not yet endorsed the amendments. The amendments do not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows and are effective for financial years beginning on or after January 1, 2011.

In October 2010, the IASB issued the pronouncement “Disclosures – Transfers of Financial Assets” as an amendment to **IFRS 7 “Financial Instruments: Disclosures.”** The amendment requires quantitative and qualitative disclosures to be made for transfers of financial assets where the transferred assets are not derecognized in their entirety or the transferor retains continuing involvement. The amendment is intended to provide greater transparency around such transactions (e.g., securitizations) and help users understand the possible effects of any risks that may remain with the entity that transferred the assets. The amendment also requires supplementary information to be disclosed if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period. The amendments are applicable for financial years beginning on or after July 1, 2011. The European Union has not yet endorsed this pronouncement. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

Also in October 2010, the IASB issued requirements on accounting for financial liabilities. These are integrated into **IFRS 9 “Financial Instruments”** and replace the existing provisions on this subject in IAS 39 “Financial Instruments: Recognition and Measurement.” In the new pronouncement, the requirements relating to recognition and derecognition as well as most of the requirements for classification and measurement are carried forward unchanged from IAS 39. However, the requirements related to the fair value option for financial liabilities are changed in the new IFRS 9 to address own credit risk and the prohibition of fair value measurement is eliminated for derivative liabilities that are linked to an unquoted equity instrument and must be settled by delivery of an unquoted equity instrument. The pronouncement is effective for financial years beginning on or after January 1, 2013. The European Union has not yet endorsed this pronouncement. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

In December 2010, the IASB issued the pronouncements **"Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12."** The amendment sets presumptions for the recovery of certain assets. This is relevant in those cases where different tax consequences can arise depending on how the carrying amounts are recovered. The pronouncement introduces a rebuttable presumption that the carrying amount of an investment property that is measured using the fair value model in IAS 40 "Investment Property" will be recovered through sale. In any case, there is also a non-rebuttable presumption that the carrying amount of a non-depreciable asset that is measured using the fair value model in IAS 16 "Property, Plant and Equipment" will be recovered through sale. Interpretation SIC 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" was replaced by the new pronouncement. The pronouncement is effective for financial years beginning on or after January 1, 2012 and has not yet been endorsed by the European Union. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

Changes in accounting policies and changes in the reporting structure.

Deutsche Telekom did not make any major changes to its accounting policies in the 2010 financial year. The structure of the operating segments was changed as follows to reflect the realigned management structure of the Europe and Southern and Eastern Europe operating segments.

The Europe and Southern and Eastern Europe operating segments were merged on April 1, 2010 to form the new Europe operating segment. This new operating segment encompasses all activities of the fixed-network and mobile communications enterprises of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Albania, the F.Y.R.O. Macedonia, Montenegro, Bulgaria, and the joint venture in the United Kingdom as well as the International Carrier Sales and Services unit, which mainly provides wholesale telecommunications services for the Group's other operating segments. All descriptions in the notes to the consolidated financial statements and in the combined management report were retrospectively modified to reflect this change.

Since April 1, 2010, Deutsche Telekom has therefore reported on the four operating segments Germany, Europe, United States, and Systems Solutions, as well as on Group Headquarters & Shared Services.

Accounting policies.

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

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

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

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

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

Mobile communications licenses	Years
FCC licenses	Indefinite
UMTS licenses	4 to 14
GSM licenses	1 to 14

Development expenditures are capitalized if they meet the criteria for recognition as assets and are amortized over their useful lives. **Research expenditures** are not capitalized and are expensed as incurred.

Goodwill is not amortized, but is tested for impairment based on the recoverable amount of the cash-generating unit to which the goodwill is allocated (impairment-only approach). For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment test must be performed annually, as well as whenever there are indications that the carrying amount of the cash-generating unit is impaired. If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit must be reduced in the amount of the difference. Impairment losses for goodwill may not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro-rata reduction of the carrying amounts of the assets allocated to the cash-generating unit. Deutsche Telekom determines the recoverable amount of a cash-generating unit based on its fair value less costs to sell, unless a higher value in use can be determined. The fair value less costs to sell is usually determined based on discounted cash flow calculations. These discounted cash flow calculations use projections that are based on financial budgets approved by management covering a ten-year period and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the ten-year period are extrapolated using appropriate growth rates. Key assumptions on which management has based its determination of fair value less costs to sell include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, growth rates and discount rates. Cash flow calculations are supported by external sources of information.

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

On disposal of an item of property, plant and equipment or when no future economic benefits are expected from its use or disposal, the carrying amount of the item is derecognized. The gain or loss arising from the disposal of an item of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognized as other operating income or other operating expenses when the item is derecognized. The useful lives of material asset categories are presented in the following table:

	Years
Buildings	25 to 50
Telephone facilities and terminal equipment	3 to 10
Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment and technical equipment for broadband distribution networks	2 to 12
Broadband distribution networks, outside plant networks and cable conduit lines	8 to 35
Other equipment, operating and office equipment	2 to 23

Leasehold improvements are depreciated over the shorter of their useful lives or applicable lease terms.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Deutsche Telekom defines qualifying assets as construction projects or other assets for which a period of at least twelve months is necessary in order to get them ready for their intended use or sale. Borrowing costs relating to assets measured at fair value and to inventories that are manufactured or produced in large quantities on a repetitive basis are not capitalized, even if it takes a substantial period of time to get the assets ready for use or sale.

Impairment of intangible assets and items of property, plant and equipment is identified by comparing the carrying amount with the recoverable amount. If no future cash flows generated independently of other assets can be allocated to the individual assets, recoverability is tested on the basis of the cash-generating unit to which the assets can be allocated. At each reporting date, Deutsche Telekom assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or cash-generating unit must be determined. In addition, annual impairment tests are carried out for intangible assets with indefinite useful lives (FCC licenses). Indefinite-lived intangible assets are not amortized, but are tested for impairment based on the recoverable amount of a cash-generating unit. Impairment losses are reversed if the reasons for recognizing the original impairment loss no longer apply and the asset is recognized at a value that would have been applied if no impairment loss had been recognized in prior periods.

The recoverable amount of the cash-generating units is generally determined using discounted cash flow calculations. Cash flows are projected over the estimated useful life of the asset or cash-generating unit. The discount rate used reflects the risk specific to the asset or cash-generating unit. The cash flows used reflect management assumptions and are supported by external sources of information.

Beneficial ownership of **leased assets** is attributed to the contracting party in the lease to which the substantial risks and rewards incidental to ownership of the asset are transferred. If substantially all risks and rewards are attributable to the lessor (operating lease), the leased asset is recognized in the statement of financial position by the lessor. Measurement of the leased asset is then based on the accounting policies applicable to that asset.

The lease payments are recognized in profit or loss. The lessee in an operating lease recognizes the lease payments made during the term of the lease in profit or loss. Contractually defined future changes in the lease payments during the term of the lease are recognized on a straight-line basis over the entire lease term, which is defined only once at the inception date of the contract. Where extension options exist, the exercise of those extension options that are reasonably certain is initially taken into account at the time the lease is concluded. In the course of the lease, when circumstances come to light that could lead to a change in the original assessment of the exercise of extension options, the estimated future obligations arising from operating leases will be changed accordingly.

If substantially all risks and rewards incidental to ownership of the leased asset are attributable to the lessee (finance lease), the lessee must recognize the leased asset in the statement of financial position. At the commencement of the lease term, the leased asset is measured at the lower of fair value or present value of the future minimum lease payments and is depreciated over the shorter of the estimated useful life or the lease term. Depreciation is recognized as expense. The lessee recognizes a lease liability equal to the carrying amount of the leased asset at the commencement of the lease term. In subsequent periods, the lease liability is reduced using the effective interest method and the carrying amount is adjusted accordingly. The lessor in a finance lease recognizes a receivable in the amount of the net investment in the lease. Lease income is classified into repayments of the lease receivable and finance income. The lease receivable is reduced using the effective interest method and the carrying amount is adjusted accordingly.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term.

Other non-current receivables are measured at amortized cost using the effective interest method.

Non-current assets and disposal groups held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of the carrying amount and fair value less costs to sell and are classified as non-current assets and disposal groups held for sale.

Such assets are no longer depreciated. As a rule, impairment of such assets is only recognized if fair value less costs to sell is lower than the carrying amount. If fair value less costs to sell subsequently increases, the impairment loss previously recognized must be reversed. The reversal of impairment losses is limited to the impairment losses previously recognized for the assets concerned. If the requirements for the classification of assets as held for sale are no longer met, the assets may no longer be shown as held for sale. The assets are to be measured at the lower of the carrying amount that would have applied if the asset had not been classified as held for sale, and the recoverable amount at the date at which the requirements for the classification as held for sale are no longer met.

Inventories are carried at the lower of net realizable value or cost. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is measured using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Deutsche Telekom sells handsets separately and in connection with service contracts. As part of the strategy to acquire new customers, it sometimes sells handsets, in connection with a service contract, at below its acquisition cost. As the handset subsidy is part of the Company's strategy for acquiring new customers, the loss on the sale of handsets is recognized at the time of the sale and, as a rule, shown under cost of sales.

Financial assets are measured at fair value on initial recognition. For all financial assets not subsequently remeasured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are taken into account. The fair values recognized in the statement of financial position are generally based on the market prices of the financial assets. If these are not available, they must be calculated using standard valuation models on the basis of current market parameters. For this calculation, the cash flows already fixed or determined by way of forward rates using the current yield curve are discounted at the measurement date using the discount factors calculated from the yield curve applicable at the reporting date. Middle rates are used.

Trade and other current receivables are measured at the amount the item is initially recognized less any impairment losses using the effective interest method, if applicable. Impairments, which take the form of allowances, make adequate provision for the expected credit risk; concrete cases of default lead to the derecognition of the respective receivables. For allowances, financial assets that may need to be written down are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment and written down, if necessary. When the expected future cash flows of the portfolio are being calculated as required for this, previous cases of default are taken into consideration in addition to the cash flows envisaged in the contract. The cash flows are discounted on the basis of the weighted average of the original effective interest rates of the financial assets contained in the relevant portfolio.

Write-offs of trade receivables are recognized in some cases using allowance accounts. The decision to account for credit risks using an allowance account or by directly reducing the receivable will depend on the reliability of the risk assessment. As there is a variety of operating segments and regional circumstances, this decision is the responsibility of the respective portfolio managers.

Cash and cash equivalents, which include cash accounts and short-term cash deposits at banks, have maturities of up to three months when initially recognized and are measured at amortized cost.

The Group arranges **defined benefit pension plans** in different countries on the basis of the pensionable compensation of its employees and their length of service. Some of these pension plans are financed through external pension funds. **Provisions for pensions** are measured using the projected unit credit method for defined benefit plans, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future salary and benefit increases. The interest rate used to determine the present value of the obligations is set on the basis of the yield on high-quality corporate bonds in the respective currency area. In countries without a deep market for such bonds, estimates based on the yield on government bonds are used instead. Actuarial gains and losses arising from adjustments and changes in actuarial assumptions are recognized in the period in which they occur outside profit or loss within equity (retained earnings). The return on plan assets and expenses for interest added to obligations are reported in finance costs. Service costs are classified as operating expenses. Past service costs are recognized immediately to the extent that the benefits are vested; otherwise, they are recognized on a straight-line basis over the average remaining vesting period.

The Group's defined benefit plans are pension plans in Germany. Other pension plans exist in Switzerland, Greece, and in a number of other European Union countries.

In addition to the Group's pension obligations for non-civil servants in Germany based on direct and indirect pension commitments, there are further obligations under Article 131 of the Basic Law (Grundgesetz – GG). Since 1996, the pension commitments in Germany have been based on direct pension commitments in the form of credits to capital accounts held by employees. Within the scope of the realignment of the company pension plan in 1997, existing commitments were transferred to these capital accounts in accordance with an agreement for the protection of vested benefits. The benefit obligations due to retirees and employees approaching retirement remained unchanged.

Individual Group entities grant **defined contribution plans** to their employees. Under defined contribution plans, the employer does not assume any other obligations above and beyond the payment of contributions to an external fund. The amount of the future pension payments will exclusively depend on the contribution made by the employer (and their employees, if applicable) to the external fund, including income from the investment of such contributions. The amounts payable are expensed when the obligation to pay the amounts is established, and classified as expenses.

Civil-servant retirement arrangements at Deutsche Telekom. In accordance with the provisions of the German Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz), the Federal Pension Service for Post and Telecommunications (Bundes-Pensions-Service für Post und Telekommunikation e.V. – BPS-PT) for current and former employees with civil-servant status makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil-servant status. The level of Deutsche Telekom AG's payment obligations to its special pension fund is defined under § 16 of the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz – PostPersRG). Since 2000, Deutsche Telekom AG has been legally obliged to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence.

Part-time working arrangements for employees approaching retirement are largely based on the block model of the partial retirement arrangement (Altersteilzeit). Two types of obligations, both measured at their present value in accordance with actuarial principles, arise and are accounted for separately. The first type of obligation relates to the cumulative outstanding settlement amount, which is recorded on a pro-rata basis during the active/working phase. The cumulative outstanding settlement amount is based on the difference between the employee's remuneration before entering partial retirement (including the employer's social security contributions) and the remuneration for the part-time service (including the employer's social security contributions, but excluding top-up payments). The second type of obligation relates to the employer's obligation to make top-up payments plus an additional contribution to the statutory pension scheme and is recognized in full when the obligation arises.

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

Other provisions are recognized where Deutsche Telekom has legal or constructive obligations to third parties on the basis of past transactions or events that will probably require an outflow of resources to settle, and this outflow can be reliably measured. These provisions are carried at their expected settlement amount, taking into account all identifiable risks, and may not be offset against reimbursements. The settlement amount is calculated on the basis of a best estimate. Provisions are discounted when the effect of the time value of money is material. Changes in estimates of the amount and timing of payments or changes in the discount rate applied in measuring provisions for decommissioning, restoration, and similar obligations are recognized in accordance with the change in the carrying amount of the related asset. Where the decrease in the amount of a provision exceeds the carrying amount of the related asset, the excess is recognized immediately in profit or loss. Provisions are recognized for external legal fees related to litigation risks.

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

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

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

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

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

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

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

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

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

The Group has not yet made use of the option to designate financial liabilities upon initial recognition as **financial liabilities at fair value through profit or loss.**

Derivatives that are not part of an effective hedging relationship as set out in IAS 39 must be classified as held for trading and measured at fair value through profit or loss. If the fair values are negative, the derivatives are recognized as financial liabilities.

Deutsche Telekom uses **derivatives** to hedge the interest rate and currency risks resulting from its operating, financing, and investing activities.

The Company does not hold or issue derivatives for speculative trading purposes.

Derivatives are carried at their fair value upon initial recognition. The fair values are also relevant for subsequent measurement. The fair value of traded derivatives is equal to their market value, which can be positive or negative. If there is no market value available, the fair value is determined using standard financial valuation models.

The fair value of derivatives is the value that Deutsche Telekom would receive or have to pay if the financial instrument were discontinued at the reporting date. This is calculated on the basis of the contracting parties' relevant exchange rates and interest rates at the reporting date. Calculations are made using middle rates. In the case of interest-bearing derivatives, a distinction is made between the "clean price" and the "dirty price." In contrast to the clean price, the dirty price also includes the interest accrued. The fair values carried correspond to the full fair value or the dirty price.

Recording the changes in the fair values – in either the income statement or directly in equity – depends on whether or not the derivative is part of an effective hedging relationship as set out in IAS 39. If **hedge accounting** pursuant to IAS 39 is not employed, the changes in the fair values of the derivatives must be recognized in profit or loss. If, on the other hand, an effective hedging relationship as set out in IAS 39 exists, the hedge will be recognized as such.

Deutsche Telekom applies hedge accounting to hedge items in the statement of financial position and future cash flows, thus reducing income statement volatility. A distinction is made between fair value hedges, cash flow hedges, and hedges of a net investment in a foreign operation depending on the nature of the hedged item.

Fair value hedges are used to hedge the fair values of assets recognized in the statement of financial position, liabilities recognized in the statement of financial position, or firm commitments not yet recognized in the statement of financial position. Any change in the fair value of the derivative designated as the hedging instrument is recognized in profit or loss; the carrying amount of the hedged item is adjusted by the profit or loss to the extent of the hedged risk (basis adjustment). The adjustments to the carrying amount are not amortized until the hedging relationship has been discontinued.

Cash flow hedges are used to hedge against fluctuations in future cash flows from assets and liabilities recognized in the statement of financial position, from firm commitments (in the case of currency risks), or from highly probable forecast transactions. To hedge the currency risk of an unrecognized firm commitment, Deutsche Telekom makes use of the option to recognize this as a cash flow hedge rather than a fair value hedge. If a cash flow hedge is employed, the effective portion of the change in the fair value of the hedging instrument is recognized in equity (hedging reserve) until the gain or loss on the hedged item is realized; the ineffective portion of the hedging instrument is recognized in profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial or non-financial asset or liability, the associated cumulative gains and losses that were recognized directly in equity are reclassified into profit or loss in the same periods during which the financial asset acquired or the financial liability assumed affects profit or loss for the period. In doing so, Deutsche Telekom has decided not to make use of the basis adjustment option for hedging forecast transactions when non-financial items in the statement of financial position arise.

If **hedges of a net investment in a foreign operation** are employed, all gains or losses on the effective portion of the hedging instrument, together with any gains or losses on the foreign-currency translation of the hedged investment, are taken directly to equity. Any gains or losses on the ineffective portion are recognized immediately in profit or loss. The cumulative remeasurement gains and losses on the hedging instrument that had previously been recognized directly in equity and the gains and losses on the currency translation of the hedged item are recognized in profit or loss only on disposal of the investment.

IAS 39 sets out strict requirements on the use of hedge accounting. These are fulfilled at Deutsche Telekom by documenting, at the inception of a hedge, both the relationship between the financial instrument used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This involves concretely assigning the hedging instruments to the corresponding assets or liabilities or (firmly agreed/expected) future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis; ineffective hedges are discontinued immediately.

Deutsche Telekom also employs hedges that do not satisfy the strict hedge accounting criteria of IAS 39 but which make an effective contribution to hedging the financial risk in accordance with the principles of risk management. Furthermore, Deutsche Telekom does not use hedge accounting in accordance with IAS 39 to hedge the foreign-currency exposure of recognized monetary assets and liabilities, because the gains and losses on the hedged item from currency translation that are recognized in profit or loss in accordance with IAS 21 are shown in the income statement together with the gains and losses on the derivatives used as hedging instruments.

Stock options (equity-settled share-based payment transactions) are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Obligations arising from cash-settled share-based payment transactions are recognized as a liability and measured at fair value at the reporting date. The expenses are recognized over the vesting period. For both cash-settled and equity-settled share-based payment transactions, the fair value is determined using internationally accepted valuation techniques, such as the Black-Scholes model or the Monte Carlo model.

Revenues include all revenues from the ordinary business activities of Deutsche Telekom. Revenues are recorded net of value-added tax and other taxes collected from customers that are remitted to governmental authorities. They are recognized in the accounting period in which they are earned in accordance with the realization principle. Customer activation fees are deferred and amortized over the estimated average period of customer retention, unless they are part of a multiple-element arrangement, in which case they are a component of the arrangement consideration to be paid by the customer. Activation costs and costs of acquiring customers are deferred, up to the amount of deferred customer activation fees, and recognized over the average customer retention period.

For **multiple-element arrangements,** revenue recognition for each of the units of accounting (elements) identified must be determined separately. Revenue is recognized on the basis of the fair value of the individual elements. Arrangements involving the delivery of bundled products or services shall be separated into individual elements, each with its own separate revenue contribution. Total arrangement consideration relating to the bundled contract is allocated among the different elements based on their relative fair values (i.e., a ratio of the fair value of each element to the aggregated fair value of the bundled deliverables is generated). The relative fair value of an individual element and thus the revenue recognized for this unit of accounting, however, is limited by that proportion of the total arrangement consideration to be provided by the customer, the payment of which does not depend on the delivery of additional elements. If the fair value of the delivered elements cannot be determined reliably but the fair value of the undelivered elements can be determined reliably, the total arrangement consideration provided by the customer is allocated by determining the fair value of the delivered elements as the difference between the total arrangement consideration and the fair value of the undelivered elements.

Payments to customers, including payments to dealers and agents (discounts, provisions) are generally recognized as a decrease in revenue. If the consideration provides a benefit in its own right and can be reliably measured, the payments are recognized as expenses.

Revenue recognition at Deutsche Telekom is as follows:

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts in the consolidated statement of financial position and the tax base, as well as for tax loss carryforwards. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided on temporary differences arising on the investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is not recognized if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or loss (before income taxes) under IFRS nor taxable profit or loss. Currently enacted tax laws and tax laws that have been substantively enacted as of the reporting date are used as the basis for measuring deferred taxes.

Judgments and estimates.

The presentation of the results of operations, financial position or cash flows in the consolidated financial statements is dependent upon and sensitive to the accounting policies, assumptions and estimates. The actual amounts may differ from those estimates. The following critical accounting estimates and related assumptions and uncertainties inherent in accounting policies applied are essential to understand the underlying financial reporting risks and the effects that these accounting estimates, assumptions and uncertainties may have on the consolidated financial statements.

Measurement of **property, plant and equipment, and intangible assets** involves the use of estimates for determining the fair value at the acquisition date, provided they were acquired in a business combination. Furthermore, the expected useful lives of these assets must be estimated. The determination of the fair values of assets and liabilities, as well as of the useful lives of the assets is based on management's judgment.

The determination of **impairments of property, plant and equipment, and intangible assets** involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the telecommunications industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions.

The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Specifically, the estimation of cash flows underlying the fair values from the mobile business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for these products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment to write down these investments to their fair values, which could adversely affect future operating results.

The determination of the **recoverable amount of a cash-generating unit** involves the use of estimates by management. Methods used to determine the fair value less costs to sell include discounted cash flow-based methods and methods that use quoted stock market prices as a basis. Key assumptions on which management has based its determination of fair value less costs to sell include revenue, customer acquisition and retention costs, churn rates, capital expenditure and market share. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any goodwill impairment.

The valuation of **investments accounted for using the equity method** in the case of the 50-percent stake in the Everything Everywhere joint venture, which was based on the discounted cash flow method, involved the use of estimates for determining the fair value at the date of first-time inclusion using the equity method.

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

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

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

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

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

Revenue recognition.

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

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

Consolidated group.

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

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

The composition of the Deutsche Telekom Group changed as follows in the 2010 financial year:

	Domestic	International	Total
Consolidated subsidiaries			
January 1, 2010	62	182	244
Additions	4	10	14
Disposals (including mergers)	(2)	(15)	(17)
December 31, 2010	**64**	**177**	**241**
Associates accounted for using the equity method			
January 1, 2010	5	7	12
Additions	0	2	2
Disposals	0	(1)	(1)
December 31, 2010	**5**	**8**	**13**
Joint ventures accounted for using the equity method			
January 1, 2010	2	3	5
Additions	0	1	1
Disposals	0	(1)	(1)
December 31, 2010	**2**	**3**	**5**
Total			
January 1, 2010	69	192	261
Additions	4	13	17
Disposals (including mergers)	(2)	(17)	(19)
December 31, 2010	**71**	**188**	**259**

Deutsche Telekom did not hold more than half of the shares in the OTE group at the reporting date. In accordance with shareholder agreements between Deutsche Telekom and the Hellenic Republic, Deutsche Telekom has taken control of 50 percent plus two voting shares and therefore the OTE group's financial and operating policy. Consequently, the OTE group companies are fully consolidated subsidiaries.

Business combinations and other transactions.

The significant business combinations and other transactions in the 2010 financial year are described below.

The acquisition of STRATO. On November 19, 2009, Deutsche Telekom signed an agreement with Freenet AG to take over 100 percent of the shares in the Web hosting provider STRATO AG and STRATO Rechenzentrum AG (hereinafter referred to as STRATO). Deutsche Telekom obtained control of STRATO as of January 1, 2010.

The STRATO group, the second largest Web hosting provider in Germany and Europe, has a high level of expertise and technological skills in this market. In addition to its German core market, the STRATO group also operates in Spain, the Netherlands, France, the United Kingdom and Italy.

The business combination with STRATO resulted in the recognition of goodwill of EUR 184 million, determined on the basis of the final purchase price allocation as follows:

	millions of €
Purchase price paid for 100 % of the shares	291
Fair values of assets and liabilities	(152)
Deferred tax liabilities	45
Goodwill	**184**

This goodwill primarily arises from synergies the combination of the entities is expected to generate and has remained unchanged since the acquisition date in the financial year.

The fair values of STRATO’s acquired assets and liabilities recognized at the acquisition date are presented in the following table:

	Fair value at the acquisition date millions of €
Assets	**397**
Current assets	**54**
Cash and cash equivalents	25
Trade and other receivables	3
Other assets	26
Non-current assets	**343**
Intangible assets	324
Of which: goodwill	184
Property, plant and equipment	14
Other assets	5
Liabilities	**106**
Current liabilities	**60**
Trade and other payables	37
Other liabilities	23
Non-current liabilities	**46**
Deferred tax liabilities	45
Other liabilities	1

The fair values of the assets and liabilities were determined on the basis of observable market prices. If it was not possible to identify market prices, income-oriented approaches or cost-oriented procedures were used to measure the acquired assets and liabilities.

Net revenue increased by EUR 91 million as a result of the acquisition of STRATO. Profit for the current period includes a profit at STRATO of EUR 10 million.

Acquisition of a stake in Firstgate (ClickandBuy). On March 23, 2010, Deutsche Telekom signed an agreement with the former shareholders for the acquisition of the remaining shares in the Internet payment service provider Firstgate. Deutsche Telekom obtained control of the entity as of April 1, 2010 and, as a result, fully consolidated it for the first time as of that date. Via its venture capital company, T-Venture, Deutsche Telekom has held 20.2 percent of the shares in Firstgate, best known for the ClickandBuy brand, since 2006. The purchase price for the remaining 79.8 percent of the shares in Firstgate is expected to be EUR 78 million. The final purchase price remains subject to contractual terms and conditions.

The Everything Everywhere joint venture in the United Kingdom. Effective April 1, 2010, Deutsche Telekom AG and France Télécom S.A. merged the entities T-Mobile UK and Orange UK to create a joint venture under the name Everything Everywhere. Each entity holds a 50-percent stake in the new company. As a result of this merger, Deutsche Telekom lost control over T-Mobile UK. Instead, the joint venture was included in the consolidated statement of financial position under investments accounted for using the equity method.

The carrying amounts of the major classes of assets and liabilities of T-Mobile UK as of April 1, 2010 were as follows:

	millions of €
Current assets	**667**
Trade and other receivables	280
Other current assets	387
Non-current assets	**6,022**
Intangible assets	3,833
Property, plant and equipment	1,664
Other non-current assets	525
Non-current assets and disposal groups held for sale	**6,689**
Current liabilities	**761**
Trade and other payables	501
Other current liabilities	260
Non-current liabilities	**695**
Liabilities directly associated with non-current assets and disposal groups held for sale	**1,456**

Other current assets include cash and cash equivalents of EUR 0.2 billion. As of April 1, 2010, the date of first-time inclusion using the equity method, the fair value of the 50-percent stake in the joint venture was EUR 7.3 billion. This was offset against the aforementioned carrying amounts of the assets and liabilities to be disposed of. Taking into account financing relationships within the Group, the T-Mobile UK assets and liabilities to be disposed of had a carrying amount of EUR 5.5 billion. This resulted in a gain on deconsolidation of EUR 1.8 billion. Until the date of deconsolidation, the accumulated loss of EUR 2.2 billion arising from the currency translation of the assets and liabilities since the acquisition of T-Mobile UK was recognized directly in equity in total other comprehensive income. As of the date of deconsolidation, this amount was recognized in profit or loss. These two effects on profit or loss, which have a net impact of EUR 0.4 billion, were recognized under other operating expenses.

Pro forma information.

The pro forma information shown in the table on the right presents Deutsche Telekom's financial data, including its principal consolidated subsidiaries acquired in the financial years 2008 through 2010, as if they had been included in the consolidated financial statements from the beginning of each financial year in which they were acquired.

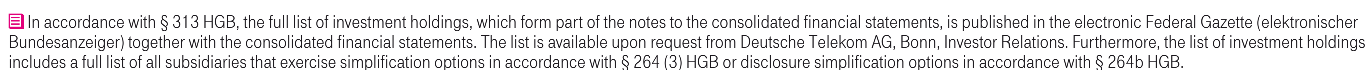
		2010 millions of €	2009 millions of €	2008 millions of €
Net revenue				
Reported		62,421	64,602	61,666
Pro forma		62,421	65,101	61,750
Net profit				
Reported		1,695	353	1,483
Pro forma		1,695	377	1,477
Earnings per share				
Reported	€	0.39	0.08	0.34
Pro forma	€	0.39	0.09	0.34

Principal subsidiaries.

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

Name and registered office	Deutsche Telekom share % Dec. 31, 2010	Net revenue millions of € 2010	Average number of employees 2010
Telekom Deutschland GmbH, Bonn	100.00	23,862	4,781
T-Mobile USA, Inc., Bellevue, Washington, United States [a, b]	100.00	16,087	37,795
T-Systems International GmbH, Frankfurt/Main	100.00	6,253	18,747
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece [a]	30.00	5,483	31,589
Magyar Telekom Nyrt., Budapest, Hungary [a, b]	59.30	1,943	10,355
PTC, Polska Telefonia Cyfrowa Sp.z o.o., Warsaw, Poland [b]	97.00	1,839	5,364
T-Mobile Netherlands Holding B.V., The Hague, Netherlands [a, b]	100.00	1,767	2,125
T-Mobile Czech Republic a.s., Prague, Czech Republic [b]	60.77	1,157	2,904
Hrvatski Telekom d.d., Zagreb, Croatia [a]	51.00	1,148	6,177
T-Mobile Austria Holding GmbH, Vienna, Austria [a, b]	100.00	983	1,391
Slovak Telekom a.s., Bratislava, Slovakia [a]	51.00	934	5,066

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


In accordance with § 313 HGB, the full list of investment holdings, which form part of the notes to the consolidated financial statements, is published in the electronic Federal Gazette (elektronischer Bundesanzeiger) together with the consolidated financial statements. The list is available upon request from Deutsche Telekom AG, Bonn, Investor Relations. Furthermore, the list of investment holdings includes a full list of all subsidiaries that exercise simplification options in accordance with § 264 (3) HGB or disclosure simplification options in accordance with § 264b HGB.

Consolidation methods.

Under IFRS, all business combinations must be accounted for using the purchase method. The acquirer allocates the cost of a business combination by recognizing the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair value at the acquisition date. Non-current assets that are classified as held for sale are recognized at fair value less costs to sell. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities taken over, regardless of the level of the investment held, is recognized as goodwill. Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognized in profit or loss.

Income and expenses of a subsidiary remain included in the consolidated financial statements from the acquisition date. Income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount, including the cumulative amount of any exchange differences that are recognized in equity and relate to the subsidiary, is recognized in the consolidated income statement as the gain or loss on the disposal of the subsidiary. Intercompany income and expenses, receivables and liabilities, and profits or losses are eliminated.

Investments in joint ventures and associates accounted for using the equity method are carried at the acquirer's interest in the identifiable assets (including any attributable goodwill), liabilities and contingent liabilities which are remeasured to fair value upon acquisition. Goodwill from application of the equity method is not amortized. Unrealized gains and losses from transactions with these companies are eliminated in proportion to the acquirer's interest. The carrying amount of the investment accounted for using the equity method is tested for impairment whenever there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss must be recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs to sell and value in use.

Currency translation.

Foreign-currency transactions are translated into the functional currency at the exchange rate at the date of transaction. At the reporting date, monetary items are translated at the closing rate, and non-monetary items are translated at the exchange rate at the date of transaction. Exchange rate differences are recognized in profit or loss.

The assets and liabilities of Group entities whose functional currency is not the euro are translated into euros from the local currency using the middle rates at the reporting date. The middle rates are the average of the bid and ask rates at closing on the respective dates. The income statements and corresponding profit or loss of foreign-currency denominated Group entities are translated at average exchange rates for the period. Exchange rate differences are recognized as a separate component of equity.

The exchange rates of certain significant currencies changed as follows:

	Annual average rate			Rate at the reporting date	
	2010 €	2009 €	2008 €	Dec. 31, 2010 €	Dec. 31, 2009 €
100 Czech korunas (CZK)	3.95536	3.78123	4.00894	3.98728	3.77646
1 Pound sterling (GBP)	1.16553	1.12218	1.25601	1.15979	1.12387
100 Croatian kuna (HRK)	13.72000	13.62190	13.84420	13.54730	13.70710
1,000 Hungarian forints (HUF)	3.63022	3.56631	3.97687	3.59999	3.69609
100 Macedonian denars (MKD)	1.62536	1.62428	1.62523	1.59628	1.63024
100 Polish zlotys (PLN)	25.03330	23.09760	28.47930	25.25810	24.35900
1 U.S. dollar (USD)	0.75398	0.71692	0.67976	0.74698	0.69393

Notes to the consolidated statement of financial position.

1 Cash and cash equivalents.

Cash and cash equivalents have an original maturity of less than three months and mainly comprise fixed-term bank deposits. They also include small amounts of cash-in-hand and checks. Deutsche Telekom obtained cash collateral of EUR 625 million (December 31, 2009: EUR 578 million) on the basis of collateral contracts as surety for potential credit risks arising from derivative transactions.

In the reporting period, cash and cash equivalents decreased by EUR 2.2 billion to EUR 2.8 billion. This decrease was mainly attributable to dividend payments of EUR 4.0 billion, a net financing repayment of EUR 1.6 billion, the acquisition of spectrum for EUR 1.3 billion, the acquisition of a bond for EUR 0.8 billion and the share buy-back amounting to EUR 0.4 billion. The free cash flow (before dividend payments and before spectrum investment) of EUR 6.5 billion had an offsetting effect. For further information, please refer to the consolidated statement of cash flows.

As of December 31, 2010, the Group reported cash and cash equivalents of EUR 0.5 billion (December 31, 2009: EUR 0.6 billion) held by subsidiaries in Croatia, the F.Y.R.O. Macedonia and Montenegro. These countries are subject to foreign exchange controls or other legal restrictions. As a result, the cash balances are not fully available for use by the parent or other Group companies.

2 Trade and other receivables.

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Trade receivables	6,766	6,643
Other receivables	123	114
	6,889	**6,757**

Of the total amount of trade and other receivables, EUR 6,849 million (December 31, 2009: EUR 6,715 million) is due within one year.

The following table shows the maturity structure of the trade receivables that are not impaired at the reporting date:

Trade receivables	Of which: neither impaired nor past due on the reporting date millions of €	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days millions of €	Between 30 and 60 days millions of €	Between 61 and 90 days millions of €	Between 91 and 180 days millions of €	Between 181 and 360 days millions of €	More than 360 days millions of €
As of Dec. 31, 2010	3,295	483	93	59	96	97	32
As of Dec. 31, 2009	3,245	814	115	77	179	205	38

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

The following table shows the development of allowances on trade receivables:

	2010 millions of €	2009 millions of €
Allowances as of January 1	**1,178**	**1,023**
Currency translation adjustments	15	(11)
Additions (allowances recognized as expense)	822	676
Use	(529)	(447)
Reversal	(163)	(63)
Allowances as of December 31	**1,323**	**1,178**

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

	2010 millions of €	2009 millions of €	2008 millions of €
Expenses for full write-off of receivables	138	327	424
Income from recoveries on receivables written off	7	39	55

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

3 Inventories.

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Raw materials and supplies	167	193
Work in process	108	48
Finished goods and merchandise	1,033	929
Advance payments	2	4
	1,310	**1,174**

Of the inventories reported as of December 31, 2010, write-downs of EUR 50 million (2009: EUR 33 million; 2008: EUR 53 million) on the net realizable value were recognized in profit or loss.

The carrying amount of inventories recognized as expense amounted to EUR 5,774 million (2009: EUR 6,311 million; 2008: EUR 6,188 million).

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

As of December 31, 2010, current assets recognized in the consolidated statement of financial position included EUR 51 million in non-current assets and disposal groups held for sale. These mainly relate to real estate of Deutsche Telekom AG (Group Headquarters & Shared Services) as a result of measures to make the use of floor space more efficient, especially in technical facilities. The non-current assets and disposal groups held for sale are not included in the other disclosures in the notes to the consolidated financial statements or presented as a reconciliation.

The decrease of EUR 6.5 billion compared with December 31, 2009 was mainly due to the merger of T-Mobile UK (Europe operating segment) and Orange UK to create a joint venture company under the name Everything Everywhere from April 1, 2010. For further details, please refer to Note 7 and the section "Business combinations and other transactions."

5 Intangible assets.

	Internally generated intangible assets **millions of €**	Total millions of €	Acquired concessions, industrial and similar rights and assets millions of €
Cost			
At December 31, 2008	**2,220**	**42,940**	**1,180**
Currency translation	(12)	(98)	3
Changes in the composition of the Group	0	2,953	425
Additions	232	713	26
Disposals	278	1,352	88
Change from non-current assets and disposal groups held for sale	(219)	(5,413)	0
Reclassifications	572	462	(16)
At December 31, 2009	**2,515**	**40,205**	**1,530**
Currency translation	59	1,521	12
Changes in the composition of the Group	1	232	35
Other changes	0	0	0
Additions	162	2,064	6
Disposals	334	1,067	1
Change from non-current assets and disposal groups held for sale	0	(4)	0
Reclassifications	513	1,001	9
At December 31, 2010	**2,916**	**43,952**	**1,591**
Accumulated amortization			
At December 31, 2008	**1,310**	**11,421**	**646**
Currency translation	(8)	163	2
Changes in the composition of the Group	0	(33)	0
Additions (amortization)	561	2,742	175
Additions (impairment)	0	7	7
Disposals	278	1,344	81
Change from non-current assets and disposal groups held for sale	(132)	(1,969)	0
Reclassifications	2	15	(14)
At December 31, 2009	**1,455**	**11,002**	**735**
Currency translation	39	150	11
Changes in the composition of the Group	0	11	0
Additions (amortization)	577	2,767	158
Additions (impairment)	0	3	0
Disposals	332	1,061	6
Change from non-current assets and disposal groups held for sale	0	0	0
Reclassifications	(14)	44	(3)
At December 31, 2010	**1,725**	**12,916**	**895**
Net carrying amounts			
At December 31, 2009	1,060	29,203	795
At December 31, 2010	**1,191**	**31,036**	**696**

Acquired intangible assets				Goodwill	Advance payments	Total
UMTS licenses	GSM licenses	FCC licenses (T-Mobile USA)	Other acquired intangible assets			
millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
13,870	**1,280**	**17,666**	**8,944**	**29,788**	**872**	**75,820**
410	2	(547)	34	246	2	138
327	198	0	2,003	0	0	2,953
0	11	31	645	2,470	676	4,091
0	0	0	1,264	18	11	1,659
(4,593)	0	(35)	(785)	(5,933)	0	(11,565)
8	0	0	470	0	(430)	604
10,022	**1,491**	**17,115**	**10,047**	**26,553**	**1,109**	**70,382**
12	13	1,308	176	702	1	2,283
4	0	8	185	4	0	237
0	0	0	0	(260)	0	(260)
8	0	14	2,036	465	829	3,520
0	0	0	1,066	19	19	1,439
0	0	(4)	0	0	0	(4)
0	71	1	920	2	(861)	655
10,046	**1,575**	**18,442**	**12,298**	**27,447**	**1,059**	**75,374**
3,865	**669**	**0**	**6,241**	**9,162**	**0**	**21,893**
109	2	0	50	250	1	406
0	0	0	(33)	0	0	(33)
767	138	0	1,662	0	0	3,303
0	0	0	0	2,345	0	2,352
0	0	0	1,263	0	0	1,622
(1,356)	0	0	(613)	(5,538)	0	(7,639)
0	0	0	29	0	0	17
3,385	**809**	**0**	**6,073**	**6,219**	**1**	**18,677**
1	7	0	131	312	(1)	500
0	0	0	11	0	0	11
605	138	0	1,866	0	0	3,344
0	0	0	3	395	1	399
0	0	0	1,055	0	1	1,394
0	0	0	0	0	0	0
0	0	0	47	0	0	30
3,991	**954**	**0**	**7,076**	**6,926**	**0**	**21,567**
6,637	682	17,115	3,974	20,334	1,108	51,705
6,055	**621**	**18,442**	**5,222**	**20,521**	**1,059**	**53,807**

The net carrying amount of the UMTS licenses of EUR 6.1 billion mainly relates to the Germany operating segment.

Deutsche Telekom had commitments for the acquisition of intangible assets in the amount of EUR 0.3 billion (December 31, 2009: EUR 0.3 billion) as of the reporting date. These are largely related to the network build-out in the United States and Germany operating segments.

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

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Germany	**4,016**	**3,587**
Europe	**8,683**	**9,282**
Of which:		
PTC	1,650	1,607
T-Mobile Netherlands	1,317	1,317
T-Mobile Austria group	1,202	1,202
Hungary – Mobile communications	933	958
Greece – Mobile communications	838	964
T-Mobile Czech Republic	666	631
Hungary – Fixed network	366	373
Croatia – Fixed network	305	297
Bulgaria – Mobile communications	262	293
Slovakia – Fixed network	231	225
Croatia – Mobile communications	194	196
Slovakia – Mobile communications	168	168
Romania – Mobile communications	145	251
Greece – Fixed network	124	476
Other	282	324
United States	**4,827**	**4,471**
Systems Solutions	**2,995**	**2,994**
	20,521	20,334

In the 2010 financial year, the main changes in the carrying amounts of goodwill at cash-generating units were as follows:

Germany. The carrying amount of the Germany cash-generating unit increased by EUR 0.4 billion compared with December 31, 2009. The business combination with STRATO resulted in goodwill of EUR 0.2 billion. Furthermore, the carrying amount increased by EUR 0.2 billion following the Frankfurt/Main Higher Regional Court's ruling on a supplementary cash payment to former T-Online shareholders (relates to transaction carried out in 2006).

Europe. On the one hand, the cash-generating units **Greece – Mobile communications** and **Greece – Fixed network** were impacted by a reduction of EUR 0.3 billion in the carrying amount of put option II held by the Hellenic Republic (For further details, please refer to Note 10). On the other, the cash-generating units **Greece – Fixed network, Romania – Mobile communications** and **Albania** had to recognize impairment losses totaling EUR 0.4 billion.

All other changes in goodwill were primarily a result of exchange rate effects.

Disclosures on impairment tests. Deutsche Telekom performed its annual impairment tests of the goodwill recognized for the cash-generating units at December 31, 2010. The following table gives an overview of the periods for which the Group has provided cash flow projections, the growth rates used as the basis for the cash flow projections, and the discount rates applied to the cash flow projections, broken down by operating segment:

	Periods used (years)	Growth rates %	Discount rates %
Germany	10	1.0	5.88
Europe	10	1.5 – 2.0	6.68 – 10.21
United States	10	2.5	7.14
Systems Solutions	10	1.5	6.95

The measurements of the cash-generating units are founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the planning horizon are extrapolated using appropriate growth rates. The key assumptions on which management has based its determination of fair value less costs to sell include the following assumptions that were primarily derived from internal sources and largely reflect past experience and/or are compared with external market values: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates were determined on the basis of external figures derived from the market. Any significant future changes in the aforementioned assumptions would have an impact on the fair values of the cash-generating units. Any changes to these assumptions resulting from future developments in the macroeconomic situation, continued intense competition, the mobile communications taxes imposed/raised in some countries, and other potential amendments to legislation (for example in the course of state austerity programs) may have a greater, possibly negative, impact in the countries assigned to the Europe operating segment.

On the basis of information available at the reporting date and expectations with respect to the market and competitive environment, the year-end impairment tests indicated a need for impairment at the following cash-generating units:

	Goodwill impairments millions of €	Impairment of property, plant and equipment millions of €	Assigned to segment
Greece – Fixed network	287		Europe
Romania – Mobile communications	80		Europe
Romania – Fixed network	2	285	Europe
Other	26		Europe
Impairments (other operating expenses)	**395**	**285**	
Deferred taxes		(46)	
Effect on profit (loss)	**395**	**239**	
Of which: non-controlling interests		(189)	
Of which: owners of the parent (net profit (loss))	**395**	**50**	

The impairment of property, plant and equipment assigned to the cash-generating unit Romania – Fixed network as a result of impairment tests relates to land and equivalent rights, and buildings including buildings on land owned by third parties, and to technical equipment and machinery.

These impairments were primarily attributable to the unexpected scale of the economic uncertainties regarding the growth prospects of gross domestic product as a result of the financial market crisis. Furthermore, the development of disposable income deteriorated and competition in the countries in which these cash-generating units are based intensified in the second half of 2010.

If the impairment tests of goodwill at the cash-generating units where impairment losses totaling EUR 0.7 billion were recognized at year-end, had been conducted using discount rates that were 0.5 percentage points higher, the impairment losses to be recognized would have increased by EUR 0.2 billion. If, by contrast, the discount rates had been 0.5 percentage points lower, the resulting impairment losses would have been EUR 0.2 billion lower. If the growth rates used as a basis in the impairment tests had been 0.5 percentage points lower, the impairment losses would have been EUR 0.1 billion higher. In turn, impairment losses would have been EUR 0.1 billion lower if the growth rates had been 0.5 percentage points higher.

6 Property, plant and equipment.

	Land and equivalent rights, and buildings including buildings on land owned by third parties millions of €	Technical equipment and machinery millions of €	Other equipment, operating and office equipment millions of €	Advance payments and construction in progress millions of €	Total millions of €
Cost					
At December 31, 2008	**16,178**	**94,344**	**6,701**	**3,192**	**120,415**
Currency translation	(41)	(40)	(6)	(21)	(108)
Changes in the composition of the Group	1,779	4,492	87	695	7,053
Additions	140	2,522	436	4,278	7,376
Disposals	55	3,397	438	47	3,937
Change from non-current assets and disposal groups held for sale	437	(3,588)	(211)	(326)	(3,688)
Reclassifications	454	3,382	537	(4,977)	(604)
At December 31, 2009	**18,892**	**97,715**	**7,106**	**2,794**	**126,507**
Currency translation	121	830	117	67	1,135
Changes in the composition of the Group	4	11	94	(13)	96
Additions	151	2,596	455	4,038	7,240
Disposals	93	3,638	543	113	4,387
Change from non-current assets and disposal groups held for sale	(146)	(6)	(31)	(4)	(187)
Reclassifications	491	2,315	285	(3,746)	(655)
At December 31, 2010	**19,420**	**99,823**	**7,483**	**3,023**	**129,749**
Accumulated depreciation					
At December 31, 2008	**7,193**	**67,161**	**4,497**	**5**	**78,856**
Currency translation	(18)	30	(9)	0	3
Changes in the composition of the Group	2	6	0	0	8
Additions (depreciation)	762	6,498	760	0	8,020
Additions (impairment)	179	10	3	11	203
Disposals	46	3,240	341	0	3,627
Change from non-current assets and disposal groups held for sale	251	(2,427)	(100)	0	(2,276)
Reclassifications	(3)	(14)	0	0	(17)
Reversal of impairment losses	(131)	0	0	0	(131)
At December 31, 2009	**8,189**	**68,024**	**4,810**	**16**	**81,039**
Currency translation	57	375	69	(1)	500
Changes in the composition of the Group	1	1	65	0	67
Additions (depreciation)	814	6,098	701	2	7,615
Additions (impairment)	158	271	1	19	449
Disposals	75	3,491	457	1	4,024
Change from non-current assets and disposal groups held for sale	(109)	(6)	0	(7)	(122)
Reclassifications	39	(82)	10	3	(30)
Reversal of impairment losses	(43)	0	0	0	(43)
At December 31, 2010	**9,031**	**71,190**	**5,199**	**31**	**85,451**
Net carrying amounts					
At December 31, 2009	10,703	29,691	2,296	2,778	45,468
At December 31, 2010	**10,389**	**28,633**	**2,284**	**2,992**	**44,298**

For further details on depreciation, please refer to Note 30. For further details on impairments, please refer to Note 5.

Restoration obligations of EUR 0.2 billion were recognized as of December 31, 2010 (December 31, 2009: EUR 0.2 billion). Deutsche Telekom had commitments for the acquisition of property, plant and equipment in the amount of EUR 0.6 billion (December 31, 2009: EUR 0.9 billion) as of the reporting date.

Deutsche Telekom changed the useful lives of certain items of property, plant and equipment in the United States and Systems Solutions operating segments. This change to estimates resulted in a net increase in depreciation of EUR 0.1 billion in the 2010 financial year.

7 Investments accounted for using the equity method.

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

	Dec. 31, 2010		Dec. 31, 2009	
Name	Deutsche Telekom share %	Net carrying amounts millions of €	Deutsche Telekom share %	Net carrying amounts millions of €
Everything Everywhere [a]	50.00	7,095	–	–
HT Mostar [b]	39.10	47	39.10	51
Toll Collect [a]	45.00	40	45.00	46
Other		60		50
		7,242		**147**

[a] Joint venture.
[b] Indirect shareholding via Hrvatski Telekom d.d., Croatia (Deutsche Telekom AG's share: 51.00 %).

Aggregated key financial figures for the associates accounted for using the equity method are shown in the following overview. The data is not based on the portions attributable to the Deutsche Telekom Group, but represents the shareholdings on a 100-percent basis.

Aggregated key financial figures for the associates accounted for using the equity method.

	Dec. 31, 2010 billions of €	Dec. 31, 2009 billions of €
Total assets	0.2	0.2
Total liabilities	0.1	0.1
	2010 billions of €	**2009 billions of €**
Net revenue	0.2	0.2
Profit (loss)	0.0	0.0

The following table is a summary presentation of aggregated key financial figures – pro-rated according to the relevant percentage of shares held – for the joint ventures of Deutsche Telekom accounted for using the equity method:

Aggregated key financial figures for the joint ventures accounted for using the equity method.

	Everything Everywhere billions of €	Other billions of €	Total as of Dec. 31, 2010 billions of €	Total as of Dec. 31, 2009 billions of €
Total assets	**9.5**	**0.4**	**9.9**	**0.5**
Current	1.2	0.3	1.5	0.3
Non-current	8.3	0.1	8.4	0.2
Total liabilities	**2.4**	**0.3**	**2.7**	**0.4**
Current	2.0	0.3	2.3	0.3
Non-current	0.4	0.0	0.4	0.1
	Everything Everywhere billions of €	**Other billions of €**	**Total in 2010 billions of €**	**Total in 2009 billions of €**
Net revenue	3.1	0.2	3.3	0.2
Profit (loss)	0.0	(0.1)	(0.1)	0.0

8 Other financial assets.

	Dec. 31, 2010		Dec. 31, 2009	
	Total millions of €	**Of which: current** millions of €	Total millions of €	Of which: current millions of €
Originated loans and receivables	2,628	2,124	2,003	1,509
Available-for-sale financial assets	513	79	609	74
Derivative financial assets	835	126	1,048	348
Miscellaneous assets	91	43	80	70
	4,067	**2,372**	**3,740**	**2,001**

	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
Originated loans and receivables	millions of €	Less than 30 days millions of €	Between 30 and 60 days millions of €	Between 61 and 90 days millions of €	Between 91 and 180 days millions of €	Between 181 and 360 days millions of €	More than 360 days millions of €
As of Dec. 31, 2010							
Due within one year	1,960	76	11	4	21	11	12
Due after more than one year	491	–	–	–	–	–	2
As of Dec. 31, 2009							
Due within one year	1,413	26	8	3	19	18	1
Due after more than one year	482	9	–	–	–	–	3

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

Receivables of EUR 223 million (December 31, 2009: EUR 337 million) were used in connection with collateral agreements as surety for potential credit risks arising from derivative transactions.

The increase in short-term originated loans and receivables is mainly related to the acquisition of a bond in the amount of EUR 0.8 billion issued by the new Everything Everywhere joint venture.

The available-for-sale financial assets include unquoted equity instruments whose fair values could not be reliably measured, and which were therefore recognized at cost in the amount of EUR 335 million as of December 31, 2010 (December 31, 2009: EUR 411 million).

In the 2010 financial year, EUR 101 million (2009: EUR 8 million) in impairment losses on available-for-sale financial assets were recognized in profit or loss because the impairment was permanent or significant.

9 Other assets.

Other assets mainly comprise deferred tax assets of EUR 1.4 billion (December 31, 2009: EUR 1.2 billion).

10 Financial liabilities.

	Dec. 31, 2010				Dec. 31, 2009			
	Total millions of €	Due within 1 year millions of €	Due > 1 year ≤ 5 years millions of €	Due > 5 years millions of €	Total millions of €	Due within 1 year millions of €	Due > 1 year ≤ 5 years millions of €	Due > 5 years millions of €
Bonds and other securitized liabilities								
Non-convertible bonds	23,078	3,894	9,317	9,867	25,055	4,121	9,686	11,248
Commercial paper, medium term notes and similar liabilities	15,112	2,843	6,195	6,074	13,453	285	8,318	4,850
Liabilities to banks	4,190	472	3,284	434	4,718	974	2,764	980
	42,380	**7,209**	**18,796**	**16,375**	**43,226**	**5,380**	**20,768**	**17,078**
Lease liabilities	1,934	142	426	1,366	1,909	131	446	1,332
Liabilities to non-banks from promissory notes	1,164	–	192	972	1,057	–	177	880
Other interest-bearing liabilities	1,304	1,056	139	109	1,025	675	229	121
Other non-interest-bearing liabilities	3,193	3,176	15	2	2,995	2,908	85	2
Derivative financial liabilities	571	106	457	8	979	297	463	219
	8,166	**4,480**	**1,229**	**2,457**	**7,965**	**4,011**	**1,400**	**2,554**
Financial liabilities	**50,546**	**11,689**	**20,025**	**18,832**	**51,191**	**9,391**	**22,168**	**19,632**

Deutsche Telekom reached an agreement with Vivendi (France), Elektrim (Poland), and Elektrim's creditors in December 2010 regarding the various legal disputes about the interests in PTC in Poland, giving it full and undisputed ownership of PTC. Under the agreement, Deutsche Telekom will pay a total of EUR 1.4 billion to Elektrim and Vivendi upon closing. Settlement of all legal disputes between the parties was also agreed. By January 14, 2011 all legal disputes between the parties were settled once and for all. In addition to the EUR 0.8 billion shown in the prior year and included directly in equity as a result of the first-time consolidation, a further EUR 0.4 billion was recorded under other non-interest-bearing liabilities as of the reporting date. A further EUR 0.2 billion for the acquisition of the non-controlling interests is to be recognized in equity upon closing.

Under the share purchase agreement relating to the investment in the OTE group in 2009, Deutsche Telekom granted the Hellenic Republic a put option ("put option II") for an additional 10 percent of the shares. This option can be exercised at market price plus a premium initially of 20 percent for a period of twelve months from November 10, 2009, after which it can be exercised at market price plus a premium of 15 percent until December 31, 2011. Should market prices change, the carrying amount of put option II will be adjusted at each reporting date and recognized directly in equity, thus changing the goodwill. This put option is reported under other non-interest-bearing liabilities.

At December 31, 2010, Deutsche Telekom had standardized bilateral credit agreements with 21 banks for a total of EUR 12.6 billion. EUR 0.2 billion of these credit lines had been utilized by December 31, 2010. Pursuant to the credit agreements, the terms and conditions depend on Deutsche Telekom's rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of 12 months, be extended by a further 12 months to renew the maturity of 36 months. The situation on the international financial markets eased considerably in 2009 and, in particular, toward the end of 2010. From today's perspective, access to the international debt capital markets is not jeopardized. The 2010 financial year was marked by substantial new issuances. Throughout 2010, we raised EUR 3.1 billion in debt capital in various markets.

The following tables show Deutsche Telekom's contractually agreed (undiscounted) interest payments and repayments of the non-derivative financial liabilities and the derivatives with positive and negative fair values:

	Carrying amounts Dec. 31, 2010 millions of €	Cash flows in 2011		
		Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €
Non-derivative financial liabilities:				
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(43,544)	(2,334)	(63)	(7,897)
Finance lease liabilities	(1,400)	(105)		(168)
Other interest-bearing liabilities	(1,838)	(55)	(5)	(1,055)
Other non-interest-bearing liabilities	(3,193)			(3,176)
Derivative financial liabilities and assets:				
Derivative financial liabilities:				
– Currency derivatives without a hedging relationship	(43)			(44)
– Currency derivatives in connection with cash flow hedges	(56)			(50)
– Interest rate derivatives without a hedging relationship	(196)	49	(60)	(3)
– Interest rate derivatives in connection with fair value hedges	–			
– Interest rate derivatives in connection with cash flow hedges	(266)	(71)	36	
Derivative financial assets:				
– Currency derivatives without a hedging relationship	53			56
– Currency derivatives in connection with cash flow hedges	13			8
– Interest rate derivatives without a hedging relationship	507	46	(27)	48
– Interest rate derivatives in connection with fair value hedges	144	163	(57)	
– Interest rate derivatives in connection with cash flow hedges	118	8		

Cash flows in 2012			Cash flows in 2013 – 2015			Cash flows in 2016 – 2020			Cash flows in 2021 and thereafter		
Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €	Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €	Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €	Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €
(1,822)	(47)	(4,618)	(4,188)	(42)	(14,255)	(3,821)		(9,962)	(4,207)		(8,096)
(91)		(104)	(241)		(295)	(247)		(441)	(201)		(392)
(52)		(41)	(159)		(94)	(177)		(624)	(43)		(25)
		(8)			(7)			(1)			(1)
		(4)									
12	(17)	(106)	(26)	(8)	(75)	(2)	(2)	(1)	(1)	(4)	(3)
(141)	54		(474)	131							
		1									
		2			3						
21	(9)	34	21	(24)	359	29	(48)		108	(115)	107
163	(55)		301	(99)		36	(9)		57	(14)	
8		15	17			36		44	23		65

	Carrying amounts Dec. 31, 2009 millions of €	Cash flows in				
		2010 millions of €	2011 millions of €	2012 – 2014 millions of €	2015 – 2019 millions of €	2020 and thereafter millions of €
Non-derivative financial liabilities:						
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(44,283)	(8,015)	(8,982)	(18,506)	(16,516)	(10,052)
Finance lease liabilities	(1,423)	(234)	(202)	(537)	(771)	(644)
Other interest-bearing liabilities	(1,511)	(828)	(110)	(215)	(669)	(98)
Other non-interest-bearing liabilities	(2,995)	(2,908)	(85)		(1)	(1)
Derivative financial liabilities and assets:						
Derivative financial liabilities:						
– Currency derivatives without a hedging relationship	(46)	(45)	(2)			
– Currency derivatives in connection with cash flow hedges	(17)	(15)				
– Interest rate derivatives without a hedging relationship	(635)	(205)	(47)	(264)	(92)	(95)
– Interest rate derivatives in connection with fair value hedges	(52)	87	87	262	27	50
– Interest rate derivatives in connection with cash flow hedges	(174)	(32)	(43)	(280)	3	19
Derivative financial assets:						
– Currency derivatives without a hedging relationship	91	102	1	2		
– Currency derivatives in connection with cash flow hedges	15	11	1	1		
– Interest rate derivatives without a hedging relationship	562	90	12	276	175	
– Interest rate derivatives in connection with fair value hedges	225	112	129	250	197	340
– Interest rate derivatives in connection with cash flow hedges	155	103	(24)			

The tables showing the contractually agreed (undiscounted) interest payments and repayments do not include the financing commitment granted to Everything Everywhere (please refer to Note 37).

All instruments held at December 31, 2010 and for which payments were already contractually agreed are included. Planning data for future, new liabilities were not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2010. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period. In accordance with § 2 (4) of the German Act on the Transformation of the Deutsche Bundespost Enterprises into the Legal Structure of Stock Corporation (Stock Corporation Transformation Act – Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were already outstanding as at January 1, 1995. At December 31, 2010, this figure was a nominal EUR 2.0 billion (December 31, 2009: EUR 1.9 billion).

11 Trade and other payables.

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Trade payables	6,737	6,294
Other liabilities	13	10
	6,750	**6,304**

Of the total of trade and other payables, EUR 6,745 million (December 31, 2009: EUR 6,300 million) is due within one year.

12 Provisions for pensions and other employee benefits.

Defined benefit plans.

The following table shows the composition of pension obligations:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Defined benefit liability	**6,373**	**6,179**
Defined benefit asset	(28)	(14)
Net defined benefit liability	**6,345**	**6,165**
Pension obligations		
– Unfunded	5,996	5,804
– Funded	346	358
Obligations in accordance with Article 131 GG	3	3

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

Calculation of net defined benefit liability (+)/defined benefit asset (–):

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Present value of funded obligations	977	979
Plan assets at fair value	(629)	(618)
Defined benefit obligations in excess of plan assets	**348**	**361**
Present value of unfunded obligations	6,040	5,854
Unrecognized past service cost	(43)	(50)
Defined benefit liability (+)/defined benefit asset (–) according to IAS 19.54	**6,345**	**6,165**

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

		2010 %	2009 %
Discount rate	Germany	5.16	5.25
	Switzerland (T-Systems)	3.05	3.15
	Greece (OTE S.A.)	4.56/3.71	4.56/3.89
	United Kingdom	5.40	5.70
Projected salary increase	Germany (pay-scale employees)	3.25	3.25
	Germany (non-pay-scale employees)	3.50	3.50
	Switzerland (T-Systems)	1.50	1.50
	Greece (OTE S.A.)	2.20/3.20/ 2.40/2.50	4.50/5.50
	United Kingdom	4.40	4.60
Projected pension increase	Germany (general)	1.50	1.50
	Germany (according to articles of association)	1.00	1.00
	Switzerland (T-Systems)	0.30	0.30
	Greece (OTE S.A.)	n.a.	n.a.
	United Kingdom	3.20	3.40

Pension obligations at German entities of the Group are measured using the biometrical assumptions of the 2005G tables published by Prof. Klaus Heubeck. Local actuarial tables are used in the other countries.

Assumptions for determining the pension expense for years ending December 31:

		2010 %	2009 %	2008 %
Discount rate	Germany	5.25	5.80	5.50
	Switzerland (T-Systems)	3.15	3.00	3.25
	Greece (OTE S.A.)	4.56/3.89	5.50/5.00	n.a.
	United Kingdom	5.70	5.80	5.40
Projected salary increase	Germany (pay-scale employees)	3.25	3.50	2.50
	Germany (non-pay-scale employees)	3.50	4.25	3.25
	Switzerland (T-Systems)	1.50	1.50	1.50
	Greece (OTE S.A.)	4.50/5.50	6.50/4.50	n.a.
	United Kingdom	4.60	4.20	4.20
Return on plan assets	Germany	3.90	3.50	4.30
	Switzerland (T-Systems)	4.50	4.50	4.50
	United Kingdom	7.00	6.90	7.00
Projected pension increase	Germany (general)	1.50	2.00	1.70
	Germany (according to articles of association)	1.00	1.00	1.00
	Switzerland (T-Systems)	0.30	0.30	0.60
	Greece (OTE S.A.)	n.a.	n.a.	n.a.
	United Kingdom	3.40	3.20	3.20

Development of defined benefit obligations in the reporting year:

	2010 millions of €	2009 millions of €
Present value of the defined benefit obligations as of January 1	**6,833**	**6,101**
Reclassification in accordance with IFRS 5	–	(454)
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	(10)	609
Current service cost	193	204
Interest cost	344	371
Contributions by plan participants	5	3
Actuarial losses (gains)	39	373
Total benefits actually paid	(401)	(393)
Curtailments	(2)	–
Settlements	(15)	–
Plan amendments	2	(12)
Exchange rate fluctuations for foreign-currency plans	29	31
Present value of the defined benefit obligations as of December 31	**7,017**	**6,833**

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

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

	2010 millions of €	2009 millions of €
Plan assets at fair value as of January 1	**618**	**952**
Reclassification in accordance with IFRS 5	–	(307)
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	15	0
Expected return on plan assets	27	50
Actuarial (losses) gains	7	(91)
Contributions by employer	2	45
Contributions by plan participants	5	3
Benefits actually paid through pension funds	(56)	(61)
Settlements	(12)	0
Exchange rate fluctuations for foreign-currency plans	23	27
Plan assets at fair value as of December 31	**629**	**618**

Breakdown of plan assets at fair value by investment category:

	Dec. 31, 2010 %	Dec. 31, 2009 %
Equity securities	19	19
Debt securities	65	64
Real estate	6	6
Other	10	11

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

At the reporting date, the plan assets include shares issued by Deutsche Telekom amounting to EUR 0.8 million (December 31, 2009: shares totaling EUR 1.0 million). No other own financial instruments were included in the years shown.

Determination of the expected return on essential plan assets:

These expectations are based on consensus forecasts for each asset class as well as on bank estimates. The forecasts are based on historical figures, economic data, interest rate forecasts, and anticipated stock market developments.

The pension expense for each period is composed of the following items and is reported in the indicated accounts of the income statement:

	Presentation in the income statement	2010 millions of €	2009 millions of €	2008 millions of €
Current service cost	Functional costs *	193	204	204
Interest cost	Other financial income (expense)	344	371	331
Expected return on plan assets	Other financial income (expense)	(27)	(50)	(52)
Past service cost	Functional costs *	9	–	–
Pension expense before curtailments/settlements		**519**	**525**	**483**
Curtailments	Functional costs *	(2)	–	–
Settlements	Functional costs *	(3)	–	–
Pension expense		**514**	**525**	**483**
Actual return on plan assets		34	(41)	50

* Including other operating expenses.

The consolidated statement of comprehensive income contains the following amounts:

	2010 millions of €	2009 millions of €	2008 millions of €
Cumulative losses (gains) recognized directly in equity as of January 1	**576**	**115**	**342**
Actuarial losses (gains) as shown in the consolidated statement of comprehensive income	32	461	(227)
Of which: recognition directly in equity of actuarial losses (gains) in the reporting period	32	464	(230)
Of which: change in the additional provision recognized due to a minimum funding requirement	–	(3)	3
Cumulative losses (gains) recognized directly in equity as of December 31	**608**	**576**	**115**
Actuarial (gains) losses resulting from pension obligations formerly attributable to the Group	(55)	13	3
	553	**589**	**118**

Expected employer contributions for the subsequent year are estimated as follows:

	2011 millions of €
Expected contributions by employer	17

Amounts for the current year and four preceding years of defined benefit obligations, plan assets, defined benefit obligations in excess of plan assets, and experience-based adjustments:

	2010 millions of €	2009 millions of €	2008 millions of €	2007 millions of €	2006 millions of €
Defined benefit obligations	7,017	6,833	6,101	6,327	7,134
Plan assets at fair value	(629)	(618)	(952)	(986)	(966)
Defined benefit obligations in excess of plan assets (funded status)	**6,388**	**6,215**	**5,149**	**5,341**	**6,168**

Adjustment	2010 %	2009 %	2008 %	2007 %	2006 %
Experience-based increase (decrease) of pension obligations	0.1	(0.7)	(0.1)	(0.8)	(0.4)
Experience-based increase (decrease) of plan assets	1.1	(9.9)	(0.2)	(2.5)	1.1

Defined contribution plans.

In the 2010 financial year, current contributions for defined contributions plans, which are reported as an expense in the consolidated income statement of the respective year, amounted to EUR 114 million (2009: EUR 73 million; 2008: EUR 160 million).

Civil-servant retirement arrangements at Deutsche Telekom.

An expense of EUR 676 million was recognized in the 2010 financial year (2009: EUR 684 million; 2008: EUR 762 million) for the annual contribution to the BPS-PT special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. The present value to the total obligation arising from payment obligations to this special pension fund was EUR 5.9 billion as of the reporting date (December 31, 2009: EUR 6.6 billion).

13 Other provisions.

	Provisions for restructuring expenses millions of €	Other provisions for personnel costs millions of €	Provisions for restoration obligations millions of €	Provisions for litigation risks millions of €	Provisions for sales and procurement support millions of €	Miscellaneous other provisions millions of €	Total millions of €
At December 31, 2008	**2,251**	**1,875**	**700**	**472**	**487**	**956**	**6,741**
Of which: current	695	1,466	26	170	474	606	3,437
Changes in the composition of the Group	1	83	7	48	0	12	151
Currency translation adjustments	7	4	6	1	(1)	3	20
Addition	460	1,382	156	105	456	397	2,956
Use	(1,341)	(1,477)	(38)	(68)	(481)	(288)	(3,693)
Reversal	(116)	(296)	(24)	(104)	(23)	(194)	(757)
Interest effect	131	17	67	0	0	17	232
Other changes	(54)	13	(76)	(4)	(31)	32	(120)
At December 31, 2009	**1,339**	**1,601**	**798**	**450**	**407**	**935**	**5,530**
Of which: current	536	1,349	39	424	407	614	3,369
Changes in the composition of the Group	1	16	1	0	0	6	24
Currency translation adjustments	(2)	19	7	0	5	11	40
Addition	191	1,510	88	126	508	430	2,853
Use	(1,031)	(1,433)	(36)	(104)	(443)	(318)	(3,365)
Reversal	(72)	(110)	(30)	(19)	(22)	(146)	(399)
Interest effect	(9)	25	46	2	0	6	70
Other changes	41	11	0	2	(1)	15	68
At December 31, 2010	**458**	**1,639**	**874**	**457**	**454**	**939**	**4,821**
Of which: current	281	1,360	32	427	454	639	3,193

The provisions for restructuring expenses mainly include provisions for staff restructuring. The provisions for restructuring expenses developed as follows in the financial year:

	Jan. 1, 2010 millions of €	Addition millions of €	Use millions of €	Reversal millions of €	Other changes millions of €	Dec. 31, 2010 millions of €
Early retirement	622	18	(702)	(8)	82	12
Severance and voluntary redundancy models	366	58	(191)	(55)	23	201
Partial retirement	292	113	(98)	(3)	(80)	224
Other	59	2	(40)	(6)	6	21
	1,339	**191**	**(1,031)**	**(72)**	**31**	**458**
Of which: current	536					281

Some of the staff restructuring measures are covered by law as, for instance, early retirement for civil servants. For civil servants employed at Deutsche Telekom, the law provides the opportunity under certain conditions to retire early from the age of 55. When the reform of civil-service law came into effect, the provisions for early retirement for civil servants were extended until December 31, 2012. Exercise of the early retirement option in 2011 and 2012, however, will be subject to a resolution by the Board of Management.

Other provisions for personnel costs include a variety of individual issues such as provisions for deferred compensation and allowances, as well as for anniversary gifts. The expenses are allocated to functional costs or to other operating expenses based on actual cost generation.

Provisions for restoration obligations include the estimated costs for dismantling and removing an asset, and restoring the site on which it is located. The estimated costs are included in the costs of the relevant asset.

The provisions for litigation risks primarily include possible settlements attributable to pending lawsuits.

Provisions for sales and procurement support include dealer commissions, subsidies for advertising expenses and reimbursements.

Miscellaneous other provisions include provisions related to the disposal of businesses and site closures, provisions for environmental damage and risks, warranty provisions as well as a variety of other items for which the individually recognized amounts are not material.

14 Other liabilities.

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Deferred revenue	1,980	2,095
Early retirement	2,325	1,819
Liabilities from other taxes	1,221	1,178
Liabilities from straight-line leases	1,080	845
Other deferred revenue	601	527
Miscellaneous other liabilities	907	1,082
	8,114	**7,546**

15 Shareholders' equity.

Issued capital.

As of December 31, 2010, the share capital of Deutsche Telekom totaled EUR 11,063 million. The share capital is divided into 4,321,319,206 no par value registered shares.

	2010	
	thousands	**%**
Federal Republic of Germany	646,575	15.0
KfW Bankengruppe	735,662	17.0
Free float	2,939,082	68.0
Of which: Blackstone Group	191,700	4.4
Of which: BlackRock	145,762	3.4
	4,321,319	**100.0**

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

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

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

Voting rights. Each share entitles the holder to one vote. The voting rights are nevertheless restricted in relation to the treasury shares (around 2 million as of December 31, 2010) and the trust shares (around 19 million as of December 31, 2010). The trust shares are connected with the acquisitions of VoiceStream and Powertel (now T-Mobile USA) in 2001. As part of these acquisitions, Deutsche Telekom AG issued new shares from authorized capital to trustees for the benefit of holders of warrants, options, and conversion rights, among others. As regards the shares issued to trusts, the trustees in question waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence. The shares issued to the trusts can be sold on the stock exchange on the instruction of Deutsche Telekom AG if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom AG. As of December 31, 2010, the number of T-Shares reserved for the stock options still outstanding was 3,042,055.

Authorized capital and contingent capital. Authorized capital and contingent capital comprised the following components as of December 31, 2010:

	Amount millions of €	No par value shares thousands	Purpose
2009 Authorized capital I *	2,176	850,000	Increase in share capital (until April 29, 2014)
2009 Authorized capital II *	38	15,000	Employee shares (until April 29, 2014)
Contingent capital II	32	12,427	Meeting preemptive rights to shares from stock options under the 2001 Stock Option Plan
Contingent capital IV	1,100	429,688	Servicing guaranteed convertible bonds or bonds with warrants issued on or before April 25, 2010

* The Supervisory Board's approval is required.

Capital reserves.

The capital reserves of the Group primarily encompass the capital reserves of Deutsche Telekom AG. Differences to the capital reserves of Deutsche Telekom AG result from the recognition at fair value of the Deutsche Telekom AG shares newly issued in the course of the acquisition of T-Mobile USA Inc., Bellevue (United States)/Powertel Inc., Bellevue (United States) instead of at their par value, which is permissible in the consolidated financial statements, and from the related treatment of the issuing costs, which are deducted from capital reserves.

Notes to the consolidated income statement.

16 Net revenue.

Net revenue breaks down into the following revenue categories:

	2010 millions of €	2009 millions of €	2008 millions of €
Revenue from the rendering of services	58,159	61,017	58,449
Revenue from the sale of goods and merchandise	4,067	3,442	3,036
Revenue from the use of entity assets by others	195	143	181
	62,421	**64,602**	**61,666**

For details of changes in net revenue, please refer to the section "Development of business in the Group" in the combined management report.

17 Cost of sales.

The decrease in cost of sales of EUR 0.5 billion was primarily attributable to consolidation effects from the deconsolidation of T-Mobile UK amounting to EUR 1.5 billion, which were partially offset by exchange rate effects totaling EUR 0.7 billion.

18 Selling expenses.

Selling expenses declined by EUR 1.2 billion, due in particular to effects of EUR 0.6 billion from changes in the composition of the Group and a reduction in customer acquisition and retention costs in the Germany operating segment. The decline was partially offset by exchange rate effects totaling EUR 0.3 billion, primarily from the translation of U.S. dollars.

19 General and administrative expenses.

The increase of EUR 0.6 billion in general and administrative expenses related mainly to EUR 0.2 billion higher expenses for early retirement arrangements. In addition, a provision of EUR 0.2 billion for the Civil Service Health Insurance Fund had been reversed in the prior year.

20 Other operating income.

	2010 millions of €	2009 millions of €	2008 millions of €
Income from reimbursements	381	344	272
Income from the reversal of impairment losses on non-current financial assets in accordance with IFRS 5	47	131	134
Income from disposal of non-current assets	70	104	100
Income from insurance compensation	42	49	50
Income from divestitures	3	20	505
Miscellaneous other operating income	955	856	910
	1,498	**1,504**	**1,971**

Other operating income did not change significantly compared to the prior year.

21 Other operating expenses.

	2010 millions of €	2009 millions of €	2008 millions of €
Impairment losses from the year-end impairment test			
Of which: goodwill	395	2,345	289
Of which: property, plant and equipment	285	–	–
Expenses in connection with the agreement with Vivendi (France) and Elektrim (Poland) concerning the stake in PTC	400	–	–
Losses from divestitures	350	1	62
Losses on disposal of non-current assets	159	154	170
Miscellaneous other operating expenses	1,228	819	711
	2,817	**3,319**	**1,232**

Other operating expenses decreased year-on-year by EUR 0.5 billion, due in part to lower depreciation, amortization and impairment losses posted in connection with the year-end impairment tests. In the prior year, other operating expenses included an impairment loss of EUR 1.8 billion that had been recognized on the goodwill of the cash-generating unit T-Mobile UK. For further details, please refer to Note 5. The decrease in other operating expenses was partially offset by expenses of EUR 0.4 billion incurred in connection with the agreement concerning the stake in PTC, and of EUR 0.4 billion from the deconsolidation of T-Mobile UK recognized in the second quarter of 2010 due to the establishment of the Everything Everywhere joint venture.

22 Finance costs.

	2010 millions of €	2009 millions of €	2008 millions of €
Interest income	349	341	408
Interest expense	(2,849)	(2,896)	(2,895)
	(2,500)	**(2,555)**	**(2,487)**
Of which: from financial instruments relating to categories in accordance with IAS 39:			
Loans and receivables	77	132	162
Held-to-maturity investments	2	3	23
Available-for-sale financial assets	15	42	32
Financial liabilities measured at amortized cost *	(2,490)	(2,637)	(2,668)

* Interest expense calculated according to the effective interest method and adjusted for accrued interest from derivatives that were used as hedging instruments against interest rate-based changes in the fair values of financial liabilities measured at amortized cost in the reporting period for hedge accounting in accordance with IAS 39 (2010: interest income of EUR 155 million; 2009: interest income of EUR 107 million; 2008: interest income of EUR 68 million and interest expense of EUR 11 million).

EUR 69 million was recognized as part of acquisition costs in the financial year (2009: EUR 27 million). The amount was calculated on the basis of an average capitalization rate of 5.4 percent (2009: 5.9 percent) applied across the Group.

Interest payments of EUR 3.3 billion (2009: EUR 3.5 billion, 2008: EUR 3.4 billion) were made in the financial year.

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

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

	2010 millions of €	2009 millions of €	2008 millions of €
Share of profit (loss) of joint ventures	(59)	9	31
Share of profit (loss) of associates	2	15	(419)
	(57)	**24**	**(388)**

The Everything Everywhere joint venture has been included in the consolidated statement of financial position under investments accounted for using the equity method since April 1, 2010. Since then the share of profit generated by the joint venture that is allocated to Deutsche Telekom (2010: EUR –49 million) has been shown under share of profit/loss of joint ventures.

24 Other financial income/expense.

	2010 millions of €	2009 millions of €	2008 millions of €
Income from investments	30	22	44
Gain (loss) from financial instruments	133	(171)	(254)
Interest component from measurement of provisions and liabilities	(416)	(677)	(503)
	(253)	**(826)**	**(713)**

All income/expense components including interest income and expense from financial instruments classified as held for trading in accordance with IAS 39 are reported under other financial income/expense.

Gain/loss from financial instruments includes currency translation effects amounting to EUR –424 million (2009: EUR –22 million; 2008: EUR –587 million). The item includes EUR 557 million (2009: EUR –149 million, 2008: EUR 333 million) in gains from financial instruments that were used mainly to hedge against currency effects.

In addition to the change in gain/loss from financial instruments, the EUR 0.6 billion decrease in other financial expense compared with the prior year is mainly attributable to lower interest rate expenses on provisions and liabilities.

25 Income taxes.

Income taxes in the consolidated income statement.

Income taxes are broken down into current taxes paid or payable in the individual countries and into deferred taxes.

The following table provides a breakdown of income taxes in Germany and internationally:

	2010 millions of €	2009 millions of €	2008 millions of €
Current taxes	**768**	**873**	**644**
Germany	87	163	88
International	681	710	556
Deferred taxes	**167**	**909**	**784**
Germany	197	353	515
International	(30)	556	269
	935	**1,782**	**1,428**

Deutsche Telekom’s combined income tax rate for 2010 amounted to 30.5 percent. It consists of corporate income tax at a rate of 15 percent, the solidarity surcharge of 5.5 percent on corporate income tax, and trade income tax at an average multiplier of 419 percent. The combined income tax rate amounted to 30.5 percent for 2009 and 2008.

Reconciliation of the effective tax rate. Income taxes of EUR 935 million in the reporting year (2009: EUR 1,782 million; 2008: EUR 1,428 million) are derived as follows from the expected income tax expense that would have arisen had the statutory income tax rate of the parent company (combined income tax rate) been applied to profit/loss before income taxes:

	2010 millions of €	2009 millions of €	2008 millions of €
Profit (loss) before income taxes	**2,695**	**2,655**	**3,452**
Expected income tax expense (income tax rate applicable to Deutsche Telekom AG: 2010: 30.5 %; 2009: 30.5 %, 2008: 30.5 %)	822	810	1,053
Adjustments to expected tax expense			
Effect of changes in statutory tax rates	(113)	26	3
Tax effects from prior years	112	(26)	29
Tax effects from other income taxes	68	161	115
Non-taxable income	(85)	(106)	(86)
Tax effects from equity investments	16	(9)	124
Non-deductible expenses	130	136	110
Permanent differences	123	64	(47)
Goodwill impairment losses	106	702	71
Tax effects from loss carryforwards	(385)	51	(34)
Tax effects from additions to and reductions of local taxes	91	71	86
Adjustment of taxes to different foreign tax rates	52	(102)	3
Other tax effects	(2)	4	1
Income tax expense (benefit) according to the consolidated income statement	**935**	**1,782**	**1,428**
Effective income tax rate %	35	67	41

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

	2010 millions of €	2009 millions of €	2008 millions of €
Current income taxes	**768**	**873**	**644**
Of which:			
Current tax expense	560	744	596
Prior-period tax expense (income)	208	129	48

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

	2010 millions of €	2009 millions of €	2008 millions of €
Deferred tax expense (income)	**167**	**909**	**784**
Of which:			
On temporary differences	21	692	409
On loss carryforwards	165	232	419
From tax credits	(19)	(15)	(44)

Income taxes decreased year-on-year despite the increase in profits before income taxes. This was due in part to the fact that, relative to the reporting year, in 2009 a high level of goodwill impairment losses was included in profit before income taxes and had no tax effect, and thus raised the tax rate in 2009. In addition, deferred taxes of EUR 466 million were recognized on temporary differences and loss carryforwards in the Europe operating segment in the reporting period, since it has become likely that these temporary differences and loss carryforwards will be used in the future. The Special Contribution Tax II introduced in Greece had the opposite effect, since it resulted in an increase in tax expense and the tax rate for the Group in the reporting period. The tax rate also increased due to the deconsolidation of T-Mobile UK which had no tax effect.

Income taxes in the consolidated statement of financial position.

Current income taxes in the consolidated statement of financial position:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Recoverable taxes	224	144
Tax liabilities	(545)	(511)

Deferred taxes in the consolidated statement of financial position:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Deferred tax assets	5,129	5,162
Deferred tax liabilities	(7,635)	(7,153)
	(2,506)	**(1,991)**
Of which: recognized in equity		
Actuarial gains and losses	175	151
Revaluation surplus	3	3
Cash flow hedges	(338)	(319)
Financial assets available for sale	3	3
	(157)	**(162)**

Development of deferred taxes:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Deferred taxes recognized in the statement of financial position	(2,506)	(1,991)
Difference to prior year	(515)	(1,117)
Of which:		
Recognized in income statement	(167)	(909)
Recognized in equity	5	138
Acquisitions/disposals	(63)	(482)
Currency translation adjustments	(290)	136

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

	Dec. 31, 2010		Dec. 31, 2009	
	Deferred tax assets millions of €	Deferred tax liabilities millions of €	Deferred tax assets millions of €	Deferred tax liabilities millions of €
Current assets	**895**	**(415)**	**788**	**(368)**
Trade and other receivables	699	(344)	339	(52)
Other financial assets	0	0	317	(251)
Inventories	86	(25)	13	(17)
Other assets	110	(46)	119	(48)
Non-current assets	**2,448**	**(11,315)**	**1,279**	**(9,739)**
Intangible assets	996	(7,216)	493	(6,802)
Property, plant and equipment	579	(2,844)	459	(2,588)
Investments accounted for using the equity method	0	0	0	0
Other financial assets	873	(1,255)	327	(349)
Current liabilities	**784**	**(741)**	**641**	**(405)**
Financial liabilities	326	(415)	267	(229)
Trade and other payables	146	(81)	29	(58)
Other provisions	119	(21)	176	(46)
Other liabilities	193	(224)	169	(72)
Non-current liabilities	**2,942**	**(630)**	**3,209**	**(998)**
Financial liabilities	1,464	(352)	1,572	(734)
Provisions for pensions and other employee benefits	491	(165)	542	(162)
Other provisions	287	(74)	393	(75)
Other liabilities	700	(39)	702	(27)
Tax credits	**224**	**–**	**196**	**–**
Loss carryforwards	**3,973**	**–**	**4,458**	**–**
Total	**11,266**	**(13,101)**	**10,571**	**(11,510)**
Of which: non-current	9,587	(11,946)	8,865	(10,737)
Allowance	(671)	–	(1,052)	–
Netting	(5,466)	5,466	(4,357)	4,357
Recognition	**5,129**	**(7,635)**	**5,162**	**(7,153)**

The allowances relate primarily to loss carryforwards.

The loss carryforwards are shown in the following table:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Loss carryforwards for corporate income tax purposes	**11,972**	**13,516**
Expiry within		
1 year	88	38
2 years	119	1,403
3 years	76	165
4 years	29	128
5 years	32	157
After 5 years	3,873	5,051
Unlimited carryforward period	7,755	6,574

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

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Loss carryforwards for corporate income tax purposes	**1,669**	**3,295**
Expiry within		
1 year	7	18
2 years	67	1,127
3 years	57	46
4 years	10	43
5 years	15	81
After 5 years	300	202
Unlimited carryforward period	1,213	1,778
Temporary differences in corporate income tax	**348**	**477**

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 88 million (December 31, 2009: EUR 124 million) and on temporary differences for trade tax purposes in the amount of EUR 1 million (December 31, 2009: EUR 40 million). Apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 160 million (December 31, 2009: EUR 118 million) were recognized for other foreign income tax loss carryforwards.

No deferred tax assets were recognized on the aforementioned tax loss carryforwards and temporary differences as it is not probable that taxable profit will be available in the foreseeable future against which these tax loss carryforwards can be utilized.

A positive tax effect in the amount of EUR 301 million (2009: EUR 12 million; 2008: EUR 12 million) attributable to the utilization of tax loss carryforwards on which deferred tax assets had not yet been recognized, was recorded.

No deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting to EUR 1,130 million (December 31, 2009: EUR 1,590 million) as it is unlikely that these differences will be reversed in the near future.

Differences between income tax rates on distributed and retained earnings may lead to a tax burden on the Group of up to EUR 160 million in future.

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

	2010			2009			2008		
	Before tax amount millions of €	Tax (expense) benefit millions of €	Net of tax amount millions of €	Before tax amount millions of €	Tax (expense) benefit millions of €	Net of tax amount millions of €	Before tax amount millions of €	Tax (expense) benefit millions of €	Net of tax amount millions of €
Actuarial gains and losses on defined benefit pension plans	(32)	12	(20)	(461)	116	(345)	227	(64)	163
Revaluation due to business combinations	(2)	0	(2)	(38)	3	(35)	0	0	0
Exchange differences on translating foreign operations	3,698	0	3,698	(211)	0	(211)	(352)	0	(352)
Of which: recognized in income statement	2,151	0	2,151	0	0	0	0	0	0
Available-for-sale financial assets	(3)	1	(2)	(4)	0	(4)	1	0	1
Of which: recognized in income statement	0	0	0	0	0	0	0	0	0
Fair value measurement of hedging instruments	58	(18)	40	(48)	19	(29)	(41)	8	(33)
Of which: recognized in income statement	0	0	0	8	(1)	7	(101)	5	(96)
Share of profit (loss) of investments accounted for using the equity method	28	0	28	0	0	0	0	0	0
Other income and expense recognized directly in equity	0	0	0	11	0	11	(8)	3	(5)
Other comprehensive income	**3,747**	**(5)**	**3,742**	**(751)**	**138**	**(613)**	**(173)**	**(53)**	**(226)**
Profit (loss)			1,760			873			2,024
Total comprehensive income			**5,502**			**260**			**1,798**

26 Profit/loss attributable to non-controlling interests.

Profit attributable to non-controlling interests of EUR 65 million (2009: EUR 520 million; 2008: EUR 541 million) comprises gains of EUR 484 million (2009: EUR 527 million; 2008: EUR 859 million) and losses of EUR 419 million (2009: EUR 7 million; 2008: EUR 318 million).

The share in profit attributable to non-controlling interests in 2010 primarily related to T-Mobile CZ, Hrvatski Telekom, Magyar Telekom, Slovak Telekom and T-Mobile Macedonia.

The share in loss attributable to non-controlling interests in 2010 is mainly attributable to entities within the OTE group.

27 Earnings per share.

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

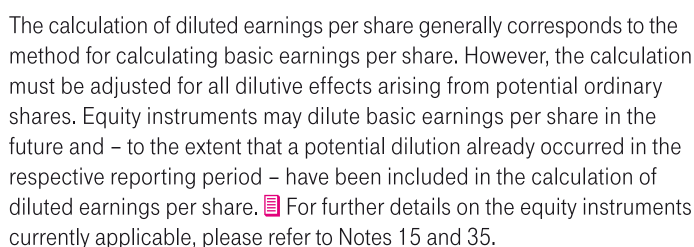
Basic earnings per share.

		2010	2009	2008
Profit attributable to the owners of the parent (net profit)	millions of €	1,695	353	1,483
Adjustment	millions of €	–	–	–
Adjusted net profit (basic)	**millions of €**	**1,695**	**353**	**1,483**
Number of ordinary shares issued	millions	4,358	4,361	4,361
Treasury shares	millions	(5)	(2)	(2)
Shares reserved for outstanding options (T-Mobile USA/Powertel)	millions	(19)	(19)	(19)
Adjusted weighted average number of ordinary shares outstanding (basic)	**millions**	**4,334**	**4,340**	**4,340**
Basic earnings per share	**€**	**0.39**	**0.08**	**0.34**

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

Diluted earnings per share.

		2010	2009	2008
Adjusted profit attributable to the owners of the parent (net profit) (basic)	millions of €	1,695	353	1,483
Dilutive effects on profit (loss) from stock options (after taxes)	millions of €	0	0	0
Net profit (diluted)	**millions of €**	**1,695**	**353**	**1,483**
Adjusted weighted average number of ordinary shares outstanding (basic)	millions	4,334	4,340	4,340
Dilutive potential ordinary shares from stock options and warrants	millions	0	0	0
Weighted average number of ordinary shares outstanding (diluted)	**millions**	**4,334**	**4,340**	**4,340**
Diluted earnings per share	**€**	**0.39**	**0.08**	**0.34**


The calculation of diluted earnings per share generally corresponds to the method for calculating basic earnings per share. However, the calculation must be adjusted for all dilutive effects arising from potential ordinary shares. Equity instruments may dilute basic earnings per share in the future and – to the extent that a potential dilution already occurred in the respective reporting period – have been included in the calculation of diluted earnings per share. For further details on the equity instruments currently applicable, please refer to Notes 15 and 35.

28 Dividend per share.

For the 2010 financial year, the Board of Management proposes a dividend of EUR 0.70 for each no par value share carrying dividend rights. On the basis of this payout volume, total dividends in the amount of EUR 3,011 million (2009: EUR 3,386 million) will be appropriated to the no par value shares carrying dividend rights at February 18, 2011.

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

29 Average number of employees and personnel costs.

Average number of employees.

		2010	2009	2008
Group (total)		**252,494**	**257,601**	**234,887**
Domestic		126,952	130,477	141,123
International		125,542	127,124	93,764
Non-civil servants		224,428	226,460	201,036
Civil servants (domestic)		28,066	31,141	33,851
Trainees and student interns		9,217	9,805	10,424
Personnel costs	**millions of €**	**15,071**	**14,333**	**14,078**

The number of employees decreased by 2.0 percent in the financial year. This development was caused by the following effects: In Germany, the decrease was primarily attributable to staff cuts in the fixed network operations of the Germany operating segment, although this was partially offset by the higher number of employees assigned to Vivento and at units integrated into Group Headquarters & Shared Services as part of the Group-wide realignment of the management structure.

Outside Germany, the number of employees decreased mainly as a result of staff restructuring measures in the Europe operating segment and the deconsolidation of T-Mobile UK. These effects were partially offset by a higher average number of employees in the Systems Solutions operating segment as a consequence of offshore activities and the fact that employees were taken over under the terms of large-scale contracts.

Personnel costs increased by 5.1 percent year-on-year, mainly as a result of increased expenses for civil-servant early retirement in Germany and increased personnel costs in the Germany operating segment and at Group Headquarters & Shared Services following collectively agreed pay rises. This increase was also a result of higher staff-related expenses in the United States operating segment which were mainly attributable to retail distribution growth and exchange rate effects, as well as the increase in international headcount in the Systems Solutions operating segment.

30 Depreciation, amortization and impairment losses.

The following table provides a breakdown of depreciation, amortization and impairment losses included in the functional costs and in other operating expenses:

	2010 millions of €	2009 millions of €	2008 millions of €
Amortization and impairment of intangible assets	**3,743**	**5,657**	**3,397**
Of which:			
Goodwill impairment losses from the year-end impairment test	395	2,345	289
Amortization of mobile communications licenses	743	905	1,013
Depreciation and impairment of property, plant and equipment	**8,065**	**8,237**	**7,578**
Of which: impairment of property, plant and equipment from the year-end impairment test	285	–	–
	11,808	**13,894**	**10,975**

The following table provides a breakdown of impairment losses:

	2010 millions of €	2009 millions of €	2008 millions of €
Intangible assets	**399**	**2,354**	**340**
Of which:			
Goodwill from the year-end impairment test	395	2,345	289
U.S. mobile communications licenses	–	–	21
Property, plant and equipment	**450**	**217**	**140**
Land and buildings	159	193	123
Of which: from the year-end impairment test	27	–	–
Technical equipment and machinery	271	10	5
Of which: from the year-end impairment test	258	–	–
Other equipment, operating and office equipment	1	3	8
Advance payments and construction in progress	19	11	4
	849	**2,571**	**480**

Depreciation, amortization and impairment losses decreased by EUR 2.1 billion year-on-year, with the latter accounting for EUR 1.7 billion. The decline in depreciation and amortization is mainly due to lower depreciation of property, plant and equipment (technical equipment and machinery). This decrease, in turn, is mainly attributable to the fact that depreciation charges for T-Mobile UK's assets were no longer recognized in 2010.

The year-end impairment tests at the cash-generating units resulted in goodwill impairments of EUR 0.4 billion as well as impairment losses of EUR 0.3 billion on property, plant and equipment. By comparison, an impairment loss of EUR 2.3 billion on goodwill had to be recognized in the prior year. For further details on the impairment tests at the cash-generating units, please refer to Note 5.

Other disclosures.

31 Notes to the consolidated statement of cash flows.

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

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

Cash outflows for property, plant and equipment, which decreased by EUR 0.7 billion, and net cash outflows from the change in short-term investments and marketable securities and receivables, which improved by EUR 0.8 billion, had an offsetting effect. In particular inflows from the return of cash collateral deposited in the prior year for the acquisition of STRATO totaling EUR 0.3 billion and the return of collateral deposited for hedging transactions amounting to a net total of EUR 0.3 billion contributed to this development in the financial year ended on December 31, 2010. In addition, cash outflows for the acquisition of companies decreased by EUR 0.6 billion. While cash outflows amounting to EUR 1.0 billion for the acquisition of further shares in OTE and of ZAPP were recorded in the 2009 financial year, the 2010 financial year saw cash outflows of EUR 0.3 billion for the acquisition of STRATO and EUR 0.1 billion for the acquisition of ClickandBuy.

Net cash used in financing activities. Net cash used in financing activities amounted to EUR 6.4 billion, compared with EUR 5.1 billion in the prior year.

This is attributable to a net issuance of non-current financial liabilities of EUR 3.1 billion (2009: EUR 5.3 billion) and outflows for the share buy-back totaling EUR 0.4 billion. These factors were offset by the net repayment of current financial liabilities which decreased by EUR 1.3 billion, and the dividends paid out by OTE and Slovak Telekom which declined by EUR 0.2 billion and EUR 0.1 billion respectively.

The issue of financial liabilities in the 2010 financial year consisted in particular of the sale of medium-term notes for EUR 1.8 billion, the sale of euro bonds amounting to EUR 1.2 billion, the net borrowing of funds from the joint venture in the United Kingdom in the amount of EUR 0.3 billion, a loan of EUR 0.1 billion from the European Investment Bank and the issue of promissory notes for EUR 0.1 billion. In the same period, USD bonds amounting to EUR 2.4 billion, euro bonds amounting to EUR 2.0 billion, a loan of EUR 0.6 billion from the European Investment Bank, medium term notes amounting to EUR 0.3 billion and a loan of EUR 0.2 billion from KfW Bankengruppe were repaid. In addition, the net returns from hedging transactions totaled EUR 0.5 billion.

32 Segment reporting.

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

These changes were incorporated into the following tables, and prior-year and comparative figures adjusted accordingly.

The business activities in three of these four operating segments are assigned by regions and in the fourth operating segment by customers and products.

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

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

The mobile communications business offers mobile voice and data services to consumers and business customers. Mobile terminals and other hardware are sold in connection with the services offered. In addition, T-Mobile services are sold to resellers and to companies that buy network services and market them independently to third parties (MVNOs).

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

Group Headquarters & Shared Services comprises Service Headquarters and those subsidiaries of Deutsche Telekom AG that are not allocated to the operating segments.

The reconciliation summarizes the elimination of intersegment transactions.

The measurement principles for Deutsche Telekom's segment reporting structure are based on the IFRSs adopted in the consolidated financial statements. Deutsche Telekom evaluates the segments' performance based on revenue and profit or loss from operations (EBIT), among other factors. Revenue generated and goods and services exchanged between segments are calculated on the basis of market prices. Segment assets and liabilities include all assets and liabilities that are accounted for on the basis of the financial statements prepared by the operating segments and included in the consolidated financial statements. Segment investments include additions to intangible assets and property, plant and equipment. Where entities accounted for using the equity method are directly allocable to a segment, their share of profit or loss after income taxes and their carrying amount is reported in this segment's accounts. The following tables show the performance indicators used by Deutsche Telekom to evaluate the operating segments' performance as well as additional segment-related indicators:

		Net revenue millions of €	Intersegment revenue millions of €	Total revenue millions of €	Profit (loss) from operations (EBIT) millions of €	Interest income millions of €	Interest expense millions of €	Share of profit (loss) of associates and joint ventures accounted for using the equity method millions of €	Income taxes millions of €
Germany	2010	23,523	1,622	25,145	4,916	24	(600)	–	8
	2009	23,813	1,610	25,423	5,062	172	(107)	2	(13)
	2008	24,754	1,646	26,400	4,624	654	(425)	(1)	16
Europe	2010	16,183	657	16,840	985	147	(840)	(52)	(319)
	2009	18,996	611	19,607	140	218	(666)	7	(582)
	2008	15,295	637	15,932	1,412	289	(420)	7	(282)
United States	2010	16,075	12	16,087	2,092	24	(514)	(1)	(595)
	2009	15,457	14	15,471	2,233	16	(543)	6	(643)
	2008	14,942	15	14,957	2,299	81	(577)	6	(694)
Systems Solutions	2010	6,411	2,646	9,057	44	23	(31)	(4)	(12)
	2009	6,083	2,715	8,798	(11)	39	(46)	10	(12)
	2008	6,368	2,975	9,343	81	82	(59)	41	(10)
Group Headquarters & Shared Services	2010	229	1,937	2,166	(2,479)	1,892	(3,089)	–	117
	2009	253	2,157	2,410	(1,249)	1,156	(2,768)	–	(570)
	2008	307	2,474	2,781	(1,266)	1,559	(3,627)	(441)	(476)
Total	**2010**	**62,421**	**6,874**	**69,295**	**5,558**	**2,110**	**(5,074)**	**(57)**	**(801)**
	2009	**64,602**	**7,107**	**71,709**	**6,175**	**1,601**	**(4,130)**	**25**	**(1,820)**
	2008	**61,666**	**7,747**	**69,413**	**7,150**	**2,665**	**(5,108)**	**(388)**	**(1,446)**
Reconciliation	2010	–	(6,874)	(6,874)	(53)	(1,761)	2,225	–	(134)
	2009	–	(7,107)	(7,107)	(163)	(1,260)	1,234	(1)	38
	2008	–	(7,747)	(7,747)	(110)	(2,257)	2,213	–	18
Group	2010	62,421	–	62,421	5,505	349	(2,849)	(57)	(935)
	2009	64,602	–	64,602	6,012	341	(2,896)	24	(1,782)
	2008	61,666	–	61,666	7,040	408	(2,895)	(388)	(1,428)

		Segment assets millions of €	Segment liabilities millions of €	Segment investments millions of €	Investments accounted for using the equity method millions of €	Depreciation and amortization millions of €	Impairment losses millions of €	Average number of employees
Germany	2010	35,334	26,111	4,902	26	(4,178)	(15)	79,364
	2009	52,002	16,244	3,221	23	(4,189)	(7)	84,584
	2008	49,797	14,693	3,412	18	(4,164)	(16)	89,961
Europe	2010	46,040	20,334	2,127	7,143	(3,453)	(704)	65,435
	2009	46,759	22,063	4,813	52	(3,772)	(2,385)	69,277
	2008	34,327	10,646	1,940	68	(3,090)	(301)	39,174
United States	2010	38,316	23,056	2,118	24	(2,063)	(1)	37,795
	2009	36,087	19,326	2,494	18	(2,025)	(3)	38,231
	2008	37,213	20,998	3,615	14	(1,863)	(21)	36,076
Systems Solutions	2010	8,855	5,783	819	49	(619)	(4)	47,588
	2009	8,872	5,932	837	54	(718)	(3)	45,328
	2008	9,280	6,342	846	46	(765)	(16)	46,095
Group Headquarters & Shared Services	2010	107,357	60,806	675	0	(714)	(126)	22,312
	2009	120,162	78,379	747	0	(660)	(173)	20,181
	2008	116,948	75,764	545	3,411	(646)	(127)	23,581
Total	**2010**	**235,902**	**136,090**	**10,641**	**7,242**	**(11,027)**	**(850)**	**252,494**
	2009	**263,882**	**141,944**	**12,112**	**147**	**(11,364)**	**(2,571)**	**257,601**
	2008	**247,565**	**128,443**	**10,358**	**3,557**	**(10,528)**	**(481)**	**234,887**
Reconciliation	2010	(108,090)	(51,306)	(302)	–	68	1	–
	2009	(136,108)	(56,107)	(645)	–	41	–	–
	2008	(124,425)	(48,415)	(241)	–	33	1	–
Group	2010	127,812	84,784	10,339	7,242	(10,959)	(849)	252,494
	2009	127,774	85,837	11,467	147	(11,323)	(2,571)	257,601
	2008	123,140	80,028	10,117	3,557	(10,495)	(480)	234,887

		Net cash from operating activities millions of €	Net cash (used in) from investing activities millions of €	Of which: cash capex* millions of €	Net cash (used in) from financing activities millions of €
Germany	2010	9,167	(4,977)	(4,765)	(10,023)
	2009	9,777	(2,801)	(3,158)	(3,689)
	2008	9,941	(2,791)	(3,038)	(7,224)
Europe	2010	4,481	(3,045)	(2,012)	(2,839)
	2009	5,034	(1,510)	(2,489)	(6,071)
	2008	4,296	(2,048)	(2,018)	(1,900)
United States	2010	3,691	(1,870)	(2,121)	(1,920)
	2009	3,929	(3,014)	(2,666)	(1,004)
	2008	3,740	(2,892)	(2,540)	(852)
Systems Solutions	2010	517	(726)	(725)	(373)
	2009	325	(643)	(681)	88
	2008	766	9	(823)	(838)
Group Headquarters & Shared Services	2010	7,486	3,424	(406)	(5,554)
	2009	6,801	(2,995)	(449)	(2,147)
	2008	3,366	(1,021)	(426)	(1,028)
Total	**2010**	**25,342**	**(7,194)**	**(10,029)**	**(20,709)**
	2009	**25,866**	**(10,963)**	**(9,443)**	**(12,823)**
	2008	**22,109**	**(8,743)**	**(8,845)**	**(11,842)**
Reconciliation	2010	(10,611)	(3,517)	178	14,340
	2009	(10,071)	2,314	241	7,700
	2008	(6,741)	(2,641)	138	8,745
Group	2010	14,731	(10,711)	(9,851)	(6,369)
	2009	15,795	(8,649)	(9,202)	(5,123)
	2008	15,368	(11,384)	(8,707)	(3,097)

* Cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment, as shown in the statement of cash flows.

Information on geographic areas. The Group's non-current assets and net revenue are shown by region. These are the regions in which Deutsche Telekom is active: Germany, Europe (excluding Germany), North America and other countries. The Europe (excluding Germany) region covers the entire European Union (excluding Germany) and the other countries in Europe. The North America region comprises the United States and Canada. "Other countries" includes all countries that are not Germany or in Europe (excluding Germany) or North America. Non-current assets are allocated to the regions according to the location of the assets in question. Non-current assets encompass intangible assets; property, plant and equipment; investments accounted for using the equity method as well as other non-current assets. Net revenue is allocated according to the location of the respective customers' operations.

Information on products and services. Revenue generated with external customers for groups of comparable products and services developed as follows:

	Net revenue		
	2010 millions of €	2009 millions of €	2008 millions of €
Telecommunications	55,781	58,266	54,991
Systems solutions	6,411	6,083	6,368
Other	229	253	307
	62,421	**64,602**	**61,666**

	Non-current assets			Net revenue		
	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €	Dec. 31, 2008 millions of €	2010 millions of €	2009 millions of €	2008 millions of €
Germany	41,138	40,499	44,385	27,268	28,033	28,885
International	64,607	57,362	55,227	35,153	36,569	32,781
Of which:						
Europe (excluding Germany)	31,385	26,575	23,854	18,217	20,573	17,324
North America	33,104	30,717	31,298	16,192	15,527	14,931
Other countries	118	70	75	744	469	526
Group	**105,745**	**97,861**	**99,612**	**62,421**	**64,602**	**61,666**

33 Contingent liabilities and assets.

As of the reporting date, the Group was exposed to contingent liabilities amounting to EUR 771 million (December 31, 2009: EUR 724 million) that, on the basis of the information and estimates available, do not fulfill the requirements for recognition as liabilities in the statement of financial position. Deutsche Telekom is involved in a number of court and arbitration proceedings in connection with its regular business activities. Litigation provisions include the costs of legal counsel services and any probable losses. Deutsche Telekom does not believe that any additional costs arising from legal counsel services or the results of proceedings will have a material adverse effect on the results of operations and financial position of the Group.

In addition to individual cases that do not have any significant impact on their own, the aforementioned total contingent liabilities include the following:

Year-end bonus for civil servants. In November 2004, the Federal Republic of Germany passed the first Act to amend the Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz – PostPersRG), which abolished the obligation on Deutsche Telekom and other successor companies to Deutsche Bundespost to pay active civil servants an annual year-end bonus under the German Federal Act on Bonus Payments (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 of up to EUR 0.2 billion for the period 2004 to June 2009 may have to be made.

European Commission investigates Slovak Telekom. In April 2009, the European Commission started an investigation into allegedly abusive behavior of Slovak Telekom in the retail and wholesale broadband market in Slovakia. According to the European Commission, such an infringement could consist of refusing access to the unbundled local loop, margin squeeze situations in these products as well as other discriminating behavior. In December 2010, the European Commission formally extended the investigation to include Deutsche Telekom as Slovak Telekom's parent company, allowing the European Commission to also hold Deutsche Telekom liable for Slovak Telekom's alleged infringements. Should the investigation of the European Commission arrive at finding an infringement of European competition law, it could impose fines of EUR 0.1 billion against Slovak Telekom and it could also impose fines against Deutsche Telekom.

IPR proceedings against ADSL technology. Deutsche Telekom is facing four proceedings alleging patent infringements relating to DSL data transmission processes. Specifically, the patents concerned relate to special processes used to check the quality of DSL channels, to code data, to set transmission rates, and to correct transmission errors. The German Federal Patent Court upheld Deutsche Telekom's first-instance claim regarding two of the patents and declared them void. A nullity suit is pending against another of the patents and a fourth nullity suit is in preparation but has not yet been filed. Two proceedings before the German infringement court have been suspended and the other two are unscheduled, meaning no hearings have been set for the allegations of violations. The amount in dispute in all proceedings against Deutsche Telekom totals EUR 0.1 billion.

Likewise, on the basis of the information and estimates available, the following issues do not fulfill the requirements for recognition as liabilities in the statement of financial position. As, however, the Group is unable to estimate the amount of the contingent liabilities in each case due to the uncertainties described below, they have not been included in the aforementioned total contingent liabilities.

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

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

- **Bank loans guarantee.** Deutsche Telekom AG guarantees to third parties bank loans of up to a maximum amount of EUR 115 million granted to Toll Collect GmbH. These guarantees for bank loans will expire on May 31, 2012.

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

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

The risks and obligations of Cofiroute, which holds a 10-percent stake in Toll Collect, are limited to EUR 70 million. Deutsche Telekom AG and Daimler Financial Services AG have the obligation, on a joint and several basis, to indemnify Cofiroute against further claims.

Deutsche Telekom believes the claims of the Federal Republic of Germany are unfounded. Furthermore, the amount of a possible settlement attributable to the equity maintenance undertaking or the arbitration proceedings described, which may be material, cannot be estimated because of the aforementioned uncertainties.

Rates for unbundled local loop lines. In November 2008, the Cologne Administrative Court revoked the rates approval for the unbundled local loop line (ULL) from 1999 with regard to the monthly charges. Both Deutsche Telekom AG and the Federal Network Agency filed complaints against non-allowance of appeal. In a ruling dated October 5, 2009, the Federal Administrative Court rejected these complaints because the points raised relate to the previous legal situation. The rulings of the Cologne Administrative Court revoking the approvals thus became final and binding and the rate approval proceedings from 1999 applied again, i.e., the Federal Network Agency must decide again on ULL monthly charges for the period from February 1999 to March 2001.

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

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

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

Review of contracts in the F.Y.R.O. Macedonia and Montenegro. The audit of the financial statements of Magyar Telekom for the 2005 financial year identified contracts for which it was not possible at the time to fully ascertain an appropriate business background. The Audit Committee of Magyar Telekom commissioned an independent law firm with investigating the lawfulness of these contracts. Magyar Telekom informed the U.S. authorities (the Department of Justice and the SEC), who then initiated investigations into potential breaches of the Foreign Corrupt Practices Act (FCPA). Magyar Telekom and Deutsche Telekom as the parent company of the Group cooperated fully with these investigations and reviewed and improved their compliance programs. Magyar Telekom's and Deutsche Telekom's legal representatives are currently in talks with the U.S. authorities about the status of the investigation and the possibility of bringing the proceedings to a close. The outcome of these talks cannot be foreseen. It is also not foreseeable at present whether the U.S. authorities will take action and, if so, what kind, if an agreement cannot be reached to conclude the proceedings. The public prosecutors' office in Bonn has launched its own investigations having received a request for legal assistance from the U.S. authorities.

Proceedings by Anti-Monopoly Commission in Poland. The Polish Anti-Monopoly Commission (UOKiK) initiated several legal proceedings in 2010 against a number of Polish telecommunications companies, including PTC. The providers are suspected of collusion. The UOKiK also accuses PTC of infringing customer interests in various ways. Under Polish law, the maximum fine for both cases is set at 10 percent of the revenues from telecommunications services or 10 percent of taxable revenues.

OTE Lannet case. In May 2009, Lannet Communications SA filed a lawsuit claiming compensation for damages of EUR 176 million arising from the allegedly unlawful termination of services (mainly interconnection services, unbundling of ULLs, and leasing of dedicated lines) by OTE. A court hearing is set for February 17, 2011.

IPR risks. Like many other large telecommunications/Internet providers, Deutsche Telekom is exposed to an increasing number of IPR (intellectual property rights) disputes. For Deutsche Telekom, there is a risk that it may have to pay license fees and/or compensation. Some disputes may result in cease-and-desist orders.

Contingent assets. Deutsche Telekom reports a contingent asset of EUR 0.1 billion for a receivable from the German Main Customs Office.

34 Disclosures on leases.

Deutsche Telekom as lessee.

Finance leases. When a lease transfers substantially all risks and rewards to Deutsche Telekom as lessee, Deutsche Telekom initially recognizes the leased assets in the statement of financial position at the lower of fair value or present value of the future minimum lease payments. Most of the leased assets carried in the statement of financial position as part of a finance lease relate to long-term rental and lease agreements for office buildings with a typical lease term of up to 25 years. The agreements include extension and purchase options. The table on the right shows the net carrying amounts of leased assets capitalized in connection with a finance lease as of the reporting date:

	Dec. 31, 2010 millions of €	Of which: sale and leaseback transactions millions of €	Dec. 31, 2009 millions of €	Of which: sale and leaseback transactions millions of €
Land and buildings	954	539	1,035	591
Technical equipment and machinery	91	3	35	9
Other	15	1	21	0
Net carrying amounts of leased assets capitalized	**1,060**	**543**	**1,091**	**600**

At the inception of the lease term, Deutsche Telekom recognizes a lease liability equal to the carrying amount of the leased asset. In subsequent periods, the liability decreases by the amount of lease payments made to the lessors using the effective interest method. The interest component of the lease payments is recognized in the income statement.

The following table provides a breakdown of these amounts:

	Minimum lease payments		**Interest component**		**Present values**	
	Total millions of €	Of which: sale and leaseback millions of €	Total millions of €	Of which: sale and leaseback millions of €	Total millions of €	Of which: sale and leaseback millions of €
Dec. 31, 2010						
Maturity						
Within 1 year	235	106	93	63	142	43
In 1 to 3 years	405	213	185	114	220	99
In 3 to 5 years	360	211	154	96	206	115
After 5 years	1,279	758	447	290	832	468
	2,279	**1,288**	**879**	**563**	**1,400**	**725**
Dec. 31, 2009						
Maturity						
Within 1 year	231	114	110	66	121	48
In 1 to 3 years	387	211	202	120	185	91
In 3 to 5 years	358	213	154	104	204	109
After 5 years	1,415	860	502	334	913	526
	2,391	**1,398**	**968**	**624**	**1,423**	**774**

Operating leases. Beneficial ownership of a lease is attributed to the lessor if this is the party to which all the substantial risks and rewards incidental to ownership of the asset are transferred. The lessor recognizes the leased asset in its statement of financial position. Deutsche Telekom recognizes the lease payments made during the term of the operating lease in profit or loss. Deutsche Telekom's obligations arising from operating leases are mainly related to long-term rental or lease agreements for network infrastructure, radio towers and real estate.

Some leases include extension options and provide for stepped rents. Most of these leases relate to radio towers in the United States. In the 2010 financial year (as of June 30, 2010), Deutsche Telekom revised its assessment of lease terms for existing U.S. operating leases with regard to the exercise of extension options. Contrary to the original assessment, the exercising of extension options is only reasonably certain up to a total term of 15 years against the background of the altered market situation and new technical framework. This is shorter than the original assessment, where a total term of between 20 and 25 years was expected. As a result of this change in assessment, the expected future minimum lease payments from operating leases decreased by USD 11.4 billion (December 31, 2010: EUR 8.5 billion; December 31, 2009: EUR 7.9 billion) in the United States operating segment.

The operating lease expenses recognized in profit or loss amounted to EUR 2.2 billion as of the end of 2010 (2009: EUR 2.1 billion; 2008: EUR 2.0 billion). The following table provides a breakdown of future obligations arising from operating leases:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Maturity		
Within 1 year	2,627	2,553
In 1 to 3 years	4,502	4,195
In 3 to 5 years	3,767	3,325
After 5 years	6,767	14,475
	17,663	**24,548**

The obligations from operating leases as of December 31, 2009 did not include the obligations of T-Mobile UK which was classified as held for sale.

Deutsche Telekom as lessor.

Finance leases. Deutsche Telekom acts as lessor in connection with finance leases. Essentially, these relate to the leasing of routers which Deutsche Telekom provides to its customers for data and telephone network solutions. Deutsche Telekom recognizes a receivable in the amount of the net investment in the lease. The lease payments made by the lessees are split into an interest component and a principal component using the effective interest method. The lease receivable is reduced by the principal received. The interest component of the payments is recognized as finance income in the income statement. The amount of the net investment in a finance lease is determined as shown in the following table:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Minimum lease payments	328	307
Unguaranteed residual value	–	–
Gross investment	328	307
Unearned finance income	(39)	(43)
Net investment (present value of the minimum lease payments)	**289**	**264**

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

	Dec. 31, 2010		Dec. 31, 2009	
	Gross investment millions of €	Present value of minimum lease payments millions of €	Gross investment millions of €	Present value of minimum lease payments millions of €
Maturity				
Within 1 year	126	110	98	83
In 1 to 3 years	142	124	131	112
In 3 to 5 years	55	50	57	49
After 5 years	5	5	21	20
	328	**289**	**307**	**264**

Operating leases. Deutsche Telekom acts as a lessor in connection with operating leases and continues to recognize the leased assets in its statement of financial position. The lease payments received are recognized in profit or loss. The leases mainly relate to the rental of building space and radio towers and have an average term of ten years. The future minimum lease payments arising from non-cancelable operating leases are shown in the following table:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Maturity		
Within 1 year	359	338
In 1 to 3 years	456	406
In 3 to 5 years	346	318
After 5 years	756	624
	1,917	**1,686**

Agreements that are not leases in substance. In 2002, Telekom Deutschland GmbH (formerly T-Mobile Deutschland GmbH) concluded so-called lease-in/lease-out agreements (QTE lease agreements) for substantial parts of its GSM mobile communications network (amounting to USD 0.8 billion). The contracting parties were initially four and, after the contract with one of them was terminated by mutual agreement in 2009, three U.S. trusts backed by U.S. investors. Under the terms of the principal lease agreements, Telekom Deutschland GmbH is obliged to grant the respective U.S. trust unhindered use of the leased objects for a period of 30 years. After expiry of the principal lease agreements, the U.S. trusts have the right to acquire the network components for a purchase price of USD 1.00 each. In return, Telekom Deutschland GmbH has leased the network components back for 16 years by means of sub-lease agreements. After around 13 years, Telekom Deutschland GmbH has the option of acquiring the rights of the respective U.S. trust arising from the principal lease agreements (call option). Upon exercise of this call option, all the rights of the U.S. trust in question to the leased objects arising are transferred to Telekom Deutschland GmbH. In this case, Telekom Deutschland GmbH would be the only party to the principal lease agreement, meaning that this agreement would be extinguished as a result of the fusion of rights and obligations under the agreement.

35 Mid-term incentive plans (MTIPs)/ Phantom share plan/ Share-based compensation plans.

The Group has a variety of stock option plans, mid-term incentive plans, and phantom share plans that together do not have a material impact on the presentation of the Group's results of operations, financial position or cash flows. The expense incurred for share-based compensation plans totaled EUR 47 million in the reporting year (2009: EUR 31 million; 2008: EUR 96 million). Provisions total EUR 68 million as of the reporting date (December 31, 2009: EUR 78 million).

Mid-term incentive plans (MTIPs)/Phantom share plan.

Mid-term incentive plans (MTIPs) and a phantom share plan (PSP) have been established in the Group for members of the Board of Management, senior executives, and other beneficiaries.

Mid-term incentive plans. The MTIP of Deutsche Telekom AG is a cash-based plan pegged to two equally weighted, share-based performance parameters – one absolute and one relative. If both performance targets are achieved, then the total amount earmarked as an award to the beneficiaries by the respective employers is paid out; if one performance target is achieved, 50 percent of the amount is paid out, and if neither performance target is achieved, no payment is made.

The absolute performance target is achieved if, at the end of the individual plans, Deutsche Telekom's share price has risen by at least 30 percent compared with its share price at the beginning of the plan. The benchmark for the assessment is the non-weighted average price of the T-Share (on the basis of the T-Share closing price in Xetra trading) at the Frankfurt Stock Exchange (Deutsche Börse AG) during the last 20 trading days prior to the beginning and end of the plan.

The relative performance target is achieved if the total return of the T-Share has outperformed the Dow Jones EURO STOXX® Total Return Index on a percentage basis during the term of the individual plan. The benchmark is the non-weighted average price of the T-Share (on the basis of the T-Share closing price in Xetra trading) plus the value of dividends paid and reinvested in Deutsche Telekom shares, bonus shares etc., and the non-weighted average of the Dow Jones EURO STOXX® Total Return Index during the last 20 trading days prior to the beginning and end of the plan.

At the end of the term of the individual plans, Deutsche Telekom AG's Supervisory Board will establish whether the absolute and relative performance targets for the Board of Management have been achieved. Based on these findings, the Board of Management will establish whether the target has been achieved for Deutsche Telekom and all participating companies as a whole and will communicate this decision. Once it has been established whether one or both targets have been achieved, the relevant amounts will be paid out to the beneficiaries.

The General Committee of the Supervisory Board determined at its meeting on February 3, 2010 that the relative plan target for the 2007 tranche of the MTIP had been achieved, a finding that was confirmed by the Supervisory Board at its meeting on February 24, 2010. Consequently, 50 percent of the award amount for the 2007 tranche was paid out in 2010.

MTIP plan year	Maximum budget millions of €	Term of plan years	Share price at start of plan €	Absolute performance target €	Starting value of the index
2008	83	3	15.11	19.64	601.59
2009	55	3	11.01	14.31	328.55
2010	**57**	**3**	**10.29**	**13.38**	**417.62**

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

The MTIP of **Magyar Telekom** is largely based on the model that has been used for the MTIP of Deutsche Telekom AG, except that the assessment benchmark is the performance of Magyar Telekom shares and the Dow Jones EURO STOXX® Total Return Index. In addition, the absolute performance target is achieved if, at the end of the individual plans, Magyar Telekom's share price has risen by at least 35 percent compared with Magyar Telekom's share price at the beginning of the plan. The 2008 to 2010 plans are still in operation.

The MTIP of **Hrvatski Telekom** is largely based on the model that has been used for the MTIP of Deutsche Telekom AG. The absolute performance target for the 2008 MTIP is, however, EBITDA, and the relative performance target is a combined index from a basket of telecommunications shares. The absolute performance target for the 2010 MTIP is a 30-percent increase in the HT share price.

PTC has established a performance cash plan program with long-term incentive plans (LTIPs). The program provides for additional pay in the form of deferred compensation under the terms and conditions of the LTIP and is aimed at employees whose performance is of outstanding significance for the company's shareholder value. The LTIP is generally open to high-performers at specific management levels. Participants in the plans are selected individually by the management of PTC. Each plan encompasses three consecutive cycles, each running from January 1 through December 31. Participants receive payments from the plan after three years, provided the defined EBITDA target has been achieved (EBITDA hurdle). In addition, a bonus is paid at the end of each cycle. The amount of the bonus is determined for each cycle individually and depends on the level of target achievement. The 2008 to 2010 plans are still in operation.

Phantom share plan (PSP). T-Mobile USA has established a phantom share plan (PSP) as Long-Term Incentive Plan (LTIP) on a revolving basis for the years 2005 through 2010, providing benefits for the top management. Under the PSP, T-Mobile USA grants performance-based cash bonus awards. These awards are earned (in full or in part) based upon the customer growth on a sliding scale from 60 to 150 percent of the original number of phantom shares granted. The value of a phantom share appreciates or depreciates from its USD 10 per share face value proportionate to the change in the appraised enterprise value of T-Mobile USA over the performance period. The value of an award is determined by multiplying the number of phantom share awards earned by the appraised value of one phantom share. Awards are earned and paid out ratably over a performance period of two to three years.

Stock option plans.

The following table provides an overview of all existing stock option plans in the Group:

Entity	Plan	Year of issuance	Stock options granted	Vesting period	Contractual term	Weighted exercise price	Share price at grant date	Maximum price for SARs	Classification/ accounting treatment
			thousands	years	years				
Deutsche Telekom AG	2001 SOP	2001	8,221	2 – 3	10	€ 30.00	€ 19.10		Equity-settled
		2002	3,928	2 – 3	10	€ 12.36	€ 10.30		Equity-settled
	SARs	2001	165	2 – 3	10	€ 30.00	€ 19.10	€ 50.00	Cash-settled
		2002	3	2 – 3	10	€ 12.36	€ 10.30	€ 20.60	Cash-settled
Deutsche Telekom AG	2001 SOP	2001	2,369	2 – 3	10	€ 10.35	€ 8.28		Cash-settled
(T-Online International AG)		2002	2,067	2 – 6	10	€ 10.26	€ 8.21		Cash-settled
T-Mobile USA	SOP	2001	24,278	up to 4	max. 10	USD 15.36			Cash-settled
		2002	5,964	up to 4	max. 10	USD 13.35			Cash-settled
		2003	1,715	up to 4	max. 10	USD 12.86			Cash-settled
	Powertel	2001	5,323	up to 4	max. 10	USD 20.04			Cash-settled
	T-Mobile USA/ Powertel	2004	230	up to 4	max. 10	USD 19.64			Cash-settled
OTE group	Cosmote group	2005 – 2007	3,440	up to 3	6	€ 14.90	€ 15.48		Equity-settled
	OTE (original) 2008	2008	3,142	up to 3	max. 6	€ 15.70	€ 21.38		Equity-settled
	OTE group 2008	2009	3,226	up to 3	max. 6	€ 16.20	€ 10.40		Equity-settled
		2010	4,671	up to 3	max. 6	€ 9.32	€ 11.26		Equity-settled

Deutsche Telekom AG. The 2001 Stock Option Plan (SOP 2001) led to the issuance of stock options in August 2001 and in July 2002. Deutsche Telekom also granted stock appreciation rights (SARs) to employees in countries where it was not legally possible to issue stock options.

Deutsche Telekom AG (formerly T-Online International AG (prior to merger)). The merger of T-Online International AG into Deutsche Telekom AG became effective upon entry in the commercial register on June 6, 2006. Under the German Reorganization and Transformation Act (Umwandlungsgesetz) Deutsche Telekom AG had to grant the holders of stock options “equivalent rights.” Accordingly, the merger agreement entitled holders to purchase 0.52 registered no par value share per option at the exercise price specified in the terms and conditions for the respective options. Pursuant to the merger agreement, the Board of Management decided on August 2, 2005 that in future, equivalent rights would be granted in the form of a cash settlement. In the proceedings concerning the review of the appropriateness of the exchange ratio in the merger of T-Online International AG into Deutsche Telekom AG, the Frankfurt/Main Higher Regional Court ruled on September 3, 2010 that Deutsche Telekom must make a supplementary cash payment of EUR 1.15 per share to former T-Online shareholders. According to the provisions of the merger agreement, this cash payment reduces the exercise price specified in the terms and conditions for the options. The exercise price less the cash payment is EUR 9.20 for the 2001 tranche and EUR 9.11 for the 2002 tranche.

T-Mobile USA. Prior to the acquisition on May 31, 2001 of T-Mobile USA (formerly VoiceStream and Powertel), the companies had granted stock options to their employees under the 1999 Management Incentive Stock Option Plan (MISOP). These plans were combined as of January 1, 2004 into a single T-Mobile plan. The exchange ratio for VoiceStream shares was 3.7647 per share and for Powertel shares 2.6353 per share. The plan has now expired and no more options can be issued. In accordance with a resolution it passed on June 15, 2010, the Board of Management of Deutsche Telekom AG will make use of the option of a cash settlement for these stock options in the future.

The table below shows the changes in outstanding options from the stock option plans in the 2010 financial year:

	Equity-settled		Cash-settled		
	Deutsche Telekom AG	OTE group	Deutsche Telekom AG	Deutsche Telekom AG (T-Online International AG)	T-Mobile USA
	Stock options thousands	Stock options thousands	SARs thousands	Stock options thousands	Stock options thousands
Stock options outstanding/exercisable at January 1, 2010	**8,057**	**8,675**	**134**	**2,346**	**5,403**
Granted	–	4,671	–	–	–
Exercised	–	–	–	–	209
Forfeited	1,357	666	2	325	2,152
Stock options outstanding at December 31, 2010	**6,700**	**12,680**	**132**	**2,021**	**3,042**
Stock options exercisable at December 31, 2010	**6,700**	**6,713**	**132**	**2,021**	**3,042**
Weighted average exercise price at December 31, 2010 (stock options outstanding)	€ 23.44	€ 13.44	€ 29.93	€ 9.15	USD 20.22
Weighted average exercise price at December 31, 2010 (stock options exercisable)	€ 23.44	€ 15.00	€ 29.93	€ 9.15	USD 20.22

The characteristics of the options at December 31, 2010 are as follows:

	Deutsche Telekom AG		Deutsche Telekom AG (T-Online International AG)		OTE group	
Range of exercise prices €	Number thousands	Remaining contractual life years*	Number thousands	Remaining contractual life years*	Number thousands	Remaining contractual life years*
8 – 20	2,493	1.5	2,021	1.1	12,680	3.5
21 – 40	4,207	0.6	–	–	–	–
	6,700	**1.0**	**2,021**	**1.1**	**12,680**	**3.5**

* Weighted average.

	T-Mobile USA	
Range of exercise prices USD	Number thousands	Remaining contractual life years*
0.02 – 15.19	948	1.3
15.20 – 30.39	2,083	0.2
30.40 – 34.19	11	0.1
34.20 – 38.00	–	–
	3,042	**0.5**

* Weighted average.

36 Disclosures on financial instruments.

Carrying amounts, amounts recognized, and fair values by measurement category.

	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2010	Amounts recognized in the statement of financial position according to IAS 39			
			Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
		millions of €	millions of €	millions of €	millions of €	millions of €
Assets						
Cash and cash equivalents	LaR	2,808	2,808			
Trade receivables	LaR	6,766	6,766			
Other receivables	LaR/n.a.	2,628	2,340			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	91	91			
Available-for-sale financial assets	AfS	513		335	178	
Derivative financial assets						
Derivatives without a hedging relationship	FAHfT	560				560
Derivatives with a hedging relationship	n.a.	275			131	144
Liabilities and shareholders' equity						
Trade payables	FLAC	6,737	6,737			
Bonds and other securitized liabilities	FLAC	38,190	38,190			
Liabilities to banks	FLAC	4,190	4,190			
Liabilities to non-banks from promissory notes	FLAC	1,164	1,164			
Other interest-bearing liabilities	FLAC	1,838	1,838			
Other non-interest-bearing liabilities	FLAC	3,193	3,193			
Finance lease liabilities	n.a.	1,400				
Derivative financial liabilities						
Derivatives without a hedging relationship (held for trading)	FLHfT	249				249
Derivatives with a hedging relationship (hedge accounting)	n.a.	322			322	
Of which: aggregated by category in accordance with IAS 39:						
Loans and receivables (LaR)		11,914	11,914			
Held-to-maturity investments (HtM)		91	91			
Available-for-sale financial assets (AfS)		513		335	178	
Financial assets held for trading (FAHfT)		560				560
Financial liabilities measured at amortized cost (FLAC)		55,312	55,312			
Financial liabilities held for trading (FLHfT)		249				249

* For details, please refer to Note 8.

Amounts recognized in the statement of financial position according to IAS 17	Fair value Dec. 31, 2010	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2009	Amounts recognized in the statement of financial position according to IAS 39				Amounts recognized in the statement of financial position according to IAS 17	Fair value Dec. 31, 2009
				Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss		
millions of €	millions of €		millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
	2,808	LaR	5,022	5,022					5,022
	6,766	LaR	6,643	6,643					6,643
288	2,628	LaR/n.a.	2,003	1,739				264	2,003
	91	HtM	80	80					80
	178*	AfS	609		411	198			198*
	560	FAHfT	653				653		653
	275	n.a.	395			170	225		395
	6,737	FLAC	6,294	6,294					6,294
	41,806	FLAC	38,508	38,508					41,813
	4,346	FLAC	4,718	4,718					4,864
	1,326	FLAC	1,057	1,057					1,205
	1,838	FLAC	1,511	1,511					1,562
	3,193	FLAC	2,995	2,995					2,995
1,400	1,671	n.a.	1,423					1,423	1,703
	249	FLHfT	730				730		730
	322	n.a.	249			197	52		249
	11,914		13,404	13,404					13,404
	91		80	80					80
	178*		609		411	198			198*
	560		653				653		653
	59,246		55,083	55,083					58,733
	249		730				730		730

Classes of financial instruments according to IFRS 7.27.

	Dec. 31, 2010				Dec. 31, 2009			
	Level 1 millions of €	Level 2 millions of €	Level 3 millions of €	**Total millions of €**	Level 1 millions of €	Level 2 millions of €	Level 3 millions of €	**Total millions of €**
Assets								
Available-for-sale financial assets (AfS)		178		178		198		198
Financial assets held for trading (FAHfT)		560		560		653		653
Derivative financial assets with a hedging relationship		275		275		395		395
Liabilities and shareholders' equity								
Financial liabilities held for trading (FLHfT)		249		249		730		730
Derivative financial liabilities with a hedging relationship		322		322		249		249

For further details on classes of financial instruments, please refer to "Changes in accounting policies and changes in the reporting structure" in the section "Summary of accounting policies."

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

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

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

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

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

Net gain/loss by measurement category.

	From interest, dividends	From subsequent measurement			From derecognition	Net gain (loss)	
		At fair value	Currency translation	Impairment/ reversal of impairment		2010	2009
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Loans and receivables (LaR)	77		1,301	(749)		629	(779)
Held-to-maturity investments (HtM)	2					2	7
Available-for-sale financial assets (AfS)	45			(101)	14	(42)	45
Financial instruments held for trading (FAHfT and FLHfT)	n.a.	654				654	(79)
Financial liabilities measured at amortized cost (FLAC)	(2,646)		(1,716)			(4,362)	(2,574)
	(2,522)	**654**	**(415)**	**(850)**	**14**	**(3,119)**	**(3,380)**

Interest from financial instruments is recognized in finance costs, dividends in other financial income/expense (please refer to Notes 22 and 24). Deutsche Telekom recognizes the other components of net gain/loss in other financial income/expense, except for impairments/reversal of impairments of trade receivables (please refer to Note 2) that are classified as loans and receivables which are reported under selling expenses. The net gain from the subsequent measurement for financial instruments held for trading (EUR 654 million) also includes interest and currency translation effects. The net currency translation gains on financial assets classified as loans and receivables (EUR 1,301 million) are primarily attributable to the Group-internal transfer of foreign-currency loans taken out by Deutsche Telekom's financing company, Deutsche Telekom International Finance B.V., on the capital market. These were offset by corresponding currency translation losses on capital market liabilities of EUR 1,716 million. Finance costs from financial liabilities measured at amortized cost (EUR 2,646 million) primarily consist of interest expense on bonds and other (securitized) financial liabilities. The item also includes interest expenses from interest added back and interest income from interest discounted from trade payables. However, it does not include the interest expense and interest income from interest rate derivatives Deutsche Telekom used in the reporting period to hedge the fair value risk of financial liabilities (please refer to Note 22).

37 Risk management, financial derivatives, and other disclosures on capital management.

Principles of risk management. Deutsche Telekom is exposed in particular to risks from movements in exchange rates, interest rates, and market prices that affect its assets, liabilities, and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments are used for this purpose, depending on the risk assessment. However, Deutsche Telekom only hedges the risks that affect the Group's cash flow. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the credit risk, hedging transactions are generally only concluded with leading financial institutions whose credit rating is at least BBB+/Baa1. In addition, the credit risk of financial instruments with a positive fair value is minimized by way of limit management, which sets individualized relative and absolute figures for risk exposure depending on the counterparty's rating, share price development and credit default swap level.

The fundamentals of Deutsche Telekom's financial policy are established by the Board of Management and overseen by the Supervisory Board. Group Treasury is responsible for implementing the financial policy and for ongoing risk management. Certain transactions require the prior approval of the Board of Management, which is also regularly briefed on the severity and amount of the current risk exposure.

Treasury regards effective management of the market risk as one of its main tasks. The department performs simulation calculations using different worst-case and market scenarios so that it can estimate the effects of different conditions on the market.

Currency risks. Deutsche Telekom is exposed to currency risks from its investing, financing, and operating activities. Risks from foreign currencies are hedged to the extent that they influence the Group's cash flows. Foreign-currency risks that do not influence the Group's cash flows (i.e., the risks resulting from the translation of statements of assets and liabilities of foreign operations into the Group's reporting currency) are generally not hedged, however. Deutsche Telekom may nevertheless also hedge this foreign-currency risk under certain circumstances.

Foreign-currency risks in the area of investment result, for example, from the acquisition and disposal of investments in foreign companies. Deutsche Telekom hedges these risks. If the risk position exceeds EUR 100 million, the Board of Management must make a special decision on how the risk shall be hedged. If the risk position is below EUR 100 million, Group Treasury performs the currency hedging itself. At the reporting date, Deutsche Telekom was not exposed to any significant risks from foreign-currency transactions in the field of investments.

Foreign-currency risks in the financing area are caused by financial liabilities in foreign currency and loans in foreign currency that are extended to Group entities for financing purposes. Treasury hedges these risks in full. Cross-currency swaps and currency derivatives are used to convert financial obligations and intragroup loans denominated in foreign currencies into the Group entities' functional currencies.

At the reporting date, the foreign-currency liabilities for which currency risks were hedged mainly consisted of bonds and medium-term notes in Swiss francs, Czech koruna, Japanese yen, pound sterling, and U.S. dollars. On account of these hedging activities, Deutsche Telekom was not exposed to any significant currency risks in the area of financing at the reporting date.

The Group entities predominantly execute their operating activities in their respective functional currencies. Payments made in a currency other than the respective functional currency result in foreign-currency risks in the Group. These relate in particular to payments for the procurement of network equipment and mobile handsets as well as payments to international telecommunications companies for the provision of access services. Deutsche Telekom uses currency derivatives and, in individual cases, currency options for hedging purposes. On account of these hedging activities, Deutsche Telekom was not exposed to any significant exchange rate risks from its operating activities at the reporting date.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. In addition to currency risks, Deutsche Telekom is exposed to interest rate risks and price risks in its investments. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the reporting date. It is assumed that the balance at the reporting date is representative for the year as a whole.

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration. Relevant risk variables are generally all non-functional currencies in which Deutsche Telekom has contracted financial instruments.

The currency sensitivity analysis is based on the following assumptions:

Major non-derivative monetary financial instruments (liquid assets, receivables, interest-bearing securities and/or debt instruments held, interest-bearing liabilities, finance lease liabilities, non-interest-bearing liabilities) are either directly denominated in the functional currency or are transferred to the functional currency through the use of derivatives. Exchange rate fluctuations therefore have no effects on profit or loss, or shareholders' equity.

Non-interest-bearing securities or equity instruments held are of a non-monetary nature and therefore are not exposed to currency risk as defined by IFRS 7.

Interest income and interest expense from financial instruments are also either recorded directly in the functional currency or transferred to the functional currency by using derivatives. For this reason, there can be no effects on the variables considered in this connection.

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

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

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

If the euro had gained (lost) 10 percent against the U.S. dollar, the pound sterling, the Indonesian rupiah and the Malaysian ringgit at December 31, 2010, the hedging reserve in shareholders' equity and the fair values of the hedging transactions before taxes would have been EUR 38 million lower (higher) (December 31, 2009: EUR 70 million lower (higher)). The hypothetical effect of EUR –38 million on profit or loss primarily results from the currency sensitivities EUR/USD: EUR –22 million; EUR/GBP: EUR –15 million.

If the euro had gained (lost) 10 percent against all currencies at December 31, 2010, other financial income and the fair value of the hedging transactions before taxes would have been EUR 17 million higher (lower) (December 31, 2009: EUR 11 million lower (higher)). The hypothetical effect on profit or loss of EUR 17 million primarily results from the currency sensitivities EUR/USD: EUR –48 million; EUR/PLN: EUR 46 million; EUR/HUF: EUR 10 million and EUR/CZK: EUR 9 million.

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

Due to the derivative hedges, an average of 65 percent (2009: 72 percent) of the net financial liabilities in 2010 denominated in euros and 61 percent (2009: 73 percent) of those denominated in U.S. dollars had a fixed rate of interest. The average value is representative for the year as a whole.

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

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

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

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

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

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

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

If the market interest rates had been 100 basis points higher (lower) at December 31, 2010, profit or loss before taxes would have been EUR 249 million (December 31, 2009: EUR 194 million) lower (higher). The hypothetical effect of EUR –249 million on income results from the potential effects of EUR –228 million from interest rate derivatives and EUR –21 million from non-derivative variable-interest financial liabilities. Potential effects from interest rate derivatives are partially balanced out by the contrasting performance of non-derivative financial instruments which cannot, however, be shown as a result of applicable accounting standards. If the market interest rates had been 100 basis points higher (lower) at December 31, 2010, total comprehensive income before taxes would have been EUR 164 million (December 31, 2009: EUR 104 million) higher (lower).

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

As of December 31, 2010, Deutsche Telekom did not hold any material investments to be classified as available for sale.

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

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

The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets that are carried in the statement of financial position, including derivatives with positive market values. Except for the collateral agreements mentioned in Notes 1 and 8, no significant agreements reducing the maximum exposure to credit risk (such as contractual netting) had been concluded as of the reporting date. In addition, Deutsche Telekom is exposed to a credit risk through the granting of financial guarantees. Guarantees amounting to a nominal total of EUR 115 million had been pledged as of the reporting date (December 31, 2009: EUR 41 million).

Risks relating to financing commitments. Deutsche Telekom acquired a bond issued by Everything Everywhere for a nominal amount of GBP 625 million. Deutsche Telekom is obliged to continue putting the full amount, which is due on November 30, 2011, at the joint venture's disposal until the end of March 2012 and grant follow-up financing at normal market conditions, possibly in the form of a guarantee. The nominal amount of GBP 625 million is the maximum default risk associated with this commitment.

Liquidity risks. Please refer to Note 10.

Hedge accounting.

Fair value hedges. To hedge the fair value risk of fixed-interest liabilities, Deutsche Telekom primarily used interest rate swaps and forward interest rate swaps (receive fixed, pay variable) denominated in CHF, EUR, GBP, JPY and USD. Fixed-income bonds/MTNs denominated in CHF, EUR, GBP, JPY and USD were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the CHF Libor, Euribor, GBP Libor, JPY Libor or USD Libor swap rate are offset against the changes in the value of the interest rate swaps. The aim of this hedging is to transform the fixed-income bonds into variable-interest debt, thus hedging the fair value of the financial liabilities. Credit risks are not part of the hedging.

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

As the list of the fair values of derivatives shows (please refer to table under Derivatives), Deutsche Telekom had interest rate derivatives in a net amount of EUR + 0.1 billion (2009: EUR + 0.2 billion) designated as fair value hedges at December 31, 2010. The remeasurement of the hedged items results in losses of EUR 0.3 billion being recorded in other financial income/expense in the 2010 financial year (2009: gains of EUR 0.3 billion); the changes in the fair values of the hedging transactions result in gains of EUR 0.3 billion (2009: losses of EUR 0.3 billion) being recorded in other financial income/expense.

Cash flow hedges – interest rate risks. Deutsche Telekom entered into payer interest rate swaps and forward payer interest rate swaps (receive variable, pay fixed) to hedge the cash flow risk of variable-interest debt. The changes in the cash flows of the hedged items resulting from changes in the Euribor and Libor rates are offset against the changes in the cash flows of the interest rate swaps. The aim of this hedging is to transform the variable-interest bonds into fixed-income debt, thus hedging the cash flows of the financial liabilities. Credit risks are not part of the hedging.

In 2010, Deutsche Telekom entered into forward payer interest rate swaps totaling EUR 3.0 billion for transactions expected in 2012. The following table shows the contractual maturities newly incorporated into a hedging relationship in 2010 relating to the payments for the aforementioned forward payer interest rate swaps.

Start	End	Nominal volume	Reference rate
January 16, 2012	January 16, 2015	€ 3,000 million	6-month Euribor

The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. Ineffective cash flow hedges of EUR –16 million were recognized in profit or loss in the reporting year (2009: EUR 0 million). All hedging relationships of this nature were sufficiently effective as of the reporting date.

As the list of the fair values of derivatives shows (please refer to table under Derivatives), Deutsche Telekom had interest rate derivatives with a fair value of EUR –0.3 billion (2009: EUR –0.1 billion) amounting to a nominal total of EUR 6.7 billion (2009: EUR 3.7 billion) designated as hedging instruments for cash flow hedges at December 31, 2010. The terms of the hedging relationships will end in the years 2012 through 2015. The recognition directly in equity of the change in the fair value of the hedging transactions resulted in losses of EUR 0.1 billion being recorded in the revaluation surplus in the 2010 financial year (2009: losses of EUR 0.1 billion). Losses amounting to EUR 56 million recognized in shareholders' equity were transferred to other financial income/expense in the 2010 financial year (2009: losses of EUR 41 million).

Cash flow hedges – currency risks. Deutsche Telekom entered into currency derivative and cross-currency swap agreements to hedge cash flows not denominated in a functional currency. In 2010 agreements were signed for cross-currency swaps in CHF/EUR totaling CHF 0.4 billion and a euro equivalent of EUR 0.3 billion as well as for cross-currency swaps in GBP/EUR totaling GBP 0.9 billion and a euro equivalent of EUR 1.0 billion. The CHF/EUR foreign currency derivative arrangements signed in 2010 will expire in 2016, whereas the EUR/GBP foreign currency derivatives entered into in 2010 have various maturities between 2012 and 2030. The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. The hedging relationship was effective as of the reporting date.

In the 2010 financial year, gains totaling EUR 238 million (2009: gains of EUR 26 million) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve). These changes constitute the effective portion of the hedging relationship. Gains amounting to EUR 98 million recognized in shareholders' equity were transferred to other financial income/expense in the 2010 financial year (2009: gains of EUR 32 million). There was no material ineffectiveness of these hedges recorded as of the reporting date.

As the list of the fair values of derivatives shows (please refer to table under Derivatives), Deutsche Telekom had currency forwards of a net fair value of EUR –43 million (2009: EUR –2 million) and a total volume of EUR 0.3 billion (2009: EUR 0.7 billion), as well as cross-currency swaps of a net fair value of EUR +0.1 billion (2009: EUR +0.1 billion) and a total volume of EUR 2.1 billion (2009: EUR 1.9 billion) designated as hedging instruments for cash flow hedges as of December 31, 2010. The terms of the hedging relationships will end in the years 2011 through 2030.

Derivatives. The following table shows the fair values of the various derivatives carried. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, cash flow hedge) or not. Other derivatives can also be embedded (i.e., a component of a composite instrument that contains a non-derivative host contract).

	Net carrying amounts Dec. 31, 2010 millions of €	Net carrying amounts Dec. 31, 2009 millions of €
Assets		
Interest rate swaps		
– Held for trading	43	94
– In connection with fair value hedges	144	225
– In connection with cash flow hedges	0	0
Currency forwards/currency swaps		
– Held for trading	53	91
– In connection with cash flow hedges	13	15
Cross-currency swaps		
– Held for trading	464	468
– In connection with cash flow hedges	118	155
Other derivatives in connection with cash flow hedges	0	0
Liabilities and shareholders' equity		
Interest rate swaps		
– Held for trading	12	80
– In connection with fair value hedges	–	52
– In connection with cash flow hedges	266	142
Currency forwards/currency swaps		
– Held for trading	43	46
– In connection with cash flow hedges	56	17
Cross-currency swaps		
– Held for trading	184	555
– In connection with cash flow hedges	–	32
Other derivatives in connection with cash flow hedges	–	6
Embedded derivatives	10	49

Disclosures on capital management. The overriding aim of the Group's capital management is to ensure that it will continue to be able to repay its debt and remain financially sound.

An important indicator of capital management is the gearing ratio of net debt to shareholders' equity as shown in the consolidated statement of financial position. Deutsche Telekom considers net debt to be an important measure for investors, analysts, and rating agencies. It is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. The gearing remained constant year-on-year at 1.0 as of December 31, 2010. The target corridor for this indicator is between 0.8 and 1.2.

Calculation of net debt; shareholders' equity.

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Bonds	38,190	38,508
Liabilities to banks	4,190	4,718
Liabilities to non-banks from promissory notes	1,164	1,057
Derivative financial liabilities	561	924
Lease liabilities	1,934	1,909
Other financial liabilities	1,279	1,001
Gross debt	**47,318**	**48,117**
Cash and cash equivalents	2,808	5,022
Available-for-sale/held-for-trading financial assets	75	162
Derivative financial assets	835	1,048
Other financial assets	1,331	974
Net debt	**42,269**	**40,911**
Shareholders' equity in accordance with the consolidated statement of financial position	**43,028**	**41,937**

38 Related party disclosures.

Federal Republic of Germany and other related parties. The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds approximately 32.0 percent (December 31, 2009: 31.7 percent) of the share capital of Deutsche Telekom AG. Due to the average attendance at the shareholders' meeting, the Federal Republic represents a solid majority at the shareholders' meeting, although it only has a minority shareholding, making Deutsche Telekom a dependent company of the Federal Republic. Therefore, the Federal Republic and the companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence are classified as related parties of Deutsche Telekom; this also includes the Deutsche Post DHL group and the Commerzbank group.

The Federal Posts and Telecommunications Agency (Federal Agency) has been assigned certain tasks by law that affect cross-company issues at Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The Federal Agency's responsibilities include the continuation of the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the recreation service (Erholungswerk), the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost – VAP), and the welfare service (Betreuungswerk) for Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The coordination and administrative tasks are performed on the basis of agency agreements. For the 2010 financial year, Deutsche Telekom made payments in the amount of EUR 59 million (2009: EUR 56 million; 2008: EUR 55 million). Payments are made to the special pension fund according to the provisions of the Posts and Telecommunications Reorganization Act (Note 12).

The Federal Republic and the companies controlled by the Federal Republic and companies over which the Federal Republic can exercise a significant influence are customers of Deutsche Telekom and as such source services from the Company. Charges for services provided to the Federal Republic and its departments and agencies, and the individual companies are based on Deutsche Telekom's commercial pricing policies. As part of its normal business activities, Deutsche Telekom provided telecommunications and similar services, while the companies controlled by the Federal Republic and companies over which the Federal Republic can exercise a significant influence also provided services, in particular transport and financial services, for companies of the Deutsche Telekom Group as part of their normal business activities.

Deutsche Telekom did not execute as part of its normal business activities any transactions that were individually material in the 2010 financial year with companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence.

Joint ventures and associates. Deutsche Telekom has business relationships with numerous associates and joint ventures.

Revenues of EUR 0.1 billion were generated in the 2010 financial year with the Everything Everywhere joint venture established on April 1, 2010. In addition, Deutsche Telekom acquired a bond issued by Everything Everywhere for a nominal amount of GBP 625 million that will mature on November 30, 2011. Deutsche Telekom has an obligation to Everything Everywhere to make this funding available in the same amount until the end of March 2012.

In 2010, Deutsche Telekom generated revenues from its Toll Collect joint venture amounting to EUR 0.1 billion (2009: EUR 0.1 billion; 2008: EUR 0.1 billion). For further details, please refer to Note 33.

Related individuals. For information on the compensation of the Board of Management and Supervisory Board, please refer to Note 39. Besides this, no major transactions took place with related individuals.

39 Compensation of the Board of Management and the Supervisory Board.

Compensation of the Board of Management.

The following information concerning the compensation of the Board of Management comprises the notes pursuant to § 314 of the German Commercial Code and the German Accounting Standard No. 17 (GAS 17), IAS 24 as well as the information specified in the guidelines set out in the German Corporate Governance Code.

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

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

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

On December 17, 2009, the Supervisory Board resolved to extend Dr. Manfred Balz's tenure on the Board, which ended on October 21, 2010, by two more years.

The Supervisory Board resolved on December 16, 2010 to extend the service contract of the Chairman of the Board of Management, René Obermann, that was due to expire on October 31, 2011, for a further five years.

Change in Board of Management compensation. On February 24, 2010, the Supervisory Board resolved on a new system for the compensation of the Board of Management members, taking into account the provisions specified in the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) that has been in effect since August 5, 2009. The shareholders' meeting of Deutsche Telekom AG on May 3, 2010 approved this new system. Pursuant to the VorstAG explanatory memorandum (document 16/13433), the contracts of the Board of Management members that were in existence before the Act entered into force enjoy vested rights protection. These Board of Management members nevertheless have the option of voluntarily changing over to the new compensation system. At December 31, 2010, Board of Management members René Obermann, Reinhard Clemens, Niek Jan van Damme, Timotheus Höttges, Guido Kerkhoff, and Edward R. Kozel had changed over to the new system while the other members remained with the old system, the vast majority of whose provisions have already been brought in line with the requirements of VorstAG. The new and old systems are explained below.

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

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

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

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

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

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

Variable performance-based remuneration (old system).

The annual short-term variable performance-based remuneration of Board of Management members is based on the achievement of targets set by the Supervisory Board of Deutsche Telekom AG for each member of the Board of Management prior to commencement of the financial year. The set of targets is composed of corporate targets and personal targets for the individual members of the Board of Management, based on the parameters of revenue, EBITDA adjusted for special factors, and free cash flow. The level of target achievement is determined by the Supervisory Board for the respective financial year.

Members of the Board of Management also participate in the Deutsche Telekom AG mid-term incentive plan (MTIP) introduced in the 2004 financial year (please refer to the information on the MTIP under Note 35).

	2010 MTIP Award amount € *	2010 MTIP Fair value at grant date € *	Total expense for share-based payments in 2010 € *	2009 MTIP Award amount € *	Total expense for share-based payments in 2009 € *
René Obermann	0	0	181,341	750,000	257,518
Hamid Akhavan (until February 15, 2010)	0	0	(123,942)	480,000	164,812
Dr. Manfred Balz	330,000	22,489	61,375	330,000	62,004
Reinhard Clemens	0	0	101,551	420,000	63,869
Dr. Karl-Gerhard Eick (until February 28, 2009)	0	0	0	0	(250,939)
Niek Jan van Damme	0	0	22,737	295,000	41,502
Timotheus Höttges	0	0	108,805	450,000	154,511
Guido Kerkhoff	0	0	46,776	360,000	70,366
Thomas Sattelberger	515,000	35,097	163,652	515,000	173,887
	845,000	**57,586**	**562,295**	**3,600,000**	**737,530**

* Fair value calculated using the so-called Monte Carlo model.

Variable performance-based remuneration (new system).

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

Variable I. The annual variable remuneration of Board of Management members is based on the achievement of targets set by the Supervisory Board of Deutsche Telekom AG for each member of the Board of Management at the beginning of the financial year. The set of targets is composed of corporate targets (50 percent) related to revenue, EBITDA adjusted for special factors and free cash flow, as well as personal targets for the individual members of the Board of Management. The personal targets consist of targets oriented toward the sustained success of the Company concerning the implementation of strategy (30 percent) and adherence to the Guiding Principles, which accounts for 20 percent. The agreement on targets and the level of target achievement for the respective financial year are determined by the plenary session of the Supervisory Board. Levels of target achievement exceeding 100 percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. Any higher levels of target achievement will not be taken into consideration. To further ensure the long-term incentive effect and orientation toward the sustained development of the Company, a third of the annual variable remuneration set by the plenary session of the Supervisory Board must be invested in shares of Deutsche Telekom AG within a defined period of time; these shares must be held by the respective Board member for a period of at least four years. Deutsche Telekom AG will grant one additional share for every share acquired as part of the Board of Management's aforementioned personal investment (share matching plan).

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

Changeover from the old compensation system for Board of Management members to the new system. For the transition from the old compensation system to the new one, the Supervisory Board resolved to make an offer to the Board of Management members already appointed at the time of the switch to the new system under which they would waive their entitlement from the existing tranche of the 2009 MTIP and be awarded Variable II in the form described above for the remaining duration of this tranche (up to December 31, 2011). The original volume awarded was not changed (please refer to the table on MTIP award amounts). The Supervisory Board also resolved that all Board members who changed over to the new system would no longer be awarded shares from the 2010 MTIP tranche but would instead be awarded an amount equivalent to the contractually agreed Variable II, which has a three-year term. The tranche of the 2008 MTIP, which will run until December 31, 2010, remains unchanged due to the short remaining term. By structuring the MTIP in this way, the Supervisory Board will enable the Board of Management to continue to receive a payout of the multi-year variable remuneration entitlement each year assuming the defined targets have been met. Without this transitional solution, the changeover from a three-year to a four-year term in the long-term remuneration instruments would make a payout in 2013 impossible for system-related reasons. Members of the Board of Management who switch to the new Board of Management compensation system have the option of participating in the share matching plan with the shares acquired in 2010. The level of participation in the share matching plan for 2010 is limited to a third of the contractually agreed new Variable I.

Information on matching shares. In the 2010 financial year, the Board of Management members who joined the new Board of Management compensation system, as described above, pledged to invest a third of Variable I in shares of Deutsche Telekom AG. Deutsche Telekom AG will grant one additional share for every share acquired as part of the Board of Management's aforementioned personal investment (share matching plan) that will be allotted to the beneficiaries of this plan on expiration of the four-year holding period. This ensures that the shares granted by the Company can only be sold after the four-year period, and that this element of the compensation system rewards only the members' continued service to the Company.

In accordance with GAS 17 and IFRS 2, the total share-based payment expense arising for 2010 matching shares and the grant date fair value of the matching shares must be specified. The following table is based on expected target achievement for the 2010 financial year and thus on the expected amount of the personal investment by the respective Board of Management member.

	Total share-based payment expense for matching shares 2010 €	Fair value of the matching shares at grant date €
René Obermann	78,372	628,943
Reinhard Clemens	40,937	328,255
Niek Jan van Damme	34,461	276,523
Timotheus Höttges	47,023	377,363
Guido Kerkhoff	23,958	138,949
Edward R. Kozel	32,143	225,115

Up to December 31, 2010, Deutsche Telekom had not acquired any matching shares for the purpose of issuance.

The number of matching shares to be granted to the individual Board members must also be stated. This shall be determined based on the probable target achievement of Variable I and the share price on grant date. The following Board members were granted the following numbers of matching shares for the 2010 financial year: René Obermann 85,804, Reinhard Clemens 44,002, Niek Jan von Damme 37,828, Timotheus Höttges 51,482, Guido Kerkhoff 18,601 and Edward R. Kozel 22,693.

Because matching shares were granted for the first time in the 2010 financial year, there are no comparative figures for the prior-year period.

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

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

Board of Management member service contracts generally stipulate a post-contractual prohibition of competition. Pursuant to these provisions, members of the Board of Management are prohibited from rendering services to or on behalf of a competitor for the duration of one year following their departure. As compensation for this restricted period, they receive a payment in the amount of the annual basic remuneration last received.

Company pension plan.

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

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

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

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

In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In specifically provided exceptional cases, entitlement to a widow's pension is excluded. In general, the standard criteria for eligibility in the pension arrangements are in line with market levels. In the event of a permanent inability to work (invalidity), the respective period of service through the scheduled end of the current period of appointment serves as the basis for the period of service eligible for calculating the pension.

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

	Service costs 2010 €	Defined benefit obligation (DBO) Dec. 31, 2010 €
René Obermann	575,170	5,358,169
Dr. Manfred Balz	282,982	613,412
Reinhard Clemens	367,252	1,232,442
Niek Jan van Damme	275,534	465,141
Timotheus Höttges	260,901	1,307,754
Guido Kerkhoff	273,876	431,504
Edward R. Kozel	146,567	146,567
Thomas Sattelberger	875,447	4,751,293

EUR 290,000 was credited to the pension accounts of Guido Kerkhoff and Niek Jan van Damme in accordance with the provisions of the new company pension plan; EUR 270,000 was credited to the account of Dr. Manfred Balz and EUR 250,000 to the account of Edward R. Kozel.

The pension expense resulting from the company pension plan is shown as service costs. The additions to provisions for pensions recognized in 2010 amounted to EUR 3.6 million (2009: EUR 4.1 million). This amount includes service costs of EUR 3.1 million (2009: EUR 3.6 million) and interest costs of EUR 0.5 million (2009: EUR 0.5 million).

Stock option plan. Deutsche Telekom no longer issues any stock option plans. Several Board of Management members, however, still hold stock options from the 2001 Stock Option Plan with its two tranches of 2001 and 2002.

Timotheus Höttges and René Obermann continue to participate in the 2002 tranche of the 2001 Stock Option Plan as a result of their prior activities at T-Mobile. Dr. Manfred Balz and Guido Kerkhoff still participate in the Stock Option Plan as a result of their employment relationship prior to being appointed to the Board of Management.

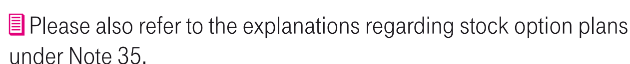
The stock options that have been granted can be exercised under the terms of the stock option plans. However, no options have yet been exercised. The number of stock options held by the Board of Management members active as of December 31, 2010 is unchanged year-on-year.

The number of stock options is shown in the table below.

The range of exercise prices of René Obermann's and Dr. Manfred Balz's options varies between EUR 12.36 and EUR 30.00.

Due to the fact that the remaining members of the Board of Management only participate in one tranche of the stock option plan, no range need be stated.

The average remaining term of the outstanding options for Board of Management members as of December 31, 2010 is 1.0 years.


Please also refer to the explanations regarding stock option plans under Note 35.

Board of Management compensation for the 2010 financial year. In reliance on legal requirements and other guidelines, a total of EUR 14.4 million (2009: EUR 13.7 million) is reported in the table on the next page as total compensation for the 2010 financial year for the members of the Board of Management.

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

For Board of Management members in the old compensation system, this compensation comprises fixed annual remuneration, other benefits, non-cash benefits, remuneration in kind, variable remuneration for the 2010 financial year, and the fair value of the 2010 MTIP at the grant date.

All other remuneration is totally unrelated to performance.

		Number of options 2001 SOP 2001 tranche	Value of options on issue (2001) €	Number of options 2001 SOP 2002 tranche	Value of options on issue (2002) €	Weighted average exercise price of stock options €
René Obermann	**2010**	48,195	4.87	28,830	3.79	23.40
	2009	48,195		28,830		
Hamid Akhavan	**2010**	0	0	0	0	0
(until February 15, 2010)	2009	0		19,840	3.79	12.36
Dr. Manfred Balz	**2010**	32,130	4.87	17,360	3.79	23.81
	2009	32,130		17,360		
Timotheus Höttges	**2010**	0		17,050	3.79	12.36
	2009	0		17,050		
Guido Kerkhoff	**2010**	0		4,650	3.79	12.36
	2009	0		4,650		
	2010	**80,325**		**67,890**		
	2009	**80,325**		**87,730**		

Total compensation. The compensation of the Board of Management is shown in detail in the following table:

		Fixed annual remuneration €	Other remuneration €	Short-term variable remuneration €	Long-term variable remuneration (fair value)[a] €	**Total €**
René Obermann	2010	1,350,000	35,790	1,346,250	628,943	**3,360,983**
	2009	1,250,000	37,233	1,365,000	76,613	**2,728,846**
Hamid Akhavan	2010	100,000	50,001[b]	119,244	–	**269,245**
(until February 15, 2010)	2009	800,000	611,878[b]	789,600	49,032	**2,250,510**
Dr. Manfred Balz	2010	687,097	18,292	391,716	22,489	**1,119,594**
	2009	660,000	19,204	468,600	33,710	**1,181,514**
Reinhard Clemens	2010	795,000	25,064	665,000	328,255	**1,813,319**
	2009	658,333	31,531	825,750	42,903	**1,558,517**
Dr. Karl-Gerhard Eick	2010	–	–	–	–	**–**
(until February 28, 2009)	2009	183,750	17,371	183,750	–	**384,871**
Niek Jan van Damme	2010	570,000	24,502	542,080	276,523	**1,413,105**
	2009	366,667	31,538	549,450	30,134	**977,789**
Timotheus Höttges	2010	825,000	22,265	775,500	377,363	**2,000,128**
	2009	750,000	21,583	803,250	45,968	**1,620,801**
Guido Kerkhoff	2010	610,000	20,322	606,480	138,949	**1,375,751**
	2009	433,333	11,874	692,250	36,774	**1,174,231**
Edward R. Kozel	2010	595,161	43,960	420,623	225,115	**1,284,859**
(since May 3, 2010)	2009	–	–	–	–	**–**
Thomas Sattelberger	2010	800,000	4,582	908,417	35,097	**1,748,096**
	2009	800,000	5,687	976,250	52,607	**1,834,544**
	2010	**6,332,258**	**244,778**	**5,775,310**	**2,032,734**	**14,385,080**
	2009	**5,902,083**	**787,899**	**6,653,900**	**367,741**	**13,711,623**

[a] This column shows the fair value both of the matching shares and for participation in the 2010 MTIP.
[b] In addition to the pension substitute paid to Hamid Akhavan due to his U.S. citizenship, he also received a monthly lump-sum payment to compensate for different tax regulations in Germany and the United States.

Expenditure on the award amounts for Variable II in the 2010 financial year totaled EUR 3.3 million (2009: EUR 0.0 million).

Under the termination agreement concluded with Hamid Akhavan effective February 15, 2010, all existing entitlements to stock options and the outstanding tranches of the 2008 MTIP and 2009 MTIP were terminated without compensation. The proportionate fixed basic remuneration and the proportionate other remuneration were paid for the period up to February 15, 2010. The proportionate entitlement to short-term variable remuneration based on average target achievement over the previous three financial years was determined for the same period. The annual payment of a pension substitute agreed with Hamid Akhavan was made for the last time in 2009. Since February 15, 2010, Hamid Akhavan has received monthly payments of one fixed annual salary as agreed compensation for the prohibition of competition.

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

Former members of the Board of Management. A total of EUR 5.4 million (2009: EUR 4.2 million) was recorded for payments to and entitlements for former members of the Board of Management and their surviving dependents.

Provisions (measured in accordance with IAS 19) totaling EUR 99.3 million (2009: EUR 96.3 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

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

Compensation of the Supervisory Board.

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation of Deutsche Telekom AG. Supervisory Board members receive a fixed annual remuneration of EUR 30,000.00 for the 2010 financial year and of EUR 40,000.00 for subsequent years, plus variable, performance-related remuneration depending on the development of net profit per share.

The performance-related annual remuneration with long-term incentive effect amounts to EUR 1,000.00 for every EUR 0.02 by which the net profit per no par value share in the second financial year following the financial year in question (reference year) exceeds the net profit per no par value share in the financial year preceding the financial year in question. The performance-related annual remuneration as a long-term incentive is limited to a maximum of EUR 40,000.00.

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

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

The total compensation of the members of the Supervisory Board in 2010 amounted to EUR 1,942,791.66 (plus VAT).

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

The **compensation of the individual members of the Supervisory Board** for 2010 is as follows:

Member of the Supervisory Board	Fixed remuneration incl. attendance fee €	Imputed long-term remuneration entitlement [a] €
Asmussen, Jörg	54,000.00	23,250.00
Becker, Hermann Josef	90,000.00	38,750.00
Dr. Bernotat, Wulf	47,000.00	20,150.00
Brandl, Monika	47,000.00	20,150.00
Bury, Hans Martin	81,000.00	35,650.00
Falbisoner, Josef (until May 3, 2010)	14,500.00	6,458.33
Dr. von Grünberg, Hubertus	51,000.00	23,250.00
Guffey, Lawrence H.	78,000.00	35,650.00
Hocker, Ulrich	36,000.00	15,500.00
Holzwarth, Lothar [b]	76,000.00	32,550.00
Kallmeier, Hans-Jürgen [c]	52,000.00	23,250.00
Kühnast, Sylvia	36,000.00	15,500.00
Prof. Dr. Lehner, Ulrich (Chairman)	136,000.00	60,450.00
Litzenberger, Waltraud	131,000.00	54,250.00
Löffler, Michael	36,000.00	15,500.00
Prof. Dr. Middelmann, Ulrich	53,000.00	23,250.00
Schröder, Lothar (Deputy Chairman) [d]	115,000.00	49,600.00
Dr. Schröder, Ulrich	47,000.00	20,150.00
Sommer, Michael	35,000.00	15,500.00
Spoo, Sibylle (since May 4, 2010)	22,000.00	10,333.33
Dr. h.c. Walter, Bernhard	115,000.00	51,150.00
	1,352,500.00	**590,291.66**

[a] In determining the amount to be recognized as a provision it was assumed that net profit per no par value share in 2012 would equal that in 2010. If so, entitlement per full year in the comparison period of 2009 to 2012 will be EUR 15,500.00. Upon application of the multiplying factor, the provision amount totals EUR 590,291.66.
[b] Lothar Holzwarth received compensation of EUR 11,333.33 from Telekom Deutschland GmbH (formerly T-Mobile Deutschland GmbH), Bonn, a wholly owned subsidiary of Deutsche Telekom AG, for the 2010 financial year for a mandate as member of the supervisory board of this company.
[c] Hans-Jürgen Kallmeier received compensation of EUR 833.33 from T-Systems International GmbH, Frankfurt/Main, a wholly owned subsidiary of Deutsche Telekom AG, for the 2010 financial year for a mandate as member of the supervisory board of this company.
[d] Lothar Schröder received compensation of EUR 18,800.00 from Telekom Deutschland GmbH (formerly T-Mobile Deutschland GmbH), Bonn, a wholly owned subsidiary of Deutsche Telekom AG, for the 2010 financial year for a mandate as member of the supervisory board of this company.

40 Declaration of conformity with the German Corporate Governance Code in accordance with § 161 AktG.

In accordance with § 161 AktG, the Board of Management and the Supervisory Board of Deutsche Telekom AG have submitted the mandatory declaration of conformity and made it available to shareholders on Deutsche Telekom AG's website. The full text of the Declaration of Conformity can be found on the Deutsche Telekom website (www.telekom.com) under Investor Relations in the Corporate Governance section.

41 Events after the reporting period.

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

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

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

The following tables provide a breakdown of professional fees recognized as expenses in the 2010 financial year:

PricewaterhouseCoopers Aktiengesellschaft.

	2010 millions of €
Auditing services	5
Other assurance services	6
Tax advisory services	1
Other non-audit services	8
	20

Ernst & Young GmbH.

	2010 millions of €
Auditing services	7
Other assurance services	6
Tax advisory services	1
Other non-audit services	1
	15

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

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

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

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

Responsibility statement.

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

Bonn, February 18, 2011

Deutsche Telekom AG
Board of Management

René Obermann

Dr. Manfred Balz

Reinhard Clemens

Niek Jan van Damme

Timotheus Höttges

Guido Kerkhoff

Edward R. Kozel

Thomas Sattelberger

Auditors' report.

We have audited the consolidated financial statements prepared by Deutsche Telekom AG, Bonn, comprising the statement of financial position, income statement and statement of comprehensive income, statement of changes in equity, statement of cash flows, and the notes to the financial statements, together with the Group management report, which is combined with the management report of Deutsche Telekom AG, for the financial year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the parent company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit. In addition, we have been instructed to express an opinion as to whether the consolidated financial statements comply with IFRS as issued by the IASB.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on our findings of our audit, the consolidated financial statements comply with the IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and IFRS as issued by the IASB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart/Frankfurt (Main), February 8, 2011 / February 18, 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

(Prof. Dr. Wollmert) (Forst)
Wirtschaftsprüfer Wirtschaftsprüfer

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Kayser) (Tandetzki)
Wirtschaftsprüfer Wirtschaftsprüfer