**OFFERING MEMORANDUM** **CONFIDENTIAL**

# Deutsche Telekom International Finance B.V.

## $1,000,000,000 2.250% Notes due March 6, 2017
## $1,000,000,000 4.875% Notes due March 6, 2042

## Guaranteed as to Payment of Principal and Interest by Deutsche Telekom AG

Pursuant to this offering memorandum, Deutsche Telekom International Finance B.V. ("Finance" or the "Issuer") is offering $1,000,000,000 2.250% Notes due March 6, 2017 (the "2017 Notes") and $1,000,000,000 4.875% Notes due March 6, 2042 (the "2042 Notes" and together with the 2017 Notes, the "Notes"). Deutsche Telekom AG ("Deutsche Telekom" or the "Guarantor") is the guarantor of the Notes.

Finance will pay interest on the Notes on March 6 and September 6 of each year, beginning on September 6, 2012 at an annual rate of 2.250% for the 2017 Notes and an annual rate of 4.875% for the 2042 Notes.

Finance may redeem the Notes on the terms described in this offering memorandum under "*Description of the Notes and Guarantees—Optional Redemption*". Finance may also redeem the Notes at 100% of their principal amount plus accrued interest if certain tax events occur as described under "*Description of the Notes and Guarantees—Optional Tax Redemption*".

Finance intends to apply to list the Notes on the regulated market of the Luxembourg Stock Exchange.

**Investing in the Notes involves risks. See "Risk Factors".**

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or any state or other securities laws. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to qualified institutional buyers ("QIBs") in reliance on the exemption from registration provided by Rule 144A under the Securities Act ("Rule 144A") and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S"). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Notes are not transferable except in accordance with the restrictions described under "*Transfer Restrictions*".

2017 Notes Issue Price: 99.437% plus accrued interest from March 6, 2012 if settlement occurs after that date
2042 Notes Issue Price: 98.604% plus accrued interest from March 6, 2012 if settlement occurs after that date

The Notes will be represented by one or more global notes registered in the name of The Depository Trust Company ("DTC"), as depositary, or a nominee of DTC. Beneficial interests in the Notes will be shown on, and transfers thereof, will be effected through, records maintained by DTC, Clearstream Banking, *société anonyme* ("Clearstream") and Euroclear Bank SA/NV ("Euroclear"), and their respective participants. See "*Book-Entry; Delivery and Form; Summary of Provisions Relating to Notes in Global Form*" and "*Transfer Restrictions*".

The Initial Purchasers (as defined in "*Plan of Distribution*") expect to deliver the Notes against payment in immediately available funds on or about March 6, 2012.

*Joint Bookrunning Managers*

**Credit Suisse** **Morgan Stanley** **SOCIETE GENERALE**

*Co-Lead Managers*

**Banca IMI** **COMMERZBANK** **Lloyds Securities** **Mitsubishi UFJ Securities** **RBS**

February 28, 2012

We are responsible for the information contained in this offering memorandum. We have not authorized anyone to give you any other information, and we take no responsibility for any other information that others may give you. You should assume that the information appearing in this offering memorandum is accurate as of the date on the front cover of this offering memorandum only. Our business, financial condition, results of operations and prospects may have changed since that date.

This offering memorandum is confidential. You are authorized to use this offering memorandum solely for the purpose of considering the purchase of the Notes described in this offering memorandum. You may not reproduce or distribute this offering memorandum, in whole or in part, and you may not disclose any of the contents of this offering memorandum or use any information herein for any purpose other than considering a purchase of the Notes. You agree to the foregoing by accepting delivery of this offering memorandum.

**NOTICE TO NEW HAMPSHIRE RESIDENTS**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

Each investor in the Notes will be deemed to make certain representations, warranties and agreements regarding the manner of purchase and subsequent transfers of the Notes. These representations, warranties and agreements are described in "*Transfer Restrictions*".

The Initial Purchasers make no representation or warranty, expressed or implied, as to the accuracy or completeness of such information, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers. Neither we, nor the Initial Purchasers, nor any of our or their respective representatives make any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal investment or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes. Notwithstanding anything herein to the contrary, investors may disclose to any and all persons, without limitation of any kind, the U.S. federal or state income tax treatment and tax structure of the offering and all materials of any kind (including opinions or other tax analyses) that are provided to the investors relating such tax treatment and tax structure. However, any information relating to the U.S. federal income tax treatment or tax structure shall remain confidential (and the foregoing sentence shall not apply) to the extent reasonably necessary to enable any person to comply with applicable securities laws. For this purpose, "tax structure" means any facts relevant to the U.S. federal or state income tax treatment of the offering but does not include information relating to the identity of the issuer of the securities, the issuer of any assets underlying the securities, or any of their respective affiliates that are offering the securities.

**IN CONNECTION WITH THE OFFERING, CREDIT SUISSE SECURITIES (USA) LLC, ACTING FOR THE BENEFIT OF THE INITIAL PURCHASERS, MAY PURCHASE AND SELL NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY INCLUDE OVER-ALLOTMENT, SYNDICATE COVERING AND STABILIZING TRANSACTIONS. OVER-ALLOTMENT INVOLVES SALES OF NOTES IN EXCESS OF THE PRINCIPAL AMOUNT OF THE NOTES TO BE PURCHASED IN THE OFFERING, WHICH CREATES A SHORT POSITION. SYNDICATE COVERING INVOLVES PURCHASES OF THE NOTES IN THE OPEN MARKET AFTER THE DISTRIBUTION HAS BEEN COMPLETED IN ORDER TO COVER SHORT POSITIONS CREATED. STABILIZING TRANSACTIONS CONSIST OF CERTAIN BIDS OR PURCHASES OF NOTES MADE FOR THE PURPOSE OF PEGGING, FIXING OR MAINTAINING THE PRICE OF THE NOTES. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON THE DATE OF ADEQUATE PUBLIC DISCLOSURE OF THE FINAL PRICE OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME BUT MUST END NO LATER THAN 30 CALENDAR DAYS THEREAFTER. ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR ANY PERSON) ACTING ON BEHALF OF THE STABILIZING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

## NOTICE TO INVESTORS IN THE UNITED KINGDOM

This offering memorandum is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document of any of its contents.

## NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area (the "EEA") which has implemented the Prospectus Directive (each, a "Relevant Member State"), each initial purchaser has represented, warranted and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

(a) in (or in the Federal Republic of Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

(b) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Manager or Managers nominated by the Issuer for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Notes shall require the Issuer, the Guarantor or any Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Guarantor nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer, the Guarantor or the Initial Purchasers to publish or supplement a prospectus for such offer.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

This EEA selling restriction is in addition to any other selling restrictions set out in this offering memorandum.

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***Consolidated Financial Statements as of and for the Year Ended December 31, 2011***

***Consolidated Financial Statements as of and for the Year Ended December 31, 2010***

***Schedule***

Schedule A: Form of Fiscal and Paying Agency Agreement

## DEFINED TERMS AND FINANCIAL INFORMATION

As used in this offering memorandum, unless the context otherwise requires, the terms “we”, “us”, “our”, “Company”, and “Group” refer to Deutsche Telekom AG and its consolidated subsidiaries. The “Guarantor” and “Deutsche Telekom” refer to Deutsche Telekom AG.

As used in this offering memorandum, “euro”, “EUR” or “€” means the single unified currency that was introduced in the Federal Republic of Germany (the “Federal Republic”) and ten other participating Member States of the European Union (the “EU”) on January 1, 1999. “U.S. dollar”, “USD” or “$” means the lawful currency of the United States of America.

Unless otherwise indicated, the financial information contained in this offering memorandum has been prepared in accordance with the requirements of the International Financial Reporting Standards (“IFRS”) as adopted for use in the EU by the European Commission.

In this offering memorandum, increases in negative numbers are expressed as positive percentages.

## AVAILABLE INFORMATION

For so long as any of the Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, during any period during which the Guarantor is neither subject to Sections 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, the Issuer and the Guarantor will make available on request to each holder in connection with any resale thereof and to any prospective purchaser of such Notes from such holder, in each case upon request, the information specified in and meeting the requirements of Rule 144A(d)(4) under the Securities Act.

A form of the fiscal and paying agency agreement to be entered into by Deutsche Telekom, Finance and Deutsche Bank Trust Company Americas, as fiscal agent, appears as Schedule A to this offering memorandum.

## MARKET, RANKING AND OTHER DATA

The data included in this offering memorandum regarding markets, including the size of certain market segments and the Guarantor’s position within these markets, are based on independent industry publications, reports of government agencies or other published industry sources and the Guarantor’s estimates based on its management’s knowledge and experience in the market segments in which it operates. The Guarantor’s estimates are based on information obtained from customers, suppliers, trade and business organizations and other contacts in the market segments in which it operates. The Guarantor has not independently verified any of the data from third-party sources nor has it ascertained the underlying economic assumptions relied upon therein. The Guarantor believes these estimates to be accurate as of the date of this offering memorandum. However, this information may prove to be inaccurate because of the method by which the Guarantor obtained some of the data for these estimates or because this information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other inherent limitations and uncertainties.

World Wide Web addresses contained in this offering memorandum are for explanatory purposes only and they (and the content contained therein) do not form a part of, and are not incorporated by reference into, this offering memorandum.

## FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Forward-looking statements are statements that are not historical facts. Examples of forward-looking statements include statements concerning:

- plans, objectives and expectations relating to future operations, products and services;
- expectations of future financial performance and their underlying assumptions, including, but not limited to, statements describing our expectations of future revenue, adjusted EBITDA and free cash flow development;
- our prospective share of new and existing markets;
- plans, objectives and expectations for our cost savings and workforce reduction programs and the impact of other significant strategic, labor or business initiatives, including acquisitions, dispositions and business combinations, and our network upgrade and expansion initiatives;
- the potential impact of regulatory actions on our financial condition and operations;
- our shareholder remuneration policy and the payment of dividends and/or conduct of possible share repurchases;
- the possible outcomes and effects of litigation, investigations, contested regulatory proceedings and other disputes;
- future general telecommunications sector and macroeconomic growth rates; and
- our future revenues, expenditures and performance.

Forward-looking statements generally are identified by the words "expect", "anticipate", "believe", "intend", "estimate", "aim", "goal", "plan", "will", "will continue", "seek", "outlook", "guidance" and similar expressions.

Forward-looking statements are based on current plans, estimates and projections. You should consider them with caution. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, forward-looking statements, in particular forward-looking statements related to our expectations of future revenue, adjusted EBITDA and free cash flow development. These factors include, among others:

- changes in general economic and business conditions, including a continuous deterioration in the economic environment, in the markets in which we and our subsidiaries and associated companies operate;
- the level of demand for telecommunications services in the markets we serve, particularly for wireless telecommunications services, broadband access lines, voice and data traffic, new higher-value products and services, and new rate offerings;
- changes in government policies and new legislation;
- regulatory developments and changes, including with respect to the levels of tariffs, terms of interconnection, customer access, international settlement arrangements and the availability and allocation of radio spectrum for mobile telecommunications use;
- our ability to secure and retain the licenses needed to offer new and existing services and the cost of these licenses and related network infrastructure build-outs, particularly with respect to advanced services;
- competitive forces, including pricing pressures, technological developments and alternative routing developments, all of which affect our ability to gain or retain market share and revenues in the face of competition from existing and new market entrants;

- the effects of our customer acquisition and retention initiatives, particularly in the fixed-line voice telephony business, the mobile telecommunications business and our interconnection business;
- the effects of industry consolidation on the markets in which we operate, particularly with respect to our mobile and leased lines businesses;
- the success of new business, operating and financial initiatives, many of which involve substantial start-up costs and are untested, and of new systems and applications, particularly with regard to the integration of service offerings;
- our ability to achieve cost savings and realize productivity improvements, particularly with respect to our workforce-reduction initiatives, while at the same time enhancing customer service quality;
- the impact of other significant strategic or business initiatives, including acquisitions, dispositions and business combinations;
- our ability to attract and retain qualified personnel, particularly in view of our cost reduction efforts;
- concerns over health risks associated with the use of wireless mobile devices and other health and safety risks related to radio frequency emissions;
- risks of infrastructure failures or damage due to external factors, including natural disasters, intentional wrongdoing, sabotage, acts of terrorism or similar events;
- the outcome of litigation, disputes and investigations in which we are involved or may become involved;
- risks and uncertainties relating to our international operations, particularly in Greece and other countries in Southern and Eastern Europe;
- risks and costs associated with integrating our acquired businesses and with selling or combining businesses or other assets;
- risks and uncertainties related to the development and implementation of our strategy for our mobile operations in the United States, including technological and regulatory risks related to the deployment of a Long Term Evolution, or LTE, network;
- the progress of our domestic and international investments, joint ventures, partnerships and alliances;
- the effects of foreign exchange rate fluctuations, particularly in connection with subsidiaries operating outside the Eurozone;
- instability and volatility in worldwide financial markets;
- the availability, terms and deployment of capital, particularly in view of our financing alternatives, actions of the rating agencies, developments in the banking sector and the impact of regulatory and competitive developments on our capital outlays; and
- the level of demand in the market for our debt obligations, and for the debt obligations of our subsidiaries and associated companies, and our shares, as well as for assets that we may decide to sell, which may affect our financing and acquisition strategies.

If these factors or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, our actual performance and future actions may materially differ from those expressed or implied by forward-looking statements. We can offer no assurance that our estimates or expectations will be achieved or that we will be able to achieve our policy aims. When reviewing forward-looking statements contained in this document, investors and others should carefully consider the foregoing factors, as well as other uncertainties and events and their potential impact on our operations and businesses. You should refer to "*Risk Factors*" in this offering memorandum, for additional information on these and other risks and uncertainties.

## LIMITATION ON ENFORCEMENT OF U.S. LAWS AGAINST THE GUARANTOR, THE ISSUER, THEIR MANAGEMENT AND OTHERS

Deutsche Telekom is a stock corporation (*Aktiengesellschaft*) organized under the laws of the Federal Republic of Germany, and Finance is a private company with limited liability for an unlimited duration, established under the laws of The Netherlands. The members of Deutsche Telekom's and Finance's respective Supervisory and Management Boards are citizens or residents of countries other than the United States and their assets may be located outside the United States. As a result, you may not be able to effect service or process within the United States on such persons or upon Deutsche Telekom or Finance, or to enforce judgments of courts of the United States against them, whether or not predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

Under German law, a stock corporation may indemnify its officers, and, under certain circumstances, German labor law requires a stock corporation to do so. However, a stock corporation may not, as a general matter, indemnify members of the Management Board or the Supervisory Board. Certain limited exceptions may apply if the indemnification is in the legitimate interest of the stock corporation. Deutsche Telekom's articles of incorporation do not contain provisions regarding the indemnification of its directors and officers. A German stock corporation may purchase directors' and officers' insurance. Deutsche Telekom has obtained liability insurance for members of its Supervisory Board and its Management Board and certain of its officers. This includes insurance against liabilities under the Securities Act.

The laws of The Netherlands make no compulsory provision for the indemnification of members of the Supervisory or Management Boards of a Dutch limited liability company. Finance's articles of incorporation do not contain provisions regarding the indemnification of its directors and officers. Deutsche Telekom has obtained liability insurance for members of Finance's Supervisory Board and its managing directors, including insurance against liabilities under the Securities Act.

The United States and Germany do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. In general, the enforcement of a final judgment of a United States court requires a declaration of enforceability by a German court in a special proceeding. Therefore, a final judgment for the payment of money rendered by a federal or state court in the United States based on civil liability, whether or not predicated solely upon United States federal securities laws, may not be enforceable, either in whole or in part, in Germany. In addition, awards of punitive damages in actions brought in the United States or elsewhere are generally unenforceable in Germany.

The United States and The Netherlands do not currently have a treaty or convention providing for reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. Accordingly, a judgment rendered by a court in the United States will not be automatically recognized and enforced by the Dutch courts. However, if the party in whose favor a final and definitive judgment for the payment of money has been rendered by a competent court in the United States which is enforceable in the United States brings a new suit in a competent Dutch court, such party may submit to such court in The Netherlands the final judgment which has been rendered in the United States. Based on case law, the Dutch court may be expected to recognize, give res judicata effect to and render a judgment in accordance with the foreign judgment insofar as it finds that the jurisdiction of the foreign court has been based on grounds which are internationally acceptable and that proper legal procedures have been observed and except to the extent that the foreign judgment contravenes Dutch public policy or an existing Dutch judgment.

## SPECIAL NOTE ON NON-GAAP FINANCIAL MEASURES

In this offering memorandum, we have presented EBITDA, adjusted EBITDA, net debt and free cash flow, which are non-GAAP financial measures. A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure (which for these purposes we mean the most comparable measure presented in accordance with International Financial Reporting Standards, or IFRS). Our non-GAAP financial measures are not governed by IFRS and other companies may not compute these non-GAAP measures using the same method as Deutsche Telekom. Therefore, these measures may not be comparable with measures with the same or similar title that are reported by other companies.

The non-GAAP measures in this offering memorandum should not be viewed in isolation as an alternative to profit (loss) from operations, net profit (loss), net cash from operating activities, the financial liabilities reported in our consolidated balance sheet or other financial information presented in accordance with IFRS. We urge you to review the reconciliations of the non-GAAP measures to IFRS financial measures and other financial information contained in this offering memorandum. We also urge you not to rely on any single financial measure to evaluate our business but instead to form your view on our business with reference to our audited annual consolidated financial statements included elsewhere in this offering memorandum and the other information we present in this offering memorandum.

### EBITDA

We define EBITDA as profit (loss) from operations (EBIT) plus depreciation, amortization and impairment losses. We base our definition of EBITDA on profit (loss) from operations because this method of computation allows EBITDA to be derived in a uniform manner on the basis of a measure of earnings that is published for the operating segments and the Group as a whole. For a reconciliation of EBITDA to profit from operations, see "*Development of Our Business—Reconciliation of EBITDA and adjusted EBITDA*".

### Special Factors

EBITDA at the Group and segment levels was affected by a number of special factors relating to our operating activities in the reporting period as well as the prior-year periods. We believe that these special factors make it more difficult to compare EBITDA at the Group and segment levels with corresponding figures for prior periods. Adjustments are made irrespective of whether the relevant income and expenses are reported in profit (loss) from operations, profit (loss) from financial activities or tax expense.

We have grouped the special factors affecting EBITDA into the following four categories.

- Staff-related measures comprise expenses related to staff reduction initiatives or other programs to reduce headcount, including severance payments and early retirement.
- Non-staff-related restructuring comprises expenses relating to restructuring programs or other costs unrelated to our operations, such as costs associated with terminating contracts.
- Gains and losses related to deconsolidation, disposals and acquisitions that arise at the time of the transaction.
- Other includes items that are unrelated to our operations.

### Adjusted EBITDA

We define adjusted EBITDA as EBITDA excluding the effect of the special factors described above.

Our senior operating decision-makers use adjusted EBITDA as a performance indicator for managing our business activities, assessing our operating performance and measuring the performance of our operating segments. They believe that adjusted EBITDA permits them to better evaluate and compare developments over several reporting periods because the items excluded in calculating adjusted EBITDA have, in their view, little or no bearing on our underlying daily operating performance. However, adjusted EBITDA should be viewed in addition to, and not as a substitute for, the information prepared in accordance with IFRS that is contained in this offering memorandum. For a reconciliation of adjusted EBITDA to profit from operations, see "*Development of Our Business—Reconciliation of EBITDA and adjusted EBITDA*".

**Free Cash Flow**

We define free cash flow as net cash from operating activities:

- less net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment;
- plus proceeds from the disposal of intangible assets (excluding goodwill) and property, plant and equipment;
- plus outflows for the acquisition of mobile communications licenses (spectrum).

Our management uses free cash flow as an indication of the cash generating ability of our businesses and our ability to pay for discretionary and non-discretionary expenditures not included in the measure, such as payments pursuant to our shareholder remuneration policy, debt repayments or acquisitions. However, free cash flow should not be used to determine the financial position of the Group or considered as a substitute for any IFRS financial measure. You should not assume that free cash flow is freely available for discretionary application by management, since a number of expenditures not included in the measure are non-discretionary. For a reconciliation of free cash flow to net cash from operating activities, see "*Development of Our Business—Condensed consolidated statement of cash flows and reconciliation of free cash flow*".

**Net Debt**

We define net debt as total financial liabilities minus accrued interest, liabilities from corporate transactions, cash and cash equivalents, current financial assets available for sale or held for trading, derivative financial assets, other financial assets and items that we believe are unrelated to our liability position, *e.g.*, customer overpayments of their accounts. Other financial assets include all cash collateral posted for negative fair values of derivatives as well as other interest-bearing financial assets. For a reconciliation of net debt to financial liabilities, see "*Development of Our Business—Financial liabilities—Reconciliation of net debt*".

## EXCHANGE RATE INFORMATION

The following table shows, for the periods indicated, the average, high and low exchange rates for euros, expressed in U.S. dollars per EUR 1.00, as published by the European Central Bank:

| Year or Month | Average[1] | High | Low |
|---|---|---|---|
| | | (in $ per €) | |
| 2007 | 1.3797 | | |
| 2008 | 1.4726 | | |
| 2009 | 1.3963 | | |
| 2010 | 1.3207 | | |
| 2011 | 1.4000 | | |
| August | | 1.4487 | 1.4143 |
| September | | 1.4285 | 1.3430 |
| October | | 1.4160 | 1.3181 |
| November | | 1.3809 | 1.3229 |
| December | | 1.3511 | 1.2889 |
| 2012 | | | |
| January | | 1.3176 | 1.2669 |
| February (through February 24, 2012) | | 1.2982 | 1.3412 |

[1] The average of the exchange rates on the last business day of each month during the relevant period.

On February 24, 2012, the exchange rate was USD 1.3412 per EUR 1.00.

## SUMMARY

**Deutsche Telekom AG**

We are the largest provider of telecommunications services in Germany and one of the world's largest telecommunications companies in terms of 2011 consolidated net revenue. In 2011, our consolidated net revenue totaled EUR 58.7 billion compared to EUR 62.4 billion in 2010.

We have organized our business activities into the following four operating segments:

- Germany, which combines all of our fixed-network and mobile activities in Germany and also includes wholesale telecommunications services for third-party domestic carriers and service providers as well as our Group's other operating segments;
- Europe, which comprises:
  - all of our fixed-network and mobile communications operations in Greece, Romania, Hungary, Croatia, Slovakia, the Netherlands, the F.Y.R.O Macedonia and Montenegro;
  - all activities of our mobile communications companies in Poland, the Czech Republic, Austria, Bulgaria and Albania;
  - our interest in the joint venture, Everything Everywhere, in the United Kingdom; and
  - our International Carrier Sales and Solutions unit, which mainly provides wholesale telecommunications services for our Group's other operating segments;
- the United States, which comprises all of our mobile activities in the U.S. market; and
- Systems Solutions, which bundles business with information and communications technology products and solutions for large multinational corporations and public institutions under the T-Systems brand.

Our Group Headquarters and Shared Services function includes our service headquarters and our subsidiaries that are not allocated to the operating segments described above.

Our registered address is Friedrich-Ebert-Allee 140, 53113 Bonn, Germany, and our telephone number is +49 228-181-0.

On March 20, 2011, we entered into an agreement with AT&T Inc. ("AT&T") for the sale of T-Mobile USA to AT&T. The agreement was subject to certain regulatory approvals. After it became clear that the U.S. authorities would take a clear stance against the deal, AT&T and Deutsche Telekom terminated the purchase agreement on December 19, 2011. AT&T compensated Deutsche Telekom in line with the provisions of the agreement, paid a break-up fee of EUR 2.3 billion (USD 3.0 billion) in 2011 and granted T-Mobile USA the right to the transfer of Advanced Wireless Service spectrum licenses worth EUR 0.9 billion (USD 1.2 billion). In 2011, we recorded a goodwill impairment loss of EUR 2.3 billion relating to our United States cash generating unit.

For more detailed information about our business, please refer to the sections entitled "*Description of Our Business*" and "*Development of Our Business*" in this offering memorandum.

**Deutsche Telekom International Finance B.V.**

We incorporated Finance in The Netherlands on October 30, 1995. Finance is our wholly-owned subsidiary whose principal purpose is raising funds for us. Deutsche Telekom provides a full and unconditional guarantee for all liabilities issued by Deutsche Telekom International Finance B.V. The authorized share capital of Finance consists of 5,000 shares of common stock at a par value of EUR 453.78 each. The issued share capital amounts to EUR 453,780 and consists of 1,000 shares of common stock at a par value of EUR 453.78. The remaining 4,000 shares are unissued.

Finance's corporate seat and registered address is Herengracht 124-128, 1015 BT Amsterdam, The Netherlands, and its telephone number is +31 20 794 45 00.

## Our Risks and Challenges

Our business is subject to many material risks and challenges. For a detailed discussion of these risks as well as other considerations relevant to an investment in the Notes, see "*Risk Factors*" and other information included in the offering memorandum.

Our key risks and challenges include the following:

- ***Worldwide Economic Conditions:*** A continuation or intensification of the economic downturn, a further intensification of the European debt crisis or an ongoing slowdown in consumer spending could adversely affect our customers' purchases of our products and services in each of our operating segments, which could have a negative impact on our operating results and financial condition.

- ***Regulation and Other Government Intervention:*** Because we operate in heavily regulated business environments, decisions that regulatory authorities impose on us restrict flexibility in managing our business and may force us to offer services to competitors, or reduce the prices we charge for our products and services, either of which could have a material negative impact on our revenues, profits and market shares. In particular, our operations in some countries in our Europe operating segment face potential risks as a result of the challenging macroeconomic situation, including the related taxes on telecommunications companies that have been imposed in some of these countries.

- ***Competition:*** We face intense competition in all areas of our business, which could lead to reduced prices for our products and services and a decrease in market share in certain service areas, thereby adversely affecting our revenues and net profit.

- ***Litigation:*** We are continuously involved in disputes and litigation with regulators, competition authorities, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on our results of operations and financial condition.

- ***Investments for New Products and Services:*** Some of our investments required to develop future products and services, such as investments in new spectrum licenses, may involve substantial cash outlays with no certainty of market acceptance or regulatory non-interference.

### Selected Financial Data

The following table presents selected consolidated financial and operating information. This selected consolidated financial and operating information should be read together with the section of this offering memorandum entitled "*Development of Our Business*", and our consolidated financial statements and the notes that are included elsewhere in this offering memorandum.

This selected consolidated financial information is extracted or derived from our consolidated financial statements, which have been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft ("PwC") and have been included elsewhere in this offering memorandum.

## Selected Consolidated Financial Data of the Group

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | (billions of €, except as otherwise indicated) | | |
| **Income Statement Data** | | | |
| Net revenue | 58.7 | 62.4 | 64.6 |
| Domestic | 26.4 | 27.3 | 28.0 |
| International | 32.3 | 35.1 | 36.6 |
| Profit from operations | 5.6 | 5.5 | 6.0 |
| Profit (loss) attributable to owners of the parent (net profit (loss)) | 0.6 | 1.7 | 0.4 |
| **Cash Flow Data** | | | |
| Net cash from operating activities | 16.2 | 14.7 | 15.8 |
| Net cash used in investing activities | (9.3) | (10.7) | (8.6) |
| Net cash used in financing activities | (6.0) | (6.4) | (5.1) |
| **Ratios and Selected Data** | | | |
| Cash capex[1] | (8.4) | (9.9) | (9.2) |
| Number of employees averaged over the year (full-time employees excluding trainees) (thousands) | 240 | 252 | 258 |
| Net revenue per employee (thousands of euro)[2] | 244 | 247 | 251 |
| Earnings per share—basic and diluted (euro) | 0.13 | 0.39 | 0.08 |
| Weighted average number of ordinary shares outstanding (basic) (millions) | 4,300 | 4,334 | 4,340 |
| Total number of ordinary shares at the reporting date (millions) | 4,321 | 4,321 | 4,361 |
| Dividend per share (euro)[3] | 0.70 | 0.70 | 0.78 |
| Dividend per share (U.S. dollar)[4] | 0.91 | 1.00 | 1.22 |

[1] Cash outflows for investments in intangible assets and property, plant and equipment in accordance with the statement of cash flows.
[2] Calculated on the basis of the average number of employees for the year, excluding trainees, apprentices and student interns.
[3] Dividends per share are presented on the basis of the year in respect of which they are declared, not the year in which they are paid.
[4] Dividend amounts have been translated into U.S. dollars (using exchange rates published by the European Central Bank) for the relevant dividend payment date, which occurred during the second quarter of the following year, except for the 2011 amount, which has been translated using the applicable rate on December 30, 2011. As a result, the actual U.S. dollar amount at the time of payment may vary from the amount shown here.

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | (billions of €) | | |
| **Data from the Statement of Financial Position** | | | |
| Total assets | 122.5 | 127.8 | 127.8 |
| Total financial liabilities | 48.3 | 50.5 | 51.2 |
| Shareholders' equity | 39.9 | 43.0 | 41.9 |

## Summary of the Offering

*The following summary contains basic information about the Notes and is not intended to be complete. It does not contain all of the information that is important to you. For a more complete understanding of the Notes, please refer to the section of this offering memorandum entitled "Description of the Notes and Guarantees".*

**Notes offered** ................. $1,000,000,000 2.250% Notes due March 6, 2017.
$1,000,000,000 4.875% Notes due March 6, 2042.

**Issuer** .............................. Deutsche Telekom International Finance B.V.

**Guarantee** ...................... Deutsche Telekom will unconditionally and irrevocably guarantee to each holder of the Notes the due and punctual payment of the principal and interest relating to the Notes including any additional amounts described below. Each Guarantee will be a direct unsubordinated unsecured obligation of Deutsche Telekom AG. The Guarantee is described under "*Description of the Notes and Guarantees — Guarantees*".

**Fiscal and Paying Agency Agreement** .............. The Notes will be issued under a fiscal and paying agency agreement (the "Agreement"), among Deutsche Telekom, Finance and Deutsche Bank Trust Company Americas, as fiscal agent. The Agreement is more fully described under "*Description of the Notes and Guarantees*" and the form of fiscal and paying agency agreement appears as Schedule A to this offering memorandum.

**Date interest starts accruing** .................. March 6, 2012.

**Issue prices** .................... 99.437% of the principal amount of the 2017 Notes.
98.604% of the principal amount of the 2042 Notes.

**Maturity dates**............... March 6, 2017 for the 2017 Notes.
March 6, 2042 for the 2042 Notes.

**Interest rates** ................. 2.250% per annum for the 2017 Notes.
4.875% per annum for the 2042 Notes.

**Interest payment date**.......................... Every March 6 and September 6, beginning on September 6, 2012. If any payment is due on a day that is not a business day, we will make the required payment on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day

**Additional Amounts** ...... The Netherlands or Germany may require the Issuer or the Guarantor to withhold amounts from payments on the principal or interest on the Notes or any amounts to be paid under the Guarantees, as the case may be, for taxes or any other governmental charges. If the relevant jurisdiction requires a withholding of this type, the Issuer or the Guarantor, as the case may be, will, subject to some exceptions (as more fully described below under "*Description of the Notes and Guarantees—Additional Amounts*"), pay additional amounts in respect of those payments of principal and interest so that the amount you receive after such taxes and governmental charges will equal the amount that you would have received if no such taxes and governmental charges had been applicable.

**Optional Redemption**..... The Issuer may redeem any series of Notes, in whole or in part, at any time. Upon redemption, the Issuer will pay a redemption price equal to the greater of (i) 100% of the principal amount of the relevant series of Notes plus accrued interest (and Additional Amounts, if any) to the date of redemption or (ii) as determined by the quotation agent, the sum of the present values of the remaining scheduled payments of principal and interest (and Additional Amounts, if any) on the relevant series of Notes (for the purpose of this calculation not including any portion of such payments of interest accrued as of the date of redemption), plus, for the avoidance of

doubt, accrued interest (and Additional Amounts, if any) to the date of redemption. The present values will be determined by discounting the remaining principal and interest payments to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months), using the adjusted treasury yield.

The Issuer will give notice to DTC of any redemption we propose to make at least 30 days, but not more than 60 days, before the redemption date. Notice by DTC to participating institutions and by these participants to street name holders of indirect interests in the series of debt securities will be made according to arrangements among them and may be subject to statutory or regulatory requirements.

**Optional tax redemption** ................ In the event of various tax law changes after the date of this offering memorandum and other limited circumstances that would require the Issuer or the Guarantor to pay Additional Amounts or deduct or withhold tax on any payment to the Issuer to enable the Issuer to make any payments in relation to the Notes, subject to certain exceptions, the Issuer (or, if applicable, the Guarantor) may redeem the Notes at any time at its option, as a whole or in part, upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 100% of the principal amount of the notes then outstanding plus accrued and unpaid interest (and all Additional Amounts, if any) to (but excluding) the redemption date.

**Calculation of interest** ..................... If interest is required to be calculated for any period less than a year, other than with respect to regular semi-annual interest payments, it will be calculated based on a 360-day year consisting of twelve 30-day months.

**Business day** .................. A business day is each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York City generally are authorized or obligated by law or executive order to close.

**Securities codes** .............

| | 2017 Notes | 2042 Notes |
|---|---|---|
| CUSIP (Rule 144A): | 25156P AQ6 | 25156P AR4 |
| CUSIP (Regulation S): | N27915 AA0 | N27915 AB8 |
| ISIN (Rule 144A): | US25156PAQ63 | US25156PAR47 |
| ISIN (Regulation S): | USN27915AA03 | USN27915AB85 |
| Common Code (Regulation S): | 075396481 | 075396503 |

**Denomination** ................ Minimum denominations of $150,000 and integral multiples of $1,000 in excess thereof.

**Regular record dates for interest** ................ February 19 (or, in the case of a leap year, February 20) or August 22 immediately preceding the relevant Interest Payment Date, whether or not such day is a business day.

**Defeasance** ...................... The Notes are subject to the provisions on defeasance that are described under "*Description of the Notes and Guarantees—Discharge and Defeasance*" and "*Description of the Notes and Guarantees—Covenant Defeasance*".

**Ranking**.......................... The Notes and Guarantees are not secured by any property or assets of Finance or Deutsche Telekom and will rank equally with all of their respective other unsecured and unsubordinated indebtedness.

**Form of the Notes** .......... The Notes will initially be issued to investors in book-entry form only. Fully-registered Global Notes (as defined herein) representing the total aggregate principal amount of the Notes will be issued and registered in the name of a nominee for DTC, the securities depositary for the Notes, for credit to accounts of direct or indirect participants in DTC, including Euroclear and Clearstream. Unless and until Notes in definitive certificated form are issued, the only Holder will be Cede & Co., as nominee of DTC, or the nominee of a successor depositary. Except as described in this offering memorandum, a beneficial owner of any interest in a Global Note will not be entitled to receive physical delivery of definitive Notes. Accordingly, each beneficial owner of any interest in a global Note must rely on the procedures of

DTC, Euroclear, Clearstream, or their participants, as applicable, to exercise any rights under the Notes.

**Governing law** ............... The Notes, the Guarantees and the Agreement will be governed by, and construed in accordance with, the laws of the State of New York.

**Additional issues** ........... The Issuer may, from time to time, without notice to or the consent of the Holders, create and issue additional notes, maturing on the same maturity date and having the same terms and conditions as the previously outstanding Notes of that series (the 2017 Notes and 2042 Notes) in all respects (or in all respects except for the issue date and the amount and the date of the first payment of interest thereon) in accordance with applicable laws and regulations and pursuant to the Agreement (including with respect to the Guarantor and the Guarantees). Additional notes issued in this manner shall be consolidated with and form a single series with previously outstanding Notes.

**Fiscal agent, paying agent, transfer agent and registrar** ................. Deutsche Bank Trust Company Americas.

**Notices** ............................ So long as any Notes are represented by a global note and such global note is held on behalf of a clearing system, notices to the holders of Notes may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders (except that (i) if and for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices shall also be published in a daily newspaper having general circulation in Luxembourg, which is expected to be the *Luxemburger Wort*, and (ii) in the event that the Notes are listed on any other stock exchange, notices shall also be given in accordance with the rules of that stock exchange) or, if any such delivery is not practicable, by publication in a leading English language daily newspaper having general circulation in Europe. Any such notice will be deemed to have been given on the date of first publication or, if published more than once or on different dates, on the first date on which publication is made.

**Listing and admission to trading** ................ The Issuer intends to apply to list the Notes on the Official List of the Luxembourg Stock Exchange and admit the Notes to trading on the Regulated Market of the Luxembourg Stock Exchange.

## RISK FACTORS

*Before deciding to purchase the Notes, prospective investors should carefully review and consider the following risk factors and the other information contained in this offering memorandum, in particular the information contained in "Legal Proceedings". The occurrence of one or more of these risks alone or in combination with other circumstances may have a material adverse effect on our business, results of operations, financial condition and cash flows, and may affect our ability to fulfill our obligations under the Notes and the Guarantees. The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude or significance of the individual risks. Investing in the Notes could involve additional risks and uncertainties of which we may not currently be aware, or which we may currently not consider material. An investment in the Notes is only suitable for investors experienced in financial matters who are in a position to fully assess the risks relating to such an investment and who have sufficient financial means to absorb any potential loss stemming therefrom. The following discussion contains a number of forward-looking statements. Please refer to the "Forward-Looking Statements" discussion in this offering memorandum for cautionary information.*

### Risks Related to our Business

**A continuation or intensification of the economic downturn, a further intensification of the European debt crisis, or an ongoing slowdown in consumer spending could adversely affect our customers' purchases of our products and services in each of our operating segments, which could have a negative impact on our operating results and financial condition.**

Our business is influenced by general economic conditions in Germany, Europe and the United States. Continued exchange rate and financial market volatility, pressure on private consumption owing to high unemployment in some countries and the dangers arising from high levels of national debt in many countries present risks to the economy that could result in long periods of stagnation or economic contraction.

During 2011, global financial markets and economies experienced increasing stress, as reflected by high levels of volatility and market uncertainty. The ongoing European sovereign debt crisis has evolved into a banking crisis and crisis of confidence, constituting a significant risk to economic development in Europe and around the world, and is having an increasing impact on our operations and businesses. A possible failure of negotiations between private-sector creditors and Greece, increased market pressure on the public finances of Greece, Portugal, Ireland, Italy or Spain, or in an extreme case the departure of one more countries from the Eurozone could lead to depressed economic activity and increased currency and exchange risks, all of which would have an unpredictable effect on our businesses and operations. We have a limited ability to effectively plan for or respond to the potential adverse effects from these risks.

In particular, this situation poses risks to our operations in some of our core countries. For example, consumers and business customers could increasingly curtail their consumption of our services in an atmosphere of continued economic distress and continued or increasing uncertainty. National austerity measures could also have further negative effects on telecommunications consumption, caused by both reduced government demand and declines in disposable income in the private sector. Our operating business also faces the risks of unannounced tax increases or special taxes, particularly in our Southern and Eastern European markets. These developments could, in turn, negatively impact our revenue development, including in the future growth areas on which we plan to focus, and jeopardize the attainment of our growth targets, such as those relating to data services in mobile telecommunications, or those relating to broadband products and services.

**Macroeconomic conditions in Greece and the fiscal position of the Republic of Greece have deteriorated markedly, and this has had and could continue to have an adverse effect on our business, results of operations, financial condition and prospects.**

The economy of Greece, where we have substantial operations through our subsidiary Hellenic Telecommunications Organization S.A., or OTE, has deteriorated markedly mainly as a result of the deteriorating fiscal position of the Republic of Greece and the fiscal austerity measures being adopted in response to the crisis. In addition, Greece has experienced economic contraction since 2010 and unemployment has increased significantly. This situation has resulted in a material reduction of disposable income across major parts of the Greek population, leading to a decline in demand for our services, and our revenues from the broad public sector have decreased as well. OTE contributed EUR 3.5 billion or 6.0% of our net revenue in 2011, down from EUR 3.9 billion, or 6.2%, in 2010. The impact of deteriorating macroeconomic conditions in Greece, reductions in disposable income and the recent and potential future developments with respect to the fiscal position of the Republic of Greece may continue to have an adverse effect on our business and results of operations.

**Because we operate in heavily regulated business environments, decisions that regulatory authorities impose on us restrict flexibility in managing our business and may force us to offer services to competitors, or reduce the prices we charge for our products and services, either of which could have a material negative impact on our revenues, profits and market shares.**

We are subject to strict regulation in all of our fixed-line and mobile markets in Europe and the United States. Government agencies regularly intervene in the offerings and in the pricing of our fixed-line and mobile products and services. Regulation can impede our ability to grow and to react to the initiatives of competitors and technological change.

The 2009 reform package for the Regulatory Framework for Electronic Communications in the European Union ("EU Framework") is currently being implemented by Member States. While the new rules had to be transposed into the national laws of the 27 Member States by May 2011, the majority of the Member States have failed to do so. Whether the revised regulatory framework will increase or decrease the regulatory burden on us will depend on the manner in which revised directives are subsequently implemented in the EU Member States, and how the revised regulatory framework will be applied by the respective National Regulatory Authorities ("NRAs"). For example, the German Telecommunications Act (*Telekommunikationsgesetz*) is being revised primarily to reflect the EU framework, revised to encourage operators to invest in new high-speed networks and to include additional consumer protection regulations. The legislative process is almost complete and the revised German Telecommunications Act is expected to be effective by April 2012.

On September 20, 2010, the European Commission issued its Recommendation on regulated access to Next-Generation Access Networks ("NGAs"), consisting of guidelines which NRAs must take into upmost account when requiring market-dominant undertakings to grant network access. The aim is to harmonize regulatory requirements throughout the European Union. The recommendation generally provides for remedies to be imposed on operators with significant market power as well as obligations to provide access to physical infrastructure including on a wholesale basis. Furthermore, in October 2011, the European Commission launched two public consultations related to access for alternative operators to the fixed telephone and broadband networks of established operators. One consultation concerns non-discriminatory access for alternative operators to the infrastructure and services of dominant telecom operators. The second concerns the way national regulators calculate prices that operators have to pay for this wholesale access (cost-orientation remedies). Depending on further developments, access regulations that apply to copper networks may also be applied to new fiber networks, possibly affecting the extent and timing of our NGA build-out and causing a decrease in our revenues.

The German telecommunications regulatory framework implemented by the Federal Network Agency (*Bundesnetzagentur*) has a particularly significant impact on our domestic business. So far, we have been exempted from regulation on the basis of a loss of significant market power in markets of relatively minor importance only, such as the market for fixed-line international calls.

Additionally, since we are offering mobile and fixed-line triple-play services (triple-play includes high-speed Internet access, communications services and entertainment offerings), media regulation may become increasingly important to our business. This regulation might restrict our ability to provide media services, including the delivery of content, and could also result in additional costs for technical implementation measures needed to comply with increased regulation.

***Mobile Telecommunications Operations***

Regulatory authorities supervise our mobile telecommunications operations in the countries in which we operate. We expect a tightening of regulatory control in the area of mobile telecommunications, with a further negative effect on pricing and revenues, for example as a result of further reductions in international roaming charges for the wholesale and retail voice market, international data and SMS roaming charges, call termination charges and possible access regulation in some markets. In Europe, NRAs and various EU bodies have the power to regulate based on market investigations or reviews.

With respect to international roaming charges, an EU-wide regulation, valid until June 2012, is presently in place and – accompanied by transparency measures – sets price ceilings for retail voice, retail SMS and wholesale voice, SMS and data tariffs. The European Commission is currently planning new measures to be implemented beyond 2012 with lower price ceilings supported by the slogan "roam like home", an inclusion of retail data and structural measures to foster competition. This expansion of existing regulation has an additional negative effect on our roaming revenues.

The regulation of mobile call termination charges in countries where we have mobile operations can have a negative effect on revenues. Various reviews of call termination rates and court proceedings relating to regulatory

measures are pending in several of those markets. The European Commission intends to further reduce termination rates significantly and has therefore issued a recommendation that defines details for the calculation of termination rates by the NRAs. The recommendation was adopted in May 2009 and has to be fully applied from 2013 at the latest. Any reductions in termination rates may have an adverse effect on the profitability of our mobile telecommunications operations in Europe.

The Federal Network Agency began a 900/1800 MHz consultation on November 22, 2011. The agency asked all interested companies for their future spectrum needs in these two bands, which are currently part of the GSM licenses of the four German mobile network operators. The Federal Network Agency intends to develop an overview by the end of 2013 of market needs in order to decide on the next steps for the future use of the 900/1800 MHz spectrum. The new assignments will be effective from January 1, 2017. We submitted our reply prior to the deadline for responses.

Our operations in the United States are regulated primarily by the Federal Communications Commission ("FCC") and by various other federal, state and local governmental agencies. These governmental agencies may also exercise jurisdiction over mobile telecommunications operators. The FCC is continually considering whether to establish new rules and policies, many of which, if implemented, could impose significant costs and burdens on our business. The most significant areas of concern include whether the FCC makes available additional spectrum for next generation wireless offerings in a reasonable timeframe and ensures that existing spectrum holdings remain free and clear of any radio interference.

The FCC passed a regulatory order for mobile and fixed-network broadband access for Internet services on December 21, 2010. It is focused on ensuring transparency regarding network management practices, performance and the commercial terms of broadband Internet access services, prohibiting the blocking of access to lawful content by mobile and fixed-network broadband Internet access providers, and prohibiting unreasonable content discrimination by providers of fixed-network broadband Internet access. In addition, the regulator is allowing use-dependent pricing and requires that every provider of broadband Internet access manages its network sensibly in the future and protects it against overloads and abuse.

In addition, many state and local governments regulate various aspects of wireless operations, affecting our business practices and the carrier-customer relationship. In particular, consumer regulation at the federal or state level can impact a variety of carrier practices in this area including, for example, early termination fees, trial periods, billing practices and marketing. Any state or federal regulation could have a potentially adverse effect on our mobile telecommunications business in the United States, as would any failure to comply with applicable regulations. Some U.S. states have taken actions to regulate various aspects of wireless operations including customer billing, termination of service arrangements and advertising. Any of those agencies could adopt regulations or take other actions that could adversely affect our business. If we fail to comply with applicable regulations, we may be subject to sanctions, which may have an adverse effect on our mobile telecommunications business in the United States.

***Fixed-Network Operations***

We believe that, for the foreseeable future, the Federal Network Agency is likely to consider us a provider with significant market power in various German markets for public voice telephony services in the fixed-line network and in other markets, including most of those in which we held monopoly rights in the past. Access and price regulation apply primarily to telecommunications services that are considered to involve an operator with "significant market power". As a result, we expect that the strict regulatory provisions of the German Telecommunications Act relating to providers with significant market power will continue to be applied to our activities in those markets. Considering that in many markets our competitors are unlikely to gain significant market power in the near future, we expect that we will have to compete in important markets with providers not subject to these regulatory obligations. Therefore, these competitors may be expected to have more flexibility than we have in terms of the types of services offered and customers served, pricing and the granting of network access.

The Federal Network Agency has issued two decisions concerning the regulation of NGAs. On September 17, 2010, the Federal Network Agency decided that very high-speed digital subscriber line ("VDSL") and fiber to the home ("FTTH") access forms part of the regulated wholesale regime for digital subscriber lines ("DSL"). Ethernet based bitstream access will also be subject to regulation. In order to implement the decision, we must submit an amended reference offer. Related tariffs will be subject to ex-post price controls. In September 2010, the Federal Network Agency also published a draft decision concerning access to the local loop. This draft confirms the existing scope of our obligations but in addition foresees the expansion of regulation to include pure fiber-optic access to unbundled local loops ("ULLs"). FTTH wholesale products will be subject to ex-post price controls. On October 3, 2011, the European Commission launched a consultation on cost methodologies for access networks. The concept favored by the Commission is that the regulated wholesale prices based on copper networks should be reduced if the regulated company does not invest in FTTH. The extension of the scope of our obligations will make it easier for competitors to offer

products at our expense, which could have a negative impact on our revenue and results of operations. The final decision will be published after this consultation is completed.

The Federal Network Agency approves rates for ULL lines for a duration of two years. The current rates are valid until June 30, 2013. The level of the ULL rate is a decisive factor in the profitability of our nationwide infrastructure in Germany. It also generates incentives and disincentives for the further expansion of broadband, particularly the roll-out of new fiber-optic networks.

We are involved in a number of pending legal proceedings regarding decisions of the Federal Network Agency that concern access charges relating to the local loop. The Federal Network Agency's rulings on the ULL monthly charges from 1999 and on the ULL one-time charges from 2001 and 2002 have been revoked with final and binding effect. The Federal Network Agency must now decide again on these charges. The Federal Administrative Court has not formally stipulated preliminary rates with which the Federal Network Agency has to agree, so it is generally not clear whether and to what extent rates will be changed. On November 23, 2011, the Federal Administrative Court decided that the Federal Network Agency should have some scope for discretion in determining the cost basis and may continue to set ULL rates on the basis of current costs. The Federal Network Agency approved new one-time ULL rates for the period April 2002 through June 2003 in its decision dated January 19, 2011. Compared with the decision in 2002, the rates were reduced by between 3% and 8% for the most important rates, which relate to the provision of customer data to providers of telephone directory inquiry services and takeovers of existing lines, and between 11% and 15% for termination rates. The rates decision applied only for plaintiffs who prevailed in the court case. This is because, under the German Telecommunications Act in its 2002 version, the rates only applied to individual agreements.

Our fixed-line subsidiaries in Southern and Eastern Europe are subject to regulatory provisions and risks that are similar to those affecting our fixed-line operations in Germany. For example, we are designated an operator with significant market power in most fixed-line markets in which we operate, including in Hungary, Slovakia, Croatia and Greece. The business impact of increased regulation on our subsidiaries in Southern and Eastern Europe will depend on the way in which NRAs use their powers, and the extent to which our competitors take advantage of regulatory decisions designed to foster increased competition.

In Greece, risk exists in the area of infrastructure roll-out, including VDSL and FTTX (a broadband network architecture that uses optical fiber as all or part of the local loop). The Greek government announced an initiative to support a passive optical network across Greece that would provide open access to all fixed-network providers and, as a result, increase competition. The impact of this development on OTE and the related financial risk to us cannot be quantified at this point.

The revised Telecommunications Act includes a new article (§ 41a para. 1 of the German Telecommunications Act, "TKG") that applies to all telecommunications-network providers and grants the Federal Network Agency the authority to impose an ordinance specifying general requirements for non-discriminatory data traffic and non-discriminatory access to content and applications. The German government has discretion to issue such an ordinance, which will depend on ongoing public discussions on net neutrality as well as the actual developments in the market. The Federal Network Agency has not to date promulgated any regulations regarding net neutrality issued by the Federal Network Agency. However, new regulations (§ 41a para. 2 TKG) allow the Federal Network Agency to define a minimum requirement of service quality through technical guidelines, which might hinder the introduction of new services. The Federal Network Agency has discretion to issue such technical guidelines.

For further information regarding the matters discussed above and other aspects of the regulatory environments to which our businesses are subject, see "*Description of Our Business—Markets and Regulation*" and "*Legal Proceedings*".

**We face intense competition in all areas of our business, which could lead to reduced prices for our products and services and a decrease in market share in certain service areas, thereby adversely affecting our revenues and net profit.**

***Germany***

In Germany, fixed-line network voice telephony service revenues and prices have continued to decline, primarily due to intense competition and adverse decisions imposed by the NRAs, and also due to customers' ongoing substitution of mobile telecommunications and Voice over Internet Protocol ("VoIP") services for fixed-line usage.

Due to competitive pressures from cable operators and fixed-line carriers, we continued to lose market share in 2011. We expect a further increase in competition from cable operators, which are able to provide telecommunications services without having to build out their own network or lease access to our network. In the fixed-network broadband

market, we have observed increasing shares of cable network operators among new customers. These operators are, unlike us, able to provide private homes and smaller companies throughout Germany with telecommunications products that require them neither to build out their own networks nor to lease unbundled local loop lines from us.

Competitive pressure is also increasing from competitors that have traditionally operated outside the telecommunications sector, such as major consumer electronics companies and Internet service providers. Furthermore, the switch of mobile operators' focus from pure mobile services towards fixed-line offerings, regulatory actions by the Federal Network Agency and the increasing quality and acceptance of VoIP services will increase pressure on our market shares, revenues and margins.

Additional local and regional network operators are expanding their presence to include other major cities and regions. In the future, we could face even fiercer competition and lose further market share if our competitors were to combine their businesses.

Existing mobile substitution effects are intensified by the proliferation of Mobile Virtual Network Operators ("MVNOs"). Reduced prices for mobile telecommunications services (*e.g.*, on the basis of lower flat rates without call-based charges and regulatory decisions regarding mobile telephony termination rates) could further increase pricing pressure on our fixed-line services. Furthermore, mobile operators are increasingly engaging in reselling DSL product bundles provided by other fixed-line operators, and this continues to have an adverse effect on our fixed-line network revenues.

The German markets for Internet access and portal services, especially within the broadband market, have been, and will continue to be, highly competitive and are increasingly saturated. Prices for broadband flat rates have been steadily declining. Our future competitive position in the broadband/fixed-network business in Germany will be affected by pricing, network speed and reliability, services offered, customer support and our ability to be technologically adept and innovative. The regulatory environment can also exert a significant influence on the level of competition. We expect that our competitors will continue to pursue new broadband customers aggressively. In the market for portal services and content, competition is also intense due to low barriers to entry. In addition, a weaker economy may increase pressure on our revenues and margins in these markets. Furthermore, regulatory decisions have required us to offer to our competitors an IP bitstream access product, which enables our competitors to expand their operations throughout Germany without building their own infrastructure.

Part of the challenge in the fixed-network business in Germany continues to be the improvement of our reputation for customer service while implementing cost-saving measures. If we do not continue to improve our customer service sustainably, there is a risk that we might not stop our overall continuing loss of fixed-network customers in the German market.

Competition in the German mobile telecommunications segment with established players such as Vodafone, E-Plus and $O_2$ is intense and can be expected to increase further in the future. Growing competition is also fostered by resellers and "no-frills" operators, offering discount rates without significant minimum-contract term obligations. With our "Congstar" brand, we also participate in this market.

In terms of the mobile share of "total telecommunications minutes", Germany consistently lags behind the European average. Although the number of "mobile minutes" is still growing in Germany, the respective growth rates have declined constantly since 2008. This makes it more difficult to compensate for price declines by higher usage.

As the German market for mobile telecommunications has become increasingly saturated, the focus of competition has been shifting from customer acquisition to customer retention, and increasing the quality and value of existing customers. Accordingly, if we are unable to offer increased quality and better value to our customers, our market share and revenues may not grow as we have anticipated in our plans.

***Europe***

Competition in the European mobile telecommunications markets run by our Europe operating segment is intense and can be expected to increase in the future. In addition to facing intense competition, our Southern and Eastern European companies face difficult economic conditions. Growing competition results, to a different extent in each regional market, from the market entry of alternative carriers (such as cable TV operators) or low cost carriers (such as MVNOs), technology shifts (such as IP-based telecommunications networks) and from market consolidation.

If prices for mobile telecommunications services continue to decline through competition and/or regulation more than anticipated and this decline is not compensated for by higher usage, planned objectives may not be achieved. In addition, mobile network operators' expansion of product offerings into the fixed-line sector may result in a

competitive disadvantage for our mobile telecommunications operations in countries in which we offer only mobile communications services. Moreover, technologies such as W-LAN, WiMax and VoIP, which can be used with existing hardware and platforms, could drive voice and data traffic from mobile networks, which could lead to significant price and revenue reductions.

Demand for telecommunications services is still being affected by unemployment, government austerity packages and tax increases. In particular, as a result of the European sovereign debt crisis, the economies of the Eurozone face the potential of continued economic stagnation and contraction. The economic prospects of the countries most affected by the crisis, particularly Greece, are highly uncertain. In addition, European countries outside the Eurozone, such as Croatia, Hungary and Romania, continue to be affected by the crisis and face economic uncertainty. Any public fiscal measures taken in response to the situation may have an adverse effect on our results. For example, in Hungary, the government approved an act imposing a special telecommunications tax, levied on annual net sales based on electronic telecommunications services.

As European markets have become increasingly saturated, the focus of competition has been shifting from customer acquisition to customer retention, and increasing the quality and value of existing customers. Accordingly, if we are unable to offer increased quality and better value to our customers, our market share and revenues may not grow as we have anticipated in our plans.

***United States***

In the United States, each of T-Mobile USA’s three main national competitors – AT&T, Verizon Wireless and Sprint/Nextel – is significantly larger than T-Mobile USA. Their scale could afford them significant structural and competitive advantages in this market. This situation presents T-Mobile USA with a long-term challenge to compete effectively in terms of pricing, products, coverage and the introduction of new technologies and services. For example, in 2011, all three of T-Mobile USA’s major competitors introduced the iPhone 4S, which is not currently offered by T-Mobile USA. Also, AT&T and Verizon continue to be better positioned to leverage economies of scale with regard to capital investments and marketing messages. Intense competition from various regional and other small national operators also exists in T-Mobile USA’s markets. Some of these competitors operate using alternative business models that have the potential to negatively affect T-Mobile USA’s ability to attract and retain customers, such as low-cost unlimited prepaid offerings from regional carriers Leap Wireless, MetroPCS and Boost Mobile.

In addition to traditional competitors, the entrance and influence of manufacturers, service providers, cable providers and other new market participants, could put further pressure on the wireless industry in general and T-Mobile USA in particular.

The incumbent wireless industry is experiencing disruptive innovation on many fronts. For example, Apple transformed the device market with the launch of the iPhone, Clearwire hopes to transform the market with fixed mobile convergence and Google introduced its open-source Android operating system in 2008. While smartphone use is expected to continue to grow, tablet sales have gained traction. Rapid penetration of smartphones and tablets will require carriers to invest in device subsidization and network improvements.

Despite the continued difficult economic context, the wireless industry is faring better than many industries (wireless spending is becoming less discretionary in the U.S.), but the industry is not immune from the cost-reduction efforts of consumers and changes in consumer creditworthiness. As the overall drop in customer growth intensifies, and price competition for contract customers becomes greater, comprehensive coverage and quality as well as attractive “smartphone” offerings will be key to T-Mobile USA’s sustained commercial success. Further, adequate access to additional spectrum is essential for sustaining the 4G deployment as well as to service the projected exponential growth in data consumption. For T-Mobile USA and the market as a whole, there will continue to be considerable pressure toward consolidation.

Since T-Mobile USA is a significant contributor to our overall revenues, a further slowdown or decline in the business of T-Mobile USA could have a material adverse effect on the attainment of the growth targets and profitability of our Group as a whole in 2012.

***Systems Solutions***

Our Systems Solutions business is subject to risks associated with the general and regional economies of its customers and the willingness and ability of its customers to invest in information and communications technology services and products. The Information and Communications Technology (“ICT”) market is shaped by long sales cycles, severe competition and declining prices. The result is downward pressure on revenues and margins, which has been exacerbated by the global economic crisis.

The ICT market in our Systems Solutions operating segment is also experiencing intense competition, falling prices, restraint in the awarding of projects, and long sales cycles. Intense cost pressure in the private sector and particularly in the public sector means that the balance between differentiation (softening of price competition) and standardization (cost cutting) remains critical. This creates a potential risk of revenue losses and declining margins for T-Systems.

Depending on the economic development and their impact on our customers in 2012, T-Systems will continue to be affected. For example, cost-cutting programs and postponement or cancellation of investments of our customers can have a negative impact on T-Systems' revenues and margins. In this business environment, further cost reductions will force T-Systems to rely on the development of lower cost near- and off shore capacities in both IT Outsourcing and the System Integration business.

In addition, the international growth potential of T-Systems may be constrained by its limited brand recognition in some national markets, at least compared to that of competitors who may be more established there, particularly as this relates to maintaining and increasing business with multinational companies outside of Germany. Additionally the relatively small size of some international T-Systems units may require expensive additional management resources from Germany.

If T-Systems' focus on multinational customers and its service offerings, such as dynamic services or cloud computing are not successful, T-Systems may lose market share to its competitors, suffer reduced revenues and incur losses.

For more information, see "*Description of Our Business*" and "*Development of Our Business"*.

**We may realize neither the expected level of demand for our products and services, nor the expected level or timing of revenues generated by those products and services, as a result of lack of market acceptance, technological change or delays from suppliers, which could adversely affect our cash flows.**

There is a risk that we will not succeed in making customers sufficiently aware of existing and future value-added services or in creating customer acceptance of these services at the prices we would want to charge. In addition, market acceptance for these new products and services could be negatively affected by an unwillingness to pay for additional features. There is also a risk that we will not identify trends correctly, or that we will not be able to bring new services to market as quickly or price-competitively as our competitors. These risks exist, in particular, with respect to our anticipated future growth drivers in the mobile telecommunications area, such as mobile data services or other advanced technologies (which are supported by advanced "smartphone" products), and in the fixed-line telecommunications area, such as triple-play services, which include telephone, Internet and television services. Ever-shorter innovation cycles in these advanced technologies confront the telecommunications sector with the challenge of introducing new products at increasingly shorter intervals.

Further, as a result of rapid technological progress, and the trend towards technological convergence, there is a danger that new and established information and telecommunications technologies or products may not only fail to complement one another, but in some cases may even substitute for one another. An example of this is VoIP, a technology that is already established in the business customer market. VoIP has now reached the consumer market as well and, as a technology that competes directly with traditional fixed-line telephony services, VoIP has the potential to reduce further our market share and revenues in our fixed-line business. The introduction of mobile handsets with VoIP functionality may also adversely affect our pricing structures and market share in our mobile voice telephony business. If we do not appropriately anticipate the demand for new technologies, and adapt our strategies and cost structures accordingly, we may be unable to compete effectively, with the result that our business activities, financial condition and results may suffer.

**Some of our investments (such as in new spectrum licenses) to develop future products and services may involve substantial cash outlays with no certainty of market acceptance or regulatory non-interference with license requirements.**

There is a risk that the return on our investments, in particular in new spectrum licenses and network infrastructure (*e.g.*, for 4G services), may negatively deviate from our plans. In addition to the negative impact on our cash flows, this could result in significant write-downs of the value of spectrum or other licenses or other network-related investments.

Should we face a continuously deteriorating economic climate, we may decide, or be required, to scale back capital expenditures. We believe that we have flexibility in terms of the amount and timing of our capital expenditure

program, but a lasting reduction in capital expenditure levels below certain thresholds could affect our future growth, in particular in our mobile operations.

**Failure to achieve our planned reduction and restructuring of personnel or our human resources-related cost-savings goals could negatively affect our reputation and the achievement of our financial objectives and profitability.**

Staff restructuring within the Group in Germany continued in a socially responsible manner in 2011. It was implemented essentially by means of voluntary redundancies, partial and early retirement, and employment opportunities for civil servants and employees offered by Vivento, especially in the public sector. We intend to continue to restructure our workforce as required. If it is not possible to implement the corresponding measures to the extent planned or at all, this may have negative effects on our financial targets and profitability as well as our reputation.

The successful realization of any staff reduction program depends on a range of factors that are beyond our control, such as general developments in the labor market, the demand for our retrained labor force and the level of acceptance of the various severance offers and other voluntary reduction measures. If planned staff reduction targets are not achieved, this would have a negative effect on our operating expenses and profitability.

**As a result of dispositions of certain non-core businesses in Germany, there is an increased risk of return of civil servants transferred out of the Group, which could have a negative impact on our staff and cost reduction objectives.**

Our employees who have civil servant status can, based on German civil service law, only be completely transferred to the buyer of a business from us in exceptional cases. Therefore, as a general matter, such transferred civil servants are placed on leave of absence while employed with the transferred business unit. Accordingly, in the event of termination of employment with the transferred business unit, there is a risk that such civil servants will return to the Group. There are currently around 2,850 civil servants that can avail themselves of this right of return to the Group. If all of these civil servants were to return to us in 2012, the additional personnel costs would be approximately EUR 0.2 billion per year. This risk of return can be reduced by an agreement on compensation payments, but it cannot be completely eliminated.

If further Group units employing civil servants are disposed of, the risk of additional civil servants returning after the end of their temporary leave may again increase. For further information regarding general human resources-related matters, see "*Directors, Senior Management and Employees*".

**Alleged health risks of wireless communications devices have led to litigation affecting markets with our mobile telecommunications operations subsidiaries, and could lead to decreased wireless communications usage or increased difficulty in obtaining sites for base stations and, as a result, adversely affect the financial condition and results of operations of our wireless services business.**

Media reports have suggested that radio frequency emissions from wireless mobile devices and cell sites may raise various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. The World Health Organization has declared that, on the basis of current scientific knowledge, there are no known adverse effects on health from emissions at levels below internationally recognized health and safety standards. However, we cannot provide assurance that research in the future will not establish links between radio frequency emissions and health risks.

Whether or not such research or studies conclude there is a link between radio frequency emissions and health, popular concerns about radio frequency emissions may discourage the use of wireless devices and may result in significant restrictions on the location and operation of cell sites by our mobile telecommunications subsidiaries and the usage of our wireless devices, telephones or products using wireless technology. Such restrictions on use could have material adverse effects on our results of operations.

Together with wireless telephone manufacturers, T-Mobile USA and other wireless service operators are subject to several individual lawsuits asserting product liability, breach of warranty and other claims relating to radio frequency transmissions to and from wireless mobile devices. The complaints seek substantial monetary damages as well as injunctive relief. T-Mobile intends to vigorously defend these cases. We do not know whether legislators, regulators or private litigants will refrain from taking other actions adverse to us, based on the purported health-related risks associated with radio frequency emissions. Any such litigation, legislation or adverse actions may result in additional costs and loss of revenues in our mobile communications businesses. For more information, see "*Legal Proceedings*".

**We regularly engage in large-scale programs to reshape our information technology (IT) and network infrastructure to adapt to changing customer needs and organizational and accounting requirements. The implementation of any of these programs may require substantial investments and a failure to effectively plan and monitor them could lead to misallocations of resources and impaired processes with negative consequences for our operations.**

Our IT and network resources and infrastructure represents our organizational and technical backbone. This infrastructure is the basis for innovative telecommunications products and services that we offer or plan to offer in the future. We have implemented comprehensive programs since 2010 to adapt our IT systems and infrastructure to changing customer needs and our new organizational structure resulting from the consolidation of our fixed-line and mobile networks in Germany. We are replacing the various architectures, access types and services with a standardized architecture. Risks could arise in this area relating to all IT systems and products that require Internet access. For example, faults between newly developed and existing IT systems could cause interruptions to business processes and products, such as smartphones and our comprehensive triple-play offering in Germany, Entertain.

Due to the enormous complexity of the implementation of this IT initiative, malfunctions, connectivity issues, implementation delays, inadequate planning and management and other unforeseen problems could result in costly process impairments and remediation, and possible extended down-times of IT processes. These problems could result in revenue losses and may frustrate the attainment of our goals in terms of cost savings and quality improvements.

In addition, one of our most important IT programs deals with the long-term development and implementation of a comprehensive IP platform that will support both fixed-line and mobile telephony services. This means that the traditional platform will be completely replaced by an IP-based system. Upon implementing this joint IP platform, we will be subject to risks inherent in all IT systems connected to the Internet, such as hacker attacks, “spam calls” and other disruptions. These risks could lead to a temporary interruption of our IT resources and, as a result, impair the performance of our technical infrastructure.

In addition, we may be required to make substantial IT infrastructure investments in response to new accounting standards, such the new IFRS recognition rule, scheduled to be released in 2012.

**System failures due to natural or man-made disruptions and loss of data could result in reduced user traffic and reduced revenues and could harm our reputation and results.**

Our technical infrastructure (including our network infrastructure for fixed-line network services and mobile telecommunications services) and data may be damaged or disrupted by fire, lightning, flooding and other calamities, technology failures, human error, terrorist attacks, hacker attacks and malicious actions (*e.g.*, theft or misuse of customer data), and other similar events. We attempt to mitigate these risks by employing a large number of measures, including a comprehensive monitoring of our telecommunications networks, backup systems and protective systems such as firewalls, virus scanners, and building security. In addition, we have implemented a global business continuity management system at our corporate headquarters. We cannot, however, be certain that these measures will be effective under all circumstances, and that disruptions or damages will not occur. Disruption or damage to our infrastructure may result in reduced user traffic and revenues, increased costs, and damage to our reputation.

**Shortcomings in our supply and procurement process could negatively affect our product portfolio, revenues and profits.**

As a fully integrated ICT service provider, we cooperate with a wide range of different suppliers for technical components and assemblies, as well as for software and other goods and information important to the conduct of our business. Although we do not believe that we are materially dependent on any single supplier, our contractors may want to extend delivery times, raise prices and limit supply due to their own shortages or changing business and product strategies. Furthermore, our vendors may be subject to litigation with respect to technology that is important for the conduct of our business. Especially in times of economic turmoil, supply chains, credit access and financial stability of our vendors may be negatively affected, which could disturb our commercial relationship with them.

If our commercial partners fail to deliver quality products and services in a timely manner, the ensuing disruptions in our chain of supply could negatively affect our product portfolio, cost structure, revenues and profits. We take a variety of measures to shelter ourselves from these risks, but we cannot be sure that these measures will be effective under all circumstances.

**We are continuously involved in disputes and litigation with regulators, competition authorities, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on our results of operations and financial condition.**

We are subject to numerous risks relating to legal and regulatory proceedings, in which we are currently a party or which could develop in the future. Litigation and regulatory proceedings, including patent infringement lawsuits, are inherently unpredictable. Legal or regulatory proceedings in which we are or come to be involved (or settlements thereof) may have a material adverse effect on our results of operations or financial condition. For information concerning some of the litigation in which we are involved, including with respect to Toll Collect, see "*Legal Proceedings*". For information concerning our regulatory environment, see "*Description of Our Business—Markets and Regulation*".

**Exchange-rate, interest-rate and rating risks have had, and may continue to have, an adverse effect on our revenue and cost development.**

We are exposed to currency risks related to our international business activities. Generally, our Central Treasury hedges currency risks that may have an impact on our cash flows (known as a transaction risk), although there can be no guarantee that our hedging strategies will succeed. Currency risks may have a negative impact on our results of operations when amounts in local currencies are translated into euros, particularly in connection with U.S. dollar- and pound sterling-denominated results.

We are also exposed to interest-rate risks, primarily in the euro and U.S. dollar currencies. Interest-rate risks arise as a result of fluctuations in interest rates affecting the level of interest payments due on indebtedness at variable rates in each of these currencies. Once per year, our Management Board specifies ratios of fixed and variable debt in these two currencies. Our Central Treasury then takes measures, using derivative instruments and other measures, to implement the interest-risk management decisions of the Management Board.

A decrease in our credit ratings below certain thresholds by various rating agencies would result in an increase in the interest rates on certain of our bonds and medium-term notes due to step-up provisions and could raise the cost of our debt refinancing activities generally. For more information, see "*Development of Our Business — Condensed consolidated statement of cash flows and reconciliation of free cash flow—Step-Up Provisions*".

**Potential breaches of compliance requirements or the identification of material weaknesses in our internal control over financial reporting may have an adverse impact on our corporate reputation, financial condition and the trading price of our securities.**

In general, compliance requirements for publicly-traded companies and, in particular, the investigation of potential breaches and corporate misconduct are increasing and leading to major financial implications for the companies concerned. At the same time, the legal framework governing the monitoring of companies is becoming more comprehensive, which increases the liability risks for executive bodies and associated costs.

While we believe that we have established an appropriate compliance organization to detect, assess, reduce and manage these risks, the global and diverse nature of our operations means that these risks and their related consequences will continue to exist. Although we intend to take prompt measures to remediate any identified shortcomings in our internal controls over financial reporting, activities of this kind may involve significant effort and expense, and disclosure of any failures, material weakness or other conditions, may result in a deterioration of our corporate image and negative market reactions.

**Risks Related to the Notes**

**Our credit ratings may not reflect all risks of an investment in the Notes.**

The credit ratings ascribed to us and our outstanding debt securities are intended to reflect our ability to meet the payment obligations under our outstanding debt securities, and may not reflect the potential impact of all risks related to structure and other factors on the value of our outstanding debt securities or the Notes. In addition, actual or anticipated changes in our credit ratings will generally affect the market value of debt securities we have issued.

**Many factors may adversely affect the trading market, value or yield of the Notes.**

There may not be any trading market for the Notes and factors beyond our creditworthiness may affect the trading market for and value of the Notes.

We cannot assure you that a trading market for the Notes will develop or be maintained. We intend to apply to list the Notes on the regulated market of the Luxembourg Stock Exchange, but a listing on a stock exchange or other trading market does not imply that a trading market will develop or continue. If we are unable to list the Notes pricing information for them may be more difficult to obtain, which may make them less liquid.

In addition to our own creditworthiness, many other factors may affect the trading market for, and market value of, the Notes. These factors include:

- the method of calculating principal, premium and interest;
- the time remaining to the maturity;
- the outstanding amount of our debt securities – our debt covenants and fiscal agency agreements for our debt securities do not limit the amount of debt securities we may issue or guarantee;
- redemption or repayment features; and
- the level, direction and volatility of market interest rates generally.

In addition, if you decide to sell the Notes, there may be a limited number of buyers (if any) or there may be a surplus of debt securities of other issuers available with similar credit, maturity and other structural characteristics. This may affect the price you receive for the Notes or your ability to sell them at all. You should not purchase the Notes unless you understand and know you can bear the related investment risks.

**Redemption may adversely affect your return on our debt securities.**

The Notes are, or may become, redeemable at our option and we may choose to redeem them at times when prevailing market interest rates are lower than the interest rates on the Notes. In addition, the Notes are subject to mandatory redemption and we may be required to redeem them at times when prevailing interest rates are relatively low. As a result, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes. Our redemption right may also adversely affect your ability to sell the Notes as their redemption date approaches.

**Deutsche Telekom's business development is dependent on its subsidiaries' operating results and, as a result, the inability of Deutsche Telekom's subsidiaries to transfer sufficient profits or pay sufficient dividends could prevent Deutsche Telekom from meeting its obligations. In addition, direct creditors of Deutsche Telekom's subsidiaries will generally have superior claims to cash flows from those subsidiaries.**

Almost all of the Group's net revenue is generated by Deutsche Telekom's subsidiaries and the vast majority of Deutsche Telekom's assets are its investments in its subsidiaries. Deutsche Telekom depends upon earnings and cash flows from its subsidiaries to meet its obligations under its debt securities, including the Notes. Certain subsidiaries of Deutsche Telekom are or may be subject to contractual restrictions or regulatory requirements that would limit their ability to pay dividends. Furthermore, insofar as Deutsche Telekom acts as a lender to subsidiaries in which there are third-party shareholders, it may face conflicts of interest in its capacities as lender and shareholder, and may indirectly benefit shareholders who do not participate in extending such financing.

In addition, Deutsche Telekom has the ability to restructure its remaining operations to cause operating assets currently held directly by Deutsche Telekom to be held by one or more subsidiaries. For example, in the past, Deutsche Telekom transferred its fixed-line operations in Germany into a wholly-owned subsidiary, Telekom Deutschland GmbH. Because the creditors of any subsidiary of Deutsche Telekom would generally have a right to receive payment that comes before the parent company's right to receive payment from the assets of that subsidiary, holders of the Notes will be effectively subordinated to creditors of those subsidiaries insofar as cash flows from those subsidiaries are relevant to servicing Deutsche Telekom's debt securities. The Agreement does not limit the amount of liabilities that Deutsche Telekom or its subsidiaries may incur.

**The Notes do not contain financial covenants, change in control provisions or similar limitations on our flexibility.**

The Agreement does not contain any covenants or other provisions designed to protect holders of the Notes against a reduction in the creditworthiness of Deutsche Telekom or Finance. It also generally does not contain covenants or other provisions that would prohibit us from increasing our indebtedness or prohibit us or our affiliates from engaging in other transactions that might adversely affect holders of the Notes, including transactions involving a change in control

over the relevant issuer or the guarantor or a business combination, acquisition or divestiture. We may at any time be engaged in discussions concerning, or otherwise acting in furtherance of, such transactions, which may be material.

**The Notes will be subject to specific restrictions on transfer.**

The Notes are being offered in reliance upon an exemption from registration under the Securities Act and applicable state securities laws of the United States. As such, the Notes may be transferred or resold only in a transaction registered under or exempt from the Securities Act and applicable U.S. state securities laws. These restrictions on transfer may have a material adverse effect on the ability of any holder of the Notes to transfer such Notes.

**Investors may experience difficulties in enforcing civil liabilities.**

Deutsche Telekom AG is incorporated in Germany and Finance is organized in The Netherlands. The majority of their directors and management (and certain of the parties named in this document) reside outside the United States, and all, or a substantial portion of, Deutsche Telekom AG's, Finance's and such persons' assets are located outside the United States. As a result, it may not be possible for investors to effect service of process upon Deutsche Telekom AG, Finance or such persons within the United States, or to enforce against Deutsche Telekom AG, Finance or such persons in the United States judgments obtained in the U.S. courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States.

**Corporate Disclosure in Germany may differ from that in the United States.**

There may be less publicly available information about German public companies, such as Deutsche Telekom, than is regularly made available by public companies in the United States and in other jurisdictions. In 2010, we delisted our American Depositary Shares from the New York Stock Exchange and deregistered with the U.S. Securities and Exchange Commission ("SEC") all of our securities, including our equity securities and all classes of debt securities issued by Finance and guaranteed by Deutsche Telekom. Finance also deregistered all classes of its securities with the SEC.

## USE OF PROCEEDS

We estimate the net proceeds from the sale of the Notes to be approximately $1,972,960,000 after deducting from the gross proceeds underwriting commissions and other expenses of the offering payable by us. We intend that the net proceeds will be on-lent by the Issuer to Group companies and used for general corporate purposes.

## CAPITALIZATION AND INDEBTEDNESS

### Deutsche Telekom AG

The following table sets forth, on a consolidated basis, the cash and cash equivalents, current financial liabilities, non-current financial liabilities, shareholders' equity and capitalization of Deutsche Telekom and its consolidated subsidiaries in accordance with IFRS, as adopted for use in the EU by the European Commission, as at December 31, 2011 and as adjusted to reflect the proposed sale of the Notes in this offering.

| | At December 31, 2011 | |
|---|---|---|
| | **Actual** | **As adjusted** |
| | **(millions of €) (Unaudited)** | |
| **Cash and cash equivalents** | **3,749** | **5,220**[4] |
| **Current financial liabilities** | | |
| Bonds | 5,266 | 5,266 |
| Liabilities to banks | 1,562 | 1,562 |
| Lease liabilities | 159 | 159 |
| Promissory notes | 10 | 10 |
| **Total current financial liabilities**[1] | **6,997** | **6,997** |
| **Non-current financial liabilities** | | |
| Bonds | 30,962 | 32,433[4] |
| Liabilities to banks | 3,354 | 3,354 |
| Lease liabilities | 1,726 | 1,726 |
| Promissory notes | 1,178 | 1,178 |
| **Total non-current financial liabilities**[2, 3, 4] | **37,220** | **38,691** |
| **Shareholders' equity:** | | |
| Issued capital | 11,063 | 11,063 |
| Capital reserves | 51,504 | 51,504 |
| Other shareholders equity | (22,626) | (22,626) |
| **Total shareholders' equity** | **39,941** | **39,941** |
| **Total capitalization** | **77,161** | **78,632** |

1 All current and non-current financial liabilities are unsecured.

2 In accordance with Postreform II (§ 2 (4) of the Post Transformation Act - *Postumwandlungsgesetz*), the Federal Republic is guarantor of all of Deutsche Telekom's liabilities which were outstanding at January 1, 1995. At December 31, 2011, this figure was a nominal EUR 2.0 billion.

3 Subsequent to December 31, 2011, Finance issued medium-term notes amounting to EUR 80 million.

4 The Euro equivalent of the Notes offered hereby is based on a U.S. dollar/Euro exchange rate of USD 1.3412 = EUR 1.00 as of February 24, 2012, as published by the European Central Bank.

Except as disclosed in this offering memorandum, there has been no material change in the capitalization of Deutsche Telekom since December 31, 2011.

**Deutsche Telekom International Finance B.V.**

The following table shows the capitalization of Finance in accordance with IFRS, as adopted for use in the EU by the European Commission, as at December 31, 2011 and as adjusted to reflect the proposed sale of the Notes in this offering.

| | At December 31, 2011 | |
|---|---|---|
| | **Actual** | **As adjusted** |
| | (millions of €) (Unaudited) | |
| **Cash and cash equivalents** | **0** | **0** |
| **Current financial liabilities**[1] | **4,360** | **4,360** |
| **Non-current financial liabilities**[1, 2] | | |
| Bonds | 23,952 | 25,423[3] |
| Liabilities to banks | 356 | 356 |
| **Total non-current financial liabilities** | **24,308** | **25,779** |
| **Shareholders' equity:** | **487** | **487** |
| **Total capitalization** | **24,795** | **26,266** |

1 All current and non-current financial liabilities are guaranteed and unsecured.
2 Subsequent to December 31, 2011, Finance issued medium-term notes amounting to EUR 80 million.
3 The Euro equivalent of the Notes offered hereby is based on a U.S. dollar/Euro exchange rate of USD 1.3412 = EUR 1.00 as of February 24, 2012, as published by the European Central Bank.

Except as disclosed in this offering memorandum, there has been no material change in the capitalization of Finance since December 31, 2011.

## DESCRIPTION OF OUR BUSINESS

### Group Organization

***Overview of Business Activities***

We are one of the world's leading service providers in the telecommunications and information technology industry. We have an international focus and are represented in around 50 countries throughout the world. In 2011, over half of our revenue, or EUR 32.3 billion, was generated outside of our home market of Germany. As of December 31, 2011, we employed 235,132 people.

Our activities are guided by major trends in technology and society. We offer network access as well as communication and value-added services with ever-expanding bandwidths, thus promoting personal and social networking with innovative products and services. Our 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. Our mobile communications business offers mobile voice and data services to consumers and business customers. When marketing these services, we also sell mobile handsets and other hardware. In addition, we sell mobile services to resellers and to companies that buy network services and market them independently to third parties (mobile virtual network operators, or MVNOs).

T-Systems, our corporate customer arm, is focused on business involving network-centric ICT solutions, with offers combining IT and telecommunications services. T-Systems supplies complete solutions for companies with operations worldwide. In addition, it is focusing on services such as cloud computing and IT solutions for sectors that are undergoing major changes, such as energy, healthcare, media distribution and automotive. In addition to our core business (traditional fixed-network and mobile access business), we are specifically tapping new growth areas with investments in intelligent networks and our portfolio of IT, Internet and network services.

***Organization***

We have four operating segments:

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

- Europe: The Europe operating segment encompasses all of our fixed-network and mobile operations 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 our joint venture in the UK. It also includes the International Carrier Sales and Solutions unit, which mainly provides wholesale telecommunications services for the Group's other operating segments.

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

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

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

The principal subsidiaries of Deutsche Telekom AG are listed in the notes to the consolidated financial statements as of and for the year ended December 31, 2011 in the section "*Summary of accounting policies*" under "*Principal subsidiaries*". In addition to Deutsche Telekom AG, 64 German and 174 foreign subsidiaries are fully consolidated in our consolidated financial statements as of and for the year ended December 31, 2011 (December 31,

2010: 64 and 177). In addition, 10 associates (December 31, 2010: 13) and 7 joint ventures (December 31, 2010: 5) are included using the equity method.

***Termination of Planned Sale of T-Mobile USA to AT&T***

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

The transaction was subject to approval by the U.S. Department of Justice ("DOJ") and the U.S. telecommunications regulatory authority, the FCC. After the DOJ had filed suit to block the transaction in the U.S. District Court for the District of Columbia in August 2011, and the U.S. authorities took a clear stance against the deal, AT&T and Deutsche Telekom terminated the TMUS Purchase Agreement on December 19, 2011. Following this decision, we now report the assets and liabilities of T-Mobile USA as a continuing operation effective December 20, 2011.

AT&T compensated Deutsche Telekom in line with the provisions of the TMUS Purchase Agreement. The compensation consists of the following components:

- Payment of a break-up fee of EUR 2.3 billion (USD 3 billion) in 2011;
- The right to the transfer to T-Mobile USA of Advanced Wireless Service spectrum licenses worth EUR 0.9 billion (USD 1.2 billion), contingent upon regulatory approvals; and
- An agreement running for more than seven years which allows the provision of voice and data UMTS roaming services within the United States.

For further information, please refer to "*Development of Our Business*" and the notes to our consolidated financial statements as of and for the year ended December 31, 2011 included elsewhere in this offering memorandum.

***Corporate Transactions***

On June 6, 2011, we were informed that the Hellenic Republic, pursuant to the Share Purchase Agreement of May 2008 had made use of its right to sell another 10% of the shares in OTE to us. The purchase price determined, according to the Share Purchase Agreement, for approximately 49 million OTE shares was EUR 0.4 billion. Following the transfer of the shares as of July 11, 2011, the Hellenic Republic directly and indirectly holds approximately 10% of OTE, while our ownership stake has increased to 40%.

On October 7, 2011, we announced the launch of BUYIN, our procurement joint venture with France Télécom-Orange. Through BUYIN, we and France Télécom-Orange are coordinating our procurement of terminal devices, mobile communications networks, and significant portions of fixed-network equipment and service platforms. In addition, the two companies intend to launch pilot projects to explore other areas for inclusion in the joint venture at a later stage, including IT infrastructure and other IT areas.

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

In February 2011, T-Mobile Czech Republic and Telefónica $O_2$ CZ signed a 3G network sharing agreement. This agreement currently relates to the provision of high-speed mobile Internet to areas without broadband coverage in the Czech Republic. In July 2011, PTC and PTK Centertel signed an agreement for the shared use of their radio access networks and established the NetWorks! joint venture, which started operations on September 1, 2011. The joint venture agreement covers the management, planning, service, development and maintenance of the shared networks and is focused on improving network quality, coverage and service.

In December 2011, a binding national roaming agreement was concluded between T-Mobile Austria and Hutchison 3G. One component of the agreement is the use by Hutchison of our 2G mobile communications network. The

other is that we can use Hutchison's 3G mobile communications network in rural areas. Under this agreement, our customers across Austria benefit from Hutchison 3G's fast UMTS network.

## Markets and Regulation

### *The Telecommunications Market*

Our business in 2011 was affected by strong competition, saturated markets and intensified regulatory intervention, which resulted in price erosion.

Ongoing stress in financial markets and more broadly in the global economy had an adverse effect on the markets in which we operate. A slight increase in consumer demand in most of our core countries was only able to support the telecommunications market to a limited extent. In countries where purchasing power dropped, the telecommunications market experienced an ongoing slowdown. As a result of strong pressure to consolidate national budgets, some countries, including Hungary, continued to impose taxes on telecommunications companies in 2011 or introduced additional taxes, such as a real estate tax in Greece. Additionally, regulation caused mobile termination rates in Europe to decrease significantly, resulting in more stress on operators in the telecommunications market.

Furthermore, the telecommunications market has undergone significant changes in recent years as more households have given up fixed-network access lines altogether. This trend is particularly high in Central and Eastern Europe, in part due to the comparatively poor condition of the fixed-network compared to Western Europe. In Germany, for example, customers have largely continued to keep their fixed-network access lines, with a much lower percentage of households exclusively using mobile phones.

#### Germany

Total revenue from telecommunications services has been declining since 2005, due primarily to intense competition and regulatory price reductions. Revenue from telecommunications services (mobile and fixed network) in Germany decreased by EUR 0.5 billion to around EUR 60.3 billion in 2011. The main reason for the EUR 0.3 billion decline in mobile communications revenues was the 50% reduction in termination rates mandated by the regulator. Revenue from the traditional fixed-network business declined by EUR 0.3 billion, while revenue at cable network operators increased by EUR 0.1 billion.

Overall, prices for telecommunications services (mobile and fixed-network) decreased by 2.7% compared to 2010. Prices for fixed-network and Internet services declined by 2.4%, while prices for mobile voice and data connections were down 3.5%.

With around 38 million lines, the fixed-network market in Germany remained nearly stable in 2011. The use of lower-priced connections, such as call-by-call, continues to decline, a result of the increasing use of bundled telecommunications services and flat rate packages from other suppliers and our own flat rate offerings. Our competitors are increasingly building their own infrastructure and implementing their business models, which has a growing impact on competition in the wholesale market. We expect consolidation to continue in the years to come, particularly in the cable market, as well as new partnerships to be formed among competitors.

The number of broadband connections continues to grow overall, as approximately 1.2 million new connections were added in 2011 (0.4 million by telecommunications providers and 0.8 million by cable operators). These additions resulted in a total of 23.5 million DSL connections and around 3.6 million broadband cable television connections. This is in addition to a small number of connections that utilize other fixed-network technologies, such as fiber-optics. We believe there were approximately 27.1 million fixed-network broadband connections in Germany at the end of 2011, an increase of around 5% compared to 2010.

Service revenues in the German mobile telephony market remained nearly stable compared to 2010, despite lowered termination charges. Revenue from text messaging and data services was the greatest driver, due to the growing popularity of smartphones and tablet PCs, which nearly compensated for the decline in conventional mobile telephony. This is the reason why some mobile communications providers are placing greater emphasis on customer loyalty and value-driven growth among contract customers by offering complete packages. Moreover, we are also seeing growth in new services and application, such as iMessage and MobileTV.

Nearly one in three Internet users in Germany accesses the Internet using a mobile device, and mobile access to online communities, location-based services and shopping is growing rapidly. We expect the mobile payment business to continue to grow as a result.

According to the Federal Network Agency, German network operators invested more than EUR 93 billion in telecommunications networks between 1998 and 2010, and nearly EUR 6 billion in 2011 alone. Broadband connections with speeds of at least 1 Mbit/s are now available to nearly 99% of households in Germany. The remaining coverage gaps are provided with high-speed Internet through wireless technologies. The German government and network operators intend to make connections with transmission rates of at least 50 Mbit/s available to 75% of households by 2014.

To facilitate this expansion, some of our competitors are upgrading their LTE infrastructure. We are building on a mix of technologies, comprising mobile telecommunications, fiber-optics and copper-based connections in the fixed-network. Currently, we have equipped our mobile network in Germany with the powerful HSPA plus technology and can now offer customers transmission speeds of up to 42 Mbit/s. While we are initially deploying the 800 MHz frequency band to supply broadband LTE to rural areas, frequencies in the 1,800 MHz range will be used in metropolitan areas. This increases the transmission capacity for the rapidly rising volume of data traffic and will enable even higher transmission speeds.

**Europe**

In 2011, the telecommunications markets in the countries of our Europe operating segment were characterized by intense competition, continuously falling retail prices and strong government and regulatory impact. In particular, the reductions in termination rates, some of which were substantial, presented the companies operating in these markets with considerable challenges. Falling prices, the result of regulatory intervention, major competitive pressure, and in some cases weak purchasing power, caused the size of telecommunications markets in almost three quarters of the countries in this operating segment to either contract or stagnate.

The telecommunications markets (measured by revenues) in the Czech Republic, Albania, and Romania all experienced a contraction. In addition, the situation was particularly severe in Greece, where telecommunications revenues dropped around 8% compared with 2010. The debt crisis and the Greek government’s strict austerity program translated into lower consumption and, in turn, lower spending on telecommunications. Poland experienced market growth of approximately 3%. In contrast, telecommunications markets in Austria and the Netherlands remained stable or experienced slight growth.

In the fixed-network segment, trends from 2010 continued. Significant growth in the broadband business compensated for some of the decline in revenue from voice telephony. Broadband coverage varies among the countries included in our Europe operating segment. Faced with increasing demand for greater bandwidths, both cable network operators and telecommunications providers are investing in upgrading their broadband networks, resulting in increasing competition. Fiber-optics play a crucial role in upgrading broadband networks and we are investing in the construction of a pure-fiber network in certain of the countries in our Europe operative segment.

To meet the rising demand for fast data transfer, we are modernizing and upgrading our mobile networks by equipping them with faster HSPA plus technology and implementing the new mobile communications standard LTE. In Austria, for example, LTE was implemented in December 2010. The demand for ever-faster data transmission rates also requires further measures in the area of mobile communications frequencies. In 2011, some countries held auctions, in which we participated, to extend existing licenses and distribute additional frequency bands.

Telecommunications providers that offer both mobile and fixed-network communications are increasingly consolidating their services for mobile, broadband/TV and fixed network into triple-play (includes high-speed Internet access, communication services and entertainment offerings) and even quadruple-play offers. Moreover, many services are converging. For example, television can now be watched on a television set, computer or smartphone. Television accounts for a larger proportion of the business in the markets in the Europe operating segment and our television services are available through IPTV, cable and, in some countries, through satellite.

**United States**

In 2011, the slow growth of the U.S. mobile telecommunications market continued. Once again, increasing data revenue more than compensated for declining voice revenue. The market is divided among four national cellular providers, AT&T Wireless, Verizon Wireless, Sprint and T-Mobile USA, and various regional network operators. There are also a number of mobile virtual network operators, which use the networks of one or more of the four national cellular providers. The two largest providers, AT&T Wireless and Verizon Wireless, achieved strong revenue growth and healthy margins in 2011. This was primarily driven by strong growth in smartphone adoption and rising postpaid average revenue per user. Due to advantages of size, scale and their ability to bundle wireless service with other non-wireless communication services, AT&T Wireless and Verizon Wireless were able to offer cheaper service and increase their customer base.

AT&T has had a competitive advantage in the past three years as a result of its exclusive distribution rights for the Apple iPhone that expired in 2011. Verizon and Sprint became additional distributors of the Apple iPhone, gaining a competitive advantage as well. Verizon and AT&T were able to increase their net customer gain disproportionately during 2011. Increased competition from low-cost regional full-service providers also put downward pressure on prices. These effects resulted in a decline in market share for T-Mobile USA. Measured against the total number of mobile communications users in the United States, T-Mobile USA's market share declined from 11.4% at September 30, 2010 to 10.6% at September 30, 2011.

We expect the roll-out of 4G networks to be a major theme for the industry in the United States. Verizon Wireless has started to roll out LTE network technology. By the end of 2011, LTE was available to a population of over 200 million. AT&T and T-Mobile USA have deployed HSPA plus networks, which are more advanced than UMTS. By the end of 2011, the coverage of T-Mobile USA's 42 Mbit/s HSPA plus network had reached more than 184 million. AT&T also began rolling out LTE in 2011 and coverage had risen to 74 million by the end of the year. Sprint does not yet have its own 4G network but is relying on Clearwire, in which it has a non-controlling stake. By the end of the third quarter of 2011, Clearwire's WiMAX network covered a population of approximately 133 million. Sprint plans to roll out LTE services in its own spectrum during 2012.

**Systems Solutions**

Developments during 2011 resulted in continuing cost pressure, delayed investment decisions by clients and customers, and stronger competition. Overall demand is undergoing a fundamental shift. Cloud services, embedded systems, and intelligent networks in particular are increasingly transforming the market.

Our business areas within T-Systems were affected in very different ways by these market trends:

- Telecommunications: The economic upswing in 2010 and early 2011 only had a minor effect on the telecommunications market segment. As in previous years, this market was highly competitive and therefore also characterized by falling prices.

- IT services: The market for IT services grew slightly once again during 2011.

- Outsourcing: There was a tangible recovery in the outsourcing business in the area of Computing and Desktop Services in 2011. This is due not only to the traditional outsourcing business, but also the success of cloud services, the provision of IT services through the Internet. The current economic climate is influencing customers' outsourcing activities, as they increasingly use these services to cut costs.

- IT project business: This business area declined sharply in 2009, followed by mild growth in 2010. It increased significantly during 2011. The industry-specific systems integration business, driven by IT projects in the healthcare, energy and public sectors, recovered significantly faster than standard project business in the fields of enterprise resource planning, customer relationship management and supply chain management.

## Regulation

***Overview***

Our operations worldwide, as well as those of our subsidiaries and affiliates, are subject to sector-specific telecommunications regulations and general competition law, as well as a variety of other regulations. The extent to which telecommunications regulations apply to us depends largely on the nature of our activities in a particular country, with the conduct of traditional fixed-line telephony services usually being subject to the most extensive regulation. Regulations can have a very direct and material effect on our overall business, particularly in jurisdictions that favor regulatory intervention.

In 2011, the main areas of focus of regulatory intervention were:

- at the EU level, regulations, directives, and other binding legislation, which, for example, regulate access network and roaming as well as legislative changes in Germany, such as the amendment of the German Telecommunications Act;

- regulation of charges, such as monthly line rental for the ULL and fixed-network termination rates; and

- regulation of future wholesale broadband services and investments in new networks and infrastructure, including next generation networks and next generation access.

***The EU Regulatory Framework for Electronic Communications***

**General**

EU Member States are required to enact EU legislation in their domestic law and to take EU legislation into account when applying domestic law. In each EU Member State, a national regulatory authority, or NRA, is responsible for enforcing national telecommunications laws that are based on the Regulatory Framework for Electronic Communications in the European Union, or EU Framework. NRAs generally have significant powers under their relevant telecommunications laws, including the authority to impose network access and interconnection obligations, and to approve or review the charges and general business terms and conditions of providers with "significant market power". In general, a company can be considered to have significant market power if its share of a particular market exceeds 40%. NRAs also have the authority to assign wireless spectrum and supervise frequencies and to impose universal service obligations.

In December 2009, amendments to the 2002 EU Framework entered into force. Since the most significant part of our business is undertaken in the European Union, our operations are, to a large extent, subject to the EU Framework and related telecommunications regulation. The amended EU Framework provides NRAs' with the power to separate the access network operations of providers with significant market power from the service business of such providers in certain circumstances, which is known as functional separation. This power is meant to be a remedy of last resort, with high thresholds to be overcome before it can be employed. The German Parliament (Bundestag) passed the related amendment to the German Telecommunications Act on October 27, 2011 and February 9, 2012. The chamber of the German Parliament representing the federal states (Bundesrat) ratified the law on February 10, 2012. It will take effect after publication in the Federal Law Gazette. The amended German Telecommunications Act is intended to introduce better incentives for investments in new infrastructure and it also contains additional consumer protection requirements. National telecommunications laws in other EU Member States where our subsidiaries are active are also being amended to reflect the revised EU Framework.

**Special Requirements Applicable to Providers with Significant Market Power**

The most significant impact on our business comes from the EU Framework's special requirements applicable to providers with significant market power. Obligations in relation to network access, price setting, separate accounting for interconnection services, publication, and non-discrimination, can be imposed on those operators that are designated by the relevant NRA as having significant market power in an electronic communications market. Such determinations are based on EU guidelines and EU competition case law. We have been designated as having significant market power primarily in most fixed-line markets in which we operate, as well as in mobile voice call termination markets.

In particular, an NRA may subject providers with significant market power, and their affiliates, to several rules and obligations specified within the EU Regulatory Framework and its directives and guidelines, such as:

- The obligation to offer other companies unbundled network access (including interconnection) as well as access to certain services and facilities on a non-discriminatory basis. This includes full unbundled access to copper-paired wire lines, including unbundled access to the high-frequency spectrum of those lines (line-sharing), bitstream access and access to other parts of the networks. In particular, unbundling has led to a considerable loss of our market share. For more information regarding the effects of unbundling obligations, see "*—German Fixed Network Telecommunications Regulation—Local Loop Access*" below.

- Prior approval or retroactive review of charges, insofar as such charges and conditions relate to a market in which the provider holds significant market power.

- The obligation of transparency in relation to interconnection and/or access, requiring operators to make public specified information, such as accounting information, technical specifications, network characteristics, terms and conditions for supply and use, including any conditions limiting access to and/or use of services and applications.

- The obligation of non-discrimination in relation to interconnection and/or access. Obligations of non-discrimination require the operator to apply equivalent conditions in equivalent circumstances to other companies providing equivalent services, and to provide services and information to others under the same conditions and of the same quality as it provides for its own services, or those of its subsidiaries or partners.

- The obligation to maintain separate accounting systems with regard to interconnection and access services. This obligation is intended to allow for transparency with respect to various telecommunications services in order to prevent, among other things, the cross-subsidization of services. In this regard, an NRA may specify the structure of a provider's internal accounting for particular telecommunications services, which can increase costs of compliance.

- The obligation on vertically integrated undertakings to place activities related to the wholesale provision of relevant access products in an independently operating business entity (functional separation). This is an exceptional measure to be employed if the NRA concludes that the respective obligations already imposed have failed to achieve effective competition and that there are important and ongoing competition problems and/or market failures identified in relation to the wholesale provision of certain access product markets.

On September 20, 2010, the European Commission issued its Recommendation on regulated access to Next-Generation Access Networks (NGA Recommendation), containing guidelines to be observed as far as possible by NRAs when obligating market-dominant companies to grant access to these networks. Its aim is to harmonize regulatory requirements in Europe. The object of the NGA Recommendation is general regulation of access to the physical network infrastructure at the wholesale level and in the broadband access market. In addition, in October 2011, the European Commission launched two public consultations related to access for alternative operators to the fixed telephone and broadband networks of established operators. One consultation concerns non-discriminatory access for alternative operators to the infrastructure and services of dominant telecom operators. The second concerns the way national regulators calculate prices that operators have to pay for this wholesale access (cost-orientation remedies). Depending on further developments, regulations from current copper networks may also be applied to new fiber networks. This may cause a decrease in our revenues and may impact the extent and timing of our NGA build-out.

**Fixed and Mobile Termination Rate Recommendation**

The European Commission recommendation on relevant markets from 2007 requires NRAs to analyze the call termination market in order to determine whether regulatory remedies need to be imposed. The European Commission intends to further reduce termination rates significantly. In May 2009, the Commission issued the recommendation on the regulatory treatment of fixed and mobile termination rates in the EU that defines details for the cost calculation of termination rates by the NRAs. With the recommendation, the Commission intends to harmonize cost standards for mobile termination rates throughout the EU. In this respect, the EU Commission stated the intention to reduce termination rates from EUR 0.03 to EUR 0.015 per minute by the end of 2012, while also eliminating asymmetry between operators. Although the recommendation is not legally binding, NRAs have to take the utmost account of the recommendation while still being able to reflect national circumstances. Mobile operators could therefore be subject to further pressure to lower termination rates in the future, which may have an additional negative impact on our revenues.

***German Fixed-Network Telecommunications Regulation***

German telecommunications regulation has a particularly significant impact on our business due to the size of our operations in Germany. As in all EU Member States, German telecommunications regulation is based on the EU Framework. German telecommunications regulation is mainly derived from the German Telecommunications Act.

We believe that, for the foreseeable future, the Federal Network Agency is likely to view us as a provider with significant market power in various German markets for public voice telephony services in the fixed network and in other markets, including most of those in which we held monopoly rights in the past. Additionally, we have been determined to be a provider with significant market power in the German market for mobile voice call termination. We expect that the strict regulatory provisions of the German Telecommunications Act relating to providers with significant market power will be applied to our activities in those markets also in the future. Considering that in many markets our competitors are unlikely to gain significant market power in the near future, we expect that we will have to compete in important markets with providers not subject to those regulatory obligations. Therefore, these competitors may have more flexibility than we have in terms of the selection of services offered and customers served, pricing and the granting of network access.

Under the German Telecommunications Act, tariffs for telecommunications access services offered by providers with significant market power and their affiliates can be subject to price regulation, insofar as the tariffs relate to a market in which significant market power has been determined to exist. Other tariffs are essentially unregulated. The tariffs of all providers in Germany are, however, subject to generally applicable EU and German laws, including competition and consumer protection laws.

In January 2010, the Federal Network Agency determined that we are a provider with significant market power for the access market. The agency included all-IP accesses to this market for the first time. Simultaneously, we were required to enable call-by-call and pre-selection for this type of access. For this market, the Federal Network Agency

affirmed the ex-post-regulation and imposed on us the obligation to provide a resale offer on the terms of our retail-tariffs for every respective type of access.

**Local Loop Access**

We have been offering unbundled local loop access since 1998. We are obliged to publish a reference offer for access to the unbundled local loop and prices require ex-ante approval. By allowing competitors to connect to customer access lines within our local networks, unbundling of the local loop allows our competitors to gain direct access to customers without having to build local networks of their own. In this way, competitors are able to use our customer access lines to offer a wide range of local services directly to customers.

On March 21, 2011, the Federal Network Agency issued the final regulatory order for the ULL market after the required consultation with the European Commission. The obligation to provide access to the cable duct between the main distribution frame and the multi-functional street cabinet remains in force. The Federal Network Agency also reimposed an obligation to provide access to dark fiber for the section between the main distribution frame and the multi-functional street cabinet. However, this access obligation only applies in the event that no cable duct capacity is available. The Federal Network Agency has also extended applicable regulations to include new fiber-optic ULLs, though rates are subject to ex-post control. Under this regime, rates have to be reviewed by the Agency prior to market launch.

On June 17, 2011, the Federal Network Agency announced its final decision regarding monthly unbundled local loop charges, reducing the charges from EUR 10.20 to EUR 10.08. These charges are valid for the period from April 1, 2011 to June 30, 2013. In addition, the charge for the subloop was reduced from EUR 7.21 per month to EUR 7.17 per month. On June 30, 2010, the Federal Network Agency decided to reduce the one-time activation (takeover of an existing line) charge for the ULL by approximately 14% to EUR 30.83 for the most common type of subscriber line (copper wire pair with high bit-rate use). The corresponding cancellation charges have been reduced between 20% and 27% as well. These one-time charges for the ULL are valid until June 30, 2012.

Since January 2001, we have been offering line sharing (using a single access line for multiple purposes, including sharing access with competitors) in accordance with EU requirements. On June 30, 2010, the Federal Network Agency increased the monthly rental charge for line sharing from EUR 1.78 to EUR 1.84 until June 30, 2012. Further, the Federal Network Agency decided on the one-time activation charges for the provision of line sharing, which were reduced to EUR 38.20.

Some of the Federal Network Agency decisions concerning ULL rates have been overturned by Administrative Court decisions, requiring the Federal Network Agency to reconsider these cases. In its decision dated January 20, 2011, the Federal Network Agency reapproved the one-time ULL rates for the period from April 2002 through June 2003. Compared with the Federal Network Agency's decision in 2002, the ULL rates were reduced by 3% to 8% for the most important provisioning and take-over options and by 11% to 15% for termination options. The rates decision applied only for plaintiffs who prevailed in the related court case because under the 2002 version of the German Telecommunications Act, the rates only apply to individual agreements.

**Broadband Access – IP Bitstream**

We are required to offer an IP bitstream access product in the wholesale-market and have therefore been required to offer unbundled broadband access to competitors since April 2008. According to a regulatory order, we must grant access to competitors to ducts or, alternatively, to dark fiber cable. On September 17, 2010, the Agency determined that the regulated wholesale service regime that applies to DSL will now generally also apply to VDSL and FTTH lines, as well as to Ethernet-based bitstream access. The standard offering must be adapted in line with the new order, with rates subject to ex-post control by the Federal Network Agency. The replication of VDSL products, in particular by our competitors using their own infrastructures, is therefore being made easier at our expense. This decision continues to have a negative impact on our revenue generation.

**Other**

The Federal Network Agency published its final decision on fixed-network termination charges on September 29, 2011. For the most important rate options "termination" and "origination" at the lowest network level, the rate approval resulted in a reduction from EUR 0.54 per minute to EUR 0.45 per minute at peak times and from EUR 0.38 per minute to EUR 0.32 per minute at off-peak times. The approved rates came into effect on July 1, 2011 and are valid until November 30, 2012.

The Federal Network Agency has also retroactively reviewed the rates charged by us for the provision of customer data to providers of directory inquiry services and the publishers of telephone and business directories to determine whether they are abusive. On September 20, 2010, it ruled that any charges exceeding EUR 1.6 million per annum for the provision of data are abusive. We have initiated legal proceedings against this decision. Until a court ruling has been issued, this decision of the Federal Network Agency is binding.

The revised German Telecommunications Act includes a new article (§ 41a para. 1 of the German Telecommunications Act) that applies to all telecommunications-network providers and grants the German government competence to impose an ordinance specifying general requirements of non-discriminatory data traffic and non-discriminatory access to content and applications. The German government has discretion to issue such an ordinance, which will depend on ongoing public discussions on net neutrality as well as the actual developments in the market. There are no regulations regarding net neutrality issued by the Federal Network Agency.

***Southern and Eastern European Telecommunications Regulation***

Our subsidiaries in Greece, Hungary, Romania, and Slovakia are subject to the same EU Framework as our fixed-line business in Germany. We also operate fixed-line networks in Croatia, the F.Y.R.O Macedonia and Montenegro. These countries are also orientating their regulatory frameworks towards the EU Framework. Therefore, all of our subsidiaries in Southern and Eastern Europe are generally exposed to a set of regulatory risks similar to those in Germany described above.

***Mobile Regulation***

Our subsidiaries in Germany, Austria, Bulgaria, the Czech Republic, Greece, Hungary, the Netherlands, Poland, Slovakia and Romania are all subject to the EU Framework. We also operate mobile networks in Croatia, the F.Y.R.O Macedonia, Montenegro and Albania. These countries are also orientating their mobile regulatory frameworks towards the EU Framework. All of our mobile subsidiaries are generally exposed to regulatory risks.

**European Union**

In July 2009, a new EU roaming regulation came into force and expanded the existing roaming regulation to SMS and data roaming services. This 2009 regulation will be valid until June 30, 2012. Besides additional reduction of wholesale and retail voice roaming tariffs, SMS roaming charges were reduced and price caps for wholesale data roaming tariffs and additional transparency measures were introduced. This expansion of existing regulation has an additional negative effect on our roaming revenues.

On July 1, 2010, a spending cap was introduced for all customers who did not expressly opt out. The data roaming connection is automatically interrupted once EUR 50 (net) is spent, until the customer actively confirms he or she wants to continue using the connection and incur further costs. The current tariffs of the EU Roaming Regulation entered into force on July 1, 2011. Since then, outgoing calls within the EU have cost EUR 0.35 plus VAT and incoming calls have cost EUR 0.11 plus VAT. The inter-operator tariff (“IOT”) was reduced to EUR 0.18 plus VAT. Prices for text messages sent or received remained unchanged at EUR 0.11 and EUR 0.04 respectively, plus VAT. For data roaming, the IOT was reduced from EUR 0.80 to EUR 0.50 per megabyte.

The future of the EU roaming regulation following the expiration of the current regulation in July 2012 is currently being discussed by the EU. In its Digital Agenda for Europe, the European Commission issued the political goal of abolishing the differences between national and roaming rates in the EU by 2015.

The European Commission’s proposed new roaming regulation of July 6, 2011 aims to tighten and extend existing price regulation and the European Commission has also stated that it wants to promote competition. To this extent, a general obligation to provide wholesale access, for MNVOs among others, is to be introduced in 2012. The unbundling of roaming services and national services is to be introduced in 2014, at which time consumers will be able to conclude a separate contract with another provider exclusively for roaming services. These measures will consume a large amount of resources and incur high costs for the European mobile communications industry.

**Germany**

The Federal Network Agency has the obligation to review markets every two years. On February 24, 2011, the Federal Network Agency approved the new rates for call termination in national mobile networks to be applied retroactively by Telekom Deutschland with effect from December 1, 2010. This involved reducing Vodafone and Telekom Deutschland GmbH’s previously asymmetric rates by around 50%, making them de facto symmetrical. The

Federal Network Agency's rate ruling was the subject of consultation throughout the EU. These rates will expire on November 30, 2012.

In May 2010, Telekom Deutschland GmbH purchased spectrum through auction in the 800 MHz, 1.8 GHz, and 2.6 GHz frequency ranges and by the end of October 2010 had received assignment notices from the Federal Network Agency for all frequencies purchased. The coverage requirements stipulate for the 800 MHz range that network operators must start rolling out LTE in towns and communities that have very little or no broadband coverage. Broadband coverage is to be increased to 90% of the population in these gaps by the start of 2016. Roll-out is to be in stages based on the number of inhabitants, beginning with municipalities with populations of 5,000 or less. Other broadband coverage provided by us or other operators (*e.g.*, DSL or UMTS) with a minimum transfer bandwidth of 1 Mbit/s also count toward meeting the requirements. Irrespective of this, each network operator must provide 50% of the population with 800 MHz broadband services by the start of 2016. On December 21 and September 28, 2011, the Federal Network Agency gave notice that the requirements to deploy LTE associated with our license had already been fulfilled in seven of Germany's federal states. Since then, the allocated 800 MHz frequency spectrum has also been available for use outside of rural regions in these seven federal states. There were no restrictions on our license for three additional federal states.

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

**United States**

Our U.S. mobile operations, conducted through T-Mobile USA, are regulated by the FCC and by various other federal, state and local governmental bodies. Only the FCC has authority to regulate "rates and entry" by Commercial Mobile Radio Service ("CMRS") operators, while both the individual states of the United States and the FCC have authority to regulate "other terms and conditions" of CMRS. The FCC has refrained from regulating rates charged by CMRS operators. However, under its authority to license CMRS operators to serve the public, the FCC has imposed a number of requirements on operators, including, for example, rules for providing emergency 911 services, number portability, support for lawful electronic surveillance, and intercarrier compensation (payment of access charges for carrying and terminating traffic). In addition, the FCC issues and regulates CMRS spectrum licenses. Spectrum related to the Advanced Wireless Services (AWS-1) licenses granted in 2006 was occupied by incumbent commercial providers on the 2.1GHz band and Federal government agencies on the 1.7 GHz band. The 2.1 GHz incumbents relocation rules are governed by FCC regulation, whereas the 1.7 GHz incumbents relocation process is governed by the Commercial Spectrum Enhancement Act. Access to the spectrum is tied to moving these entities away from using these spectrum bands, and has largely been accomplished at this point.

Other current U.S. regulatory issues that may significantly impact T-Mobile USA's business include:

- Open Access/Network Neutrality: The FCC has initiated several proceedings that propose the adoption of regulations to require wireless providers (and other telecommunications carriers) to "open" their networks to applications, devices, and services provided by third parties. These various proceedings involve a variety of issues, including text messaging practices, network provisioning, handset locking, exclusive arrangements with handset manufacturers, and the extent to which carriers may deny access to devices and applications based on their need to manage their networks. In December 2010, the FCC adopted a Report and Order imposing net neutrality obligations on broadband service providers, including mobile carriers. Of significance to T-Mobile USA, the Report and Order establishes two new rules for mobile broadband providers:

  - *Transparency*: Mobile broadband Internet providers must publicly disclose accurate information about their services, including network management practices and network, performance, and commercial terms to consumers; Internet content and service providers; applications developers; and device manufacturers.

  - *No Blocking*: Mobile broadband providers must not block access to lawful websites or applications that compete with voice or video services offered by the provider. The ban on blocking is subject to exceptions for actions that constitute "reasonable network management", including efforts to address network congestion and ensure network security.

- While not prohibiting "pay-for-priority" agreements outright, the order finds such arrangements unlikely to satisfy the unreasonable discrimination ban. Broadband Internet access providers may continue to offer "tiered" pricing based on amount of data usage and/or speed, but the FCC will monitor these practices.

Similarly, the FCC has also indicated it will monitor the consumer impact of "specialized services" offered by broadband providers over their last-mile networks (such as facilities-based VoIP or IPTV) even though such services are not currently subject to the network neutrality rules. The FCC notes that it includes in its definition of broadband Internet access service any service that is "used to evade the protections" of the net neutrality rules in an effort to prevent ISPs from using limited or specialized services to avoid the new rules. Thus, if the FCC determines that a mobile provider is offering a broadband Internet service to evade the protections of the rules (*e.g.*, avoid disclosure or blocking prohibitions), the FCC will closely scrutinize the offering and may ultimately revise its rules or take some other action to address the issue.

- The new rules were published in September 2011 and became effective on November 20, 2011, although the rules face further opposition in Congress and in the courts. Many congressional members have expressed their opposition to the new rules, and Verizon and MetroPCS have filed a lawsuit in federal court asking the court to overturn them. This lawsuit is pending.

- Data Roaming: In 2007, the FCC adopted an automatic roaming mandate for voice services, and in 2010 it eliminated the "home-market exclusion", which had excluded from the mandate all geographic areas in which a carrier requesting automatic roaming held spectrum licenses even if the carrier had no facilities in those areas. On April 7, 2011, the FCC adopted an Order requiring facilities-based CMRS providers to offer data roaming arrangements on commercially reasonable terms and conditions. As the volume of traffic is increasingly shifting from voice to data use, a data roaming obligation has become more significant to T-Mobile USA. Without an FCC-mandated roaming obligation, larger carriers would not be required to provide roaming service or may elect to do so on unreasonable terms and conditions. The two largest carriers – AT&T and Verizon –aggressively opposed a data roaming requirement, and Verizon has filed a lawsuit in federal court seeking to overturn the requirement. T-Mobile USA along with several other wireless carriers has intervened in the court proceeding in support of the FCC. It is unclear whether Verizon will prevail in its efforts to overturn the FCC's decision requiring data roaming on commercially reasonable terms and conditions.

- Tower Siting: At the beginning of January 2012, the FCC released an order to ensure that the environmental effects of proposed communications towers, including their effects on migratory birds, are fully considered prior to construction. The effect of this order will be that carriers will have to build additional time into the siting timeline for new or modified towers requiring a new Antenna Structure Registration number (ASR) or a modified ASR. We expect that the current one or two-day timeframe to obtain an ASR will be expanded to potentially 60 days or more because we anticipate the requirement to result in substantial internal coordination within T-Mobile markets and regions and legal and regulatory departments.

- Universal Service: In November 2011, the FCC adopted an order that comprehensively reforms and modernizes the Universal Service Fund (USF), transforming it from a fund for legacy voice networks into two new funds, a Connect America Fund (CAF) and a Mobility Fund (MF), whose purpose is to make broadband available nationwide. The creation of the CAF is primarily for non-wireless carriers, and the MF is primarily for wireless carriers. To fund the CAF and MF, the FCC is eliminating the legacy USF system and phasing out support to competitive eligible telecommunications carriers, such as T-Mobile, by 20% over each of the next five years. We are currently considering participation in the MF and seeking other opportunities to receive USF support. However, given our current level of USF support, we will be adversely affected by the elimination of this subsidy.

The FCC's next step in USF reform is expected to focus on how to revamp the revenues-based USF contributions system, a reform which may affect our contribution to USF. Currently, all telecommunications service providers, including us, and certain other providers of telecommunications must contribute to the current federal USF based on a percentage of their interstate and international end-user telecommunications revenues. The exact percentage that companies contribute is adjusted every quarter based on projected demand for Universal Service funding. This percentage has reached an all-time high over the last several years. One way for the FCC to limit the growth of contributions is to expand the base of contributors to USF. The FCC has had an open proceeding on this issue for several years and is expected to finally start examining the issue again this year.

**Group Strategy**

*The strategies and expectations referred to in the following discussions are considered forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives we implement and other factors. We cannot provide assurance that the strategies and expectations referred to in these discussions will come to fruition. Please refer to "Forward-Looking Statements" and "Risk Factors" for descriptions of some of the factors relevant to these discussions and other forward-looking statements in this offering memorandum.*

***Development of the Group's Strategy***

We are one of the world's leading service companies in the telecommunications and information technology industry and we plan to build upon this strong position in the long term. We realize, however, that the market environment in which we operate will remain challenging. The telecommunications industry is marked by constant, dynamic change in the fixed-network, mobile communications and the Internet and is influenced by global trends.

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

We have been responding to these challenges with the new Fix – Transform – Innovate strategy we presented in March 2010. Our vision is still to become an international market leader for connected life and work. This is why we will continue to restructure our business model in the coming years, with investments in intelligent networks, with IT services and with Internet and network services. The aim of this strategic approach is to expand our activities across the entire value chain and position ourselves as an open partner for consumers and business customers as well as for the Internet sector. At the same time, our strategy forms the framework for all of our corporate actions, including issues related to sustainability and human resources.

We are gradually implementing our Fix – Transform – Innovate strategy in five strategic action areas:

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

***Improve the Performance of Mobile-Centric Assets***

In all countries in which we primarily provide mobile communications services, we are planning to enhance our performance and invest specifically in next-generation technologies, develop innovative services and expand our portfolio of mobile devices. In the United Kingdom, for instance, our joint venture Everything Everywhere got off to a good start in 2010 as the market leader, measured in terms of the combined customer base. In Poland, we reached a crucial milestone in further strengthening our subsidiary PTC as we clarified the ownership of this company. In mid-2011, PTC rebranded Era to T-Mobile. The "T" is our Group brand and will also be an integral part of the brand identity for our shareholdings outside of Germany in the future.

Our agreement for the sale of T-Mobile USA to AT&T was terminated in December 2011 in response to the opposition shown by the U.S. authorities. AT&T subsequently paid us the agreed break-up fee of USD 3 billion and must

make the agreed 3G roaming services and, subject to certain regulatory approvals, spectrum licenses available in the near future. We will continue to report T-Mobile USA as a continuing operation and are in the process of building a strategy for the future.

***Leverage One Company in Integrated Assets***

We are continuing to integrate fixed-network and mobile communications operations, an approach that originates from the One Company project in Germany. Building upon the successfully completed integration in Germany and several other European markets, we aim to generate additional revenues, further improve our customer service and leverage synergies.

Our innovative services and calling plans have allowed us to be competitive in developing markets. For example, through the TelekomCloud, our customers have access to products such as Media Center, an online storage facility that provides our customers continuous access to their music, photos and other media content, whether on their PCs, televisions or smartphones. LIGA total!, our soccer league service in Germany, can likewise be watched on various screens at home or on the move.

***Build Networks and Processes for the Gigabit Society***

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

- expanding our fiber-optic networks and enhancing our mobile communications networks by promoting HSPA plus and LTE;
- systematically implementing the all-IP concept;
- increasing the speed and flexibility of the IT factory; and
- systematically expanding key enabling skills.

We have already purchased additional mobile frequency spectrum in several countries, including Germany, the Netherlands, Austria, Albania and Greece, and extended the agreement for the use of mobile spectrum in Slovakia by ten years. In 2011, we continued to invest in network expansion in Germany, as we put more than 16,500 UMTS stations into operation. In many other countries we are also continuing to upgrade our UMTS network with high-speed HSPA plus technology. In addition, we have started to roll out the LTE network in several countries. For example, in Germany, we have upgraded approximately 1,100 stations with LTE technology since 2010. In addition to our own network expansion activities, we also cooperate with other telecommunications providers on improving our network. For example, our subsidiary T-Mobile Czech Republic has signed an agreement with Telefónica $O_2$ CZ on 3G network sharing. In addition, our Austrian subsidiary T-Mobile Austria and Hutchison 3G have concluded an agreement, under which Hutchison may use our 2G network, while we have gained the right to use Hutchison 3G's network in rural areas.

We are also expanding our fixed-line networks. Our investments support the availability of fast broadband lines to additional households. For example, we have marketed around 12 million broadband lines in Germany and, in addition, more than 600,000 customers have opted for a VDSL line from Deutsche Telekom.

***Connected Life across all Screens***

In our view, the greatest opportunities for growth lie in making data services mobile, particularly for the mobile Internet. We are developing and marketing our own solutions, such as innovative communication services centered on the personalized, network-based address book that we have successfully launched in six countries, such as myPhonebook in Germany. We also place a great deal of emphasis on providing our customers with attractive handset options. Initial sales of smartphones in Germany have been strong. Around 62% of all handsets sold in Germany in 2011 were smartphones.

We are also positioning ourselves as pioneers in digital content, by linking and distributing personalized media content. We have made some targeted acquisitions, such as ClickandBuy and STRATO, all of which complement our portfolio in the high-growth Internet business. We also intend to be a pioneer for digital content, by linking and distributing personalized media content. Our position in the European television market also grew in 2011. The number of Entertain triple play customers in Germany was 1.6 million, of which 111,000 use our new Entertain Sat product, which includes Satellite in our triple play offering Entertain. Our television customer base in Southern and Eastern Europe has increased to 2.6 million.

***Connected Work with unique ICT Solutions***

We provide customized ICT solutions for our business customers and draw on the services of T-Systems in the ongoing standardization of our internal IT solutions. In pursuit of this task, T-Systems will continue to be restructured with the goal of increasing its revenue and profitability.

We have developed intelligent, innovative offerings centering on secure cloud services for our business customers. We are positioning T-Systems as an open partner, also for other sectors, with the aim of leveraging growth opportunities for ICT solutions in sectors that are undergoing major changes. As part of this initiative, we have created three new business areas for developing intelligent network solutions, energy, healthcare and the connected car. In the energy business area, we signed an agreement with the meter operator VOLTARIS for the recording, transmission and processing of energy data as well as trial sales of smart electricity meters and green power rates from E.ON in more than 50 Telekom shops. In the business area of connected cars, we have joined forces with Continental to develop an open and flexible infotainment concept for vehicles.

***Growth Areas of Deutsche Telekom***

The advances in the strategic action areas that form the Fix – Transform – Innovate strategy discussed above are having a positive and direct effect on Deutsche Telekom’s principal growth areas.

The mobile Internet is our largest growth area and includes all revenue that we generate with mobile data services.

Another very important growth area for us is the connected home. Here, we bundle all revenues that we generate with our existing double- and triple-play packages, i.e., our fixed-network-based voice, data, and television services. This area also includes future innovative products for the connected home, such as the Communication Suite or Home Gateway.

We are also bundling all our Internet services in a single area that essentially consists of three pillars:

- online advertising (*e.g.*, on the web pages of the Scout group, a well-known real estate and rental listing service in Germany, on cell phones and on our television offerings);
- the digital content of our Load family (music and video downloads); and
- “near access services”, which include the roll-out of websites and the sale of security software.

In an additional growth area, we measure all of T-Systems’ external revenue, which includes, in particular, the business with innovative cloud services.

The intelligent network solutions growth area comprises business in sectors that are undergoing major changes. We created three new business areas that are developing and marketing innovative solutions to these sectors, such as energy, healthcare and automotive.

Our strategies may, of course, be adopted and modified to respond to opportunities and changing conditions. As disclosed in past years, we may embark on capital expenditure programs and pursue acquisitions, joint ventures or full or partial dispositions or combinations of businesses where we perceive opportunity for profitable growth, cost savings or other benefits for our Group. Transactions may be conducted using newly issued shares of Deutsche Telekom or its affiliates, cash or a combination of cash and shares, and may individually or in the aggregate be material to our financial and business condition or results of operations. As a result, they may affect the trading prices of our securities. As in the past, discussions with third parties in this regard may be commenced, on-going or discontinued at any time and from time to time.

## DEVELOPMENT OF OUR BUSINESS

*You should read the following discussion in conjunction with our annual consolidated financial statements, including the notes to those consolidated financial statements, which appear elsewhere in this offering memorandum. Our consolidated financial statements prepared in accordance with IFRS are dependent upon and sensitive to accounting methods, assumptions and estimates that we use as bases for the preparation of our consolidated financial statements. For more information on these critical accounting estimates, see "Judgments and estimates" in the notes to our consolidated financial statements. For more information on EBITDA, adjusted EBITDA, free cash flow and net debt, please see "Special Note on Non-GAAP Financial Measures", which appears elsewhere in this offering memorandum.*

*The strategies and expectations referred to in the following discussions are considered forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives we implement and other factors. We cannot provide assurance that the strategies and expectations referred to in these discussions will come to fruition. Forward-looking statements are based on current plans, estimates and projections, and therefore, you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statements in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. Please refer to "Forward-Looking Statements" and "Risk Factors" for descriptions of some of the factors relevant to these discussions and other forward-looking statements in this offering memorandum.*

### Consolidated Results of Operations

The following table presents information concerning our consolidated income statements for the periods indicated.

| | For the years ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2011** | **2010** | **2009** | **2011/2010** | **2010/2009** |
| | | **(millions of €)** | | **(% change)** | |
| Net revenues | 58,653 | 62,421 | 64,602 | (6.0) | (3.4) |
| Cost of sales | (33,885) | (35,725) | (36,259) | 5.2 | 1.5 |
| **Gross profit** | **24,768** | **26,696** | **28,343** | **(7.2)** | **(5.8)** |
| Selling expenses | (14,060) | (14,620) | (15,863) | 3.8 | 7.8 |
| General and administrative expenses | (5,284) | (5,252) | (4,653) | (0.6) | (12.9) |
| Other operating income | 4,362 | 1,498 | 1,504 | n.m. | (0.4) |
| Other operating expenses | (4,200) | (2,817) | (3,319) | (49.1) | 15.1 |
| **Profit from operations** | **5,586** | **5,505** | **6,012** | **1.5** | **(8.4)** |
| Finance costs | (2,325) | (2,500) | (2,555) | 7.0 | 2.2 |
| Share of profit (loss) of associates and joint ventures accounted for using the equity method | (73) | (57) | 24 | (28.1) | n.m. |
| Other financial income (expense) | (169) | (253) | (826) | 33.2 | 69.4 |
| **Loss from financial activities** | **(2,567)** | **(2,810)** | **(3,357)** | **8.6** | **16.3** |
| **Profit before income taxes** | **3,019** | **2,695** | **2,655** | **12.0** | **1.5** |
| Income taxes | (2,349) | (935) | (1,782) | n.m | 47.5 |
| **Profit (loss)** | **670** | **1,760** | **873** | **(61.9)** | **n.m.** |
| Profit (loss) attributable to non-controlling interests | 113 | 65 | 520 | 73.8 | (87.5) |
| **Profit (loss) attributable to owners of the parent (net profit (loss))** | **557** | **1,695** | **353** | **(67.1)** | **n.m.** |

n.m. - not meaningful

One of the factors that causes period to period changes in our revenues and expenses is movement in exchange rates. In the following discussion, we use the term exchange rate effects to explain the variability caused by such movements. We calculate the effects of changes in exchange rates by multiplying the revenue and expense amounts in local currencies by the exchange rates in effect for the prior year to derive a constant currency revenue or expense amount. We then subtract this figure from the euro-denominated amount obtained from multiplying the current year revenue and expense amounts in local currency by the current year exchange rates. The difference between the two amounts is the currency or exchange rate effect.

**Development of Business in the Group**

***Effects from the Termination of the Agreement to sell T-Mobile USA to AT&T***

In December 2011, Deutsche Telekom and AT&T, Inc. jointly terminated their agreement to sell T-Mobile USA to AT&T following objections raised by the U.S. authorities. Following the termination of the agreement, we received the payment of the break-up fee of EUR 2.3 billion (USD 3.0 billion) before the end of 2011. In connection with this transaction, we entered into a cash flow hedge to compensate for exchange rate fluctuations. A loss of EUR 0.2 billion related to this hedge was recognized in 2011, but will not impact cash flow prior to 2012. We received a right to the transfer of spectrum licenses worth EUR 0.9 billion (USD 1.2 billion). This compensation resulted in total income tax expense of EUR 0.9 billion in 2011. In addition, T-Mobile USA and AT&T entered into a national roaming agreement for 3G services for more than seven years.

For further information, please refer to the section "*Business combinations and other transactions*," in the notes to our consolidated financial statements as of and for the year ended December 31, 2011, included elsewhere in this offering memorandum.

***Effects of Changes in the Composition of the Group***

Our business development in 2010 was affected by changes in the composition of our company, the most important of which are described below.

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

Following the increase in our stake in OTE to 30% in February 2009, OTE has been fully consolidated and is presented in our Europe operating segment. As a result, 2010 was the first year in which OTE was fully consolidated for an entire financial year.

For more information on the effects of changes in the composition of the Group, please refer to the "*Summary of accounting policies*" in the section on "*Business combinations and other transactions*" in the notes to our consolidated financial statements included in this offering memorandum.

***Results of Operations of the Group***

**Net Revenue**

In 2011, the development of net revenue was negatively affected by price declines and customer losses, resulting from increased competition and a deteriorating macroeconomic environment. In addition, price cuts imposed by various regulatory authorities had a negative effect on net revenue. Deconsolidation effects related to T-Mobile UK and negative exchange rate effects, in particular from the translation of U.S. dollars into euros, also had a negative impact on net revenue.

In our Germany operating segment, revenue decreased by 4.4% in 2011, in large part due to the downward trend in voice telephony and the discontinuation of the sale of mobile prepaid cards of other telecommunications carriers. Sustained demand for broadband services in the fixed network and mobile data communications only partially offset this decline.

Our Europe operating segment recorded a revenue decline of 10.2% in 2011, primarily due to deconsolidation effects related to T-Mobile UK (EUR 0.8 billion) and the difficult macroeconomic situation in the countries of Southern and Eastern Europe. In addition, the segment experienced price erosion in almost all of the European countries in which it operates, resulting from lower mobile termination rates imposed by regulators and intense competition. This operating segment also experienced slightly negative exchange rate effects overall. Revenue growth in the fixed-network business in the area of broadband/TV as well as strong growth in mobile data revenue only partially offset these negative effects.

In our United States operating segment, revenue declined by 7.9% in 2011. In local currency, the decline was 3.3%. In addition to negative exchange rate effects, the decline was due to fewer T-Mobile USA branded customers and lower terminal equipment revenue resulting from decreased volumes. Continued strong growth in data revenue from customers using smartphones with mobile broadband data plans and positive effects from the launch of T-Mobile USA's handset protection insurance program only partially offset these negative effects.

Compared to 2010, revenue in our Systems Solutions operating segment increased by 2.1% in 2011. This increase was primarily attributable to the transfer of our business customers at Magyar Telekom from our Europe operating segment to System Solutions. It is also attributable to agreements concluded in 2010 and 2011, which offset the general negative price trend in information technology, or IT, and telecommunications.

In 2010, the decrease in net revenue resulted primarily from changes in the composition of the group, which had a negative impact of EUR 1.9 billion. This decline was partially offset by positive exchange rate effects of EUR 1.2 billion. The positive exchange rate effects resulted mainly from the translation of U.S. dollars, Polish zlotys and Czech korunas into euros. Our Systems Solutions and United States operating segments both recorded a revenue increase, whereas all other operating segments recorded decreases.

Compared with 2009, our Germany operating segment reported a revenue decrease in 2010 of 1.1%. An increase in business customer and digital services revenue only partially offset the decrease in consumer, wholesale and value-added services revenue.

Our Europe operating segment reported a revenue decrease of EUR 2.8 billion or 14.1% in 2010, primarily due to the negative effects from changes in the composition of the Group (EUR 2.1 billion) and a decrease in revenue from operations. The decline in revenue from operations was largely attributable to price reductions resulting in most countries in the segment from the reduction in mobile termination charges imposed by the regulatory authorities and from intense competition. In addition, newly imposed or increased taxes on telecommunications also had a negative impact on total revenue. Positive exchange rate effects of EUR 0.2 billion partially offset the decline.

Translated into euros, revenue in the United States operating segment increased by 4.0% in 2010 as a result of positive exchange rate effects of EUR 0.8 billion. In local currency, revenue declined.

In 2010, our Systems Solutions operating segment reported a revenue increase of 2.9% primarily as a result of the large number of contracts that were concluded in 2009 and 2010. Revenue from these new contracts offset the overall negative price trend in IT and telecommunications.

*Contribution of the Operating Segments to Net Revenue*

| | 2011 | 2010 | Change | Change | 2009 |
|---|---|---|---|---|---|
| | | (millions of €) | | (%) | (millions of €) |
| **Net revenue** | **58,653** | **62,421** | **(3,768)** | **(6.0)** | **64,602** |
| Germany | 24,031 | 25,145 | (1,114) | (4.4) | 25,423 |
| Europe | 15,124 | 16,840 | (1,716) | (10.2) | 19,607 |
| United States | 14,811 | 16,087 | (1,276) | (7.9) | 15,471 |
| Systems Solutions | 9,249 | 9,057 | 192 | 2.1 | 8,798 |
| Group Headquarters & Shared Services | 2,144 | 2,166 | (22) | (1.0) | 2,410 |
| Intersegment revenue | (6,706) | (6,874) | 168 | 2.4 | (7,107) |

At 38.6%, the Germany operating segment provided the largest contribution to the net revenue of the Group in 2011. The contribution of the Systems Solutions operating segment to net revenue increased by 0.9 percentage points in 2011. In our Europe and United States operating segments, by contrast, the contributions to net revenue decreased year-on-year by 1.3 and 0.6 percentage points, respectively.

At 37.7%, the Germany operating segment provided the largest contribution to the net revenue of the Group in 2010. The Europe operating segment's share of net revenue decreased by 3.5 percentage points year-on-year owing to effects from changes in the composition of the Group. The United States operating segment's share of net revenue increased by 1.9 percentage points in 2010, primarily as a result of exchange rate effects. The Systems Solutions operating segment's share of net revenue remained virtually stable.

**Profit from Operations**

In 2011, profit from operations remained stable as the revenue decline described above was offset by a decline in net operating expenses and net positive effects from the termination of the agreement on the sale of T-Mobile USA, as described below:

- Cost of sales decreased by EUR 1.8 billion, primarily as a result of the decline in revenue. Positive exchange rate effects (EUR 0.5 billion) and the deconsolidation of T-Mobile UK (EUR 0.4 billion) also contributed to this decline. By contrast, civil servant early retirement arrangements resulted in higher expenses of EUR 0.2 billion.

- Selling expenses declined by EUR 0.6 billion, primarily as a result of the decline in revenues. Exchange rate effects (EUR 0.2 billion) and the deconsolidation of T-Mobile UK (EUR 0.2 billion) also contributed to the decline. Expenses for civil servant early retirement arrangements accounted for an increase of EUR 0.2 billion.

- General and administrative expenses increased slightly in 2011, primarily as a result of settlements agreed with U.S. authorities relating to Magyar Telekom (EUR 0.1 billion).

- The increase in other operating income of EUR 2.9 billion is primarily attributable to the compensation from AT&T as a result of the termination of the agreement on the sale of T-Mobile USA. The break-up fee of EUR 2.3 billion as well as a right to the transfer of Advanced Wireless Service spectrum licenses worth EUR 0.9 billion were recorded in 2011. This increase was partially offset by a loss of EUR 0.2 billion relating to a cash flow hedge put in place to compensate for fluctuations in the U.S. dollar exchange rate on these amounts received from AT&T. Other operating income also includes income of EUR 0.1 billion generated in connection with the procurement joint venture BUYIN.

- Other operating expenses increased by EUR 1.4 billion, mainly due to impairment losses recognized on goodwill amounting to EUR 3.1 billion, primarily as a result of a goodwill impairment loss of EUR 2.3 billion relating to our United States cash generating unit, and on property, plant and equipment amounting to EUR 0.2 billion as part of our annual impairment tests. Other operating expenses in 2010 included expenses in connection with the agreement on the remaining stake in PTC (EUR 0.4 billion) and from the deconsolidation of T-Mobile UK (EUR 0.4 billion).

In 2010, profit from operations was influenced by the revenue decline of EUR 2.2 billion and a smaller total decline in net operating expenses of EUR 1.7 billion that is described below.

- Cost of sales declined by EUR 0.5 billion, primarily as a result of the deconsolidation of T-Mobile UK amounting to EUR 1.5 billion, which was partially offset by exchange rate effects totaling EUR 0.7 billion.

- Selling expenses declined by EUR 1.2 billion, due to changes in the structure 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.

- The increase of EUR 0.6 billion in general and administrative expenses related mainly to EUR 0.2 billion higher expenses for early retirement programs. In addition, a provision of EUR 0.2 billion for the Civil Service Health Insurance Fund was reversed in 2009.

- Other operating expenses decreased by EUR 0.5 billion in 2010, due in part to lower depreciation, amortization and impairment losses posted in connection with the impairment tests. In 2009, the Group sustained goodwill impairment losses of EUR 2.3 billion, primarily as a result of an impairment loss of EUR 1.8 billion that had been recognized on the goodwill of the cash-generating unit T-Mobile UK. In 2010, the annual impairment tests resulted in impairment losses of EUR 0.7 billion to be recognized on goodwill and property, plant and equipment at year-end. 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.

### Reconciliation of EBITDA and Adjusted EBITDA

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| | | (millions of €) | |
| **Profit from operations** | **5,586** | **5,505** | **6,012** |
| Depreciation, amortization and impairment losses | 14,436 | 11,808 | 13,894 |
| **EBITDA** | **20,022** | **17,313** | **19,906** |
| **Special factors – Germany** | **(707)** | **(509)** | **(349)** |
| Staff-related measures | (604) | (401) | (300) |
| Non-staff-related restructuring | (4) | (11) | (31) |
| Effects of deconsolidations, disposals and acquisitions | 0 | 0 | 10 |
| Other | (99)[1] | (97)[2] | (28) |
| **Special factors – Europe** | **(246)** | **(606)** | **(93)** |
| Staff-related measures | (132) | (209)[3] | (36) |
| Non-staff-related restructuring | 0 | (5) | (26) |
| Effects of deconsolidations, disposals and acquisitions | 0 | (355) | 0 |
| Other | (114)[4] | (37) | (31) |
| **Special factors – United States** | **(134)** | **0** | **0** |
| Staff-related measures | (116) | 0 | 0 |
| Non-staff-related restructuring | 0 | 0 | 0 |
| Other | (18) | 0 | 0 |
| **Special factors – Systems Solutions** | **(275)** | **(281)** | **(213)** |
| Staff-related measures | (81) | (113) | (68) |
| Non-staff-related restructuring | (163) | (170) | (152) |
| Effects of deconsolidations, disposals and acquisitions | 0 | 0 | 7 |
| Other | (31) | 2 | 0 |
| **Special factors – Group Headquarters & Shared Services** | **2,698** | **(769)** | **(101)** |
| Staff-related measures | (224) | (281) | (109) |
| Non-staff-related restructuring | (22) | (100) | 0 |
| Effects of deconsolidations, disposals and acquisitions | (56) | (385) | 24 |
| Compensation from AT&T | 3,000[5] | - | - |
| Other | 0 | (3) | (16) |
| **Special factors – Group reconciliation** | **1** | **5** | **(6)** |
| Staff-related measures | 0 | 0 | (16) |
| Non-staff-related restructuring | 0 | 1 | 10 |
| Effects of deconsolidations, disposals and acquisitions | 0 | 4 | 0 |
| Other | 1 | 0 | 0 |
| **Total special factors** | **1,337** | **(2,160)** | **(762)** |
| **Adjusted EBITDA** | **18,685** | **19,473** | **20,668** |

[1] Primarily consisting of provisions taken in connection with legal proceedings.
[2] Primarily consisting of the write-off of receivables from the German Main Customs Office relating to the 2005 to 2009 tax years.
[3] Includes expense relating to a contribution required by the Greek Ministry of Labor and Social Affairs (the "Ministry"). In the first quarter of 2010, the Ministry 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 public pension fund. Upon receipt of a notification from the Ministry for payment of EUR 130 million, a liability was recognized in our financial statements as of December 31, 2010.
[4] Primarily consisting of expenses related to the conclusion of the Magyar Telekom investigation and consulting expenses related to personnel restructuring programs in Romania.
[5] Includes break-up fee received from AT&T (EUR 2.3 billion), spectrum received from AT&T (EUR 0.9 billion) and loss related to cash flow hedge entered into in connection with the transaction (EUR 0.2 billion).

**Adjusted EBITDA**

*Contribution of the Operating Segments to Adjusted Group EBITDA*

| | 2011 | Proportion of adjusted Group EBITDA | 2010 | Proportion of adjusted Group EBITDA | Change | Change | 2009 |
|---|---|---|---|---|---|---|---|
| | (millions of €) | (%) | (millions of €) | (%) | (millions of €) | (%) | (millions of €) |
| **EBITDA (adjusted for special factors) in the Group** | **18,685** | **100.0** | **19,473** | **100.0** | **(788)** | **(4.0)** | **20,668** |
| Germany | 9,599 | 51.4 | 9,618 | 49.4 | (19) | (0.2) | 9,607 |
| Europe | 5,241 | 28.0 | 5,748 | 29.5 | (507) | (8.8) | 6,390 |
| United States | 3,831 | 20.5 | 4,156 | 21.3 | (325) | (7.8) | 4,261 |
| Systems Solutions | 872 | 4.7 | 948 | 4.9 | (76) | (8.0) | 923 |
| Group Headquarters & Shared Services | (742) | (4.0) | (870) | (4.5) | 128 | 14.7 | (315) |
| Reconciliation | (116) | (0.6) | (127) | (0.6) | 11 | 8.7 | (198) |

In 2011, the decline in adjusted EBITDA resulted primarily from the decline in adjusted EBITDA generated by our operations and, to a lesser extent, negative exchange rate effects and the deconsolidation of T-Mobile UK. Our Germany operating segment generated adjusted EBITDA in 2011 only slightly lower than in 2010, despite the decline in revenue. In addition, various technology and sales initiatives and the improvement of support processes further reduced operating costs, while we lowered our cost base by discontinuing the sale of prepaid mobile cards of our competitors. The decline in adjusted EBITDA at our Europe operating segment resulted primarily from the decline in revenue and, to a lesser extent, the deconsolidation of T-Mobile UK and the real estate tax introduced by the Greek government in 2011. Exchange rate effects, primarily attributable to the Polish zloty and the Croatian kuna, had a slightly negative effect. By reducing overhead costs, mainly in Greece and Hungary, we partially offset the decline. Adjusted EBITDA at our United States operating segment declined primarily due to negative exchange rate effects. In local currency, our United States operating segment reported a 3.1% decrease in adjusted EBITDA, primarily due to the decline in revenues as well as an increase in operating expenses related to the build-out of the 4G-HSPA plus network and higher marketing expenses. Lower volume-driven handset and commission costs partially offset the decline in adjusted EBITDA. In 2011, adjusted EBITDA in our Systems Solutions operating segment declined despite an increase in revenue. This decline is primarily due to increased contract-related expenses, such as for the successful migration of customer infrastructures to T-Systems' operational business, start-up expenses for new contracts, and the development of our focus areas, such as intelligent networks, energy, healthcare and connected vehicles. In addition, adjusted EBITDA was negatively affected by measures to improve competitiveness. Adjusted EBITDA at Group Headquarters & Shared Services improved in 2011, mainly due to earnings in connection with the procurement joint venture BUYIN and lower personnel costs at Vivento.

In 2010, the decline in adjusted EBITDA resulted primarily from the decline in adjusted EBITDA generated by our operations and, to a lesser extent, from the deconsolidation of T-Mobile UK. This decline was partially offset by the first time full year consolidation of OTE as well as positive exchange rate effects. Adjusted EBITDA in our Germany operating segment in 2010 increased slightly as positive developments in mobile communications offset the decrease in the traditional fixed-network business. A key contribution came from effective cost management measures. In 2010, the decline in adjusted EBITDA at the Europe operating segment resulted from the deconsolidation of T-Mobile UK as of April 1, 2010 and the newly imposed special tax in Hungary that applied retroactively to the full 2010 financial year. The first time full-year consolidation of OTE and positive exchange rate effects attributable, in particular, to the translation from Polish zlotys, Czech korunas, Hungarian forints, Croatian kunas and pounds sterling into euros partially offset the decline. Adjusted EBITDA in our United States operating segment in 2010 declined in local currency due to a slight decline in revenue and higher costs resulting from more extensive customer incentive programs and the fact that customers tended to opt for heavily subsidized 3G handsets. Adjusted EBITDA expressed in euro benefited from offsetting positive exchange rate effects of EUR 0.2 billion. In 2010, adjusted EBITDA in our Systems Solutions operating segment increased mainly as a result of an increase in revenues. Adjusted EBITDA at Group Headquarters & Shared Services decreased by EUR 0.6 billion in 2010, mainly due to higher income recognized in 2009 from the reversal of provisions and the reclassification of real estate from assets held for sale to non-current assets. Adjusted EBITDA at Group Headquarters & Shared Services was also negatively affected by higher personnel costs at Vivento and other units and higher marketing and technology costs in 2010. Finally, gains on the sale of real estate were lower in 2010 than in 2009.

**Profit/Loss before Income Taxes**

In 2011, profit before income taxes increased. In addition to the effects mentioned above, there was a EUR 0.2 billion decrease in the loss from financial activities, primarily attributable to a EUR 0.2 billion improvement in finance costs. This resulted mainly from lower interest expenses related to bonds and securitized liabilities.

In 2010, profit before income taxes remained constant compared with 2009. In addition to the effects mentioned above, there was a EUR 0.5 billion decrease in the loss from financial activities. Besides effects from a change in the gain/loss from financial instruments, the decrease of EUR 0.6 billion in other financial expense is mainly attributable to lower expenses for the measurement of provisions and liabilities (interest accretion).

**Net Profit**

In 2011, in addition to the effects mentioned above, the decrease in net profit was primarily due to an increase in income tax expense of EUR 1.4 billion compared to 2010. Although profit/loss before income taxes only increased slightly in 2011, income tax expenses more than doubled, mainly due to compensation received from AT&T, which resulted in a tax expense of EUR 0.9 billion. By contrast, impairment losses recognized on goodwill that had reduced profit/loss before income taxes in 2010 had no tax effect in 2011. Furthermore, in the United States and Austria, total impairment losses of EUR 0.3 billion were recognized on deferred taxes on local loss carryforwards.

In 2010, in addition to the effects described above, the increase in net profit was mainly a result of a decrease in income tax expense of EUR 0.8 billion compared to 2009. This tax effect, in turn, is the result of partly contrasting effects. In 2010, deferred taxes of EUR 0.5 billion were recognized on temporary differences and loss carryforwards in the Europe operating segment, since it is probable that these temporary differences and loss carryforwards will be used in the future. This was offset by a special tax imposed in Greece, which increased our tax expense in 2010. A further factor in the increase in net profit was the lower level of profit attributable to non-controlling interests amounting to EUR 0.4 billion. In 2010, EUR 0.2 billion of the EUR 0.7 billion of the year-end impairments was attributable to non-controlling interests.

**Cash Capex**

In 2011, cash capex, excluding spectrum investments, totaled EUR 8.3 billion and was concentrated on continued broadband build-out and increasing capacities in existing networks. In addition, we invested EUR 0.1 billion in spectrum. In mobile communications, we made initial investments in LTE, increased 3G network coverage and upgraded capacity to meet increasing demand for data transfer volumes. In 2012 we expect our net investment levels to remain approximately at the same level as in 2011 (other than any investments in spectrum).

In 2010, cash capex, excluding spectrum investments, totaled EUR 8.5 billion in and was concentrated in all countries on continuing the roll-out of our broadband network and expanding capacities in existing networks. In mobile communications, we increased 3G network coverage; while in the fixed network, the focus was mainly on DSL, VDSL, and IPTV. Furthermore, we continued to upgrade the existing telephone network to a next-generation network, such as an IP-based voice network. At T-Systems, cash capex was primarily in connection with customer orders and the expansion of new shared platforms (*e.g.*, for cloud services). In addition to the cash capex described above, spectrum investment totaled EUR 1.3 billion in 2010.

In May 2010, Telekom Deutschland GmbH purchased spectrum in the 0.8 GHz, 1.8 GHz, and 2.6 GHz frequency ranges at auction in Germany, for which it paid EUR 1.3 billion. We are using this spectrum to supply rural areas with broadband service. In 2010, T-Mobile Netherlands purchased two-part 10 MHz bandwidths in the 2.6 GHz range for EUR 109,000 at the mobile spectrum auction in the Netherlands. T-Mobile Austria paid EUR 11 million for a total of 2 x 20 MHz in the 2.6 GHz range. In addition, we purchased spectrum through Cosmote Bulgaria, which is part of the OTE group, to expand the UMTS network in Bulgaria. We will use this spectrum to further expand the 3G network of GLOBUL, Cosmote Bulgaria's mobile communications brand. GLOBUL paid a one-time fee of BGN 17 million plus an annual fee of BGN 1 million, equivalent to approximately EUR 9 million, for the spectrum issued by the Bulgarian communications supervisory authority (CRC).

**Financial Position of the Group**

*Consolidated Statement of Financial Position*

| | Dec. 31, 2011 | Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2010 | Change | Dec. 31, 2009 | Dec. 31, 2009 |
|---|---|---|---|---|---|---|---|
| | millions of € | % of balance sheet total | millions of € | % of balance sheet total | millions of € | millions of € | % of balance sheet total |
| **Assets** | | | | | | | |
| **Current assets** | **15,865** | **12.9** | **15,243** | **11.9** | **622** | **23,012** | **18.0** |
| Cash and cash equivalents | 3,749 | 3.0 | 2,808 | 2.2 | 941 | 5,022 | 3.9 |
| Trade and other receivables | 6,557 | 5.3 | 6,889 | 5.4 | (332) | 6,757 | 5.3 |
| Non-current assets and disposal groups held for sale | 436 | 0.4 | 51 | 0.0 | 385 | 6,527 | 5.1 |
| Other current assets | 5,123 | 4.2 | 5,495 | 4.3 | (372) | 4,706 | 3.7 |
| **Non-current assets** | **106,677** | **87.1** | **112,569** | **88.1** | **(5,892)** | **104,762** | **82.0** |
| Intangible assets | 50,097 | 40.9 | 53,807 | 42.1 | (3,710) | 51,705 | 40.5 |
| Property, plant and equipment | 41,927 | 34.2 | 44,298 | 34.7 | (2,371) | 45,468 | 35.6 |
| Investments accounted for using the equity method | 6,873 | 5.7 | 7,242 | 5.7 | (369) | 147 | 0.1 |
| Other non-current assets | 7,780 | 6.3 | 7,222 | 5.6 | 558 | 7,442 | 5.8 |
| **Total assets** | **122,542** | **100.0** | **127,812** | **100.0** | **(5,270)** | **127,774** | **100.0** |
| **Liabilities and shareholders' equity** | | | | | | | |
| **Current liabilities** | **24,338** | **19.9** | **26,452** | **20.7** | **(2,114)** | **24,794** | **19.4** |
| Financial liabilities | 10,219 | 8.4 | 11,689 | 9.1 | (1,470) | 9,391 | 7.4 |
| Trade and other payables | 6,436 | 5.3 | 6,750 | 5.3 | (314) | 6,304 | 4.9 |
| Current provisions | 3,217 | 2.6 | 3,193 | 2.5 | 24 | 3,369 | 2.6 |
| Liabilities directly associated with non-current assets and disposal groups held for sale | - | - | - | - | - | 1,423 | 1.1 |
| Other current liabilities | 4,466 | 3.6 | 4,820 | 3.8 | (354) | 4,307 | 3.4 |
| **Non-current liabilities** | **58,263** | **47.5** | **58,332** | **45.6** | **(69)** | **61,043** | **47.8** |
| Financial liabilities | 38,099 | 31.1 | 38,857 | 30.4 | (758) | 41,800 | 32.7 |
| Non-current provisions | 7,784 | 6.3 | 8,001 | 6.2 | (217) | 8,340 | 6.5 |
| Other non-current liabilities | 12,380 | 10.1 | 11,474 | 9.0 | 906 | 10,903 | 8.6 |
| **Shareholders' equity** | **39,941** | **32.6** | **43,028** | **33.7** | **(3,087)** | **41,937** | **32.8** |
| **Total liabilities and shareholders' equity** | **122,542** | **100.0** | **127,812** | **100.0** | **(5,270)** | **127,774** | **100.0** |

***2011/2010***

Our total assets decreased by EUR 5.3 billion compared with December 31, 2010. Current assets increased by EUR 0.6 billion, while non-current assets decreased by EUR 5.9 billion.

Cash and cash equivalents increased by EUR 0.9 billion compared with December 31, 2010. Please refer to the consolidated statement of cash flows and selected notes to the consolidated statement of cash flows in our consolidated financial statements as of and for the year ended December 31, 2011 included elsewhere in this offering memorandum for more information on this change.

The 4.8% decline in trade and other receivables was mainly due to the difficult macroeconomic situation in Europe.

The net carrying amounts of the non-current assets and disposal groups held for sale increased by EUR 0.4 billion due to the decision to sell shares in Telekom Srbija.

Other current assets decreased, primarily due to a EUR 0.2 billion decrease in inventories and a EUR 0.1 billion decrease in current recoverable income taxes.

The decline in intangible assets and property, plant and equipment of EUR 6.1 billion as of December 31, 2011 was due to depreciation and amortization of EUR 11.0 billion as well as to total impairment losses of EUR 3.4 billion,

mainly in the United States and Europe operating segments. These effects were partially offset by additions to assets of EUR 8.6 billion, the majority of which related to investments intended to increase operating capacities. Apart from investments in new products and technologies, these investments were primarily measures to enable the provision of additional capacities and improve quality in existing products and technologies.

Investments accounted for using the equity method decreased mainly due to a dividend of EUR 0.5 billion received from our Everything Everywhere joint venture. This amount was partially offset by exchange rate effects attributable to the pound sterling of EUR 0.2 billion.

The increase in other non-current assets of EUR 0.8 billion was mainly attributable to the right to the transfer of spectrum licenses from AT&T worth EUR 0.9 billion. The license package is part of the compensation from AT&T related to the termination of the sale of T-Mobile USA.

In 2011, current liabilities decreased by EUR 2.1 billion and non-current liabilities by EUR 0.1 billion.

Our financial liabilities decreased by EUR 2.2 billion compared with 2010. Current financial liabilities decreased by EUR 1.5 billion and non-current financial liabilities by EUR 0.8 billion. For more information, please refer to the following tables and the accompanying explanations included elsewhere in this offering memorandum.

The 4.7% decline in trade and other payables resulted in part from a decrease in investments compared with 2010.

Provisions (current and non-current) decreased by EUR 0.2 billion, mainly due to lower provisions for pensions.

Other liabilities (current and non-current) increased by EUR 0.6 billion. This is mainly attributable to an increase in deferred tax liabilities at T-Mobile USA (EUR 0.9 billion) and higher liabilities for civil servant early retirement arrangements (EUR 0.2 billion). This increase was partially offset by decreases in liabilities for voluntary redundancy and severance payments (EUR 0.2 billion), VAT liabilities (EUR 0.1 billion), and deferred income (EUR 0.1 billion).

Shareholders' equity decreased by EUR 3.1 billion to EUR 39.9 billion, primarily due to dividend payments totaling EUR 3.5 billion and the negative fair value measurement of hedging instruments of EUR 0.5 billion. By contrast, the profit of EUR 0.7 billion and actuarial gains of EUR 0.2 billion recognized directly in equity had a positive effect.

***2010/2009***

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

Cash and cash equivalents decreased by EUR 2.2 billion compared with December 31, 2009. Please refer to the consolidated statement of cash flows and selected notes to the consolidated statement of cash flows in our consolidated financial statements as of and for the year ended December 31, 2010 included elsewhere in this offering memorandum for more information on this change.

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

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

The EUR 0.9 billion increase in intangible assets and property, plant and equipment was mainly due to additions of EUR 10.8 billion (primarily the result of EUR 2.6 billion in technical equipment and machinery, EUR 1.3 billion as a result of the acquisition of spectrum, and advance payments on property, plant and equipment of EUR 4.0 billion),

exchange rate effects of EUR 2.4 billion and the addition of EUR 0.2 billion in goodwill from the acquisition of STRATO. This was offset in part by depreciation and amortization amounting to EUR 11.8 billion (of which acquired intangible assets accounted for EUR 2.8 billion and technical equipment and machinery for EUR 6.1 billion) and disposals of EUR 0.4 billion.

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

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

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

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

**Financial Liabilities**

| | Dec. 31, 2011 | | | |
|---|---|---|---|---|
| | **Total** | **Due within 1 year** | **Due > 1 year ≤ 5 years** | **Due > 5 years** |
| | (millions of €) | | | |
| Bonds and other securitized liabilities | | | | |
| Non-convertible bonds | 20,649 | 1,997 | 9,279 | 9,373 |
| Commercial paper, medium term notes and similar liabilities | 15,579 | 3,269 | 7,726 | 4,584 |
| Liabilities to banks | 4,916 | 1,562 | 3,225 | 129 |
| | **41,144** | **6,828** | **20,230** | **14,086** |
| Lease liabilities | 1,885 | 159 | 987 | 739 |
| Liabilities to non-banks from promissory notes | 1,188 | 10 | 587 | 591 |
| Other interest-bearing liabilities | 1,179 | 941 | 122 | 116 |
| Other non-interest-bearing liabilities | 1,528 | 1,489 | 36 | 3 |
| Derivative financial liabilities | 1,394 | 792 | 453 | 149 |
| | **7,174** | **3,391** | **2,185** | **1,598** |
| **Financial liabilities** | **48,318** | **10,219** | **22,415** | **15,684** |

*Reconciliation of Net Debt*

| | **Dec. 31, 2011** | **Dec. 31, 2010** | **Dec. 31, 2009** |
|---|---|---|---|
| | (millions of €) | | |
| Financial liabilities (current) | 10,219 | 11,689 | 9,391 |
| Financial liabilities (non-current) | 38,099 | 38,857 | 41,800 |
| **Financial liabilities** | **48,318** | **50,546** | **51,191** |
| Accrued interest | (966) | (1,195) | (1,175) |
| Liabilities from corporate transactions | - | (1,566) | (1,455) |
| Other | (615) | (467) | (444) |
| **Gross debt** | **46,737** | **47,318** | **48,117** |
| Cash and cash equivalents | 3,749 | 2,808 | 5,022 |
| Available-for-sale/held-for-trading financial assets | 402 | 75 | 162 |
| Derivative financial assets | 1,533 | 835 | 1,048 |
| Other financial assets | 932 | 1,331 | 974 |
| **Net debt** | **40,121** | **42,269** | **40,911** |

In 2011, net debt decreased due primarily to an increase in cash and cash equivalents resulting from the break-up fee from AT&T. Dividend payments of EUR 3.5 billion, the acquisition of the remaining shares in PTC (EUR 1.4 billion) and an additional 10% of the shares in OTE (EUR 0.4 billion), payments to external pension funds (EUR 0.3 billion) and currency and other effects totaling EUR 0.8 billion had an offsetting effect.

In 2010, our net debt increased by EUR 1.4 billion compared to 2009 primarily as a result of dividend payments of EUR 4.0 billion, the acquisition of spectrum for EUR 1.3 billion, the effects of corporate transactions totaling EUR 0.8 billion, exchange rate effects of EUR 0.8 billion and the share buy-back amounting to EUR 0.4 billion.

***Off-Balance Sheet Assets and Financial Instruments***

In addition to the assets recognized in the statement of financial position, we carry assets off balance-sheet, primarily relating to leased property. For further information, please refer to Note 34 "*Disclosures on leases*" in the notes to the consolidated financial statements included elsewhere in this offering memorandum.

Off-balance-sheet financial instruments mainly relate to the sale of receivables by means of factoring. Total receivables sold as of December 31, 2011 amounted to EUR 1.1 billion, which was consistent with the level sold as of December 31, 2010.

*Finance Policy*

The fundamentals of our finance policy are established each year by the Board of Management and overseen by the Supervisory Board. Group Treasury is responsible for implementing the finance policy and for ongoing risk management.

*The ratings of Deutsche Telekom AG*

| | Standard & Poor's | Moody's | Fitch |
|---|---|---|---|
| **Long-term rating** | | | |
| Dec. 31, 2009 | BBB+ | Baa1 | BBB+ |
| Dec. 31, 2010 | BBB+ | Baa1 | BBB+ |
| Dec. 31, 2011 | **BBB+** | **Baa1** | **BBB+** |
| **Short-term rating** | **A-2** | **P-2** | **F2** |
| **Outlook** | **Stable** | **Stable** | **Stable** |

A securities rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating. The same remarks hold true with regard to rating agency outlook statements.

**Condensed Consolidated Statement of Cash Flows and Reconciliation of Free Cash Flow**

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| | | (millions of €) | |
| **Net cash from operating activities** | **16,214** | **14,731** | **15,795** |
| Break-up fee received from AT&T | (2,289) | - | - |
| Cash outflow as part of the PTC transaction | 400 | - | - |
| Cash outflow for investments in intangible assets (excluding goodwill) | (1,837) | (2,978) | (1,598) |
| Cash outflow for investments in property, plant and equipment | (6,569) | (6,873) | (7,604) |
| Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment | 356 | 344 | 376 |
| Spectrum investment | 146 | 1,319 | - |
| **Free cash flow (before dividend payments, spectrum investment, PTC transaction and break-up fee from AT&T)** | **6,421** | **6,543** | **6,969** |
| **Net cash used in investing activities** | **(9,275)** | **(10,711)** | **(8,649)** |
| **Net cash used in financing activities** | **(5,958)** | **(6,369)** | **(5,123)** |
| Effect of exchange rate changes on cash and cash equivalents | (40) | 50 | 58 |
| Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale | - | 85 | (85) |
| Net increase (decrease) in cash and cash equivalents | 941 | (2,214) | 1,996 |
| **Cash and cash equivalents** | **3,749** | **2,808** | **5,022** |

**Net Cash from Operating Activities**

Net cash from operating activities in 2011 increased by EUR 1.5 billion compared with 2010. This increase was attributable to the break-up fee of EUR 2.3 billion received from AT&T in connection with the termination of the agreement on the sale of T-Mobile USA, EUR 0.4 billion higher cash outflows for civil servant pensions in 2010 and a EUR 0.1 billion higher dividend received from the Everything Everywhere joint venture. This increase was partially offset by reducing effects from operational developments, in particular by the following effects: cash outflows of EUR 0.4 billion for the PTC transaction, and cash inflows of EUR 0.3 billion from the canceling of interest rate swaps in 2010, for which there was no corresponding item in 2011. In addition, lower interest received and EUR 0.2 billion higher interest paid compared with the prior year and a decrease of EUR 0.1 billion in cash inflows from receivables sold (factoring) had an offsetting effect on net cash from operating activities.

Net cash from operating activities in 2010 decreased by EUR 1.1 billion compared with 2009. Aside from effects from business operations, this decrease was primarily due to the following effects: lower cash inflows from factoring amounting to EUR 0.6 billion and higher net outflows of EUR 0.4 billion for additions to inventories. This

decrease was partially offset by a cash inflow of EUR 0.3 billion from the cancellation of interest-rate swaps in 2010 and higher inflows from dividends received amounting to EUR 0.4 billion, mainly from an interim dividend paid out by the Everything Everywhere joint venture.

**Net Cash used in Investing Activities**

In 2011, the decline in net cash used in investing activities was primarily due to the 2010 effects on net cash used in investing activities described below. Net cash used in investing activities also declined as a result of lower cash outflows for investments in 2011. For example, investment activity in most countries within our Europe operating segment was restrained owing to the difficult market situation, decisions by regulatory authorities and additional financial burdens, such as the special tax in Hungary and the real estate tax in Greece. Investment activity was also restrained in our United States and Systems Solutions operating segments compared with 2010. Our Germany operating segment invested more in new network infrastructure than in 2010.

Our cash outflows for the acquisition of companies increased to EUR 1.2 billion in 2011. We paid EUR 0.8 billion in connection with the PTC transaction and EUR 0.4 billion for the acquisition of another 10% of the shares in OTE. In 2010, this figure totaled EUR 0.4 billion and mainly included EUR 0.3 billion for the acquisition of STRATO. The 2011 financial year also saw cash outflows of EUR 0.3 billion for a payment to a third-party trust company as part of a contractual trust agreement to fund direct pension commitments.

In 2010, the increase in net cash used in investing activities was due in part to the addition of the cash and cash equivalents of the OTE group amounting to EUR 1.6 billion in 2009, partially offset by the overall effect of the deconsolidation of T-Mobile UK amounting to EUR 0.4 billion. In addition, Deutsche Telekom invested EUR 0.8 billion in 2010 in a bond issued by the Everything Everywhere joint venture and posted higher outflows for intangible assets amounting to EUR 1.4 billion, which is mainly attributable to the outflows of EUR 1.3 billion for the acquisition of mobile communications licenses (spectrum) in Germany.

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

**Net Cash used in Financing Activities**

In 2011, net cash used in financing activities decreased, primarily as a result of EUR 0.5 billion lower net dividend payments and a EUR 0.2 billion higher net issuance of non-current financial liabilities. In addition, EUR 0.4 billion was paid in 2010 for the purchase of Deutsche Telekom shares. Higher net repayments of current financial liabilities of EUR 0.6 billion had an offsetting effect.

In 2010, net cash used in financing activities increased primarily as a result of 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 compared to 2009 by EUR 0.2 billion and EUR 0.1 billion, respectively.

**Step-Up Provisions**

An improvement of our long-term senior unsecured debt ratings to A3 by Moody’s and A- by Standard & Poor’s would result in a 50 basis point decrease in interest rates due to the step-up provisions of bonds with an aggregate principal amount of approximately EUR 3.1 billion at December 31, 2011.

A lowering of our long-term senior unsecured debt ratings below Baa1 by Moody’s and BBB+ by Standard & Poor’s would result in a 50 basis point increase in interest rates due to the step-up provisions of bonds and medium-term notes with an aggregate principal amount of approximately EUR 4.3 billion at December 31, 2011.

**Lines of Credit**

On December 31, 2011, we had standardized bilateral lines of credit with 22 banks, totaling EUR 13.2 billion. As of December 31, 2011, none of these credit lines was being utilized. According to the loan agreements, the terms and conditions depend on our credit rating. The bilateral credit agreements have an original maturity of 36 months and, after each period of 12 months, will be automatically extended for a further 12 months to renew the maturity of 36 months, if the lender does not object to such extension. In 2011, bilateral credit facilities with two banks were cancelled and will expire within two years of cancellation. One new credit facility was agreed.

Our bilateral lines of credit do not include any financial covenants or material adverse change clauses. However, in the event we are taken over by a third-party, the individual lenders under these bilateral lines of credit and certain loan agreements to which we are also a party have the right to terminate the credit line and, if necessary, serve notice on it or demand repayment of the loans. A takeover is assumed when a third party, which can also be a group acting jointly, acquires control over us.

***Research and Development***

Our Products & Innovation unit is responsible for innovation and product development, from Group-wide research and development and innovation management and marketing to product development and management of our product portfolio. The aim is to develop innovative and competitive products, services and business models.

Research and development expenditure in the narrower sense relates to pre-production research and development, such as the search for alternative products, processes, systems, and services. However, we do not include under this item expenses for the development of system and application software aimed at enhancing productivity. In 2011, research and development expenditure in the Group amounted to EUR 0.1 billion (2010: EUR 0.1 billion).

In 2011, our investments in internally generated intangible assets to be capitalized totaled EUR 0.1 billion (2010: EUR 0.2 billion). These investments primarily relate to internally developed software, mainly for the Germany operating segment. In 2011, over 2,200 employees were involved in projects and activities to create new products, with a view to marketing them more efficiently.

## Development of Business in the Operating Segments

### *Germany*

#### Customer Development

| | Dec. 31, 2011 (in millions) | Dec. 31, 2010 (in millions) | Change (in millions) | Change (%) | Dec. 31, 2009 (in millions) |
|---|---|---|---|---|---|
| **Total** | | | | | |
| Fixed-network lines[1] | 23.4 | 24.7 | (1.3) | (5.3) | 26.2 |
| Retail broadband lines[2] | 12.3 | 12.0 | 0.3 | 2.5 | 11.5 |
| TV | 1.6 | 1.2 | 0.4 | 33.3 | 0.8 |
| Mobile customers[3] | 35.4 | 34.7 | 0.7 | 2.0 | 39.1 |
| Contract customers[2] | 18.2 | 17.2 | 1.0 | 5.8 | 17.2 |
| Prepay customers | 17.2 | 17.5 | (0.3) | (1.7) | 21.9 |
| Unbundled local loop lines (ULLs) | 9.6 | 9.5 | 0.1 | 1.1 | 9.1 |
| Wholesale unbundled lines | 1.2 | 1.0 | 0.2 | 20.0 | 0.6 |
| Wholesale bundled lines | 0.7 | 1.0 | (0.3) | (30.0) | 1.6 |
| **Of which: consumers[4]** | | | | | |
| Fixed-network lines | 18.8 | 19.9 | (1.1) | (5.5) | 21.4 |
| Retail broadband lines[2] | 10.0 | 9.7 | 0.3 | 3.1 | 9.4 |
| TV | 1.4 | 1.1 | 0.3 | 27.3 | 0.8 |
| Mobile customers | 29.3 | 29.2 | 0.1 | 0.3 | 33.9 |
| Contract customers[2] | 12.9 | 12.1 | 0.8 | 6.6 | 12.5 |
| Prepay customers | 16.5 | 17.0 | (0.5) | (2.9) | 21.4 |
| **Of which: business customers[4]** | | | | | |
| Fixed-network lines | 3.5 | 3.6 | (0.1) | (2.8) | 3.6 |
| Retail broadband lines[2] | 2.0 | 1.9 | 0.1 | 5.3 | 1.7 |
| TV | 0.1 | 0.1 | - | - | - |
| Mobile customers | 6.1 | 5.5 | 0.6 | 10.9 | 5.2 |
| Contract customers[2] | 5.3 | 5.1 | 0.2 | 3.9 | 4.7 |
| Prepay customers (M2M)[5] | 0.7 | 0.5 | 0.2 | 40.0 | 0.6 |

[1] In addition to the fixed-network lines of our consumers and business customers in Germany, this category includes lines provided by our Germany operating segment to our Systems Solutions operating segment, which are then sold to end customers, and lines used within the Group.

[2] Stationary wireless solutions have been reported under mobile contract customers since October 1, 2011.

[3] We count our mobile communications customers by the number of SIM cards activated and not churned. Our customer figures include the SIM cards with which machines can communicate with one another. We count contract customers as customers for the length of their contracts and count prepay customers as customers as long as they continue to use our services, and then for a prescribed period thereafter, which differs by country. Generally, at the end of this period, or in the case of payment default or voluntary disconnection, the customers are cancelled or “churned”.

[4] In connection with the One Company initiative, we have classified our customer base according to consumer and business use beginning with the first quarter of 2011. Prior-year figures have been adjusted for better comparability.

[5] M2M: machine-to-machine.

In our Germany operating segment, we bundle various types of voice services, data services and services related to mobile communications, broadband/TV and fixed-network telephony. The challenges we face include regulatory interventions, increasing market saturation and increasing competition from well-positioned competitors.

In 2011, our German fixed-network and mobile operations continued to focus on high-value business. As of December 31, 2011, 47,000 customers have already used our “Call & Surf Comfort via Funk” product, which was launched in the second quarter of 2011. This radio-based technology enables fast Internet surfing even in areas without DSL coverage.

*Fixed Network Telephony, Internet, and Television*

Since 2008, customer losses in the field of traditional fixed-network telephony have been decreasing. In 2011, losses were distributed evenly over all four quarters. The vast majority of these losses resulted from customers switching to cable network operators or other providers of network infrastructure, Internet services and mobile communications.

Of the 12.3 million broadband lines in operation in 2011, 0.6 million were VDSL lines capable of connecting to the Internet at a bandwidth of 25 to 50 Mbit/s. As of December 31, 2011, a total of 1.6 million customers were using our

television service Entertain, of which 111,000 customers were using Entertain via Satellite. This service has been available since September 1, 2011 and is marketed to households that could not previously receive Entertain. It offers access to digital television for everyone who will be affected by the disconnection of the analog signal in April 2012.

As expected, the number of fixed-network access line losses in Germany decreased in 2010 and 2009. The number of line losses includes fixed-network lines previously operated by us but now operated as IP-based lines by other service providers using the unbundled local loop line, or ULL. In addition, the decrease in the number of fixed-network access lines is mainly attributable to customers switching to alternative cable, local network and mobile operators. In 2010 and 2009, line losses also resulted from the technology driven migration of wholesale bundled customers to the all-IP network.

We expect the number of fixed-network access lines in operation to continue to decrease in the future due to increased competition, fixed-to-mobile substitution, as well as increased migration to IP-based products. We also expect the trend towards flat-rate calling plans to continue in the future. Consequently, we expect calling revenues in the future to decrease due to the decreasing proportion of billed minutes as a result of customer acceptance of flat-rate plans, continued loss of fixed-network access lines and fixed-to-mobile substitution.

The total number of retail broadband lines operated by us increased in 2010 and 2009, as we gained additional subscribers for our television service, “Entertain”. As of December 31, 2010, we had 1.2 million Entertain customers, which are included within the number of retain broadband lines in the table above.

*Mobile Telephony and Data Applications*

The number of contract customers grew by 1.0 million in the reporting year to 18.2 million, mainly due to the sale of SIM cards to resellers and positive developments in the growth of business customers. Growth in the reselling business in 2011 resulted mainly from cards sold to foreign nationals living in Germany, most of whose calls are placed to their home countries. Our decision in April 2010 to deregister prepaid cards that had been inactive for a certain period of time resulted in the deactivation of 4.0 million prepaid customers in 2011.

The decrease in the number of mobile customers in 2010 was due to the deactivation of around 8.3 million inactive prepay customers’ cards, which enabled us to reduce the administrative costs related to these inactive accounts. The number of contract customers remained stable at 17.2 million, which we attribute to our extensive selection of smartphones and our enhanced integrated rate plans for voice telephony and data services. For example, in 2010, we began selling the iPhone 4 in Germany. With a mobile penetration rate in Germany of well over 100%, the strategy in our German mobile operations is to continue to focus on higher-value contract customer business.

*Consumers*

In the consumer business, our Germany operating segment focuses on high-value customers who purchase both fixed-network services such as Internet and TV products (*e.g.*, Entertain) and mobile services with integrated flat rates for data. Since the end of 2010, we have offered our customers a fixed-network calling plan (Call & Surf Comfort) with more bandwidth.

In mobile communications, we have upgraded the service content of the contracts, and at the end of 2010, we started to offer an entry-level double-play package with a data flat rate for the mobile Internet (Call & Surf Mobil). In the new mobile communications portfolio, packages with integrated data flat rates for the mobile Internet (Call & Surf Mobil and Complete Mobil) have sold well. Newly introduced special packages (*e.g.*, Special Call & Surf Mobil) have also been well received by contract customers. The sale of SIM cards to resellers also increased in 2011.

*Business Customers*

In 2011, line losses in the business customers segment remained at the prior-year level. Also, many customers are switching from pure voice telephone lines to double-play products with flat rates for telephony and Internet, which means they use higher-value calling plans, such as Business Complete.

In addition, we introduced a new set of mobile calling plans for our business customers in February 2011. With a clear focus on calling plans with integrated data flat rates for the mobile Internet, this helped to increase subscriber numbers compared with 2010.

*Wholesale*

Overall, the various wholesale products we are required to provide to our competitors by the regulator, such as ULLs and unbundled access lines, increased. Network infrastructure providers require ULLs for their customer access and the number of ULLs increased by 1.1% in 2011. The number of our bundled wholesale lines declined in 2011, while we recorded an increase in unbundled products. We expect this trend to continue for the next few years, in particular due to the fact that our competitors are switching from bundled to unbundled wholesale products in order to improve their service to their own end-customers. We also expect the number of ULLs to increase as well. The results of regulatory decisions are expected to continue to have an effect on demand for our wholesale products.

In 2010, the increase in ULLs resulted from a migration of competitors to all-IP lines. The number of our bundled wholesale lines declined in 2010 and 2009 as competitors switched from bundled to unbundled wholesale products to improve their own services.

*Competition*

Our fixed-network operations in Germany face intense competition based primarily on price in the market for fixed-line network voice telephony and broadband services. Continued competition in the fixed-network market has led to higher service levels and lower prices, intensifying the downward pricing pressure on our own products and services. In addition, as prices for mobile telephony decline, local and other calling services, as well as access services, face increasing competition from mobile telephone operators, due to mobile substitution. These factors, combined with the continued implementation of regulatory policies intended to foster greater competition, are expected to result in similar trends in the future. In addition, the German mobile communications market is saturated in terms of customers and we face intense competition from other mobile network operators and MVNOs.

**Development of Operations**

| | 2011 | 2010 | Change | Change | 2009 |
|---|---|---|---|---|---|
| | (millions of €) | (millions of €) | (millions of €) | (%) | (millions of €) |
| **Total revenue[1]** | **24,031** | **25,145** | **(1,114)** | **(4.4)** | **25,423** |
| Consumer | 12,584 | 13,109 | (525) | (4.0) | 13,446 |
| Business Customer | 5,613 | 5,661 | (48) | (0.8) | 5,480 |
| Wholesale | 4,207 | 4,553 | (346) | (7.6) | 4,569 |
| Digital Services | 749 | 866 | (117) | (13.5) | 838 |
| Value-Added Services | 417 | 498 | (81) | (16.3) | 578 |
| Other | 461 | 458 | 3 | 0.7 | 512 |
| Profit from operations (EBIT) | 4,445 | 4,916 | (471) | (9.6) | 5,062 |
| Depreciation, amortization and impairment losses | (4,447) | (4,193) | (254) | (6.1) | (4,196) |
| EBITDA | 8,892 | 9,109 | (217) | (2.4) | 9,258 |
| Special factors affecting EBITDA[2] | (707) | (509) | (198) | (38.9) | (349) |
| EBITDA (adjusted for special factors) | 9,599 | 9,618 | (19) | (0.2) | 9,607 |
| Cash capex | (3,644) | (4,765) | 1,121 | 23.5 | (3,158) |
| Average number of employees | 76,028 | 79,364 | (3,336) | (4.2) | 84,584 |

[1] In connection with the One Company initiative, we have reported revenue for the consolidated customer areas in our Germany operating segment, beginning with the first quarter of 2011. Prior-year figures have been adjusted for better comparability.
[2] For more information on special factors affecting EBITDA, see "*—Reconciliation of EBITDA and adjusted EBITDA*".

*Total Revenue*

The decline in total revenue in 2011 primarily reflects the downward trend in voice telephony, both in the mobile business and the fixed-network business. Price effects resulting from regulatory decisions, such as the reduction in termination rates from December 2010 and the decrease in interconnection prices in July 2011, negatively affected revenue development. For example, the negative effect from the decrease in mobile termination rates in the German mobile market totalled more than EUR 0.2 billion. Furthermore, we discontinued selling prepaid mobile cards of our competitors. Continued demand for broadband services in the fixed-network and in mobile communications partially offset the negative effects on revenue. In mobile communications, data revenues rose as a result of smartphone sales. An increase in revenue from Entertain partially offset the overall decline in revenues.

The main reasons for the decline in revenue from our consumers business in 2011 and 2010 were the continuing loss of fixed-network lines and the reduction of termination rates in mobile communications. The decrease was partially offset by growth in television and mobile-data revenues. In 2010, the first time consolidation of STRATO, a web hosting provider, also had an offsetting effect.

The main reason for the decline in revenue from our business customers in 2011 was the reduction in mobile termination rates. Growth in mobile-data and broadband revenue almost entirely offset the decline in revenue from traditional fixed-network voice telephony. The growth in revenue in 2010 mainly resulted from growth in both mobile communications and the fixed-network.

The decline in wholesale revenue in 2011 and 2010 was primarily attributable to regulatory price cuts for digital leased lines, unbundled local loop lines and interconnection calls (from July 1, 2011) as well as the declining use of interconnection calls. The decline in revenue was partially offset by a positive trend in the volume of unbundled wholesale lines.

The decline in digital services revenue in 2011 resulted primarily from the discontinued use of prepaid mobile cards of other carriers. The increase in revenue in 2010 resulted from the Scout group and the first time consolidation of ClickandBuy as of April 1, 2010.

Declining revenues from Value-Added Services in 2011 and 2010 resulted from a lower use of premium rate call numbers, such as directory inquiry services, and of public telephones.

In 2012, activities and functions previously reported under digital services in the Germany operating segment (essentially, the Load and Scout businesses) will be transferred and reported under Group Headquarters & Shared Services. For 2012, we expect total revenue for the Germany operating segment to decline compared with the prior year,

mainly due to anticipated regulatory decisions, a decline in revenues in traditional voice telephony and the transfer of digital services described above. We expect ongoing growth in data revenues to partially offset this decline.

*Adjusted EBITDA*

The slight decline in adjusted EBITDA in 2011 resulted from the decline in revenues. However, despite the decline in revenue of EUR 1.1 billion, the decline in adjusted EBITDA was only EUR 19 million, largely due to our focus on value-driven business development and cost management. We reduced our operating costs with a range of measures in the fields of technology and sales and by streamlining our support processes. In addition, we discontinued selling prepaid mobile cards of our competitors, which also had a positive effect.

Despite the decline in total revenue in 2010, adjusted EBITDA remained stable as a result of two offsetting effects. Adjusted EBITDA at our mobile communications business increased mainly as a result of large-scale projects to improve our customer service and implement cost management programs, such as sending invoices by email and increasing the efficiency of our advertising and communication activities. In addition, our mobile operations improved their use of office and warehouse space. Despite the increased marketing of smartphones, we reduced our operating costs by approximately EUR 0.5 billion in 2010 through a range of initiatives in business areas such as production, sales, service, marketing, and IT. This increase was offset by a decline in adjusted EBITDA at our fixed-network business as a result of the revenue developments described above.

For 2012, we expect a largely stable adjusted EBITDA in our Germany operating segment.

*Profit from Operations*

The decrease in profit from operations in 2011 was primarily attributable to higher depreciation, amortization and impairment losses as well as early retirement expenses. Increased depreciation, amortization and impairment losses mainly related to intangible assets, due in part to the capitalization of LTE licenses in 2010.

The decrease in profit from operations in 2010 was mainly due to an increase in staff-related expenses, primarily for early retirement and severance payments. In addition, the write-off of receivables from the German Main Customs Office relating to the 2005 to 2009 tax years also led to the decline.

*Cash capex*

In 2011, we primarily invested in network infrastructure, including the VDSL network and connecting base stations with high bit rates, and in the transmission network to support 4G services. The overall decrease in our cash capex was due to the cash outflow for the acquisition of LTE licenses in 2010 as described below.

The increase in our 2010 cash capex was mainly a result of the mobile frequency spectrum purchased at the auction in March 2010 to roll-out LTE, which is the basis for the future expansion of mobile Internet, especially in rural areas. We also increased expenditure to upgrade our mobile network, providing high-bit-rate connections for the base stations in our UMTS network, accelerating the roll-out of high-quality transmission paths, safeguarding our network operations and rolling-out an all-IP network.

For 2012, we expect the Germany operating segment to make investments of around EUR 3.3 billion. If this target is met, the previously planned capital expenditure of the operating segment for 2010 to 2012 of EUR 10 billion would be exceeded. We anticipate our primary investment to remain the build-out of the broadband infrastructure using a variety of technologies. The ongoing roll-out of broadband mobile networks such as LTE and UMTS will help us to focus on network quality in the long term. In the fixed-network, we plan to continue to work on meeting the growing demand for broadband. In this area, the investment focus is on the expansion of our optical-fiber infrastructure (FTTH).

*Europe*

**Customer Development**

The following table provides information on our fixed-line and mobile operations in our Europe operating segment.

| | Dec. 31, 2011 | Dec. 31, 2010 | Change | Change | Dec. 31, 2009 |
|---|---|---|---|---|---|
| | (in millions) | (in millions) | (in millions) | (%) | (in millions) |
| **Europe, total**[1] | | | | | |
| Fixed-network lines | 10.6 | 11.3 | (0.7) | (6.2) | 12.3 |
| Retail broadband lines | 4.6 | 4.4 | 0.2 | 4.5 | 3.9 |
| Wholesale bundled lines | 0.2 | 0.2 | - | - | 0.2 |
| Unbundled local loop lines | 1.8 | 1.5 | 0.3 | 20.0 | 1.1 |
| Mobile customers[2] | 60.3 | 60.1 | 0.2 | 0.3 | 61.6 |
| **Greece** | | | | | |
| Fixed-network lines | 3.3 | 3.7 | (0.4) | (10.8) | 4.2 |
| Broadband lines | 1.1 | 1.1 | - | - | 1.1 |
| Mobile customers | 7.9 | 8.0 | (0.1) | (1.3) | 9.2 |
| **Romania** | | | | | |
| Fixed-network lines | 2.5 | 2.6 | (0.1) | (3.8) | 2.8 |
| Broadband lines | 1.1 | 1.0 | 0.1 | 10.0 | 0.8 |
| Mobile customers | 6.5 | 6.8 | (0.3) | (4.4) | 7.3 |
| **Hungary**[3] | | | | | |
| Fixed-network lines | 1.5 | 1.7 | (0.2) | (11.8) | 1.8 |
| Broadband lines | 0.8 | 0.8 | - | - | 0.8 |
| Mobile customers | 4.8 | 5.2 | (0.4) | (7.7) | 5.1 |
| **Poland** | | | | | |
| Mobile customers | 14.2 | 13.3 | 0.9 | 6.8 | 13.5 |
| **Czech Republic** | | | | | |
| Fixed-network lines | 0.1 | 0.1 | - | - | 0.0 |
| Broadband lines | 0.1 | 0.1 | - | - | 0.0 |
| Mobile customers | 5.4 | 5.5 | (0.1) | (1.8) | 5.5 |
| **Croatia** | | | | | |
| Fixed-network lines | 1.4 | 1.4 | - | - | 1.5 |
| Broadband lines | 0.7 | 0.6 | 0.1 | 16.7 | 0.6 |
| Mobile customers | 2.4 | 2.9 | (0.5) | (17.2) | 2.9 |
| **Netherlands** | | | | | |
| Fixed-network lines | 0.3 | 0.3 | - | - | 0.3 |
| Broadband lines | 0.3 | 0.3 | - | - | 0.3 |
| Mobile customers | 4.9 | 4.5 | 0.4 | 8.9 | 4.6 |
| **Slovakia** | | | | | |
| Fixed-network lines | 1.0 | 1.1 | (0.1) | (9.1) | 1.1 |
| Broadband lines | 0.5 | 0.4 | 0.1 | 25.0 | 0.4 |
| Mobile customers | 2.3 | 2.4 | (0.1) | (4.2) | 2.4 |
| **Austria** | | | | | |
| Mobile customers | 4.1 | 3.8 | 0.3 | 7.9 | 3.4 |
| **Other**[4] | | | | | |
| Fixed-network lines | 0.5 | 0.5 | - | - | 0.5 |
| Broadband lines | 0.2 | 0.2 | - | - | 0.2 |
| Mobile customers | 7.8 | 7.7 | 0.1 | 1.3 | 7.7 |

[1] For better comparability, the customers of T-Mobile UK, who were transferred to the Everything Everywhere joint venture as of April 1, 2010 following the merger of T-Mobile UK and Orange UK, were subtracted from all historical customer figures.
[2] We count our mobile communications customers by the number of SIM cards activated and not churned. Our customer figures include the SIM cards with which machines can communicate with one another. We count contract customers as customers for the length of their contracts and count prepay customers as customers as long as they continue to use our services, and then for a prescribed period thereafter, which differs by country. Generally, at the end of this period, or in the case of payment default or voluntary disconnection, the customers are cancelled or "churned".
[3] With effect from January 1, 2011, the business customer base was reclassified and divided between the operating segments Europe and Systems Solutions. As a result, mobile corporate customers and the fixed-network lines of corporate customers in Hungary were reassigned to T-Systems.
[4] Other: national companies of Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro.

In 2011, the Europe operating segment faced major challenges from intense competition in the increasingly saturated markets in which it operates.

The Europe operating segment experienced a continued decline in the number of fixed-network lines in 2011, although the rate of decline stabilized during the last three quarters of the year. The decrease in the number of fixed-lines was largely attributable to line losses in Greece, Hungary and Romania, which together accounted for some 90% of the

line losses in our traditional fixed-network business. In Greece and Romania, the economic situation and the resulting intense competitive pressure caused a decline in the number of customers. Furthermore, we were unable to expand our broadband customer base in Greece as planned because the Greek regulatory authority blocked the introduction of our proposed competitive broadband calling plans. In Hungary, the number of fixed-network lines decreased because we reassigned the mobile and fixed-network lines of our corporate customers in Hungary to T-Systems as of January 1, 2011.

In line with our strategic orientation, we focus on fast and efficient telecommunication networks and have been expanding our broadband network. In 2011, the number of broadband lines increased and almost all countries in our Europe operating segment contributed to this result. In Romania, for example, the increase in broadband lines was due to substantial growth in both DSL and cable lines. There was also encouraging growth in the number of DSL lines in the Czech Republic. We have further developed our fiber-optic network in Romania, Hungary and Slovakia. The number of IPTV customers also grew steadily, with an increase of around 24% compared to the end of 2010 mainly resulting from growth in Hungary and Croatia. In the countries in the Europe operating segment where we offer mobile and fixed-network communications, we offer mobile, broadband and fixed-network bundles, which we believe has also contributed to an increase in broadband lines.

In mobile communications, encouraging growth in contract customers led to a slight increase in the overall customer base in 2011. Our contract customer base rose 1.1% compared with 2010 to around 26.7 million. Encouraging growth, particularly in the Netherlands, Austria, Bulgaria and the Czech Republic allowed us to compensate for the decline in customers resulting from the reclassification in Hungary noted above. Overall, contract customers as a proportion of the total number of customers in the Europe operating segment remained stable at 44% compared with the end of 2010. This development was the result of our focus on our aim of winning and retaining high-value customers under our connected life and work approach. For instance, we offered attractive rate plans and innovative data and content services for mobile Internet as well as innovative mobile terminal devices such as smartphones. These devices were in high demand, particularly in the Netherlands and Austria. As a result, smartphones as a proportion of all terminal equipment devices marketed in our Europe operating segment increased yet again.

Our prepay customer base in 2011 was affected both positively and negatively by two adjustments to our reporting methodology. In Poland, beginning in September 2011, the number of prepay customers increased by around 1.0 million owing to a change in our deactivation policy in light of changes in the deactivation policies of other telecommunications companies. In Croatia, the number of prepay customers decreased by around 0.5 million customers as of December 31, 2011, because the reporting methodology was switched to the definition prescribed by the local regulatory authority. The number of prepay customers also declined in Romania because inactive customers were deregistered and due to the difficult economic situation. We concluded the deregistration of inactive cards in Greece in the first quarter of 2011. Since then, while there has been an increase in the prepay customer base, there was still a slight overall decline in the number of prepay customers at the end of 2011 compared with 2010.

In 2010, customer development in our Europe operating segment was affected in by the strained economic situation, especially in Greece and Romania, and intense competition in all countries. In the traditional fixed network business, the number of lines decreased compared with 2009, although we experienced a lower rate of decrease as 2010 progressed. These line losses are mainly attributable to customers switching to other network operators, cable companies and mobile operators. We partially offset these losses with increases in retail broadband lines and in the IPTV business, especially in Croatia and Hungary.

In mobile operations, the total customer base decreased slightly in 2010, mainly due to developments in Greece, Romania, Poland and the Netherlands. The main reason for the decrease in total customer numbers compared to 2009 is the development in the prepay segment, which accounted for 56% and 59% of the total customer base in our Europe operating segment at year-end 2010 and 2009, respectively. In Greece, Romania, Poland and the Netherlands, the number of prepay customers decreased by around 2 million. In Poland and the Netherlands, the prepay customer figures decreased due to a greater focus on high-value contract customer business. Lower prepay customer numbers in the Netherlands and Romania were a result of the deregistration of inactive prepay customers. In Greece, prepay customer figures decreased primarily as a result of the new registration requirements introduced in November 2009. Austria and Hungary recorded net customer additions, thereby offsetting the overall decline in customer numbers.

High-value contract customer business was once again an important growth area in our Europe operating segment in 2010. The number of contract customers increased at almost all European companies compared 2009, except for Romania and Macedonia. We achieved this positive result due to our strategic focus on gaining and retaining high-value customers, for example, through attractive calling plans with minute buckets, flat-rate plans and new mobile phones offered in conjunction with a fixed-term contract. As part of our connected life and work strategy, we successfully targeted new groups of customers with innovative data and content services for the mobile Internet and innovative mobile devices. Smartphones played a particularly significant role as the Apple iPhone 4 was introduced in all European markets and made a significant contribution to a growing contract customer base.

*Competition*

Competition in the fixed-line network and mobile businesses in our Europe operating segment continued to increase in 2011. In our fixed-line businesses, this increase was primarily a result of mobile substitution and regulation requiring us to provide our competitors with access to the ULL. Competition in the fixed-line network and mobile businesses is primarily based on price.

**Development of Operations**

| | 2011 | 2010 | Change | Change | 2009 |
|---|---|---|---|---|---|
| | (millions of €) | (millions of €) | (millions of €) | (%) | (millions of €) |
| **Total revenue**[1] | **15,124** | **16,840** | **(1,716)** | (10.2) | **19,607** |
| Of which: Greece | 3,546 | 3,876 | (330) | (8.5) | 3,899 |
| Of which: Romania | 1,072 | 1,165 | (93) | (8.0) | 1,104 |
| Of which: Hungary | 1,438 | 1,517 | (79) | (5.2) | 1,682 |
| Of which: Poland | 1,740 | 1,839 | (99) | (5.4) | 1,757 |
| Of which: Czech Republic | 1,092 | 1,157 | (65) | (5.6) | 1,191 |
| Of which: Croatia | 1,084 | 1,148 | (64) | (5.6) | 1,161 |
| Of which: Netherlands | 1,747 | 1,767 | (20) | (1.1) | 1,807 |
| Of which: Slovakia | 886 | 934 | (48) | (5.1) | 974 |
| Of which: Austria | 924 | 983 | (59) | (6.0) | 1,038 |
| Of which: United Kingdom | - | 783 | (783) | n.m. | 3,390 |
| Of which: Other[2] | 1,827 | 1,937 | (110) | (5.7) | 1,885 |
| Profit (loss) from operations (EBIT) | 780 | 985 | (205) | (20.8) | 140 |
| Depreciation, amortization and impairment losses | (4,215) | (4,157) | (58) | (1.4) | (6,157) |
| EBITDA | 4,995 | 5,142 | (147) | (2.9) | 6,297 |
| Special factors affecting EBITDA[3] | (246) | (606) | 360 | 59.4 | (93) |
| **EBITDA (adjusted for special factors)** | **5,241** | **5,748** | (507) | (8.8) | **6,390** |
| **Cash capex** | **(1,870)** | **(2,012)** | **142** | 7.1 | **(2,489)** |
| **Average number of employees** | **60,105** | **65,435** | (5,330) | (8.1) | **69,277** |

n.m. – not meaningful

[1] The contributions of the national companies correspond to their respective unconsolidated financial statements and do not take into consideration consolidation effects at the operating segment level.
[2] Other: national companies of Bulgaria, Albania, the F.Y.R.O. Macedonia and Montenegro, as well as ICSS (International Carrier Sales and Solutions), Europe Headquarters and, up to the end of May 2010, T-Mobile International UK.
[3] For more information on special factors affecting EBITDA, see "—*Reconciliation of EBITDA and adjusted EBITDA*".

*Total Revenue*

Approximately half of the decline in total revenue in 2011 was attributable to the deconsolidation of T-Mobile UK effective April 1, 2010. The total revenue decline was also caused by the erosion of prices in almost all European countries. As a result of regulation, we were required to decrease mobile termination rates, which led to substantial revenue declines in the Netherlands, the Czech Republic, Poland, Hungary and Austria in particular. Intense competition adversely affected our revenue as well. Furthermore, the difficult economic situation, especially in Southern and Eastern European countries and at the OTE group, had a negative impact. In 2011, the Europe operating segment experienced slightly negative exchange rate effects, with the negative effects of the Polish zloty, the Croatian kuna and the Hungarian forint against the euro being nearly offset by positive effects from the Czech koruna.

These negative developments were offset in part by revenue growth in the fixed-network broadband/TV, as well as by mobile data revenue, which increased by around 15% in 2011. In calculating data revenues, we subtract SMS messaging revenues from our total non-voice revenues. Almost all of the countries in our Europe operating segment contributed to the growth in mobile data revenue, especially the Netherlands, Greece and Poland.

In 2010, the decline in total revenue at our Europe operating segment was primarily the result of offsetting effects. Total revenue declined primarily due to the deconsolidation of T-Mobile UK effective April 1, 2010. Another factor was a decline in revenue from operations, which was largely attributable to price reductions resulting in most countries in the segment from the decline in mobile termination charges imposed by regulatory authorities as well as from intense competition. Furthermore, the special tax imposed by the Hungarian government in October 2010 retroactively for the full year 2010 also decreased total revenue by EUR 0.1 billion. The tax on mobile services in Croatia and the difficult economic situation, especially in Southern and Eastern European countries, had a substantial negative impact on total revenue. Greece, Romania and Hungary were particularly affected by the decline in revenue.

This decline was offset in part by the first-time full year consolidation of OTE and positive exchange rate effects against the euro. These effects were mainly attributable to the Polish zloty, the Czech koruna, the Hungarian forint, the

pound sterling and the Croatian kuna. Strong revenue growth in the fixed network from our wholesale, broadband/TV business also helped to offset the overall decline in total revenue.

For 2012, we expect the Europe operating segment to be faced with an ongoing tense and, in some areas, unstable environment. The markets in this operating segment are beset by fierce competition. Most of them are virtually saturated, and line losses are common in the traditional fixed-line business. Regulatory measures, including the decision to maintain asymmetric mobile termination rates within the same country and the granting of additional mobile frequency spectrum to potential new market players, are exacerbating the competitive situation and depressing prices even further. For these reasons, we expect total revenues in the Europe operating segment to decline in 2012.

In addition, our revenue development in 2012 may be adversely affected by changes in legislation, for instance in connection with government austerity programs. Exchange rate effects could also adversely affect revenue on a euro basis. We also intend to look into the possibility of additional network cooperation with other telecommunications operators in the countries of our Europe operating segment, such as Poland, the Czech Republic and Austria.

Total revenues in the main countries of our Europe operating segment developed as described below.

***Greece.*** In 2011, the revenue decline in Greece resulted from declines in both the fixed-network and mobile business. Declining fixed-network revenue was primarily attributable to line losses, but was partially offset by growth in wholesale revenue. On March 22, 2011, the Greek NRA imposed temporary restrictions on OTE, requiring the company to refrain from providing next-generation network access retail services for six months and to provide wholesale services based on a cost model. On December 1, 2011, the Greek NRA approved the cost model for VDSL, including the obligation that OTE should abstain from offering retail broadband access services for six months. With regulation of the fixed-network business in Greece continuing to be very strict, we were therefore unable to make planned broadband acquisitions and, as a result, were unable to generate additional revenue from that source. The mobile business in 2011 suffered primarily from the difficult overall economic situation and intense competition. Our revenue was also adversely affected by the reduction in termination rates imposed by the regulatory authority. This decline was partially offset by substantial increases in data revenue.

In 2010, revenue remained stable as the effects of the first full-year consolidation of OTE offset a revenue decline in the fixed-network and mobile businesses. This revenue decline from line losses in the traditional fixed-network business were almost fully offset by a positive trend in wholesale and broadband revenues. In mobile communications, the reduced termination charges and intense price competition affected negatively on service revenues. In addition, the prepay registration requirements again resulted in a loss of customers in the prepay segment, and consequently in lower revenue. The slight increase in sales of terminal equipment in 2010 mitigated the revenue decline.

***Hungary.*** Around 72% of the revenue decrease in Hungary in 2011 can be attributed to the reclassification of business customers to T-Systems, which accounted for a revenue decrease of approximately EUR 38 million, and negative exchange rate effects from the performance of the Hungarian forint against the euro. Higher broadband/TV revenue only partially offset the revenue losses in our traditional fixed-network business. The decrease in mobile service revenues was primarily due to the reclassification of business customers. In addition, revenue from voice telephony and text messaging declined as a result of competition-induced price cuts and decreased use of voice telephony per customer, but was partially offset by slightly higher revenue from the sale of terminal equipment devices.

In 2010, the revenue decline was primarily a result of the special tax imposed by the Hungarian government in October 2010, which reduced revenue by EUR 0.1 billion. The decline in revenue from operations was largely attributable to the general economic situation. The fixed-network business was affected to a greater extent than mobile communications, despite growth in broadband/TV lines and the resulting increase in revenue. Service revenues from mobile operations decreased mainly as a result of reduced mobile termination charges. This decline was partially offset by the positive exchange rate effect from the translation of the Hungarian forint to euros and increases in non-voice mobile revenues.

***Poland.*** The revenue decline in Poland in 2011 was primarily caused by negative exchange rate effects due to the performance of the Polish zloty against the euro. In addition, service revenues declined as a result of intense competition, but were offset by significantly higher data revenues. We were able to increase revenue from the sale of terminal equipment by successfully marketing smartphones, which had a positive impact on total revenue.

In 2010, positive exchange rate effects from the translation of the Polish zloty to euros increased revenue at PTC, compensating for the decline in revenue from operations attributable primarily to service revenues. Higher levels of non-voice revenues only partially compensated the revenue losses in voice telephony. The revenue losses in voice telephony were primarily the result of a decrease in average per-minute calling rates.

***Netherlands.*** The decrease in revenue in 2011 mainly resulted from the adverse effects of multiple cuts in termination rates by the Dutch regulatory authority, which resulted in lower service revenues. This decline was partially offset by a significant increase in our data revenues and by higher proceeds from terminal equipment sales, due to a high demand for smartphones. The development of the fixed-network business was more or less stable compared to 2010.

In 2010, T-Mobile Netherlands reported a slight decrease in revenue, due mainly to lower MVNO and online revenues as well as and price decreases resulting from increased regulation. This was partially offset by higher service revenues, including higher non-voice revenues. The increase in the contract customer share of the total customer base also had a positive impact on revenue.

*Adjusted EBITDA*

In 2011, over one third of the decrease in adjusted EBITDA in our Europe operating segment was attributable to the deconsolidation of T-Mobile UK effective April 1, 2010. In addition, the real estate tax introduced by the Greek government in 2011 had an adverse effect on adjusted EBITDA. Added to this were slightly negative overall exchange rate effects, with the positive performance of the Czech koruna only partially offsetting the negative performance of the Polish zloty, the Croatian kuna, and the Hungarian forint against the euro. The decline in adjusted EBITDA is primarily attributable to the lower revenue in 2011 compared with 2010. We partially offset this negative trend by reducing overhead costs, particularly in Greece and Hungary.

The decrease in adjusted EBITDA in 2010 was primarily due to the offsetting effects that affected revenue. Adjusted EBITDA declined as a result of the deconsolidation of T-Mobile UK effective April 1, 2010 and the newly imposed special tax in Hungary that applied retroactively to the entire 2010 financial year. Adjusted EBITDA was positively affected by the first full-year consolidation of OTE. Positive exchange rate effects attributable primarily to the translation from Polish zlotys, Czech korunas, Hungarian forints, Croatian kunas and pounds sterling also had a positive effect.

For 2012, we expect adjusted EBITDA in the Europe operating segment to decline. Adjusted EBITDA may be adversely affected by changes in legislation, for instance in connection with government austerity programs. The special tax in Hungary, for instance, will impact adjusted EBITDA negatively in 2012 by leading to lower revenues. The same is true for Greece, which introduced a real estate tax in 2011, as well as for Croatia, which reintroduced a mobile communications tax on January 26, 2012. Exchange rate effects could also adversely affect adjusted EBITDA on a euro basis. We intend to continue to increase productivity by cutting costs, which will entail headcount reductions in some of the countries in this segment.

Adjusted EBITDA in the main countries of our Europe operating segment developed as described below.

***Greece.*** The decrease in adjusted EBITDA in 2011 was due to lower revenues and decisions by public authorities. In September 2011, the Greek government introduced a real estate tax for 2011. In addition, regulated rates were retroactively adjusted in the second quarter of 2011. Our programs and initiatives to increase efficiency, particularly in lower personnel costs, partially offset the decline in adjusted EBITDA. Adjusted EBITDA remained almost stable in 2010 in the Greek mobile and fixed-network operations, due in particular to the positive effect from the first full-year consolidation of OTE and lower expenses related to overhead. This increase was partially offset by the negative revenue trend and higher customer acquisition costs resulted from intense mobile competition.

***Hungary.*** In 2011, similar to the development of revenue, approximately 73% of the decrease in adjusted EBITDA was due to the reclassification of business customers and the unfavorable exchange rate performance of the Hungarian forint against the euro. Savings in overhead costs largely offset the negative effects of the decline in revenue from operations.

The decline in adjusted EBITDA in 2010 was primarily a result of the tax imposed by the Hungarian Government described above. However, positive exchange rate effects from the translation of the Hungarian forint to euros mitigated this decline. Adjusted EBITDA from mobile operations increased slightly.

***Poland.*** The decline in adjusted EBITDA in 2011 was primarily attributable to sales and customer service costs for rebranding Era to T-Mobile in June 2011 as well as negative exchange rate effects. Improving the way we address serving our high-value contract customers had a positive effect on EBITDA, which partially offset the negative effects of revenue decreases and rebranding costs.

In 2010, adjusted EBITDA increased due primarily to positive exchange rate effects. In addition, lower customer retention costs and savings on overhead, especially in technology and marketing, helped compensate for the

negative effects of the revenue decline. A positive effect recorded in the fourth quarter of 2010 contributed further to the increase in adjusted EBITDA.

***Netherlands.*** The increase in adjusted EBITDA in 2011 resulted primarily from savings in customer acquisition and overhead costs, which offset the negative revenue effects from regulation.

In 2010, T-Mobile Netherlands increased adjusted EBITDA, primarily as a result of lower customer acquisition costs and an effect in the second quarter of 2010. Growth in adjusted EBITDA was due to significant savings in overhead costs, following the completed integration of Orange.

*Profit from Operations*

The decrease in profit from operations in 2011 in our Europe operating segment was due to the decrease in adjusted EBITDA described above and the higher overall depreciation, amortization and impairment losses at the segment level. Impairment losses on goodwill and property, plant and equipment totaled EUR 1.0 billion in 2011, compared to EUR 0.7 billion recorded in 2010. Impairment losses on goodwill in 2011 were mainly recognized in the cash-generating units of Greece (fixed-network), Greece (mobile), Bulgaria, Macedonia, and Romania (fixed-network), while impairment losses on property, plant and equipment were recognized in Romania (fixed-network).

In 2010, the increase in profit from operations was primarily a result of the EUR 2.3 billion goodwill impairment loss recognized in 2009, of which EUR 1.8 billion related to the cash-generating unit T-Mobile UK. This contrasted with impairment losses of EUR 0.7 billion recognized in 2010 on goodwill and property, plant and equipment in the fixed-network businesses of Greece and Romania and the mobile communications businesses of Romania and Albania. In 2010, profit from operations was also positively affected by the fact that, between September 2009 and March 2010, T-Mobile UK was classified as held for sale, and, as a result, depreciation and amortization were not recognized.

*Cash Capex*

In 2011, the decrease in cash capex was mainly attributable to the deconsolidation of T-Mobile UK. In addition, investment activity in most countries within our Europe operating segment was restrained owing to the difficult market situation, decisions by regulatory authorities, and additional financial burdens, such as the special tax in Hungary and the real estate tax in Greece. At the same time, our cash capex increased, for example, in connection with extending existing or obtaining new mobile communications licenses. In Greece, we purchased spectrum in the 0.9 GHz and 1.8 GHz frequency ranges for EUR 119 million. As well as the acquisition of additional frequencies, the purchase price also covers the extension of the existing mobile communications license. We acquired mobile communications licenses in the 0.9 GHz frequency range in Albania for a price of EUR 17 million. In Slovakia we spent EUR 48 million to extend our mobile communications licenses by another ten years.

In 2010, the decline in cash capex, despite the effects of the first full-year consolidation of OTE, was primarily a result of the deconsolidation of T-Mobile UK. Furthermore, the difficult market situation combined with the special tax in Hungary and the tax on mobile communications in Croatia led to restraint in investment in these countries.

In 2012, we plan to focus our capital expenditure on upgrading the network infrastructure. In mobile communications, we plan to concentrate our efforts on introducing LTE as the fourth-generation mobile technology in Hungary and Croatia. At the same time we intend to invest in building out the UMTS networks and making them ready for HSPA plus in most of the countries in this operating segment. In 2012, we again plan to take part in spectrum auctions. We plan to make additional investments in the fixed network to increase broadband coverage and in improving customer service.

*United States*

**Customer Development**

The following table provides information on our mobile operations in the United States.

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | (in millions) | | |
| Customers[1] | | | |
| **Total** | **33.2** | **33.7** | **33.8** |
| Contract | 24.8 | 26.4 | 26.8 |
| Prepaid | 8.4 | 7.3 | 7.0 |

[1] We count our mobile communications customers by the number of SIM cards activated and not churned. Our customer figures include the SIM cards with which machines can communicate with one another. We count contract customers as customers for the length of their contracts and count prepaid customers as customers as long as they continue to use our services, and then for a prescribed period thereafter, which differs by country. Generally, at the end of this period, or in the case of payment default or voluntary disconnection, the customers are cancelled or "churned".

In 2011, the United States operating segment was affected by uncertainty related to the formerly proposed sale of T-Mobile USA to AT&T. The United States operating segment had a net decrease of 549,000 customers compared to 56,000 net customer losses in 2010. Compared to 2010, increased contract customer losses in 2011 were partially offset by prepaid customer growth. In 2011, T-Mobile USA had 1.7 million net contract customer losses compared to 318,000 net contract customer losses in 2010.

The decline in contract customer gross additions in 2011 was partially due to the implementation of strengthened credit standards, which was an aspect of T-Mobile USA's focus on improving the overall quality of its contract customer base. This decline was also due to increased competitive intensity, including the launch of the iPhone 4S by three competitors in the fourth quarter of 2011, and increased churn. This decline was partially offset by customer growth in partner branded mobile plans and mobile broadband.

Connected devices contributed to net customer additions in 2011 and totaled 2.4 million as of December 31, 2011, but these additions were 195,000 fewer than in 2010 due to increased churn. In 2011, T-Mobile USA had 1.1 million net prepaid customer additions compared to 262,000 in 2010. The significant improvement in net prepaid customer additions in 2011 was due primarily to growth of unlimited monthly 4G prepaid plans. Additionally, MVNO customer growth continued to be strong, consistent with the result in 2010. Total MVNO customers increased to 3.6 million as of December 31, 2011 from 2.8 million as of December 31, 2010. The number of customers using 3G and 4G smartphones (which include UMTS/HSPA/HSPA plus enabled smartphones) was 11.0 million at the end of 2011, an increase of over 34% compared to the 8.2 million at the end of 2010.

T-Mobile USA's blended churn increased to 3.6% per month in 2011, compared to 3.4% per month in 2010 driven by higher churn from T-Mobile branded customers, defined as total customers less MVNO and connected device (machine-to-machine) customers. This resulted from competition from the iPhone (which has not been offered by T-Mobile USA) and connected devices, partially offset by improvement in branded prepaid churn.

In December 2011, Deutsche Telekom and AT&T, Inc. jointly terminated their agreement to sell T-Mobile USA to AT&T. Following the termination of the planned sale, T-Mobile USA has continued to focus on implementing its Challenger strategy. Key elements of this strategy include attracting and retaining a loyal customer base through new market initiatives and customer retention programs, driving operational efficiencies, focusing on the continued enhancement of network quality, developing attractive handset offerings and addressing the business customer segment more actively. In connection with this strategy, T-Mobile USA is relaunching its brand to focus on providing the best value in wireless, in terms of affordability and technology, to support its mission to make 4G services affordable. In addition, we are considering strategic options to strengthen T-Mobile USA's capital structure.

In 2010, the United States operating segment had a net decrease of 56,000 customers, compared to 1.0 million net customer additions in 2009. The number of T-Mobile branded customers decreased in 2010. At the same time, the number of MVNO and connected device customers increased. In addition, there was a decline in the proportion of contract customers in the overall customer base.

The development in net contract customer losses was due primarily to a decline in FlexPay contract gross additions, which was partially offset by strong connected device growth. Connected device customers totaled 1.9 million at December 31, 2010. The change in prepaid customer additions in 2010 compared to 2009 was due primarily to higher

deactivations from MVNO and traditional prepaid customers. At December 31, 2010, T-Mobile USA had 2.8 million MVNO customers.

T-Mobile USA's total churn increased in 2010 primarily to higher prepaid churn from MVNO customers. Total churn increased due to competitive intensity during the year, including handset innovation, such as the iPhone that is offered by our competitors, and market launches by regional unlimited wireless carriers. Contract churn remained high as intense competition continued to impact churn. T-Mobile USA's contract customer churn rate in 2009 increased partially as a result of competitive intensity, including competition based on handset innovation.

Competitive differences, differences in features and services due to the use of multiple wireless technologies, and general differences in consumer behavior between the United States and Europe factor into higher industry churn rates in the United States compared to Europe. However, the churn rate of T-Mobile USA's operations is higher than the U.S. industry average due in part to the higher proportion of prepaid customers in T-Mobile USA's customer base relative to most of its U.S. competitors, competitive intensity particularly relating to handset innovation and due to the greater focus on individual consumers than other U.S. carriers (who have a larger focus on lower-churn enterprise and government customers). Prepaid customers in the United States typically churn at substantially higher rates than contract customers.

*Competition*

Verizon, AT&T and Sprint have potential advantages through size, scale and bundling with other non-wireless communication services. These advantages could allow them to deliver services in a more cost-efficient manner and disproportionately increase their customer base, thereby negatively affecting T-Mobile USA's competitive position. T-Mobile USA faced significant competitive challenges in 2011, particularly in the fourth quarter, following the market launch of the new Apple iPhone model by these three major national competitors in October. In addition, Verizon and AT&T, in particular, achieved proportionately higher net customer additions in 2011 and 2010, which combined with pressure from the regional unlimited discount operators, resulted in T-Mobile USA's decline in market share in 2011 and 2010.

Like the European market, handset lineup and the perceived value of bundles of voice, messaging and data services are key competitive factors in the United States. In addition, 3G, and more recently 4G, network coverage and quality in the United States has become a more important factor than in the past. To the extent that the competitive environment requires T-Mobile USA to decrease prices, or increase service and product offerings, there could be significant adverse impacts to revenues, costs and customer retention.

**Development of Operations**

| | 2011 | 2010 | Change | Change | 2009 |
|---|---|---|---|---|---|
| | (millions of €) | (millions of €) | (millions of €) | (%) | (millions of €) |
| **Total revenue** | **14,811** | **16,087** | **(1,276)** | **7.9** | **15,471** |
| Profit (loss) from operations (EBIT) | (710) | 2,092 | (2,802) | n.m. | 2,233 |
| Depreciation, amortization and impairment losses | (4,407) | (2,064) | (2,343) | n.m. | (2,028) |
| EBITDA | 3,697 | 4,156 | (459) | (11.0) | 4,261 |
| Special factors affecting EBITDA[1] | (134) | - | (134) | n.m. | - |
| **EBITDA (adjusted for special factors)** | **3,831** | **4,156** | **(325)** | **(7.8)** | **4,261** |
| **Cash capex** | **(1,963)** | **(2,121)** | **158** | **7.4** | **(2,666)** |
| **Average number of employees** | **34,518** | **37,795** | **(3,277)** | **8.7** | **38,231** |

n.m. – not meaningful

[1] For more information on special factors affecting EBITDA, see "—*Reconciliation of EBITDA and adjusted EBITDA*".

*Total Revenue*

In 2011, the decline in total revenue was primarily caused by negative exchange rate effects. Despite a challenging market situation including uncertainty related to the formerly proposed sale of T-Mobile USA to AT&T and increased competition, total revenues in U.S. dollars only declined by 3.3% compared to 2010. In addition, declines in T-Mobile USA branded customers resulted in service revenue declines. These declines were partially offset by increasing

growth in data revenues from customers using smartphones with mobile broadband data plans. Additionally, declining terminal equipment revenues resulting from lower volumes were partially offset by revenues from the handset protection insurance program that was launched in the fourth quarter of 2010.

The increase in total revenue in 2010 resulted from positive exchange rate effects. In U.S. dollars, total revenue declined slightly in 2010, due primarily to the decline in voice revenues resulting from the decrease in T-Mobile USA branded customers. Additionally, variable voice revenues decreased in 2010 due to an increase in the proportion of customers on unlimited rate plans and lower roaming revenues. These decreases were offset in 2010 partially by strong growth in data revenues from customers using smartphones with mobile broadband data plans. The number of customers using 3G and 4G smartphones (which include UMTS/HSPA/HSPA plus enabled smartphones) more than doubled to 8.2 million at the end of 2010 from 3.9 million at the end of 2009. Additionally, T-Mobile USA's total revenue benefitted towards the end of 2010 from T-Mobile USA launching its own handset protection insurance program.

In 2012, we expect total revenues in local currency to decline in our United States operating segment. Revenues are expected to be adversely affected by T-Mobile branded customer losses and declining voice revenue from customers moving to unlimited value plans, partially offset by growth in non-voice services. Additionally, competitive pressures may significantly affect total revenues in local currency and exchange rate movements may significantly affect revenues in euros in 2012.

*Adjusted EBITDA*

In 2011, the decline in adjusted EBITDA was primarily the result of negative exchange rate effects. Adjusted EBITDA expressed in U.S. dollars fell by 3.1% primarily due to the decrease in revenues as discussed above. The calculation of adjusted EBITDA for 2011 excludes EUR 134 million in transaction-related expenses associated with the terminated AT&T acquisition of T-Mobile USA. Operating expenses in U.S. dollars decreased 2.2% compared to 2010 due primarily to lower volume-driven handset and commission costs. This decline in costs was offset in part due to higher marketing expenses related to advertising and increased network costs associated with the build out of the 4G HSPA plus network. Additionally, the effects of ongoing cost management programs in 2011 helped control expense growth.

In 2010, the decline in adjusted EBITDA expressed in euros was affected by positive exchange rate effects. In local currency, adjusted EBITDA fell due to slightly lower revenues, as discussed above, and an increase in operating expenses. Operating expenses were higher in 2010 compared to 2009 primarily as a result of an increase in the cost of equipment sales. In 2010, T-Mobile USA offered a variety of handset incentives encouraging the adoption of smartphones with mobile broadband data plans. Additionally, higher fixed-line costs related to running the HSPA plus network were offset partially by lower outsourcing and roaming expenses. Lower commissions resulting from fewer T-Mobile USA branded customer gross additions also partially offset increases in operating costs in 2010.

We expect adjusted EBITDA in local currency to decline in our United States operating segment in 2012 due to continued investment in the network and increased marketing of the T-Mobile USA brand, focused on attracting and retaining customers. Additionally, competitive pressures may significantly affect adjusted EBITDA in local currency and exchange rates may significantly affect adjusted EBITDA in euros in 2012.

*Profit (loss) from Operations*

The loss from operations in 2011 was primarily due to the recognition of an impairment loss on goodwill of EUR 2.3 billion in 2011 and depreciation in connection with the build out of the network, as well as the factors described above. The goodwill impairment loss resulted from continued contract customer losses and pricing pressures related to new and existing customers in the increasingly saturated U.S. market. For more information, please refer to our consolidated financial statements as of and for the year ended December 31, 2011 included elsewhere in this offering memorandum.

Profit from operations declined in 2010 due to slightly lower revenues and higher operating costs as described above.

*Cash Capex*

The decrease in cash capex was primarily due to negative exchange rate effects. In U.S. dollars, cash capex remained stable in 2011 as lower incurred network capex was partially offset by payment timing differences. Spending in 2011 was primarily for network coverage expansion and the upgrade to HSPA plus 42, providing more than 184 million Americans with access to T-Mobile USA's most advanced 4G mobile broadband network with possible download speeds of 42 Mbits/s and increased network capacity and reliability.

The primary reason for the decline in 2010, compared to 2009, relates to the high levels of cash capex spending in 2009 in connection with the build-out of our national UMTS/HSPA network.

T-Mobile USA plans to focus on investment in, and enhancement of, network quality and coverage, particularly on the further expansion and upgrade of its mobile broadband communications network. In connection with the termination of the TMUS Purchase Agreement, T-Mobile USA will receive Advanced Wireless Solutions spectrum licenses from AT&T, contingent upon regulatory approvals. T-Mobile USA is currently exploring the possibility of making significant investments in connection with the deployment of an LTE network, which would support an LTE launch in 2013. For example, we plan to invest approximately USD 4 billion in the modernization of our network and the build-out of an LTE network in the coming years, of which approximately USD 1.4 billion would be invested during 2012 and 2013. In addition, T-Mobile USA is reviewing further options to leverage network investments to enhance its Challenger strategy.

*Systems Solutions*

**Selected Data**

The following table provides information data related to T-Systems' business development.

| | | Dec. 31, 2011 | Dec. 31, 2010 | Change | Change (%) | Dec. 31, 2009 |
|---|---|---|---|---|---|---|
| **New orders** | **(millions of €)** | **8,826** | **9,281** | **(455)** | **(4.9)** | **9,364** |
| **Computing & Desktop Services** | | | | | | |
| Number of servers managed and serviced | units | 58,053 | 58,073 | (20) | - | 47,092 |
| Number of workstations managed and serviced | **(millions)** | 2.00 | 1.95 | 0.05 | 2.6 | 1.86 |
| **Systems Integration** | | | | | | |
| Hours billed | (millions) | 9.7 | 9.2 | 0.5 | 5.4 | 9.6 |
| Utilization rate | % | 84.1 | 84.0 | | 0.1p | 81.3 |

Through T-Systems, our Systems Solutions operating segment provides Information and Communications Technology, or ICT, infrastructure and solutions, primarily to multinational companies, government agencies and non-profit organizations. T-Systems' primary market is Germany, with operations in other countries.

T-Systems is comprised of one sales unit, one service unit and two delivery units, Production and Systems Integration. The sales unit has overall responsibility for T-Systems' customers and focuses on obtaining business with new customers and expanding business relationships with existing customers. The sales unit focuses on fostering synergies within the business, marketing sector-specific service products, expanding industry skills to provide customers with timely and comprehensive advice and further developing its presence in regional markets.

The service unit focuses on maintaining customer service and quality by providing standardized ICT products and solutions. This unit is responsible for designing and calculating the costs of customer solutions. It also manages and develops T-Systems' product and service portfolio and is responsible for all transition and transformation projects.

The two delivery units, Production and Systems Integration, complement the activities of the other units. The Production delivery unit is responsible for providing services relating to customer ICT infrastructure, including computing services, desktop services, application services and telecommunications services. It aims to ensure uniform standards for product quality and processes worldwide. Systems Integration focuses on IT integration projects, application management and application development.

The decline of orders in 2011 was primarily due to strong competition in the ICT market. Despite the overall decline in orders, T-Systems brokered a number of major deals in 2011, including several in the growth area of cloud computing, an expanding area of T-System's business. Through cloud computing, we offer dynamic services that allow customers to obtain bandwidth, computing capacity and storage services as needed, and share the infrastructure. Cloud-based contracts are billed based on use and only stipulate a minimum purchase quantity. T-Systems is benefitting from the fact that companies and businesses increasingly use software on a secure Internet connection, or private cloud, to manage their business processes.

In 2011, the number of servers managed and serviced remained at the same level as in 2010, since the capacity utilization of high-performance servers was further improved. The consolidation of data centers was also continued. The number of workstations managed and serviced increased by 2.6%, mainly due to new orders. Systems Integration also continued to perform well, with T-Systems billing substantially more hours than in 2010 and increasing the utilization rate once again.

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

*Competition*

The IT and telecommunications markets in which T-Systems operates are subject to intense competitive pressures, both in Germany and globally. These markets are characterized by strong pricing pressures and competition will remain intense for the foreseeable future.

The IT market is characterized by reduced customer IT budgets, prolonged customer sales cycles and aggressive competition from offshore providers. As a result of these competitive pressures, many companies, including T-Systems, are attempting to maintain or expand market share through improved productivity, cost-cutting and efficiency measures. This situation has also led to a consolidation in the IT sector, which T-Systems expects to continue for the foreseeable future. However, T-Systems expects the global IT services markets to continue to grow only slightly in the near future, while competition will remain intense.

The telecommunications market is characterized by substitution of traditional services (voice and data) by IP and mobile services. The competitive landscape over the past several years has been characterized by market participants attempting to reduce their indebtedness and increase their profitability through strategic refocusing and concentration on IP services, fixed-mobile convergence and network-centric ICT solutions. Additionally, consolidation in the ICT market (primarily in the U.S. market) has increased competition. T-Systems expects this strategic refocusing to continue in 2012 and therefore expects similarly fierce competition.

**Development of Operations**

| | 2011 | 2010 | Change | Change | 2009 |
|---|---|---|---|---|---|
| | (millions of €) | (millions of €) | (millions of €) | % | (millions of €) |
| **Total revenue** | **9,249** | **9,057** | **192** | **2.1** | **8,798** |
| Profit (loss) from operations | (43) | 44 | (87) | n.m. | (11) |
| Depreciation, amortization and impairment losses | (640) | (623) | (17) | (2.7) | (721) |
| EBITDA | 597 | 667 | (70) | (10.5) | 710 |
| Special factors affecting EBITDA[1] | (275) | (281) | 6 | 2.1 | (213) |
| **EBITDA (adjusted for special factors)** | **872** | **948** | **(76)** | **(8.0)** | **923** |
| **Cash capex** | **(553)** | **(725)** | **172** | **23.7** | **(681)** |
| **Average number of employees** | **48,224** | **47,588** | **636** | **1.3** | **45,328** |

n.m. – not meaningful
[1] For more information on special factors affecting EBITDA, see "*—Reconciliation of EBITDA and adjusted EBITDA*".

*Total Revenue*

The 2011 increase in revenue was mainly attributable to the transfer of business customers from Magyar Telekom in the Europe operating segment to T-Systems, which accounted for a revenue increase of approximately EUR 129 million. To a lesser extent, a revenue increase resulting from deals concluded in 2010 and 2011 offset the general negative price trend in IT and communications. Revenue generated with our other operating segments amounted to EUR 2.7 billion in 2011, an increase of 1.4%.

The increase in total revenue in 2010 resulted from a number of new contracts that were concluded in 2009 and 2010. The increase in volume from these new contracts offset the general negative price trend in IT and communications. In addition, revenue generated with our other operating segments amounted to EUR 2.6 billion in 2010, a decrease of 2.5%. As a service provider for our Group, T-Systems plays a key role in Deutsche Telekom's IT costs. T-Systems standardized and improved the IT environment for the Group, making a major contribution to our cost savings initiatives.

In 2012, we expect total revenue to stabilize. Revenue generated with third parties is expected to grow, while intra-group revenue is anticipated to decline due to efficiency measures. From mid-2012, the internal IT activities of Deutsche Telekom will be consolidated in the Systems Solutions operating segment in order to accelerate processes and respond more rapidly to competition. Revenue expectations are based on the assumption of an unchanged consolidation structure that does not yet include this consolidation of IT activities.

*Net Revenue*

T-Systems increased its business volume with customers outside the Group in 2011. The operating segment generated net revenue of EUR 6.6 billion, 2.4 % more than in 2010. This increase was primarily attributable to the transfer of business customers from Hungary, as described above. It was also attributable to the growing systems integration business, which benefited in particular from the development and operation of customer applications (Application Management & Development). Revenue from the telecommunications business also rose, despite falling prices. Deals closed in 2010 also had a positive effect on 2011 net revenue.

In 2010, T-Systems substantially expanded business with customers outside the Group. The operating segment generated net revenue of EUR 6.4 billion, a 5.4% increase when compared with 2009. This positive development was primarily attributable to our Computing & Desktop Services business, in which many of our customers are opting for cloud services. In addition, our net revenue increase was also attributable to growth at our Systems Integration business, particularly with application management and development. The increase in net revenue was partially offset by developments in our telecommunication business, where revenue again declined because of intense price pressure

*Adjusted EBITDA*

In 2011, the primary reasons for the decline of adjusted EBITDA from the Systems Solutions operating unit included increased contract-related expenses, such as the migration of customer infrastructure to T-Systems' operational business, and increases in start-up expenses related to focus areas, such as intelligent networks, energy, healthcare and connected cars. Adjusted EBITDA was also negatively affected by measures to improve competitiveness, such as the roll-out and expansion of an internal nearshore and offshore delivery network and staff restructuring measures. Savings generated by our restructuring and efficiency enhancement programs did not offset this increase in costs.

In 2010, the increase in adjusted EBITDA was primarily attributable to the increase in revenues. This increase was partially offset by the higher cost of goods and services purchased as a result of start-up costs in connection with new contracts.

In 2012, we expect adjusted EBITDA to increase slightly. As noted above, the internal IT activities of Deutsche Telekom will be consolidated in the Systems Solutions operating segment from mid-2012. Adjusted EBITDA expectations are based on the assumption of an unchanged consolidation structure that does not yet include this consolidation of IT activities.

*Profit (loss) from Operations*

In 2011, we experienced a loss from operations compared to a profit from operations in 2010. This change is attributable not only to effects of increased expenses related to contracts, but also to increased depreciation, amortization and impairment losses following capital expenditure to expand the business in 2010. Our restructuring and efficiency enhancement program was not able to fully offset this development.

The increase in profit from operations in 2010 resulted from lower depreciation and amortization owing to the extension, on economic grounds, of the useful lives of several assets, such as high-performance servers.

*Cash Capex*

Declines in cash capex were primarily due to T-Systems' completion of a project to build out its computing platform in 2010. Measures to increase efficiency, such as our increasing standardization of ICT platforms, also reduced the need for capital expenditures. Investments mainly focused on customer orders and the expansion of new multipurpose platforms, such as for cloud services and De-Mail.

The increase in cash capex in 2010 resulted from an expansion of T-Systems' computing platform and investments related to new contracts. The addition of assets taken on under new contracts offset the positive effects from efficiency enhancement measures, such as the increased standardization of ICT platforms.

*Group Headquarters & Shared Services*

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

Vivento was established in 2002 with the goal of efficiently implementing our staff restructuring measures in a socially responsible manner. Through Vivento, displaced workers are retrained and equipped with new employment qualifications for permanent redeployment within our Group or with external employers, or for project and temporary assignments.

As of December 31, 2011, Vivento had a workforce of about 8,500 employees, including around 3,500 who were deployed externally, mainly in the public sector, for example at the Federal Employment Agency. Approximately 3,300 additional employees were employed within the Group, particularly in service centers. About 1,700 employees were placed in Vivento's operational and strategic units or continued to be managed by Vivento. While Vivento took on a total of around 1,500 new employees from our Group in 2011, around 1,900 employees left the personnel service provider to pursue new opportunities.

At December 31, 2010, Vivento had a workforce of about 8,900, including around 3,600 employees who were deployed externally, mainly in the public sector, for example at the Federal Employment Agency. Approximately 3,300 additional employees were employed within the Group, including in the service centers. About 2,000 employees were placed in Vivento's operational and strategic units or continued to be managed by Vivento. Approximately 2,200 employees from our Group were transferred to Vivento in 2010, while around 2,800 employees left Vivento in 2010 to pursue new employment opportunities. Vivento found permanent public-sector positions for around 800 of them, approximately 700 of which were at the Federal Employment Agency.

Our property management unit continued to focus on further streamlining and improving our real estate portfolio in 2011. Overall, we closed a total of 186 property sales in 2011, involving 209,000 square meters of floor space and 2.4 million square meters of land. We received cash inflows of EUR 0.1 billion from these sales. We reduced leased floor space by another 52,000 square meters net due to the ongoing drive to optimize floor space and corporate sites. Rising rental and ancillary costs, however, meant that leasing and facility management costs in 2011 remained at the prior-year level.

In 2010, we closed a total of 196 sales deals, involving 149,000 square meters of floor space and 1.5 million square meters of land. Cash inflows from the disposal of real estate totaled EUR 0.1 billion. We reduced leased floor space by another 106,000 square meters by improving the utilization of floor space and corporate sites. Overall, leasing and facility management costs in 2010 remained at the prior-year level. Our fleet management company, DeTeFleetServices GmbH, provides fleet management and mobility services, including vehicles provided to our Group companies and affiliates within Germany. DeTeFleetServices also generates revenues from third parties through its sale of used fleet vehicles and, to a limited extent, through fleet management services to third parties. The majority of third-party customers are our former affiliates that were sold.

**Development of Operations**

| | 2011 | 2010 | Change | Change | 2009 |
|---|---|---|---|---|---|
| | **(millions of €)** | **(millions of €)** | **(millions of €)** | **(%)** | **(millions of €)** |
| **Total revenue** | **2,144** | **2,166** | **(22)** | **(1.0)** | **2,410** |
| Profit (loss) from operations | 1,160 | (2,479) | 3,639 | n.m. | (1,249) |
| Depreciation, amortization and impairment losses | (796) | (840) | 44 | 5.2 | (833) |
| EBITDA | 1,956 | (1,639) | 3,595 | n.m. | (416) |
| Special factors affecting EBITDA[1] | 2,698 | (769) | 3,467 | n.m. | (101) |
| **EBITDA (adjusted for special factors)** | **(742)** | **(870)** | **128** | **14.7** | **(315)** |
| **Cash capex** | **(493)** | **(406)** | **(87)** | **(21.4)** | **(449)** |
| **Average number of employees** | **21,494** | **22,312** | **(818)** | **(3.7)** | **20,181** |
| Of which: Vivento[2] | 8,500 | 8,900 | (400) | (4.5) | 9,600 |

n.m. – not meaningful

[1] For more information on special factors affecting EBITDA, see "—*Reconciliation of EBITDA and adjusted EBITDA*".
[2] Number of employees at the reporting date, including Vivento's own staff and management. Figures have been rounded.

*Total Revenue*

In 2011, total revenue at Group Headquarters & Shared Services declined by 1.0%, mainly due to the decline in revenue in the Real Estate Services unit as a result of more efficient use of floor space by our operating segments.

In 2010, the decline in total revenue was mainly due to more efficient use of floor space by the operating segments. The reduction in cost allocations from technical functions within the Group and the decline in revenue from service center activities at Vivento due to lower volumes also affected negatively on the revenue trend in 2010. In addition, revenues declined at DeTeFleetServices GmbH, mainly due to lower proceeds from vehicle sales and a lower average number of fleet vehicles.

*Adjusted EBITDA*

In 2011, adjusted EBITDA at Group Headquarters & Shared Services improved primarily due to income in connection with the Deutsche Telekom and France Télécom-Orange procurement joint venture BUYIN and to the lower headcount at Vivento. Negative effects, including the more efficient use of floor space by the operating segments and lower income from the reclassification of real estate from assets held for sale to non-current assets, partially offset this increase.

In 2010, adjusted EBITDA decreased mainly as a result of higher income recorded in 2009 from the reversal of provisions and the reclassification of real estate from assets held for sale to non-current assets. Adjusted EBITDA was also negatively affected by higher personnel costs (at Vivento and other units) and higher marketing and technology costs incurred centrally. Added to this were the decline in revenue at Vivento and lower earnings from the disposal of real estate.

As a result of positive effects recorded in 2011 in connection with the BUYIN joint venture, we expect adjusted EBITDA in 2012 to decline. Adjusted EBITDA is increasingly affected by expenditure at Group Headquarters and staff restructuring activities at Vivento. We expect this development to be contrasted by higher earnings from Shared Services and the transfer of digital services from the Germany operating segment.

*Profit (loss) from Operations*

In 2011, profit from operations improved primarily due to the payment related to the termination of the agreement for the sale of T-Mobile USA to AT&T and, to a lesser extent, the factors described above.

In 2010, the loss from operations increased primarily as a result of expenses relating to the settlement of the disputes between Deutsche Telekom AG, Vivendi, and Elektrim concerning the ownership of the Polish mobile communications company PTC and expenses for staff-related measures.

## Outlook

### *Market Expectations*

For 2012, we expect the German telecommunications market to either stagnate or contract slightly, accompanied by severe competition. In the mobile communications market, we expect weak overall customer growth, supported mainly by an ongoing rise in mobile data service demand. The rising popularity of smartphones and tablet PCs is expected to drive mobile data and Internet usage as well as mobile data revenues. In the fixed-network market we expect no more than a slight increase in the number of broadband lines. Revenues from traditional voice services will continue to decline. By contrast, we anticipate growth in smaller market areas such as television, De-Mail (a legally binding form of email in Germany) and cloud services. Demand for telecommunications products from small and medium-sized enterprises is expected to continue to grow, especially in mobile data transmission and automated machine-to-machine data exchange.

In our European markets outside of Germany, the regulation and competition-induced decline in voice telephony will continue to impact the markets negatively. We assume that revenue growth resulting from data usage, innovative products and an expanding ICT segment will not be entirely capable of compensating for this decline. Although some of our markets in Southern and Eastern Europe may experience a partial recovery from the economic crisis towards the end of 2012, some governments may attempt to remedy their financial situation through fiscal policy interventions. This type of action could negatively affect private consumption and consequently market volumes. We expect the macroeconomic situation in Greece to remain strained. Overall, we do not expect telecommunications markets in the Europe operating segment to stabilize before 2013.

The United States mobile telecommunications market faces intense competition among the major wireless carriers, while the consumer climate improves and unemployment remains relatively high. In the context of the competitive and economic environment, the telecommunications market is expected to grow, driven by marketing mobile broadband non-voice services. This revenue growth is likely to offset declining revenue from voice services and text messaging, which continue to experience price pressure among the U.S. wireless competitors offering unlimited plans. In addition, prepaid products are expected to continue to gain strength.

The general development of the economy in recent months further weakened the recovery in the ICT market that had been forecast in early 2011. We expect growth in the ICT market to continue to slow in 2012 and IT services to experience a slight decline in 2012. We anticipate that the long-term outsourcing business will grow despite increasing pressure on prices. We expect opportunities for business with new customers to result from pressure on costs and consolidation tendencies in the market. While companies are modernizing their IT infrastructures and launching new projects, general developments in Western Europe suggest that growth will slow considerably in 2012. Contrary to previous expectations, the market for telecommunications services for corporate customers will continue to be dominated by traditional rather than by all-IP products. We expect demand for bandwidth to increase while prices in all segments of the telecommunications market decline.

### *Expectations for the Group*

In light of the macroeconomic situation, severe competition in several markets and regulatory interventions, we expect revenue to decline slightly in 2012. Any regulatory interventions beyond what we anticipate currently would lead to a further decline in revenue. Assuming average exchange rates in 2012 are the same as 2011 average exchange rates, a comparable group consolidation structure and no further significant deterioration in the economic and regulatory environment in the markets in which we operate, at present we expect a low to mid-single digit percentage decline in adjusted EBITDA and a single digit percentage decline in free cash flow in 2012. In 2012, we expect our net investment levels to remain approximately at the same level as the prior year, excluding any investments in spectrum. Exchange rate fluctuations can have a considerable impact on these expectations.

Should we find that our plans would benefit from strategic alliances with other companies, we would be open to such partnerships. In addition, we intend to continue leveraging international economies of scale and synergies in the future, through appropriate acquisitions in markets where we are already represented. There are no plans, however, for major acquisitions or expansion in emerging markets.

Despite high levels of investment in our future viability, we also want to remunerate our shareholders appropriately in 2012, subject to the achievement of a corresponding level of unappropriated net income. Accordingly, we intend to pay a minimum dividend of EUR 0.70 per share to Deutsche Telekom AG shareholders in 2012. Including any share buy-backs that may be carried out from time-to-time in 2012, this would amount to total shareholder remuneration of EUR 3.4 billion for 2012.

The general mood in the international finance markets in 2011 was dominated by the European sovereign debt crisis, which meant that some countries had difficulties refinancing their maturing debts in the international capital markets. For our Group, repayments totaling EUR 3.6 billion in bonds, medium term notes, and promissory notes will be due in 2012. In 2012, the performance of the financial markets is expected to depend largely on the implementation of suitable measures to address the sovereign debt crisis. We may take advantage of favorable conditions for additional capital markets debt issuances in 2012.

## LEGAL PROCEEDINGS

The companies in our Group are involved in a number of legal proceedings in the ordinary course of our business. In addition, proceedings involving alleged abuse of a market-dominant position by us and other alleged antitrust violations, as well as other regulatory controversies, are pending before competition and regulatory authorities.

### Securities and Corporate Law-Related Proceedings

#### *German Prospectus Liability Suits*

Since 2001, around 16,000 purported purchasers of our shares sold pursuant to prospectuses dated June 25, 1999 ("DT2"), and May 26, 2000 ("DT3"), have filed more than 2,600 lawsuits in Germany predominantly alleging that the book values of our real property portfolio were improperly established and maintained under German GAAP and that we allegedly failed to adequately disclose detailed information relating to merger negotiations between us and VoiceStream Wireless Corporation (the predecessor of T-Mobile USA). These lawsuits are pending before the Regional Court (*Landgericht*) in Frankfurt am Main. The aggregate amount of all shareholders' claims filed in Germany in these lawsuits is approximately EUR 80 million.

On July 11, 2006 (with respect to the DT3 offering prospectus) and on November 22, 2006 (with respect to the DT2 offering prospectus), the court issued orders for model proceedings (*Vorlagebeschluesse*) with respect to these lawsuits based on the German Act on Model Case Proceedings in Disputes under Capital Markets Law (*Kapitalanleger-Musterverfahrensgesetz*) seeking a decision of the Frankfurt Court of Appeals (*Oberlandesgericht Frankfurt*) as to common questions of law and fact with respect to the above-mentioned allegations. The master decision by the Frankfurt Court of Appeals will be binding for all parties in the main proceedings. The most recent hearing in the DT3 model proceedings was held on January 25, 2012, and the parties have the opportunity to respond to oral arguments again in writing. The Frankfurt Court of Appeals scheduled the announcement of a decision for April 25, 2012. That decision could then be subject to further appeal with the Federal Court of Justice (*Bundesgerichtshof*) regarding substantive points of law (*Revision*). The proceedings for a preliminary ruling related to the DT2 offering prospectus are currently suspended.

#### *Prospectus Liability Conciliation Proceedings*

In addition, many purported shareholders have initiated conciliation proceedings with a state institution in Hamburg (*Oeffentliche Rechtsauskunfts- und Antragsstelle der Freien und Hansestadt Hamburg*, the "OeRA"), in our view, mainly as an effort to stay the statute of limitations. The claims made in these conciliation proceedings are analogous to those made in the prospectus liability lawsuits described above. Our participation in these conciliation proceedings would be voluntary, and we have declined to participate. The OeRA has closed around 8,000 of the proceedings because of the lack of participation of either or both parties. In February 2010, the Hamburg Higher Regional Court granted our request to order the closing of the pending proceedings. As a result, about 4,000 conciliation proceedings that had not yet been fully completed were closed in March 2010. Upon the closing of the conciliation proceedings, the statute of limitations with respect to the time within which to bring a civil action is stayed for six months. A number of applicants have already filed civil proceedings, and we cannot rule out that a number of additional applicants will file lawsuits analogous to those made in the prospectus liability lawsuits described above.

#### *Claim for compensation against the Federal Republic of Germany and Kreditanstalt für Wiederaufbau (KfW)*

In December 2005, we filed a lawsuit against the Federal Republic and KfW for the reimbursement of expenses in connection with DT3, in the amount of approximately EUR 112 million. We claim that the Federal Republic and KfW are obliged to reimburse us for legal expenses and settlement costs that we incurred in connection with the resolution of U.S. class action lawsuits relating to that offering. Our claim includes a demand for reimbursement of our D&O insurers in the aggregate amount of approximately EUR 46 million. In June 2007, the Regional Court in Bonn (*Landgericht* Bonn) held that the claim is justified on the merits, but the Cologne Court of Appeals (*Oberlandesgericht Köln*) dismissed our claim in May 2009. We filed an appeal with the Federal Court of Justice (*Bundesgerichtshof*), which ruled in our favor on most points and referred the case back to the Cologne Higher Regional Court for further rulings, in particular on the precise amount of the damages to be paid to us. These proceedings are still pending.

The Federal Republic, taken together with KfW, a state-owned development bank under the control of the Federal Republic, is our largest shareholder. Our Supervisory Board includes a representative of the German Ministry of Finance and a representative of KfW. For more information about related parties, see note 38 to our consolidated financial statements as of and for the year ended December 31, 2011 included elsewhere in this offering memorandum.

**Toll Collect**

The Federal Republic initiated arbitration proceedings against Daimler Financial Services AG, Deutsche Telekom AG and the Toll Collect consortium for damages suffered as a result of the delay in the commencement of operations of the German highway toll collection system and alleged breaches of the related operating agreement.

The Federal Republic, in its statement of claims received on August 2, 2005, asserted claims for damages of approximately EUR 5.2 billion plus interest. This amount includes contractual penalties of EUR 1.7 billion relating to the allegation that the agreement of the Federal Republic was not sought prior to the execution of certain subcontractor agreements. As some of the contractual penalties are time-related and further claims for contractual penalties have been asserted by the Federal Republic, the amount claimed as contractual penalties may increase. Daimler Financial Services AG, Deutsche Telekom AG and the Toll Collect consortium filed their answer to the claim on June 30, 2006 and to the subsequent counterplea of the Federal Republic on October 1, 2007. The Federal Republic served further briefs on January 7, 2008 and February 16, 2008, to which Daimler Financial Services AG, Deutsche Telekom AG and the Toll Collect consortium answered by a further brief on May 16, 2008. The Federal Republic has slightly modified its claims for damages, now amounting to EUR 4.99 billion plus interest. Further exchanges of briefs in this matter have occurred since then. Various witnesses and experts were heard at a hearing in December 2010. We expect the proceedings to continue in 2012.

We and our consortium partner, Daimler Financial Services AG, have the obligation, on a joint and several basis, to provide Toll Collect GmbH, the operating company of the Toll Collect consortium, with additional equity to ensure a minimum equity ratio of 15% in the single-entity financial statements prepared in accordance with German GAAP. This obligation ends when the operating agreement expires on August 31, 2015, or earlier if the operating agreement is terminated early.

Additionally, in December 2006, Toll Collect GmbH initiated an arbitration proceeding seeking a determination that the Federal Republic's basis for denying the issuance of the final operating permit is unfounded and claiming that additional remuneration is due to Toll Collect in accordance with the operating agreement. The Statement of Claims of Toll Collect GmbH was served on the Federal Republic on May 25, 2007. The answer of the Federal Republic together with a counterclaim claiming overpayment of remuneration to Toll Collect GmbH was received on January 31, 2008. This proceeding is ongoing.

**Eutelsat**

On April 12, 2011, we received a request from Eutelsat S.A. for the initiation of ICC arbitration proceedings against Deutsche Telekom AG and Media Broadcast GmbH. In particular, Eutelsat requests clarification regarding the right of use of a certain orbit position to which Eutelsat alleges it has a long-standing entitlement and the term of an agreement concluded between Deutsche Telekom AG and Eutelsat S.A. on the use of this orbit position by Eutelsat satellites. Eutelsat is also asserting claims to various payments pursuant to its interpretation of this particular term of the agreement. In 2007, we transferred our satellite business to Media Broadcast GmbH, which we sold in 2008 and with which we are no longer associated. As part of this transaction, we agreed to indemnify the purchaser of Media Broadcast GmbH against certain claims, some of which also relate to the agreements signed between Deutsche Telekom AG and Eutelsat. On January 31, 2012, the ICC arbitration court decided that the proceeding against Media Broadcast GmbH did not fall within its jurisdiction. We will defend ourselves vigorously against the claims.

**Reimbursement and Damages for Subscriber Data Costs**

From December 2004 to January 2009 a number of telephone directory service providers, including among others telegate, datagate, klicktel and Vodafone, who received from us data relating to subscribers for voice telephony services for the purpose of providing their own directory services, filed lawsuits with the Regional Courts in Cologne and Bonn in the aggregate amount of approximately EUR 118 million, plus interest, claiming reimbursement for payments made to us since 1998. The plaintiffs, referring to a decision by the European Court of Justice (C-109/03; KPN vs. Onafhankelijke Post en Telecommunicatie Autoriteit), accused us of having included inadmissible costs in our charges for providing customer data.

In a number of cases, the Regional Court in Cologne essentially ordered us to reimburse the plaintiffs. Except for the case involving Vodafone, the Court of Appeals in Dusseldorf essentially confirmed these decisions on appeal. We have appealed all decisions of the Court of Appeals rendered against us to the Federal Court of Justice. The Federal Court of Justice annulled these judgments and remanded the cases to the Court of Appeals. These proceedings are still pending.

In a related matter, on October 19, 2005, two lawsuits were served on us: one by telegate for damages of approximately EUR 86 million, plus interest, and another by telegate's founding shareholder, Dr. Klaus Harisch, for

damages of approximately EUR 329 million, plus interest. In the latter claim, the claimant subsequently increased the amount claimed to approximately EUR 612 million, plus interest. Both plaintiffs claim that they incurred losses, due to the alleged adverse effect that our alleged inclusion of inadmissible costs in our provision of customer data had on telegate's position in the market, the resulting capital increases that this required, and the weaker development of telegate's share price and the loss of shares of certain shareholders. The action is still pending before the Cologne Regional Court.

In 2006, klicktel (currently telegate) filed another lawsuit with the same court and is now claiming payment of approximately EUR 14 million plus interest and requesting a determination that we are obliged to compensate them for all damages arising from 2007 to 2010. The action is still pending before the Cologne Regional Court.

**Damages for Lost Profits/Price Squeeze**

In December 2005, Arcor filed a lawsuit with the Regional Court in Cologne in the aggregate amount of approximately EUR 41.9 million, plus interest, claiming damages for lost profit with retail analog access products as a result of an alleged price squeeze between our wholesale tariffs for access to the local loop and our retail access tariffs between January 1998 and September 2003. Arcor bases its claim primarily on the EU Commission's decision of May 21, 2003 against us for allegedly abusing our dominant position by charging our competitors and end-users unfair monthly and one-off charges for access to our local network. In February 2006, the original damage claim was increased to EUR 223 million, plus interest, purportedly based on customer relationships not realized between September 2003 and June 2005 and a new calculation methodology used by the plaintiff, which, in our view, deviates from the European Commission's approach. On April 10, 2008, the European Court of First Instance dismissed our lawsuit. Our appeal against this ruling was rejected by the European Court of Justice ("ECJ") on October 14, 2010. The European Commission's decision, which requires Deutsche Telekom to pay a fine of EUR 12.6 million plus interest, therefore became final and binding. The national court will not be permitted to issue any ruling that would be contrary to the ECJ's decision in the continued proceedings for damages. However, the amount of the loss suffered by competitors was not the subject of the case brought before the ECJ. The proceedings before the Regional Court in Cologne are still pending.

In 2011, Versatel and EWE Tel filed lawsuits against Telekom Deutschland GmbH claiming damages of around EUR 70 million plus interest and around EUR 82 million, plus interest respectively. NetCologne has filed a lawsuit claiming damages of around EUR 73 million, MNet has filed a lawsuit claiming damages of around EUR 27.3 million and HanseNet has filed a lawsuit claiming damages of around EUR 126 million, plus interest in each case. In January 2012, HanseNet (now Telefónica Germany) withdrew the action.

**Proceedings against Decisions of the Federal Network Agency**

Under the German Telecommunications Act, the Federal Network Agency regulates charges allowed for local loop lines. Under this regulation, we are obliged to publish a reference offer for access to unbundled local loop and prices require prior regulatory, or ex-ante, approval. With the exception of the approval of one-time charges from 1999, the regulatory approvals required under the German Telecommunications Act of our monthly charges for unbundled local loop lines are not yet final, because competitors have applied to have them revoked by the competent courts. In those cases in which individual approvals have already been revoked, the Federal Network Agency must decide again on the charges but, except for one-time charges from 2002, has not yet done so.

In 1999, the Federal Network Agency issued a decision adjusting the rates we could charge for access to the local loop during the period from April 1, 1999 to March 31, 2001. Certain of our competitors and we filed complaints with the Cologne Administrative Court against this decision.

In November 2008, the Cologne Administrative Court vacated the decision of the Federal Network Agency of 1999 concerning monthly rates for the local loop during the period from February 1999 to March 2001. The court argued, based on a decision of the European Court of Justice, that the Federal Network Agency had incorrectly determined the cost of local loop investment, which is the basis of the adjusted monthly charge. Both the Federal Network Agency and we appealed against this decision to the Federal Administrative Court, which rejected the appeals on October 5, 2009. The Federal Network Agency must decide again on the monthly rates for the mentioned period. These proceedings are still pending.

In 2001, the Federal Network Agency issued a decision adjusting the monthly rate during the period from April 1, 2001 to March 31, 2003 and charges for activation and termination during the period from April 1, 2001 to March 31, 2002. In April 2001, certain of our competitors and we filed complaints against this decision with the Cologne Administrative Court. In August 2009, the Cologne Administrative Court revoked the approval for the monthly charges and one-time charges from 2001. In a judgment of November 23, 2011, the Federal Administrative Court dismissed the

appeal by the Federal Republic of Germany and us. The Federal Network Agency must now decide again on the requested rates approvals.

In 2002, the Federal Network Agency issued a decision adjusting the charges for activation and termination related to the local loop during the period from April 1, 2002 to June 30, 2003. Certain of our competitors filed complaints against this decision. On November 19, 2009, the Cologne Administrative Court vacated the decision of the Federal Network Agency of 2002. The court ruled that the Federal Network Agency had incorrectly determined the hourly rate, which is a major part of the calculation of the adjusted activation and termination charges. Both the Federal Network Agency and we appealed against this decision to the Federal Administrative Court. 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. In a ruling dated January 20, 2011, the Federal Network Agency approved new charges for the plaintiffs for the period specified.

In 2003, the Federal Network Agency issued a decision adjusting the charges for activation and termination (one-time charges) during the period from July 1, 2003 to June 30, 2004. Certain of our competitors and we filed complaints against this decision with the Cologne Administrative Court. In May 2011, the Cologne Administrative Court largely revoked the rates approval from 2003 for the one-time charges. The judgment is final, so the Federal Network Agency must decide again on the requested rates approval.

Also in 2003, the Federal Network Agency issued two decisions adjusting the monthly rate during the period from April 1, 2003 to March 31, 2005. Certain of our competitors and we filed complaints against these decisions with the Cologne Administrative Court. In December 2011 and January 2012, the Cologne Administrative Court revoked the approval of monthly charges from 2003. The judgment is final, so the Federal Network Agency must decide again on the requested rates approvals.

**Other Proceedings**

***Intellectual Property Rights***

Like many other large network operators, we are exposed to an increasing number of intellectual property disputes, especially patent litigation. Generally, this leads to a higher risk of having to pay license fees and compensation. Some disputes may even result in cease-and-desist orders, blocking our access to, and ability to use, key network technologies.

Starting in 2009, German patent holder IPCom GmbH & Co. KG sued Deutsche Telekom AG and Telekom Deutschland GmbH as well as several members of the board of Deutsche Telekom AG in the Regional Courts of Hamburg, Mannheim and Düsseldorf. IPCom is seeking compensation for an unspecified amount of damages as well as applying for permanent injunctions, threatening to shut down certain Telekom Deutschland network services, such as the Multimedia Messaging Service (MMS). IPCom alleges that Deutsche Telekom and Telekom Deutschland infringe on several patents supposedly essential for mobile telecommunication standards such as UMTS and GSM. Deutsche Telekom and Telekom Deutschland are defending themselves vigorously against those allegations. In addition, several handset and network infrastructure suppliers such as Nokia, HTC, Ericsson and Alcatel-Lucent are involved in the proceedings by third party notice. Eight infringement proceedings relating to six different patents are currently still pending. IPCom lost two of the proceedings on all counts and has filed an appeal in each case. Certain of the other proceedings have been suspended. In the remaining cases, hearings will take place during the course of 2012. Furthermore, we have filed nullity actions before the German Federal Patent Court and - where possible - initiated or joined opposition proceedings before the European Patent Office.

***Spectrum Allocation***

Appeals are pending against the decisions by the Federal Network Agency on the allocation of certain frequencies to individual mobile carriers, including Telekom Deutschland GmbH.

*Auction of LTE Frequencies*

In April and May 2010, the Federal Network Agency auctioned off additional frequencies in the 800 MHz, 1.8 GHz, 2.0 GHz and 2.6 GHz ranges, with four mobile network operators participating in the auction. The legal basis for this frequency auction was a general order issued by the Federal Network Agency on October 12, 2009 (a "Decision of the President's Chamber"). Several mobile communications, cable TV and radio providers have filed actions to rescind this general order with the Cologne Administrative Court. Telekom Deutschland GmbH has not filed a complaint itself and is not involved in the proceedings. The Cologne Administrative Court has already ruled on most of the proceedings and has rejected them in the first instance. In one set of proceedings, the ruling of the Federal Administrative Court was

ruled on an appeal at the end of April 2011. Essentially, the Federal Administrative Court found that the facts relevant to the decision were insufficiently investigated and referred the proceedings back to the administrative court for further investigation and reconsideration. Accordingly, no final and legally binding ruling has yet been made on the validity of the Decision of the President's Chamber.

*Extension of GSM Frequency Usage*

In an administrative act issued on July 31, 2009, the Federal Network Agency extended the usage period of the GSM frequencies assigned to T-Mobile Deutschland GmbH (now Telekom Deutschland GmbH), which were originally assigned until December 31, 2009, until December 31, 2016. E-Plus, Telefónica and Airdata objected to the Federal Network Agency's decision to extend the usage period. Telefónica withdrew its objection; E-Plus' objection proceedings have been suspended. Airdata's objection was rejected by the Federal Network Agency. Airdata has lodged an appeal against this decision, which is pending before the Cologne Administrative Court.

*Shareholder Litigation*

In connection with the two proceedings on the allocation of spectrum noted above, a shareholder has also filed a nullity and rescission suit against Deutsche Telekom with the Cologne Regional Court, seeking declaration of the nullity of the resolutions passed by the Deutsche Telekom shareholders' meeting on May 12, 2011 concerning approval of the actions of the members of the Board of Management and Supervisory Board of Deutsche Telekom for financial year 2010 (items 3 and 5 on the agenda) and of the nullity of the annual financial statements for the 2010 financial year. In a judgment on January 6, 2012, the trial court dismissed the claim in the first instance.

***Radio Frequency Emissions***

Beginning in 2000, plaintiffs filed numerous state court class-action lawsuits against T-Mobile USA and several other wireless service operators and wireless telephone manufacturers, asserting product liability, breach of warranty and other claims relating to radio frequency transmissions to and from wireless mobile devices. On September 2, 2008, the court granted the defendants' motion to dismiss, which was affirmed on appeal. On October 3, 2011, the United States Supreme Court denied the plaintiff's request for a writ of certiorari. In 2011, several new lawsuits were filed by individual plaintiffs against T-Mobile USA, as well as other wireless service operators and telephone manufacturers, alleging personal injury and product liability related claims allegedly caused by radio frequency emissions. The cases are in the early stages of discovery. We believe these cases have no merit and are vigorously defending them.

***Slovak Telekom***

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

***Anti-Trust Proceedings***

Like many other companies, the Deutsche Telekom Group is subject to anti-trust law. We and some of our subsidiaries, affiliates and joint ventures are subject to various proceedings under anti-trust or competition law.

In November 2011, the Anti-Monopoly Commission in Poland closed an investigation that had been opened in 2010 against a number of Polish telecommunications companies, including our subsidiary PTC. It accused PTC and other Polish telecommunications companies of anticompetitive price fixing and imposed a fine of PLN 34 million (approximately EUR 8 million) on PTC. PTC continues to believe these allegations are unfounded and filed an appeal against the decision. As a result, the fine is not yet due. The same applies to another fine of PLN 21 million (approximately EUR 5 million) imposed by the Anti-Monopoly Commission in Poland against PTC on January 2, 2012 for an alleged breach of consumer protection laws. Two other actions concerning consumer protection were dropped in November 2011 and January 2012 without any fines being imposed.

In April 2009, the European Commission started an investigation into allegedly abusive behavior of Slovak Telekom in the broadband market in Slovakia. According to the European Commission, such an infringement could consist of refusing access to the ULL or other wholesale services for the broadband infrastructure as well as price squeeze situations in these areas. In December 2010, the European Commission formally extended the investigation to

include us as Slovak Telekom's parent company, allowing the European Commission to also hold us liable for Slovak Telekom's alleged infringements. Should the European Commission ultimately find an infringement of European anti-trust law, the Commission could impose fines against Slovak Telekom and us.

Following a search of T-Mobile Netherlands premises on December 6, 2011, the Netherlands Competition Authority initiated proceedings against T-Mobile Netherlands and other Dutch mobile communications providers. The providers are accused of anti-competitive collusion on rates and sales channels. T-Mobile Netherlands considers these accusations to be unfounded, but is cooperating with the authority.

In the fall of 2011, the Croatian Competition Agency initiated proceedings against Hrvatski Telekom and other mobile communications providers for alleged anti-competitive collusion. It is investigating whether the mobile communications providers coordinated their response to the introduction of a national mobile communications tax. Hrvatski Telekom believes these allegations are unfounded. Should the Croatian competition authority conclude that Hrvatski Telekom and the other providers have violated Croatian competition law, it could impose fines.

***Civil Servants***

In November 2004, the Federal Republic adopted a law abolishing the requirement for Deutsche Telekom, and other private corporations, to make certain special payments to civil servants. This law was subsequently challenged in various courts and in December 2008 the Federal Administrative Court decided to refer the case to the Federal Constitutional Court for a final decision on its legality. If the law is found unconstitutional, it is possible that all civil servants affected by this law would be entitled to retroactive payments, the cost of which could be up to EUR 0.2 billion. However, we believe that the ultimate resolution of this matter will validate the law as adopted by the Federal Republic. A decision by the Federal Constitutional Court is expected in 2012.

With the entry into force of the reform of civil service law (*Dienstrechtsneuordnungsgesetz*) on February 11, 2009, the legislature integrated the amounts that previously represented the year-end bonus paid annually in accordance with the German Federal Act on Bonus Payments (*Bundessonderzahlungsgesetz*) into the base monthly salary for all federal civil servants. The entitlement of civil servants employed by the Deutsche Bundespost successor companies to the year-end bonus expired pursuant to the German First Act to Amend the Act on the Legal Provisions for the Former Deutsche Bundespost Staff (*Erstes Gesetz zur Aenderung des Postpersonalrechtsgesetzes*) dated November 9, 2004. Accordingly, the year-end bonus was not integrated into the base monthly salary.

Numerous civil servants have filed objections to these pay tables reduced by the year-end bonus amount and approximately 300 litigation cases are already pending. In a ruling on December 15, 2009, the Stuttgart Administrative Court decided in two court proceedings to present the question of whether § 78 of the German Federal Civil Service Remuneration Act (*Bundesbesoldungsgesetz*) is constitutional to the Federal Constitutional Court for decision.

In order to avoid unnecessary administrative expense arising from objections and any legal action taken, Deutsche Telekom has concluded an agreement with the unions whereby Deutsche Telekom AG will pay the difference for remuneration of all federal civil servants (including those who have not objected) retroactively if the Federal Constitutional Court rules that the pay tables applicable to the Deutsche Bundespost successor companies are unconstitutional. Consequently, in order to avoid more objections and legal action, Deutsche Telekom AG has decided not to plead the statute of limitations.

Depending on the outcome, a supplemental payment may have to be made for the period beginning July 2009.

***Other***

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 and leasing of dedicated lines) by OTE. The hearing was set by the competent court for February 17, 2011, but was postponed and rescheduled for May 30, 2013.

**Terminated Proceedings**

***Review of contracts in the F.Y.R.O. Macedonia and Montenegro***

In the course of conducting their audit of Magyar Telekom's 2005 financial statements, Magyar Telekom's independent auditors identified two contracts entered into by Magyar Telekom's Montenegrin subsidiary the nature and business purposes of which were not readily apparent. In February 2006, Magyar Telekom's Audit Committee initiated an independent investigation into this matter. In the course of the investigation, two further contracts entered into by

Magyar Telekom raised concerns. The independent investigators preliminarily concluded that “there is insufficient evidence to establish that the approximately EUR 7 million in expenditures made pursuant to four consultancy contracts were made for legitimate business purposes”, and there is “affirmative evidence that these expenditures served improper purposes”. The independent investigators further identified additional contracts and related issues that could warrant review. In February 2007, Magyar Telekom’s Board of Directors determined that these matters should be reviewed and expanded the scope of the independent investigation to cover these additional contracts and related issues. In May 2008, the independent investigators reported that, among other things, they had found “affirmative evidence of illegitimacy in the formation and/or performance” of six additional contracts in Macedonia under which Magyar Telekom and/or its affiliates paid a total of over EUR 6.7 million. The investigation, which was impeded by the destruction of certain documents, revealed certain weaknesses in Magyar Telekom’s internal controls and procedures, including the lack of consistent approval procedures for procurement and third-party contracts, the lack of a comprehensive compliance training program and the lack of the appropriate level of control consciousness among certain senior managers at the top of the organization.

Magyar Telekom and we reached agreements with the SEC and DOJ on December 29, 2011 to resolve investigations into alleged breaches of the U.S. Foreign Corrupt Practices Act (“FCPA”) in relation to these incidents from 2006. As part of this agreement, civil proceedings were opened by the SEC against us for violations of the accounting provisions of the FCPA and closed a few days later. Without admitting or denying the alleged offenses, we consented to a judicial decision on behalf of the SEC, placing us under a permanent obligation not to violate the accounting and control requirements set forth in the FCPA. We also reached an out-of-court settlement with the DOJ, in what is known as a Non-Prosecution Agreement. We made a payment totaling USD 4.36 million (EUR 3.5 million) with respect to the settlements with the DOJ and the SEC. In light of the discussions that occurred with the SEC and the DOJ on potential settlements, we had already made a corresponding provision. As part of the overall settlement with the DOJ and the SEC, Magyar Telekom agreed to pay USD 90.8 million (EUR 69.7 million), which was made in early 2012. Magyar Telekom entered into a two-year Deferred Prosecution Agreement (“DPA”) with the DOJ, agreeing in particular to cooperate with the DOJ in future investigations, to refrain from any violations of U.S. federal criminal law, to continue to operate a compliance program and to report to the DOJ annually regarding the compliance program during the term of the DPA. Magyar Telekom signed an agreement with the SEC, without acknowledging or denying the allegations made by the SEC, accepting a court ruling permanently obliging Magyar Telekom not to violate accounting and anti-bribery provisions of the FCPA. The investigations by the public prosecutor’s office in Bonn in connection with these agreements have been terminated completely.

***CIF***

In 2006, CIF Licensing LLC., a subsidiary of General Electric, sued Deutsche Telekom for alleged patent infringement regarding four patents in the field of DSL data transmission processes in the Regional Court of Düsseldorf. CIF sought compensation for an unspecified amount of damages and applied for permanent injunctions. The patents purportedly related to special processes used for quality checking of DSL channels and data transmission. In 2011, the German Federal Patent Court nullified those two patents, in response to invalidation suits brought by Deutsche Telekom. A settlement was agreed between CIF Licensing LLC and Deutsche Telekom on October 20, 2011. The settlement brings to an end all relevant lawsuits between the two parties and grants Deutsche Telekom undisputed licenses to the disputed patents.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### Management and Supervision

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

### *The Supervisory Board*

The Supervisory Board advises the Board of Management and oversees its management of business. In accordance with the German Stock Corporation Act (*Aktiengesetz*) and the German Co-Determination Act of 1976 (*Mitbestimmungsgesetz*), our Supervisory Board consists of twenty members, ten of whom represent our shareholders and ten of whom represent our employees. Members of the Supervisory Board may be elected for a term of up to five years and re-election is permitted. The Chairman and the Deputy Chairman are elected by the Supervisory Board in accordance with the rules of the German Co-Determination Act.

Supervisory Board members representing our shareholders are elected at the annual shareholders' meeting. The terms of office of the shareholder representatives expire at the end of the shareholders' meeting at which the shareholders discharge the Supervisory Board members in respect of the fourth financial year following the member's commencement of tenure of office. The financial year in which tenure of office commences is not counted for this purpose.

Supervisory Board members representing our employees are elected by our employees in accordance with the provisions of the German Co-Determination Act. Employees elect ten representatives, made up of workers, regular employees, at least one senior management employee and three union representatives. Under the laws that governed our privatization, civil servants, who are not otherwise covered by the German Co-Determination Act, are included in these groups of employee representatives for purposes of these elections.

A member of the Supervisory Board elected by our shareholders may be removed by a shareholders' resolution by simple majority of the votes cast. A member of the Supervisory Board elected by our employees may be removed by a majority of at least three-quarters of the votes cast by the relevant class of employees or union representatives who elected the relevant Supervisory Board members in accordance with the German Co-Determination Act.

The Supervisory Board is required by law to meet at least twice every six months. To achieve a quorum, at least ten of the members of the Supervisory Board must be present or cast their votes in writing. Except in situations in which a different majority is required by law, such as the appointment of Management Board members or the election of the Chairman and Deputy Chairman, the Supervisory Board makes decisions by simple majority of the votes cast. If, in the event of a deadlock, a second vote again results in a tie, the chairman of the Supervisory Board can cast the deciding vote.

The current members of our Supervisory Board and their principal occupations are listed below:

<u>Shareholder representatives</u>

- Prof. Dr. Lehner, Ulrich, Member of the Shareholders' Committee Henkel AG & Co. KGaA, Düsseldorf; Chairman of the Supervisory Board Deutsche Telekom AG
- Dr. Bernotat, Wulf H., former Chairman of the Board of Management E.ON AG, Düsseldorf
- Dr. Beus, Hans Bernhard, State Secretary, Federal Ministry of Finance, Berlin
- Bury, Hans Martin, Managing Partner HERING SCHUPPENER Consulting Corporate Affairs & Public Strategies GmbH, Frankfurt
- Dr. von Grünberg, Hubertus, Chairman of the Board of Directors of ABB Ltd., Zürich, Schweiz
- Guffey, Lawrence H., Senior Managing Director The Blackstone Group International Partners Ltd., London
- Hocker, Ulrich, Manager in Chief Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), Düsseldorf
- Prof. h.c. (CHN), Dr.-Ing. E.h.Dr. Middelmann, Ulrich, Former Vice Chairman of the Executive Board ThyssenKrupp AG, Düsseldorf

- Dr. Schröder, Ulrich, Chairman of the Managing Board KfW, Frankfurt

- Dr. h. c. Walter, Bernhard, Former Chairman of the Board of Managing Directors, Dresdner Bank AG, Frankfurt

Employee representatives

- Becker, Hermann-Josef, Member of the management of Deutsche Telekom Direct Sales and Consulting as well as Chairman of the Group Executive Staff Representation Committee and Executive Staff Representation Committee, Deutsche Telekom AG, Bonn

- Brandl, Monika, Chairwoman of the Central Works Council of Deutsche Telekom AG, Bonn

- Hauke, Sylvia, Member of the Central Works Committee of the Central Works Council of Telekom Deutschland GmbH, Bonn

- Holzwarth, Lothar, Chairman of the transitional works council of Telekom Deutschland GmbH, Bonn

- Kallmeier, Hans-Jürgen, Chairman of the Central Works Council T-Systems International GmbH, Frankfurt

- Litzenberger, Waltraud, Chairwoman of the Group Works Council and the European Works Council Deutsche Telekom AG, Bonn

- Löffler, Michael, Member of the Works Council Deutsche Telekom Netzproduktion GmbH, Bonn, Technical Infrastructure Branch Office, Central/Eastern District

- Schröder, Lothar, Member of the ver.di National Executive Board, Berlin; Deputy Chairman of the Supervisory Board Deutsche Telekom AG

- Sommer, Michael, Chairman of the German Confederation of Trade Unions (DGB), Berlin

- Spoo, Sibylle, Lawyer, Trade Union Secretary at the ver.di Federal Administration, Berlin

For additional information on the compensation of our Supervisory Board members, see Note 39 to our consolidated financial statements as of and for the year ended December 31, 2011 included elsewhere in this offering memorandum.

***The Board of Management***

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

Board of Management responsibilities are currently distributed across seven board departments. Four of these are central management areas:

- Chairman of the Board of Management

- Finance

- Human Resources

- Data Privacy, Legal Affairs and Compliance

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

- Germany

- Europe

- T-Systems

***Composition of the Board of Management as of December 31, 2011***

| Members of the Board of Management | Department |
|---|---|
| René Obermann | Chairman of the Board of Management (CEO)/USA |
| Dr Manfred Balz | Data Privacy, Legal Affairs and Compliance |
| Reinhard Clemens | T-Systems |
| Niek Jan van Damme | Germany |
| Timotheus Höttges | Finance (CFO) |
| Edward R. Kozel (until December 31, 2011) | Technology and Innovation |
| Claudia Nemat | Europe |
| Thomas Sattelberger | Human Resources |

On December 15, 2011, the Supervisory Board extended the contract of Reinhard Clemens by five years.

***Changes in the Composition of the Board of Management***

On February 14, 2011, Guido Kerkhoff asked the Supervisory Board to terminate his contract three years ahead of schedule. The Supervisory Board approved the termination of his contract at its meeting on February 23, 2011. On April 1, 2011, Niek Jan van Damme took on acting responsibility for the Board of Management area Europe.

At its meeting on July 4, 2011, the Supervisory Board appointed Claudia Nemat as the Board of Management member responsible for Europe with effect from October 1, 2011 and also appointed Professor Marion Schick as the Board of Management member responsible for Human Resources and Labor Director with effect from May 3, 2012.

At its meeting on December 15, 2011, the Supervisory Board complied with Edward R. Kozel's request to be released from his duties as the Board of Management member responsible for Technology and Innovation with effect from January 1, 2012. There is no plan to appoint a successor. René Obermann will be responsible for "Products and Innovation", while "IT" will be assigned to the T-Systems Board of Management department, and strategic management for "Technology" will be assigned to the Board of Management Europe department.

On February 22, 2012, the Supervisory Board appointed Dr. Thomas Kremer as the new Board of Management member responsible for Data Privacy, Legal Affairs and Compliance.  He will succeed Dr. Manfred Balz effective June 1, 2012.

***Basis of Board of Management Compensation***

On February 24, 2010, the Supervisory Board resolved on a new system for the compensation of the Board of Management members, taking into account the provisions specified in the German Act on the Appropriateness of Management Board Remuneration (*Gesetz zur Angemessenheit der Vorstandsvergütung*) 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.

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. Board of Management compensation is oriented toward the sustained development of the Company and 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, we grant 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.

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

For more information on the compensation of the Board of Management and the disclosures required by § 314 of the German Commercial Code, German Accounting Standard No. 17 (GAS 17), and the German Corporate Governance Code, please refer to note 39 to our consolidated financial statements as of and for the year ended December 31, 2011 included elsewhere in this offering memorandum.

## Employees

### *Headcount Development*

| Employees in the Group | Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|---|
| **Total** | **235,132** | **246,777** | **259,920** |
| Germany operating segment | 75,058 | 76,478 | 81,336 |
| Europe operating segment | 58,010 | 63,338 | 71,163 |
| United States operating segment | 32,868 | 37,760 | 40,697 |
| Systems Solutions operating segment | 48,163 | 47,707 | 46,021 |
| Group Headquarters & Shared Services | 21,033 | 21,494 | 20,703 |
| **Breakdown by geographic area** | | | |
| Germany | 121,564 | 123,174 | 127,487 |
| International | 113,568 | 123,603 | 132,433 |
| Of which: other EU Member States | 64,257 | 68,941 | 76,196 |
| Of which: rest of Europe | 9,736 | 9,991 | 10,061 |
| Of which: North America | 33,511 | 38,467 | 41,235 |
| Of which: rest of world | 6,064 | 6,204 | 4,941 |

### *Employees – Germany*

Our Germany operating segment employed 76,028 people on average in 2011, making it one of the largest employers in Germany. The decline in headcount compared with 2010 was mainly attributable to our socially responsible staff-related measures and to staffing changes within the Group. New hires, especially of junior staff, partially offset the decline.

Our Germany operating segment had an average of 79,364 employees in 2010. Despite the increase in the number of employees as a result of the first-time consolidation of STRATO and ClickandBuy, headcount at our Germany operating segment decreased by 6.2%, mainly due to our socially responsible measures to reduce and restructure the workforce by transferring employees to Vivento.

### *Employees – Europe*

The decline in average headcount in 2011 was largely due to downsizing programs in Romania and Greece. Downsizing programs were also implemented in the other countries in this operating segment, although on a smaller scale. The deconsolidation of T-Mobile UK also contributed to the year-on-year reduction in average headcount.

In 2010, the decline in the average headcount in our Europe operating segment was primarily a result of the deconsolidation of T-Mobile UK. Downsizing programs as part of efficiency enhancement measures in several countries also reduced the average headcount. This decline was offset by an increase in the number of employees resulting from the first-time full-year consolidation of the OTE group in early February 2009. In addition, some smaller-scale acquisitions added to the headcount.

### *Employees – United States*

In 2011, the decrease in the average number of employees was due in part to a decline in customer support employees, driven by lower customer care call volumes, and in part to a decrease in the number of retail employees, due to the implementation of labor efficiency and store rationalization programs.

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

***Employees – Systems Solutions***

In 2011, the average number of employees in Germany increased by 453 or 1.8% while the average number of employees internationally rose by 183 or 0.8%. The increase was largely due to staff taken on in connection with large-scale contracts, an increase in insourcing (the provision of services previously rendered by third parties), and the development and expansion of nearshore and offshore sites.

The increase in 2010 in the average number of employees was the result of two offsetting effects. The average number of employees outside of Germany increased by 2,712 or 13.7% as a result of new employees that came to T-Systems under the terms of large-scale outsourcing contracts and the increased use of employees outside of Germany. The average number of employees in Germany decreased by 452 or 1.8% to 25,095. As a result of staff-restructuring measures, in particular at Systems Integration, as well as offshoring activities at Computing & Desktop Services.

***Employees – Group Headquarters & Shared Services***

The decline in the average number of employees in 2011 was primarily attributable to the lower headcount at Vivento.

The increase in the average number of employees in 2010 was primarily attributable to staff employed at the units that were integrated into Group Headquarters & Shared Services as part of the Group-wide realignment of the management structure.

***Collective Bargaining***

On March 25, 2011, the parties reached agreement in the arbitration proceedings for the 2011 collective bargaining for Deutsche Telekom AG, Telekom Deutschland GmbH and its service companies. As a result, the salaries of the employees of Deutsche Telekom AG, Telekom Deutschland GmbH and its service companies covered by collective agreements were raised by 3.15% as of April 1, 2011. The collective agreement remained in force until the end of January 2012, and negotiations on a new agreement are ongoing.

***Civil Servants***

Although no employees hired after January 1, 1995 have been granted civil servant status, we employ a substantial number of civil servants. Pursuant to the law governing our privatization, our civil servant employees retained their civil servant status. Accordingly, the terms and conditions of their employment and the benefits owed to them continue to be governed by German regulations regarding civil servants. In particular, civil servant salaries are set by statute and not by us or by collective bargaining agreements. In addition, civil servants are tenured employees and may not be unilaterally terminated except in extraordinary, statutorily defined circumstances. Civil servants are not permitted to participate in work-related actions such as strikes, but are permitted to join labor unions. Although we are authorized, pursuant to the law governing our privatization, to exercise generally the rights and duties of the Federal Republic as the employer of civil servants, the Federal Postal and Telecommunication Agency (*Bundesanstalt für Post und Telekommunikation or the Federal Agency*) has a right of consultation in the implementation of certain aspects of the terms under which we employ civil servants.

Under the German Postal Employees Act (*Postpersonalrechtsgesetz*), which governs the legal position of civil servants at Deutsche Telekom AG, we have been given greater flexibility with respect to our relationship with our civil servants. Among other things, this law allowed for the complete elimination of the Christmas bonus, making it possible for us to finance the reduction in weekly working hours from 38 to 34 under our employment alliance, which also applied to civil servants from April 2004. The agreement provides the option of assigning tasks in companies within or outside the Group to active civil servants. The civil servants' compensation, healthcare and pension entitlements have been maintained. Under certain circumstances, civil servants may also be transferred, even without their consent, to companies in which Deutsche Telekom AG has a direct or indirect majority shareholding. However, there is a risk that civil servants temporarily without civil servant status may return to Deutsche Telekom AG, for example, after the completion of their work at one of our subsidiaries. Although we attempt to reduce this risk through compensation payments from the subsidiaries to Deutsche Telekom AG, we cannot eliminate it completely.

Since 2004, the collective bargaining agreement between Deutsche Telekom AG and the ver.di union has been funded for civil servants by various measures, including the elimination of year-end bonuses (Christmas bonuses) based

on an amendment of the Legal Provisions for the German Postal Employees Act. Civil servants have raised objections and taken legal action against this amendment. For more information, see "*Legal Proceedings*".

Civil servants employed by us are entitled to pension benefits provided by the German federal government pursuant to the German Civil Servants' Benefits Act (*Beamtenversorgungsgesetz*). Pursuant to the law governing our privatization, we are required to make annual contributions to a special pension fund established to fund such pension obligations. The special pension fund was merged in 2000 with the special pension funds of Deutsche Post AG and Deutsche Postbank AG to form a joint pension fund, the Federal Pension Service for Post and Telecommunication (*Bundes-Pensions-Service für Post und Telekommunikation e.V.*, the "BPS-PT"). The BPS-PT works for the funds of all three companies and also handles financial administration for the Federal Republic on a trust basis. All transactions for pension and allowance payments to employees are made by BPS-PT for the companies Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom AG. For more information, see note 12 to our consolidated financial statements as of and for the year ended December 31, 2011 included elsewhere in this offering memorandum.

### *Provisions for Civil Servants in the Group*

On November 16, 2006, the "Second Bill to Amend the Act for the Improvement of the Staff Structure at the Residual Special Asset of the Federal Railways and the Successor Companies of the Former Deutsche Bundespost" (*Zweites Gesetz zur Änderung des Gesetzes zur Verbesserung der personellen Struktur beim Bundeseisenbahnvermögen und in den Unternehmen der Deutschen Bundespost*) entered into force. Among other things, this Act was intended to help correct the negative consequences of a structural feature of the successor companies to Deutsche Bundespost (Deutsche Telekom AG, Deutsche Post AG, Deutsche Postbank AG). These successor companies employ a high proportion of civil servants in Western Germany, while staff covered by collective agreements make up the majority of the workforce in Eastern Germany. On the basis of the 2006 law, we became able to include civil servants in staff restructuring measures. Civil servants of all service grades, who are working in areas where there is a surplus of staff and for whom employment in another area is not possible or cannot reasonably be expected in line with civil service legislation, have been able to apply for early retirement from the age of 55. Until the end of 2011, we offered our civil servants the option to participate in a limited early retirement program. The resulting expense related to the acceptances of this program amounts to EUR 0.7 billion; payment will be spread over the next six to seven years.

### *Personnel Costs*

| | **2011** | **2010** | **2009** |
|---|---|---|---|
| | | **(billions of €)** | |
| Personnel costs in the Group | 14.7 | 15.1 | 14.3 |
| Of which: expenses relating to staff-related measures | 1.1 | 1.0 | 0.5 |

## ADDITIONAL INFORMATION

We are a stock corporation organized under the laws of the Federal Republic of Germany. Deutsche Telekom AG, Bonn, is the parent company of our group. Its ordinary shares are traded on the Frankfurt Stock Exchange as well as on other German stock exchanges. Information on the capital stock in accordance with § 289(4) No. 1 of the German Commercial Code (*Handelsgesetzbuch*) can be found in Note 15 to our consolidated financial statements as of and for the year ended December 31, 2011 included elsewhere in this offering memorandum.

### Voting Rights

Each share of Deutsche Telekom AG entitles its holder to one vote. However, these voting rights are restricted for treasury shares (around 2 million as of December 31, 2011) and trust shares (around 19 million as of December 31, 2011). The trust shares are related to the acquisitions of VoiceStream and Powertel (now T-Mobile USA) in 2001. As part of these acquisitions, we 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 respective trustees waive voting rights and preemptive rights and, in general, dividend rights for the duration of the trusts' existence. The shares issued to the trusts can be sold on a stock exchange at our instruction if the beneficiaries do not exercise their options or conversion rights and these expire. In this event, we will receive the proceeds from the sale.

### Authorized Capital and Contingent Capital

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

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

The share capital has been contingently increased by up to EUR 31,813,089.28 as of December 31, 2011, composed of up to 12,426,988 new no par value registered shares (contingent capital II). The contingent capital increase is exclusively for the purpose of meeting preemptive rights to shares from stock options granted in the period until December 31, 2003 to members of our Board of Management; to members of second-tier management; to our other executives, managers and specialists; and to members of the boards of management, members of management, and other executives, managers, and specialists at lower-tier Group companies in Germany and other countries, on the basis of the authorization for a 2001 Stock Option Plan granted by resolution of the shareholders' meeting on May 29, 2001. It will be implemented only to the extent that the holders of stock options exercise these options.

The share capital was contingently increased by EUR 1,100,000,000 as of December 31, 2011, composed of up to 429,687,500 no par value registered shares (2010 contingent capital). The contingent capital increase will be implemented only to the extent that

a) the holders or creditors of bonds with warrants, convertible bonds, profit participation rights and/or participating bonds (or combinations of these instruments) with options or conversion rights, which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 2, 2015, on the basis of

the authorization resolution granted by the shareholders' meeting on May 3, 2010, make use of their option and/or conversion rights or

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

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

**Shareholder Remuneration Policy**

On February 24, 2010, our Board of Management and Supervisory Board decided to pursue a shareholder remuneration policy for the 2010 to 2012 financial years that consists of an annual dividend of at least EUR 0.70 per share and market repurchases from time-to-time of our shares to the extent necessary to achieve a total shareholder remuneration of around EUR 3.4 billion per annum. The implementation of this policy is subject to the availability of sufficient distributable balance sheet profits of Deutsche Telekom AG for the financial year in question and our ability to establish the necessary reserves for any share repurchases. It is also contingent upon our governing bodies adopting resolutions to this effect, taking into account the company's situation at the time.

***Share Repurchase Program***

In connection with this policy, our annual shareholders' meeting resolved on May 12, 2011 to authorize our Board of Management to repurchase shares representing a total share capital of up to EUR 1,106,257,716.74 by November 11, 2012. The shares to be repurchased on the basis of this authorization, when included with the other shares of our company which we already purchased and still possessed or were to be assigned to us under § 71d and § 71e of the German Stock Corporation Act, could not at any time account for more than 10% of our share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 of the German Stock Corporation Act must be complied with. In addition, shares shall not be repurchased 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 of the German Stock Corporation Act 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 of the German Stock Corporation Act are also entitled to purchase the shares. The shares shall be purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a of the German Stock Corporation Act). Shares can also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

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

Pursuant to this authorization, the Board of Management decided on May 27, 2011 and September 20, 2011 to purchase a total of 316,000 shares for a total price of EUR 3 million, with an average purchase price of EUR 8.74 per share. These repurchases were executed on June 6, 2011 and September 23, 2011, respectively. This resulted in treasury shares in the amount of EUR 1 million being deducted from issued capital (imputed value of EUR 2.56 per share) and the retained earnings of the Group decreased by EUR 2 million.

For more information, please refer to the note 15 to our consolidated financial statements as of and for the year ended December 31, 2011 included elsewhere in this offering memorandum.

**Main Agreements that Include a Change in Control Clause**

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

In addition, the other members of the Toll Collect consortium, Daimler Financial Services AG and Cofiroute SA, have a call option in the event that the ownership structure of Deutsche Telekom AG changes such that over 50% of its share capital or voting rights are held by a new shareholder and this change was not approved by the other members of the consortium.

Should Deutsche Telekom AG be taken over by another company that is not a telecommunications company based in the European Union or the United States of a similar size and stature to our company, the Hellenic Republic has the right to purchase from us all the shares we own in OTE. For this purpose, we shall be deemed to have been taken over if one or several entities, with the exception of the Federal Republic of Germany, directly or indirectly acquires 35% of the voting rights in our company.

When establishing the Everything Everywhere joint venture in the United Kingdom, we and France Télécom S.A. agreed that if we come under the controlling influence of a third party, France Télécom will be exempted from all the restrictions imposed on the shareholders in the joint venture agreement with regard to a transfer of their shares. However, even in this event, transferring shares to competitors remains prohibited.

In the master agreement establishing the procurement joint venture BUYIN in Belgium, Deutsche Telekom AG and France Télécom S.A./Atlas Services Belgium S.A. agreed that if Deutsche Telekom or France Télécom comes under the controlling influence of a third party or if a third party that is not part of the France Télécom group of companies acquires shares in Atlas Services Belgium S.A., the other party to the master agreement can terminate the master agreement with immediate effect.

**Accounting-Related Internal Control System**

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

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

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

The accounting-related ICS targets the consolidated financial statements of Deutsche Telekom being 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. Another objective of the accounting-related ICS is the preparation of annual financial statements of Deutsche Telekom AG in accordance with German GAAP.

Group Accounting manages the processes for the preparation of the consolidated financial statements and the management report. Laws, accounting standards and other pronouncements are continuously analyzed as to whether and to what extent they are relevant and how they impact on financial reporting. The relevant requirements are defined in the Group Accounting Manual, for example, communicated to the relevant units and, together with the financial reporting calendar that is binding throughout the Group, forms the basis of the financial reporting process. In addition, supplementary process directives, standardized reporting formats, IT systems, as well as IT-based reporting and consolidation processes support the process of uniform and compliant Group accounting. Where necessary, we also draw on the services of external service providers, for example, for measuring pension obligations. Group Accounting uses

appropriate processes to ensure these requirements are complied with consistently throughout the Group. The staff involved in the accounting process receive regular training. Deutsche Telekom AG and the Group companies are responsible for ensuring that Group-wide guidelines and procedures are complied with. They also ensure the compliance and timeliness of their financial reporting-related processes and systems. They are supported and monitored by Group Accounting.

Operating accounting processes at the national and international level are increasingly managed by our shared service centers. Internal controls are embedded in the accounting process depending on risk levels. The accounting-related ICS comprises both preventive and detective controls, which include IT-based and manual data matching, the segregation of functions, the dual checking principle, general IT checks such as access management in IT systems, change management, and the monitoring of such systems.

We have implemented a standardized process throughout the Group for monitoring the effectiveness of the accounting-related ICS. This process systematically focuses on risks of possible misstatements in the consolidated financial statements. At the beginning of the year, specific amounts and accounting processes are selected based on risk factors. They are then reviewed for effectiveness in the course of the year, generally by way of external audits. In order to ensure a high-quality accounting-related ICS, Internal Audit is closely involved in all stages of the process.

**Statement by the Board of Management on the Dependent Company Report**

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

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

## DESCRIPTION OF THE NOTES AND GUARANTEES

The Notes will be issued under the Agreement. The following summaries of certain provisions of the Notes and the Agreement do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all the provisions of the Notes and the Agreement, including the definitions of certain terms contained therein. A form of the fiscal and paying agency agreement has been included as Schedule A to this offering memorandum.

### General

The 2017 Notes will be initially limited to $1,000,000,000 aggregate principal amount and will mature on March 6, 2017. The 2042 Notes will be initially limited to $1,000,000,000 aggregate principal amount and will mature on March 6, 2042. The Notes will be the direct, unconditional, unsecured and unsubordinated general obligations of the Issuer. The Notes will rank equally among themselves, without any preference of one over the other by reason of priority of date of issue or otherwise, and at least equally with all other unsecured and unsubordinated general obligations of the Issuer from time to time outstanding. The Notes will bear interest at the rate per annum shown on the front cover of this offering memorandum from March 6, 2012, payable semiannually in arrears on March 6 and September 6 of each year, commencing September 6, 2012, to the holders of record on the February 19 (or, in the case of a leap year, February 20) or August 22, as the case may be, immediately preceding such interest payment date, whether or not such day is a Business Day. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Notes will be repaid at maturity at a price of 100% of the principal amount thereof. The Notes may be redeemed at any time prior to maturity in the circumstances described under "*—Optional Redemption*" and "*—Optional Tax Redemption*". The Notes will be issued in denominations of $150,000 and integral multiples of $1,000 in excess thereof. The Notes do not provide for any sinking fund.

The term "Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York City generally are authorized or obligated by law or executive order to close. If the date of maturity of interest on or principal of the Notes or the date fixed for redemption of any Note is not a Business Day, then payment of interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after such date.

### Guarantees

The Guarantor will fully, unconditionally and irrevocably guarantee (each a "Guarantee" and, collectively, the "Guarantees") the payment of the principal of, premium, if any, and interest on the Notes issued by the Issuer, including any additional amounts that may be payable by the Issuer in respect of its Notes, as described under "*Additional Amounts"*. The Guarantor guarantees the payment of such amounts when such amounts become due and payable, whether at the stated maturity of the Notes, by declaration or acceleration, call for redemption or otherwise.

In the distribution of the assets of any subsidiary of the Guarantor upon the subsidiary's liquidation or reorganization, any creditor of the subsidiary will have a right to participate in the distribution before the creditors of the Guarantor, including holders of the Notes (the "Holders") issued by the Issuer. The Guarantees will be unsecured obligations of the Guarantor.

### Additional Notes

The Notes will be issued in the initial aggregate principal amount set forth above. The Issuer may, from time to time, without notice to or the consent of the Holders, create and issue, pursuant to the Agreement and in accordance with applicable laws and regulations, additional notes (the "Additional Notes") maturing on the same maturity date as the other Notes of that series (the 2017 Notes or the 2042 Notes) and having the same terms and conditions under the Agreement (including with respect to the Guarantor and the Guarantees) as the previously outstanding Notes of that series in all respects (or in all respects except for the issue date, the CUSIP number and the amount and the date of the first payment of interest thereon) so that such Additional Notes shall be consolidated and form a single series with the previously outstanding Notes of that series. Additional Notes, if any, will be issued under a separate offering document or a supplement to this offering memorandum.

### Optional Redemption

The Issuer may, at its option, redeem the notes as a whole or in part at any time upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to the greater of:

- 100% of the principal amount of the Notes plus accrued interest (and Additional Amounts, if any) to the date of redemption; or

- as determined by the Quotation Agent, the sum of the present values of the remaining scheduled payments of principal and interest (and Additional Amounts, if any) on the Notes (not including any portion of such payments of interest accrued as of the date of redemption) plus accrued interest (and Additional Amounts, if any) to the date of redemption. The present values will be determined by discounting the remaining principal and interest payments to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months), using the Adjusted Treasury Yield.

"Adjusted Treasury Yield" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date plus (i) 25 basis points in the case of the 2017 Notes and (ii) 30 basis points in the case of the 2042 Notes.

"Comparable Treasury Issue" means the U.S. Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

"Comparable Treasury Price" means, with respect to any redemption date, the average of the Quotation Agent's Quotations for the redemption date.

"Independent Investment Banker" means an independent investment banking institution of national standing in the United States appointed by the Issuer.

"Quotation Agent" means a reference treasury dealer that is a primary U.S. government securities dealer in New York City. The Independent Investment Banker will appoint the Quotation Agent after first consulting with the Guarantor.

"Quotation Agent's Quotations" means with respect to any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by the Quotation Agent at 5:00 p. m. on the third business day before the redemption date.

From and after the redemption date, if money for the redemption of the Notes called for redemption is made available as provided in the Agreement and the Notes called for redemption on the redemption date, the Notes will cease to bear interest, and the only right of the Holders will be to receive payment of the redemption price and all unpaid interest accrued to the date of redemption.

If fewer than all of the Notes are to be redeemed, the Fiscal Agent shall select, no more than 60 days prior to the date fixed for redemption, the particular Notes or portions thereof for redemption from the outstanding Notes not previously called for redemption, on a pro rata basis or by such method as the Fiscal Agent deems fair and appropriate and in accordance with the procedures of the Depositary in the case of Global Securities.

**Optional Tax Redemption**

The Notes may be redeemed at any time, at the Issuer's (or, if applicable, the Guarantor's) option, as a whole or in part, upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 100% of the principal amount of the Notes being redeemed plus accrued and unpaid interest on the principal amount being redeemed (and all Additional Amounts, if any) to (but excluding) the redemption date, if

- (i) as a result of a change in, execution of or amendment to any laws or treaties or the official application or interpretation of such laws or treaties, (a) either the Issuer or the Guarantor would be required to pay Additional Amounts (as defined below); or (b) the Guarantor or any of its subsidiaries would have to deduct or withhold tax on any payment to the Issuer to enable the Issuer to make a payment of principal or interest on a Note and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor) taking reasonable measures available to it. This applies only in the case of changes, executions, amendments, applications or interpretations that occur on or after the date specified in this offering memorandum for the Notes and in the jurisdiction where the Issuer or the Guarantor is incorporated. If the Issuer or the Guarantor is succeeded by another entity, the applicable jurisdiction

will be the jurisdiction in which the successor entity is organized, and the applicable date will be the date the entity became a successor; and

- A person into which either the Issuer or Guarantor is merged or to whom it has conveyed, transferred or leased its property (a “successor person”) is required to pay an Additional Amount. In this event, the Issuer or the Guarantor would have the option to redeem the Notes even if the Issuer or the Guarantor is required to pay Additional Amounts immediately after such merger, conveyance, transfer or lease. In this case, the Issuer or Guarantor is not required to use reasonable measures to avoid the obligation to pay additional amounts in this situation.

Prior to the giving of notice of redemption, the Issuer, the Guarantor or the successor person, as the case may be, will deliver to the Fiscal Agent an officer's certificate, stating that the Issuer, the Guarantor or the successor person, as the case may be, is entitled to effect such redemption and setting forth in reasonable detail a statement of circumstances showing that the conditions precedent to the right of the Issuer, the Guarantor or the successor person to redeem the Securities pursuant to the Agreement have been satisfied.

**Modifications and Amendment**

The Issuer, the Guarantor and the Fiscal Agent may, with the consent of the Holders of not less than a majority in aggregate principal amount of the Notes then outstanding, evidenced as provided in the Agreement, execute agreements adding any provisions to or changing in any manner or eliminating any of the provisions of the Agreement or of any supplemental agreement or modifying in any manner the rights of the Holders; provided that no such agreement shall (a) change the maturity of the principal of any Note, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of any installment of interest thereon, or change the place or currency of payment of principal of, or interest on, any Note, or change the Issuer’s or the Guarantor’s obligation to pay Additional Amounts, impair or affect the right of any Holder to institute suit for the enforcement of any such payment on or after the due date therefor (or in the case of redemption, on or after the redemption date) or change in any manner adverse to the interests of the Holders the terms and provisions of the Guarantees in respect of the due and punctual payment of principal amount of the Notes then outstanding plus accrued and unpaid interest (and all Additional Amounts, if any) without the consent of the Holder of each Note so affected; or (b) reduce the aforesaid percentage of Notes, the consent of the Holders of which is required for any such agreement, without the consent of the Holders of the Notes then outstanding.

The Issuer, the Guarantor and the Fiscal Agent may, without the consent of the Holders, from time to time and at any time, enter into a separate or supplemental fiscal and paying agency agreement to:

- to convey, transfer, assign, mortgage or pledge to the Fiscal Agent or another person as security for the Notes any property or assets;

- to evidence the succession of another person to the Issuer or the Guarantor, or successive successions, and the assumption by the successor person of the covenants, agreements and obligations of the Issuer or the Guarantor, pursuant to the Agreement;

- to evidence and provide for the acceptance of appointment of a successor or successors to the Fiscal Agent in any of its capacities;

- to add to the covenants of the Issuer, or the Guarantor, such further covenants, restrictions, conditions or provisions as the Issuer or the Guarantor, as the case may be, shall consider to be for the protection of the Holders, to surrender any power conferred upon the Issuer or the Guarantor and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default under the Notes permitting the enforcement of all or any of the several remedies provided in the applicable fiscal agency agreement; *provided*, that in respect of any such additional covenant, restriction, condition or provision such supplemental agreement may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such an Event of Default or may limit the right of the Holders of a majority in aggregate principal amount of the Notes to waive such an Event of Default;

- to modify the restrictions on, and procedures for, resale and other transfers of the Securities pursuant to law, regulation or practice relating to the resale or transfer of restricted securities generally;

- to cure any ambiguity or to correct or supplement any provision contained in the Agreement, the Notes or the Guarantees, or in any supplemental agreement which may be defective or inconsistent with any other

provision contained therein or in any supplemental agreement or to make such other provisions in regard to matters or questions arising under the Agreement or under any supplemental agreement as the Issuer may deem necessary or desirable and which shall not adversely affect the interests of the Holders to which such provisions relate; and

- to "reopen" the Securities of any series and create and issue additional Securities of that series having identical terms and conditions as the existing Securities of such series (or in all respects except for the issue date, issue price, the CUSIP number and first interest payment date) so that the additional Securities are consolidated and form a single series with the Outstanding such Securities.

**Limitation on Liens**

So long as any of the Notes remain outstanding, neither the Issuer nor the Guarantor may become obligated on any present or future Capital Market Indebtedness that is secured by a lien on the whole or any part of its present or future assets, unless an equivalent or higher-ranking lien on the same property is granted to the Holders. For the avoidance of doubt, this undertaking shall not apply to any security which is provided by the Issuer or any other subsidiary of the Guarantor over any claims of the Issuer or such other subsidiary of the Guarantor, as the case may be, against the Guarantor or any of its subsidiaries, which claims exist now or arise at any time in the future, as a result of the passing on of the proceeds from the sale by the Issuer or another subsidiary of the Guarantor, as the case may be, of any bonds, provided that any such security serves to secure obligations under such bonds of the Issuer or the other subsidiary of the Guarantor, as the case may be. Any security to be provided pursuant to the preceding sentence may also be provided to a person acting as trustee for the holders of such bonds.

"Capital Market Indebtedness" means any obligation to repay money that is borrowed through the issuance of bonds, notes or other debt securities, which are capable of being quoted, listed or traded on a stock exchange or other recognized securities market. Capital Market Indebtedness does not include any off-balance sheet assets and obligations. For the avoidance of doubt in respect of asset-backed financings originated by the Issuer or the Guarantor, the expression "assets" does not include assets of the Guarantor that are sold on a non-recourse basis determined in accordance with the civil law applicable to such transaction.

**Events of Default**

The occurrence and continuance of one or more of the following events will constitute an event of default (an "Event of Default") under the Agreement and the Notes:

a) the Issuer fails to pay principal or interest upon any Note within 30 days from the relevant due date; or

b) the Issuer fails duly to perform any other obligation arising from any Note, or the Guarantor fails to perform any obligation arising from the Guarantee, which failure is not capable of remedy or, if such failure is capable of remedy, such failure continues for more than 60 days after the Issuer or Guarantor has received notice thereof from a Holder; or

c) (i) any Capital Market Indebtedness of the Issuer or the Guarantor becomes prematurely repayable as a result of a default in respect of the terms thereof; or (ii) the Issuer or the Guarantor fails to fulfill any payment obligation in excess of EUR 25,000,000 or the equivalent thereof under any Capital Market Indebtedness or under any guarantee or suretyship given for any Capital Market Indebtedness of any other person within 30 days from its due date or, in the case of a guarantee or suretyship, within 30 days after the guarantee or suretyship has been invoked, unless the Issuer or the Guarantor shall contest in good faith that such payment obligation exists or is due or that such guarantee or suretyship has been validly invoked; or (iii) if a security granted in respect of any Capital Market Indebtedness or any guarantee or suretyship therefor is enforced on behalf of or by the creditor(s) entitled thereto; or

d) the Issuer or the Guarantor announces its inability to meet its financial obligations or ceases its payments; or

e) a court opens insolvency proceedings against the Issuer or the Guarantor, or the Issuer or the Guarantor applies for or institutes such proceedings or offers or makes an arrangement for the benefit of its creditors generally, or the Issuer applies for a "surseance van betaling" (within the meaning of the Bankruptcy Act (Faillissementswet) of the Netherlands; or

f) the Issuer or the Guarantor goes into liquidation unless this is done in connection with a merger, or other form of combination with another company and such company assumes all obligations contracted by the Issuer or the Guarantor, as the case may be, in connection with this issue; or

g) any governmental order, decree or enactment shall be made in or by The Netherlands or Germany whereby the Issuer or the Guarantor is prevented from observing and performing in full its obligations as set forth in this Indenture and in the Guarantee, respectively, and this situation is not cured within 90 days; or

h) the Guarantee ceases to be valid and legally binding for any reason whatsoever.

If an Event of Default with respect to the Notes occurs and is continuing, then in every such case the Holders of not less than 25% in principal amount of the Notes outstanding may declare the principal amount of all of the Notes to be due and payable immediately, by a notice in writing to the Issuer and the Guarantor, specifying and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to the Notes has been made and before a judgment or decree for payment of the money due has been obtained by the Fiscal Agent as provided in the Agreement, the Holders of a majority in principal amount of the Outstanding Securities, by written notice to the Issuer, the Guarantor and the Fiscal Agent, may rescind and annul such declaration and its consequences if:

(1) the Issuer or the Guarantor has paid or deposited with the Fiscal Agent a sum sufficient to pay:

(A) all overdue interest on the Notes,

(B) the principal of (and premium, if any, on) any Notes which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in the Notes,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in the Notes, and

(D) all sums paid or advanced by the Fiscal Agent hereunder and the reasonable compensation, expenses, disbursements and advances of the Fiscal Agent, its agents and counsel;

and

(2) all Events of Default with respect to the Notes, other than the non-payment of the principal of the Notes which have become due solely by such declaration of acceleration, have been cured or waived as provided in the Agreement.

The Holders of a majority in aggregate principal amount of the Notes then outstanding may, by written notice to the Issuer and to the Fiscal Agent, waive all defaults and rescind and annul such declaration and its consequences, except a default

(1) in the payment of the principal of, or any premium or interest on, any Note of such series, or

(2) in respect of a covenant or provision which under the Agreement cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected;

and no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or impair any right consequent thereon.

**Limitations on Suits; Unconditional Right of Holder to Initiate Certain Actions**

Before a Holder can bring its own lawsuit or other formal legal action or take other steps to enforce its rights or protect its interests relating to the Notes, the following must occur:

- The Holder must give the Fiscal Agent written notice that an event of default has occurred and remains uncured. The holders of 25% in principal amount of the Notes must make a written request that the Fiscal Agent take action because of the default, and must offer reasonable indemnity and/or security satisfactory to the Fiscal Agent against the cost and other liabilities of taking that action.

- The Fiscal Agent must have not taken action for 60 days after receipt of the above notice and offer of indemnity.

Notwithstanding the above, however, the right of any Holder to receive payment of the principal of and interest on its Note on or after the respective due dates expressed in such Note, or to institute suit for the enforcement of any such payment on or after such respective dates, will not be impaired or affected without the consent of such Holder.

**Substitution of Issuer; Consolidation, Merger and Sale of Assets**

Each of the Issuer and the Guarantor, without the consent of the Holders, is generally permitted to consolidate or merge into, or sell, transfer, lease or convey all or substantially all of their respective assets to, any corporation and the Issuer may at any time substitute for the Issuer either the Guarantor or any Subsidiary (as defined below) of the Guarantor as principal debtor under the Notes, provided that:

(1) in case the Issuer or the Guarantor shall consolidate with or merge into another person or convey, transfer or lease its properties and assets substantially as an entirety to any person, the person formed by such consolidation or into which the Issuer or the Guarantor is merged or the person which acquires by conveyance or transfer, or which leases, the properties and assets of the Issuer or the Guarantor substantially as an entirety shall be a corporation, partnership or trust, shall be organized and validly existing, under the laws of the jurisdiction of its organization shall expressly assume, by an agreement supplemental hereto executed and delivered to the Fiscal Agent in form reasonably satisfactory to the Fiscal Agent, the due and punctual payment of the principal of and any premium and interest (including all Additional Amounts and any additional amounts payable pursuant to subsection (3) below) on all the Notes and the performance or observance of every covenant of the Agreement on the part of the Issuer to be performed or observed, and, in the case of the Guarantor, the due and punctual performance of the Guarantees (including all Additional Amounts and any additional amounts payable pursuant to subsection (3) below) and the performance of every covenant of the Agreement on the part of the Guarantor to be performed or observed;

(2) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Issuer or the Guarantor as a result of such transaction as having been incurred by the Issuer or the Guarantor at the time of such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing;

(3) the person formed by such consolidation or into which the Issuer or the Guarantor is merged or to whom the Issuer or the Guarantor has conveyed, transferred or leased its properties or assets (if such person is organized and validly existing under the laws of a jurisdiction other than the United States, any State thereof, or the District of Columbia) agrees to indemnify the Holder of each Note against (a) any tax, assessment or governmental charge imposed on any such Holder or required to be withheld or deducted from any payment to such Holder as a consequence of such consolidation, merger, conveyance, transfer or lease; and (b) any costs or expenses of the act of such consolidation, merger, conveyance, transfer or lease; and

(4) the Issuer or the Guarantor, as the case may be, has delivered to the Fiscal Agent an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental agreement is required in connection with such transaction, such supplemental agreement comply with the Agreement and that all conditions precedent herein provided for relating to such transaction have been complied with.

**Discharge and Defeasance**

The Agreement provides that the Issuer and the Guarantor will be discharged from any and all obligations in respect of the Agreement (except for certain obligations to register the transfer of or exchange Notes, replace stolen, lost or mutilated Notes, make payments of principal and interest and maintain paying agencies) if:

- the Issuer has paid or caused to be paid in full the principal of and interest on all Notes outstanding thereunder;

- the Issuer shall have delivered to the Fiscal Agent for cancellation all Notes outstanding theretofore authenticated; or

- all Notes not theretofore delivered to the Fiscal Agent for cancellation (i) have become due and payable; (ii) will become due and payable in accordance with their terms within one year or (iii) are to be, or have been, called for redemption as described under "—Optional Redemption" or "—Optional Tax Redemption" within one year under arrangements satisfactory to the Fiscal Agent for the giving of notice of redemption, and, in any such case, the Issuer shall have irrevocably deposited with the Fiscal Agent, in irrevocable trust for the benefit of the holders of such Notes, (a) cash in U.S. dollars in an amount, or (b) U.S. Government Obligations (as defined

below) which through the payment of interest thereon and principal thereof in accordance with their terms will provide not later than the due date of any payment, cash in U.S. dollars in an amount, or (c) any combination of (a) and (b), sufficient to pay all the principal of, and interest on (and Additional Amounts, if any), all such Notes not theretofore delivered to the Fiscal Agent for cancellation on the dates such payments are due in accordance with the terms of the Notes and all other amounts payable under the Fiscal and Paying Agency Agreement by the Issuer.

"U.S. Government Obligations" means securities which are (i) direct obligations of the U.S. government or (ii) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the U.S. government, the payment of which is unconditionally guaranteed by the U.S. government, which, in either case, are full faith and credit obligations of the U.S. government payable in U.S. dollars and are not callable or redeemable at the option of the issuer thereof and shall also include a depositary receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depositary receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depositary receipt.

**Covenant Defeasance**

The Agreement also provides that the Issuer and the Guarantor need not comply with certain covenants of the Agreement (including those described under "—Limitation on Liens"), if:

- the Issuer or the Guarantor, as the case may be, irrevocably deposits with the Fiscal Agent as trust funds in irrevocable trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders, (i) cash in U.S. dollars in an amount, or (ii) U.S. government obligations which through the payment of interest thereon and principal thereof in accordance with their terms will provide not later than the due date of any payment cash in U.S. dollars in an amount, or (iii) any combination of (i) and (ii), sufficient to pay all the principal of, and interest on, the Notes then outstanding on the dates such payments are due in accordance with the terms of the Notes;

- certain Events of Default, or events which with notice or lapse of time or both would become such an Event of Default, shall not have occurred and be continuing on the date of such deposit;

- the Issuer, or the Guarantor, as the case may be, delivers to the Fiscal Agent an opinion of tax counsel with respect to U.S. federal income tax matters to the effect that the beneficial owners of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the exercise of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would be the case if such Covenant Defeasance had not occurred;

- the Issuer, or the Guarantor, as the case may be, delivers to the Fiscal Agent an opinion of tax counsel in its jurisdiction of incorporation to the effect that such deposit and related Covenant Defeasance will not cause the Holders, other than Holders who are or who are deemed to be residents of such jurisdiction of incorporation or use or hold or are deemed to use or hold their Notes in carrying on a business in such jurisdiction of incorporation, to recognize income, gain or loss for income tax purposes in such jurisdiction of incorporation, and to the effect that payments out of the trust fund will be free and exempt from any and all withholding and other income taxes of whatever nature of such jurisdiction of incorporation or political subdivision thereof or therein having power to tax, except in the case of Notes beneficially owned (i) by a person who is or is deemed to be a resident of such jurisdiction of incorporation or (ii) by a person who uses or holds or is deemed to use or hold such Notes in carrying on a business in such jurisdiction of incorporation; and

- the Issuer, or the Guarantor, as the case may be, delivers to the Fiscal Agent an officers' certificate and an opinion of legal counsel of recognized standing, each stating that all conditions precedent provided for relating to such covenant defeasance have been complied with.

The effecting of these arrangements is also known as "Covenant Defeasance".

**Additional Amounts**

The Issuer or the Guarantor, as the case may be, will make all payments in respect of the Notes without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by way of withholding or deduction at source by or on behalf of The Netherlands or, in the case of payments under the Guarantees, by or on behalf of the Federal Republic of Germany or any political subdivision or any authority thereof or

therein having power to tax unless such withholding or deduction is required by law. The Issuer or, as the case may be, the Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the Holders, after such withholding or deduction, shall equal the respective amounts of principal and interest which would otherwise have been receivable in the absence of such withholding or deduction; except that no such additional amounts shall be payable on account of any taxes or duties which:

(a) any tax or other governmental charge which would not have been imposed but for the existence of any present or former connection between such Holder and the Relevant Jurisdiction (as defined below) (other than the mere holding of the Notes and the receipt of payments thereon), including, without limitation, such Holder being or having been a citizen or resident thereof or being or having been present or engaged in trade or business therein or having or having had a permanent establishment therein;

(b) any tax or other governmental charge which would not have been imposed but for the status of such Holder as an individual resident of a member state of the European Union;

(c) any tax or other governmental charge that would not have been imposed but for a failure by the Holder or the beneficial owner of a Security to comply with any applicable certification, information, identification, documentation or other reporting requirements concerning the nationality, residence, identity or connection with the Relevant Jurisdiction if such compliance is required as a precondition to relief or exemption from such tax or other governmental charge (including without limitation a certification that such Holder is not resident in the Relevant Jurisdiction);

(d) any tax or other governmental charge which would not have been imposed but for a change in law that becomes effective more than 30 days after a payment by the Issuer on the Securities, or by the Guarantor under the Guarantees, as the case may be, becomes due and payable, or is duly provided for and notice thereof is duly published, whichever occurs later;

(e) any tax or other governmental charge required to be withheld by any Paying Agent from a payment on the Securities, if such payment can be made without such deduction or withholding by any other Paying Agent; or

(f) any combination of items (a), (b), (c), (d) and (e) above.

The foregoing provisions shall apply mutatis mutandis to any withholding or deduction for or on account of any present or future taxes or governmental charges of whatever nature of any jurisdiction in which any successor Person to the Issuer or the Guarantor, as the case may be, is organized, or any political subdivision or taxing authority thereof or therein. As used in (a), (b) and (c) above, references to Holder shall include a fiduciary, settler, beneficiary, member or shareholder of, or possessor of a power over, such Holder, if such Holder is an estate, trust, partnership or corporation.

References to principal or interest in respect of the Notes shall be deemed to include any Additional Amounts which may be payable as set forth in the Agreement.

"Relevant Jurisdiction" means the jurisdiction (or any political subdivision or taxing authority thereof or therein) in which the Issuer or the Guarantor is incorporated.

**Governing Law; Submission to Jurisdiction**

The Agreement, the Notes and the Guarantees will be governed by and construed in accordance with the laws of the State of New York.

The Issuer and the Guarantor have irrevocably submitted to the non-exclusive jurisdiction of the courts of any U.S. state or federal court in the Borough of Manhattan in the City of New York, New York with respect to any legal suit, action or proceeding arising out of or based upon the Agreement, the Notes or the Guarantees.

**Regarding the Fiscal Agent, Paying Agent, Transfer Agent and Registrar**

In acting under the Agreement, and in connection with the Notes and the Guarantees, the Fiscal Agent is acting solely as an agent of the Issuer and does not assume any obligation towards or relationship of agency of trust for or with the Holders of the Notes. Any funds held by any paying agent for payment of principal of or interest on the Notes shall be held in trust by it for the persons entitled thereto and applied as set forth in the Agreement and in the Notes, but need not be segregated from other funds held by it except as required by law and as agreed upon separately by the Issuer, the Guarantor and the Fiscal Agent. For a description of the duties and the immunities and rights of any fiscal agent, paying agent, transfer agent or registrar under the Agreement, reference is made to the Agreement, and the obligations of any fiscal agent, paying agent, transfer agent and registrar to the Holder are subject to such immunities and rights.

**Notices**

So long as any Notes are represented by a global note and such global note is held on behalf of a clearing system, notices to Holders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders (except that (i) if and for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices shall also be published in a daily newspaper having general circulation in Luxembourg, which is expected to be the *Luxemburger Wort*, and (ii) in the event that the Notes are listed on any other stock exchange, notices shall also be given in accordance with the rules of that stock exchange) or, if any such delivery is not practicable, by publication in a leading English language daily newspaper having general circulation in Europe. Any such notice will be deemed to have been given on the date of first publication or, if published more than once or on different dates, on the first date on which publication is made.

## BOOK-ENTRY; DELIVERY AND FORM; SUMMARY OF PROVISIONS RELATING TO NOTES IN GLOBAL FORM

*The information set out in the sections of this offering memorandum describing clearing and settlement arrangements is subject to any change or reinterpretation of the rules, regulations and procedures of DTC as currently in effect. The information in such sections concerning clearing systems has been obtained from sources that the Issuer and Guarantor believe to be reliable. The Issuer and Guarantor accept responsibility only for the correct extraction and reproduction of such information, but not for the accuracy of such information. If an investor wishes to use the facilities of any clearing system, it should confirm the applicability of the rules, regulations and procedures of the relevant clearing system. The Issuer and Guarantor will not be responsible or liable for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such book-entry interests.*

The certificates representing the Notes and the Guarantees will be issued in fully registered form without interest coupons. Notes sold in offshore transactions in reliance on Regulation S will initially be represented by one or more permanent Regulation S global notes in, fully registered form without interest coupons, and will be deposited with the fiscal agent as custodian for, and registered in the name of a nominee of, DTC for the accounts of its participants, including Euroclear and Clearstream. Prior to the 40th day after the later of the commencement of the offering of the Notes and the date of the original issue of the Notes, any resale or other transfer of such interests to U.S. persons shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S and in accordance with the certification requirements described below.

Notes sold in reliance on Rule 144A will be represented by one or more permanent Rule 144A global notes in definitive, fully registered form without interest coupons, and will be deposited with the fiscal agent as custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Regulation S global note only upon receipt by the fiscal agent of written certifications (in the form or forms provided in the Agreement) and pursuant to the transfer restrictions related to a Rule 144A global note as described in this offering memorandum.

Each global note (and any Notes issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein described under "*Transfer Restrictions*". Except in the limited circumstances described below under "—*Summary of Provisions Relating to Certificated Notes*", owners of beneficial interests in the global notes will not be entitled to receive physical delivery of certificated Notes.

Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC, or participants, or persons who hold interests through participants. Ownership of beneficial interests in a global note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Qualified institutional buyers may hold their interests in a Rule 144A global note directly through DTC if they are participants in such system, or indirectly through organizations that are participants in such system.

Investors may hold their interests in a Regulation S global note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold interests in the Regulations S global notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such global note for all purposes under the Agreement and the Notes. No beneficial owner of an interest in a global note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Agreement and, if applicable, those of Euroclear and Clearstream.

Conveyance of notices and other communications by DTC to its participants, by each of those participants to its indirect participants, and by participants and indirect participants to beneficial owners of interests in a global note will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The fiscal agent will send any notices in respect of the Notes held in book-entry form to DTC or its nominee.

Neither DTC nor its nominee will consent or vote with respect to the Notes unless authorized by a participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to the Issuer as soon as possible after the record date. The omnibus proxy assigns DTC's or its nominee's consenting or voting rights to those participants to whose account the Notes are credited on the record date.

Payments of the principal of, and interest on, a global note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Issuer, the Guarantor nor the fiscal agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in a global note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note as shown on the records of DTC or its nominee. The Issuer also expects that payments by participants to owners of beneficial interests in such global note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant European depositary; however, those cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in that system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to the relevant European depositary to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the European depositaries.

Because of time zone differences, credits of securities received in Euroclear or Clearstream as a result of a transaction with a person that does not hold the Notes through Euroclear or Clearstream will be made during subsequent securities settlement processing and dated the first day Euroclear or Clearstream, as the case may be, is open for business following the DTC settlement date. Those credits or any transactions in those securities settled during that processing will be reported to the relevant Euroclear or Clearstream participants on that business day. Cash received in Euroclear or Clearstream as a result of sales of securities by or through a Euroclear participant or a Clearstream participant to a DTC participant will be received with value on the DTC settlement date, but will be available in the relevant Euroclear or Clearstream cash account only as of the first day Euroclear or Clearstream, as the case may be, is open for business following settlement in DTC.

The Issuer expects that DTC will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a global note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if there is an event of default under the Notes, DTC will exchange the applicable global note for certificated Notes, which it will distribute to its participants and which may be legended as set forth under the heading "*Transfer Restrictions*".

**DTC**

DTC is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for its participants and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly, or indirect participants.

**Euroclear**

Euroclear holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear participants, and between Euroclear participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such

participants or other securities intermediaries. Euroclear provides Euroclear participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations. Certain of the Initial Purchasers, or other financial entities involved in this offering, may be Euroclear participants. Non-participants in the Euroclear system may hold and transfer book-entry interests in the Notes through accounts with a participant in the Euroclear system or any other securities intermediary that holds a book-entry interest in the securities through one or more securities intermediaries standing between such other securities intermediary and Euroclear.

Investors electing to acquire Notes in the offering through an account with Euroclear or some other securities intermediary must follow the settlement procedures of such intermediary with respect to the settlement of new issues of securities. Notes to be acquired against payment through an account with Euroclear will be credited to the securities clearance accounts of the respective Euroclear participants in the securities processing cycle for the first day Euroclear is open for business following the settlement date for value as of the settlement date.

Investors electing to acquire, hold or transfer Notes through an account with Euroclear or some other securities intermediary must follow the settlement procedures of such intermediary with respect to the settlement of secondary market transactions in securities. Euroclear will not monitor or enforce any transfer restrictions with respect to the Notes. Investors that acquire, hold and transfer interests in the Notes by book-entry through accounts with Euroclear or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such intermediary and each other intermediary, if any, standing between themselves and the individual Notes.

Euroclear has advised that, under Belgian law, investors that are credited with securities on the records of Euroclear have a co-property right in the fungible pool of interests in securities on deposit with Euroclear in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of Euroclear, Euroclear participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with Euroclear. If Euroclear did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all participants credited with such interests in securities on Euroclear's records, all participants having an amount of interests in securities of such type credited to their accounts with Euroclear would have the right under Belgian law to the return of their pro rata share of the amount of interests in securities actually on deposit. Under Belgian law, Euroclear is required to pass on the benefits of ownership in any interests in Notes on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records. Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Euroclear terms and conditions.

**Clearstream**

Clearstream advises that it is incorporated under the laws of Luxembourg and licensed as a bank and professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions among its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. Clearstream has established an electronic bridge with the Euroclear operator to facilitate the settlement of trades between Clearstream and Euroclear. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Clearstream participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. In the United States, Clearstream participants are limited to securities brokers and dealers and banks, and may include the Initial Purchasers, or other financial entities involved in, this offering. Other institutions that maintain a custodial relationship with a Clearstream participant may obtain indirect access to Clearstream. Clearstream is an indirect participant in DTC. Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures.

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a global note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor the Guarantor nor the fiscal agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their respective operations.

**Summary of Provisions Relating to Certificated Notes**

If DTC is at any time unwilling or unable to continue as a depositary for the Global Notes and a successor depositary is not appointed by the Issuer within 90 days, or if there shall have occurred and be continuing an event of default with respect to the Notes and a holder so requests, the Issuer will issue certificated Notes, with Guarantees endorsed thereon by the Guarantor, in exchange for the Global Notes. Certificated notes delivered in exchange for book-entry interests will be registered in the names, and issued in denominations of $150,000 and integral multiples of $1,000 in excess thereof, requested by or on behalf of DTC or the successor depositary (in accordance with its customary procedures). Holders of book-entry interests in a Global Security may receive certificated Notes, which may bear the legend referred to under "*Transfer Restrictions*", in accordance with DTC's rules and procedures in addition to those provided for under the Agreement.

Except in the limited circumstances described above, owners of book-entry interests will not be entitled to receive physical delivery of individual definitive certificates. The Notes are not issuable in bearer form.

Subject to any applicable transfer restrictions, the holder of a certificated note bearing the legend referred to under "*Transfer Restrictions*" may transfer or exchange such Notes in whole or in part by surrendering them to the Fiscal Agent. Prior to any proposed transfer of Notes in certificated form, the holder may be required to provide certifications and other documentation to the Fiscal Agent as described above. In the case of a transfer of only part of a note, the original principal amount of both the part transferred and the balance not transferred must be in authorized denominations, and new Notes will be issued to the transferor and transferee, respectively, by the Fiscal Agent. Upon the transfer, exchange or replacement of certificated Notes not bearing the legend described above, the fiscal agent will deliver certificated Notes that do not bear such legend.

Upon the transfer, exchange or replacement of certificated Notes bearing the legend described above, or upon a specific request for removal of the legend from such certificated note, the Fiscal Agent will deliver only certificated Notes bearing such legend or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of legal counsel of recognized standing, as may be reasonably required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Payment of principal and interest in respect of the certificated Notes shall be payable at the office or agency of the Issuer in the City of New York which shall initially be at the corporate trust office of the Fiscal Agent, which is located at 60 Wall Street, New York, NY 10005, provided that at the option of the Issuer with prior notice to the paying agent, payment may be made by wire transfer, direct deposit or check mailed to the address of the holder entitled thereto as such address appears in the note register.

If the Issuer decides to maintain a paying agent with respect to the Notes in a member state of the European Union, it will ensure such paying agent is in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive or such other directive.

The certificated Notes, at the option of the Holder and subject to the restrictions contained in the Notes and in the Agreement, may be exchanged or transferred, upon surrender for exchange or presentation for registration of transfer at the office of the Fiscal Agent. Any certificated note surrendered for exchange or presented for registration of transfer shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the fiscal agent, duly endorsed by the Holder thereof or his attorney duly authorized in writing. Notes issued upon such transfer will be executed by the Issuer and authenticated by the Fiscal Agent, registered in the name of the designated transferee or transferees and delivered at the office of the Fiscal Agent or mailed, at the request, risk and expense of, and to the address requested by, the designated transferee or transferees.

# TAXATION

## German Tax Considerations

The following is a discussion of certain German tax considerations that may be relevant to you as a holder of the Notes. The discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to you. The discussion is based on the law as it stands on the date of this offering memorandum and may be subject to change, potentially with retroactive effect. You should consult your own advisor regarding the tax consequences of the purchase, ownership and disposition of the Notes in a light of your particular circumstances, including the aspect of any state, local or other applicable tax laws.

### Income Taxation

If you are not a tax resident of Germany and do not otherwise have a connection with Germany other than the mere purchase, holding and disposition of, or the receipt of payments on, the Notes, you will not be subject to income taxation in Germany with your income from the Notes.

If you are an individual and a tax resident of Germany and the income from the Notes constitutes income from capital investment to you (a "German Private Investor"), interest payments received by you with respect to the Notes as well as the gain from the sale or other disposition (including repayment or redemption) of the Notes (*i.e.,* the difference between the proceeds from the sale or disposition of the Notes, after deduction of the expenses that are directly connected with the sale or disposition, and the cost of acquisition), will be subject to personal income tax at a flat rate of 25% (plus 5.5% solidarity surcharge thereon and church tax, if you are affiliated with a religious group that levies such tax). In order to determine the amount of the gain, the proceeds derived from the sale or disposition and the acquisition cost are converted into euro at the conversion rate as of the date of acquisition and disposition, respectively (*i.e.,* currency gains are taxable).

Subject to an annual lump-sum allowance for savers (*Sparer-Pauschbetrag*) in the amount of EUR 801 (EUR 1,602 for married couples filing jointly) for your overall income from capital investment, you will not be entitled to deduct any expenses incurred in connection with your investment in the Notes. In addition, you will only be able to offset losses from the investment in the Notes against positive income from capital investment but not against other types of income (*e.g.,* employment income).

Collection of the tax (including, if applicable, the church tax) by way of withholding through a Disbursing Agent (as described under the caption – "Withholding Tax" below) will satisfy your tax liability with respect to the aforementioned interest payments and gains (*Abgeltungssteuer*). If a Disbursing Agent has not withheld the tax, you must include the interest payments and the gain from the sale or other disposition of the Notes in your annual income tax return filing; the tax will then be collected by way of assessment.

Upon request, your income from the Notes (and any other income from capital investment) will be taxed at your individual progressive personal income tax rate (in lieu of the flat tax rate) together with your other taxable income if this leads to a lower tax burden than the application of the flat tax rate. In this case, the tax withheld by a Disbursing Agent is credited against your final personal income tax liability or, if in excess of such final tax liability, refunded. But even then, you will not be allowed to claim a deduction of expenses actually incurred in connection with your investment in the Notes or to offset losses from the investment in the Notes against other types of positive income.

If you are a tax resident of Germany or otherwise have a connection with Germany other than the mere purchase, holding and disposition of, or the receipt of payments on, the Notes, *e.g.,* because the Notes form part of the business property of a permanent establishment or fixed base maintained in Germany, but you are not a German Private Investor (*e.g.,* because you hold the Notes as business assets), the flat tax regime does not apply to you. In this case, your income from the Notes will be subject to personal income tax at individual progressive tax rates of up to 45% (plus 5.5% solidarity surcharge on such personal income tax and church tax, if you are affiliated with a religious group that levies such tax) or, as the case may be, corporate income tax at a rate of 15% (plus 5.5% solidarity surcharge on such corporate income tax). When computing your income, you will be allowed to deduct your expenses incurred in connection with your investment in the Notes under general rules. Income derived from the Notes will also be subject to trade tax at the applicable municipal rate (which varies generally between 7 and 17%) if the Notes form part of the property of a permanent establishment of a commercial business in Germany.

### Withholding Tax

If you are not a tax resident of Germany and do not otherwise have a connection with Germany other than the mere purchase, holding and disposition of, or the receipt of payments on, the Notes, interest payments to you under the

Notes as well as gains realized by you on the sale or other disposition of the Notes will not be subject to German withholding tax.

If you are a tax resident of Germany or otherwise have a connection with Germany other than the mere purchase, holding and disposition of, or the receipt of payments on, the Notes, *e.g.,* because the Notes form part of the business property of a permanent establishment or fixed base maintained in Germany, and you keep the Notes in Germany in a custodial account with a Disbursing Agent (as defined below), the Disbursing Agent will be required to withhold tax at a rate of 25% (plus 5.5% solidarity surcharge thereon, resulting in an aggregate withholding rate of 26.375%) from the gross amount of the interest payments to be disbursed or credited to you with respect to the Notes. Church tax on interest payments received before 2014 will only be withheld by the Disbursing Agent upon your request. As of 2014, the Disbursing Agent will be informed by the Federal Central Tax Office (*Bundeszentralamt für Steuern*) about your affiliation with a religious group that levies the church tax. The Disbursing Agent will then automatically withhold church tax (where applicable). You can object in writing to the Federal Central Tax Office providing information about your religious affiliation to the Disbursing Agent. If you so object, the Federal Central Tax Office will notify your local tax office. The local tax office will then request you to file a tax return.

The term "Disbursing Agent" relates to a bank, a financial services institution, a securities trading enterprise or a securities trading bank, each as defined in the German Banking Act (and, in each case, including a German branch of a foreign enterprise, but excluding a foreign branch of a German enterprise) that holds the Notes in custody for you or conducts their sale or other disposition and disburses or credits the income from the Notes to you.

In the event that you sell or otherwise dispose of the Notes (including the redemption or repayment of Notes), the Disbursing Agent will generally be required to withhold tax as in the case of interest payments. If you have kept the Notes in a custodial account with the same Disbursing Agent since their acquisition or, in the event of a transfer of the Notes, your acquisition cost of the Notes has been evidenced to the Disbursing Agent (as described below), the tax is withheld at the above-mentioned rate from the gain (*i.e.,* the difference between the proceeds from the sale or the disposition of the Notes, after deduction of the expenses that are directly connected with the sale or disposition, and the acquisition cost). In order to determine the amount of the gain, the proceeds derived from the sale or disposition and the acquisition cost, are converted into euro at the conversion rate as of the date of acquisition and disposition, respectively (*i.e.,* currency gains are taken into account for withholding).

When you transfer the Notes to another custodial account within Germany, the releasing Disbursing Agent has to inform the accepting Disbursing Agent of your acquisition cost. When you transfer the Notes to a Disbursing Agent from a bank or financial services institution that has its seat in another member state of the European Union or the European Economic Area or in another contracting state pursuant to Article 17 (2) (i) of the directive adopted by the Council of the European Union on June 3, 2003 on the taxation of savings income in the form of interest payments, or from a branch of a German bank or financial services institution established in such state, you can provide evidence of the acquisition cost through certification by such non-German institution. In all other cases, the evidence of the acquisition cost is not permissible.

If, in the event of a transfer of the Notes, the acquisition cost of the Notes has not been evidenced to the Disbursing Agent, the Disbursing Agent has to withhold tax at the above-mentioned rate from an amount equal to 30% of the proceeds from the sale or other disposition of the Notes.

If you transfer Notes that you keep in Germany in a custodial account with a Disbursing Agent to another holder, the Disbursing Agent must treat the transfer as a sale or disposition for withholding tax purposes, unless you inform the Disbursing Agent that the transfer is without consideration. If the Disbursing Agent is not so informed, the Disbursing Agent must withhold tax at the above-mentioned rate from a substitute tax base.

If you are a German Private Investor, you can take advantage of the *Sparer-Pauschbetrag* (as described above) by completing an exemption order (*Freistellungsauftrag*) for the Disbursing Agent. In this case, the Disbursing Agent will not withhold tax on your investment income (including income derived from the Notes) up to the amount shown on the exemption order. Furthermore, the Disbursing Agent will not withhold any tax, if you submit to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the local tax office.

If you are subject to personal or corporate income taxation in Germany with your income from the Notes, but the flat tax regime does not apply to you (*i.e.,* because you are not a German Private Investor), the tax withheld by a Disbursing Agent will be credited against your final personal or corporate income tax liability or, if in excess of such final tax liability, refunded. You should consult your tax advisor about ways to avoid or limit withholding by a Disbursing Agent, in particular in the event of a sale or other disposition of the Notes.

**Gift or Inheritance Taxation**

The gratuitous transfer of Notes by you as a gift or by reason of your death will be subject to German gift or inheritance tax if you are or the recipient is a resident, or deemed to be a resident, of Germany under German gift or inheritance tax law at the time of the transfer. If neither you nor the recipient is a resident or deemed to be a resident of Germany at the time of the transfer, no German gift or inheritance tax will be levied unless the Notes form part of the property of a permanent establishment or a fixed base maintained by you in Germany. Tax treaties concluded by Germany with respect to gift and inheritance taxes generally permit Germany to tax the transfer in this situation.

## Netherlands Tax Considerations

*The following summary of certain Dutch taxation matters is based on the laws and practice in force as of the date of this offering memorandum and is subject to any changes in law and the interpretation and application thereof, which changes could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of a Note, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules.*

*For the purpose of this summary it is assumed that the Notes will not be redeemable in exchange for, convertible into or linked to shares, other equity instruments or other debt securities issued or to be issued by the Issuer or by any Dutch tax resident entity that is affiliated to the Issuer.*

*For the purpose of this summary it is assumed that no holder of a Note has or will have a substantial interest, or - in the case of a holder of a Note being an entity - a deemed substantial interest, in the Issuer and that no connected person (verbonden persoon) to the holder of a Note has or will have a substantial interest in the Issuer.*

*Generally speaking, an individual has a substantial interest in a company if (a) such individual, either alone or together with his partner, directly or indirectly has, or is deemed to have or (b) certain relatives of such individual or his partner directly or indirectly have or are deemed to have (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5 per cent or more of either the annual profit or the liquidation proceeds of such company*

*Generally speaking, a non-resident entity has a substantial interest in a company if such entity, directly or indirectly has (I) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of the Issuer, or (II) the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5 per cent or more of either the annual profit or the liquidation proceeds of such company. An entity holding a Note has a deemed substantial interest in a company if such entity has disposed of or is deemed to have disposed of all or part of a substantial interest on a non-recognition basis.*

*For the purpose of this summary, the term "entity" means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes.*

*Where this summary refers to a holder of a Note, an individual holding a Note or an entity holding a Note, such reference is restricted to an individual or entity holding legal title to as well as an economic interest in such Note.*

*Where the summary refers to "The Netherlands" or "Dutch" it refers only to the European part of the Kingdom of the Netherlands.*

***Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of a Note or Coupon.***

**Withholding Tax**

All payments made by the Issuer of interest and principal under the Notes can be made free of withholding or deduction of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

### Taxes on Income and Capital Gains

***Residents***

*Resident entities*

An entity holding a Note which is, or is deemed to be, resident in The Netherlands for corporate tax purposes and which is not tax exempt, will generally be subject to corporate tax in respect of income or a capital gain derived from a Note at the prevailing statutory rates.

*Resident individuals*

An individual holding a Note who is, is deemed to be, or has elected to be treated as, resident in The Netherlands for income tax purposes will be subject to income tax in respect of income or a capital gain derived from a Note at rates up to 52 per cent if:

(i) the income or capital gain is attributable to an enterprise from which the holder derives profits (other than as a shareholder); or

(ii) the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor (ii) applies, an individual holding a Note will be subject to income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from a Note. The deemed return amounts to 4 per cent. of the average value of the individual's net assets in the relevant fiscal year (including the Note). Subject to application of certain allowances, the deemed return will be taxed at a rate of 30 per cent.

*Non-residents*

A holder of a Note which is not, is not deemed to be, and - in case the holder is an individual - has not elected to be treated as, resident in The Netherlands for the relevant tax purposes will not be subject to taxation on income or a capital gain derived from a Note unless:

(i) the income or capital gain is attributable to an enterprise or part thereof which is either effectively managed in The Netherlands or carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in The Netherlands and the holder of a Note derives profits from such enterprise (other than by way of securities); or

(ii) the holder is an individual and the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in The Netherlands as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

### Gift or Inheritance Taxes

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of a Note by way of gift by, or on the death of, a holder of a Note, unless:

(i) the holder of a Note is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or

(ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions.

### Value Added Tax

There is no Dutch value added tax payable by a holder of a Note in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes, or the transfer of the Notes.

**Other Taxes and Duties**

There is no Dutch registration tax, stamp duty or any other similar tax or duty payable in The Netherlands by a holder of a Note in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of The Netherlands) of the Notes or the performance of the Issuer's obligations under the Notes.

**Residence**

A holder of a Note will not be, or deemed to be, resident in The Netherlands for tax purposes and, subject to the exceptions set out above, will not otherwise be subject to Dutch taxation, by reason only of acquiring, holding or disposing of a Note or the execution, performance, delivery and/or enforcement of a Note.

**European Union Savings Directive**

On June 3, 2003, the Council of the European Union adopted a directive on the taxation of savings income. Pursuant to the directive, a member state of the European Union will be required to provide to the tax authorities of other member states information regarding payments of interest (or other similar income) paid by a person within its jurisdiction to individual residents of such other member states, except that, for a transitional period, Luxembourg and Austria may instead operate a withholding system in relation to such payments, deducting tax at a rate of 35%. The provisions of the directive entered into effect as of July 1, 2005. A number of non-EU countries and territories have adopted or agreed to adopt similar measures.

**United States Federal Income Tax Considerations**

*To ensure compliance with Internal Revenue Service Circular 230, prospective investors are hereby notified that: (a) any discussion of U.S. federal tax issues contained or referred to in this offering memorandum or any document referred to herein is not intended or written to be used, and cannot be used by prospective investors for the purpose of avoiding penalties that may be imposed on them under the United States Internal Revenue Code; (b) such discussion is written for use in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax advisor.*

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant if you are a U.S. holder. You will be a U.S. holder if you are an individual who is a citizen or resident of the United States, a U.S. domestic corporation, or any other person that is subject to U.S. federal income tax on a net income basis in respect of an investment in the Notes. This summary is based upon provisions of the Internal Revenue Code of 1986, as amended and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those summarized below. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, including tax considerations that arise from rules of general application or that are generally assumed to be known by investors.

This summary deals only with U.S. holders who purchase the Notes at original issuance at their issue price and who hold the Notes as capital assets. It does not address considerations that may be relevant to you if you are an investor that is subject to special tax rules, such as a bank, thrift, real estate investment trust, regulated investment company, insurance company, dealer in securities or currencies, trader in securities or commodities that elects mark to market treatment, person that will hold the Notes as a hedge against currency risk or as a position in a “straddle” or conversion transaction, tax-exempt organization or a person whose “functional currency” is not the U.S. dollar.

You should consult your tax adviser about the tax consequences of holding the Notes, including the relevance to your particular situation of the considerations discussed below, as well as the relevance to your particular situation of state, local or other tax laws.

**Payments of Interest**

Interest on a Note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for tax purposes. In addition, if any additional amounts are paid in respect of any taxes withheld from the interest payments, you will also be required to include in income as ordinary income any such additional amounts. Such interest payments will be income from sources outside the United States and you generally will be entitled to deduct or credit taxes that are withheld from the interest payments, subject to certain limitations. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

**Sale, Exchange and Retirement of Notes**

Your tax basis in a Note will be, in general, your cost for that Note. Upon the sale, exchange, redemption, retirement or other disposition of a Note, you will recognize gain or loss equal to the difference between the amount you realize upon the sale, exchange, redemption, retirement or other disposition (less an amount equal to any accrued interest that you did not previously include in income, which will be taxable as interest income as described under "—Payments of Interest" above) and the tax basis of the Note. Such gain or loss will be capital gain or loss and will generally be treated as U.S. source gain or loss if you are a United States resident. Consequently, you may not be able to claim a credit for any foreign tax imposed upon a disposition of a Note unless such credit can be applied (subject to applicable limitation) against tax due on other income treated as derived from foreign sources. Capital gains of individuals derived in respect of capital assets held for more than one year may be eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

**Information Reporting and Backup Withholding**

The paying agent must file information returns with the Internal Revenue Service in connection with Note payments made to certain United States persons. If you are a United States person, you generally will not be subject to United States backup withholding tax on such payments if you provide your taxpayer identification number to the paying agent. You may also be subject to information reporting and backup withholding tax requirements with respect to the proceeds from a sale of the Notes. If you are not a United States person, you may have to comply with certification procedures to establish that you are not a United States person in order to avoid information reporting and backup withholding tax requirements.

## PLAN OF DISTRIBUTION

The Issuer intends to offer the Notes through the initial purchasers listed in the table below (the "Initial Purchasers"). Credit Suisse Securities (USA) LLC, Morgan Stanley & Co. LLC and SG Americas Securities, LLC are acting as representatives for the Initial Purchasers. Subject to the terms and conditions contained in a purchase agreement dated February 28, 2012 among the Issuer, the Guarantor and the Initial Purchasers (the "Purchase Agreement"), the Issuer has agreed to sell to the Initial Purchasers, and the Initial Purchasers have severally agreed to purchase from the Issuer, the principal amount of each series of Notes listed opposite their names below:

| Initial Purchasers | Principal Amount | |
|---|---|---|
| | 2017 Notes | 2042 Notes |
| Credit Suisse Securities (USA) LLC | $266,667,000 | $266,667,000 |
| Morgan Stanley & Co. LLC | $266,667,000 | $266,667,000 |
| SG Americas Securities, LLC | $266,666,000 | $266,666,000 |
| Banca IMI S.p.A. | $40,000,000 | $40,000,000 |
| Commerz Markets LLC | $40,000,000 | $40,000,000 |
| Lloyds Securities Inc. | $40,000,000 | $40,000,000 |
| Mitsubishi UFJ Securities (USA), Inc. | $40,000,000 | $40,000,000 |
| RBS Securities Inc. | $40,000,000 | $40,000,000 |
| Total | $1,000,000,000 | $1,000,000,000 |

The Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes being sold pursuant to the Purchase Agreement if any of such Notes are purchased. If an Initial Purchaser defaults, the Purchase Agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or, in certain cases, the Purchase Agreement may be terminated.

The Initial Purchasers have advised the Issuer that they propose initially to offer the Notes for resale at the price listed on the cover page of this offering memorandum. After the initial offering of the Notes, the offering price and other selling terms may from time to time be varied by the Initial Purchasers. The offering of the Notes by the Initial Purchasers is subject to receipt and acceptance and subject to the Initial Purchasers' right to reject any order in whole or in part.

The Issuer and the Guarantor have agreed to indemnify the several Initial Purchasers against certain liabilities, including certain liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The expenses of the offering, not including the discount to the Initial Purchasers, are estimated at $450,000 and are payable by the Issuer and the Guarantor.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchasers of officer's certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part. After the Notes are released for sale, the Initial Purchasers may change the offering prices and other selling terms without notice.

The Notes are a new issue of securities with no established trading market. The Issuer intends to apply for the admission of each series of the Notes to the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Regulated Market of the Luxembourg Stock Exchange. However, there is no assurance that a liquid trading market in the Notes will develop. The Issuer has been advised by the Initial Purchasers that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. The Issuer cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the operating performance and financial condition of the Issuer and the Guarantor, general economic conditions and other factors. See "*Risk Factors—Many factors may adversely affect the trading market, value or yield of the Notes*".

### Price Stabilization, Short Positions

In connection with the offering, the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the Initial Purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The Initial Purchasers must close out short position by purchasing Notes in

the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

The Initial Purchasers also may impose a penalty bid. This occurs when a particular Initial Purchaser repays to the Initial Purchasers a portion of the underwriting discount received by it because the representative has repurchased notes sold by or for the account of such Initial Purchaser in stabilizing or short covering transactions.

Any of these activities may cause the prices of the Notes to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected in any over-the-counter market, and, if commenced, may be discontinued at any time.

Neither the Issuer, the Guarantor nor any of the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither the Issuer, the Guarantor nor any of the Initial Purchasers make any representation that the Representative will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

**Settlement**

We expect that delivery of the Notes will be made against payment therefor on or about the closing date specified on the cover page of this offering memorandum (the "Settlement Date"), which will be the fifth New York business day following the date of pricing of the Notes of this offering (this settlement cycle being referred to as "T+5"). Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in three New York business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the third business day preceding the Settlement Date will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes who wish to trade Notes prior to the third business day preceding the Settlement Date should consult their own advisor.

**Other Relationships**

Some of the Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Guarantor or their respective affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Guarantor or their respective affiliates. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

**Selling Restrictions**

*General*

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering memorandum, or any amendment or supplement to this offering memorandum, or any other offering or publicity material relating to the Notes, in any country or jurisdiction where, or in any circumstances in which, action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with applicable laws and regulations. Each Initial Purchaser has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which

it purchases, offers, sells or delivers Notes or has in its possession or distributes this offering memorandum and none of the Issuer, the Guarantor or any other Initial Purchaser shall have any responsibility therefor.

*United States*

The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A. Each Initial Purchaser has represented, warranted and agreed that it will offer and sell the Notes except:

(i) to persons whom it reasonably believes are QIBs pursuant to Rule 144A in transactions meeting the requirements of Rule 144A, or

(ii) to, or for the account or benefit of, persons other than "U.S. persons" (within the meaning of Regulation S under the Securities Act) purchasing in offshore transactions outside the United States within the meaning of Regulation S under the Securities Act.

Any offer or sale of the Notes in the United States in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act will be made by broker-dealers who are registered as such under the Exchange Act.

*United Kingdom*

Each Initial Purchaser has represented, warranted and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

*The Netherlands*

Each Initial Purchaser has represented, warranted and agreed that it has not offered or sold and will not offer or sell any of the Notes in the Netherlands, unless it has the Dutch regulatory capacity to do so, other than through one or more investment firms acting as principals and having the Dutch regulatory capacity to make such offers or sales.

Each Initial Purchaser has represented, warranted and agreed that it will not make an offer of Securities to the public in The Netherlands in reliance on Article 3(2) of the Prospectus Directive unless:

(i) such offer is made exclusively to legal entities which are qualified investors (as defined in the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht* ("Wft")) in The Netherlands; or

(ii) standard exemption logo and wording are disclosed as required by article 5:20(5) of the Wft; or

(iii) such offer is otherwise made in circumstances in which article 5:20(5) of the Wft is not applicable,

provided that no such offer of Securities shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expressions (i) an "offer of Securities to the public" in relation to any Securities in The Netherlands; and (ii) "Prospectus Directive", have the meaning given to them below in the paragraph headed with "*European Economic Area*".

*European Economic Area*

In relation to each Member State of the European Economic Area (the "EEA") which has implemented the Prospectus Directive (each, a "Relevant Member State"), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes to the public in that Relevant

Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

(a) in (or in the Federal Republic of Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

(b) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Manager or Managers nominated by the Issuer for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer, the Guarantor or any Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Guarantor nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer, the Guarantor or the Initial Purchasers to publish or supplement a prospectus for such offer.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

This EEA selling restriction is in addition to any other selling restrictions set out in this offering memorandum.

## TRANSFER RESTRICTIONS

### Offers and Sales

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except pursuant to an effective registration statement or (i) in a transaction not subject to the registration requirements under the Securities Act and any securities regulatory authority of any state of the United States or (ii) in accordance with an applicable exemption from the registration requirements thereof. Accordingly, the Notes are being offered and sold hereunder only:

- inside the United States or to U.S. persons (as defined under Regulation S), to QIBs; and
- outside the United States to non-U.S. persons or for the account or benefit of non-U.S. persons, in offshore transactions in reliance upon Regulation S.

Any offer or sale of the Notes in the United States in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act will be made by broker-dealers who are registered as such under the Exchange Act.

Until the expiration of 40 days after the later of the commencement of the offering of the Notes and the original issue or sale date of the Notes, an offer or sale of the Notes within the United States by a dealer may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to an exemption from registration under the Securities Act.

Each purchaser of the Notes will be deemed by its acceptance of the Notes to have represented, warranted and agreed that it is purchasing the Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or any state securities laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other exemption from registration available under the Securities Act.

### Rule 144A Global Notes

Each purchaser of Notes within the United States will be deemed by its acceptance of the Notes to have represented, warranted and agreed on its behalf and on behalf of any investor accounts for which it is purchasing the Notes, that neither the Issuer nor the Guarantor nor the Initial Purchasers, nor any person acting on their behalf, has made any representation to it with respect to the offering or sale of any Notes, other than the information contained in this offering memorandum, which offering memorandum has been delivered to it and upon which it is solely relying in making its investment decision with respect to the Notes, has had access to such financial and other information concerning Deutsche Telekom, Finance and the Notes as it has deemed necessary in connection with its decision to purchase any of the Notes, and that:

(i) the purchaser is not an affiliate of Deutsche Telekom or Finance or a person acting on behalf of Deutsche Telekom or Finance or on behalf of such affiliate; and it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Notes from Deutsche Telekom or Finance or an affiliate thereof in the initial distribution of the Notes;

(ii) the purchaser acknowledges that the Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

(iii) the purchaser (i) is a QIB, (ii) is aware that the sale to it is being made in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, and (iii) is acquiring such Notes for its own account or for the account of a QIB, in each case for investment and not with a view to, or for offer or sale in connection with, any resale or distribution of the Notes in violation of the Securities Act or any state securities laws;

(iv) the purchaser is aware that the Notes are being offered in the United States in a transaction not involving any public offering in the United States within the meaning of the Securities Act;

(v) if, prior to the date that is one year after the later of the date (the "Resale Restriction Termination Date") of the commencement of sales of the Notes and the last date on which the Notes were acquired from the Issuer or any of the Issuer's affiliates in the offering the purchaser decides to offer, resell, pledge or otherwise transfer such Notes, such Notes may be offered, sold, pledged or otherwise transferred only (i) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (ii) in accordance with Regulation S, (iii) in accordance with Rule 144 (if available), (iv) in accordance with an effective registration statement under the Securities Act, or (v) pursuant to any other available exemption from the registration requirements of the Securities Act in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and agrees to give any subsequent purchaser of such Notes notice of any restrictions on the transfer thereof;

(vi) the Notes have not been offered to it by means of any general solicitation or general advertising;

(vii) the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and no representation is made as to the availability of the exemption provided by Rule 144 under the Securities Act for resales of any such Notes;

(viii) the Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND (B) AGREES THAT THIS SECURITY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) TO DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V. (THE "ISSUER"), (2) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (5) PURSUANT TO ANOTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, PROVIDED THAT, AS A CONDITION TO THE REGISTRATION OF THE TRANSFER HEREOF, THE ISSUER OR THE FISCAL AGENT MAY REQUIRE THE DELIVERY OF ANY DOCUMENTS, INCLUDING AN OPINION OF COUNSEL, THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION. THE HOLDER HEREOF, BY, PURCHASING OR ACCEPTING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM THE HOLDER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

(ix) the purchaser agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes; and

(x) the purchaser acknowledges that the Fiscal Agent will not be required to accept for registration of transfer any Notes except upon presentation of evidence satisfactory to the Issuer and the Fiscal Agent that the restrictions set forth herein have been complied with.

Terms defined in Rule 144A shall have the same meaning when used in the foregoing sections (i)-(ix). Each purchaser acknowledges that the Issuer, the Guarantor and the Initial Purchasers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that if any of the acknowledgements, representations or warranties deemed to have been made by such purchaser by its purchase of Notes are no longer accurate, it shall promptly notify the Issuer, the Guarantor and the Initial Purchasers; if they are acquiring any Notes offered hereby as a fiduciary or agent for one or more investor accounts, each purchaser represents that they have sole investment discretion with respect to each such account and full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

The Issuer and the Guarantor recognize that none of DTC, Euroclear nor Clearstream in any way undertakes to, and none of DTC, Euroclear nor Clearstream have any responsibility to, monitor or ascertain the compliance of any transactions in the Notes with any exemptions from registration under the Securities Act or any other state or federal securities law.

**Regulation S Global Notes**

Each purchaser of Notes outside the United States pursuant to Regulation S will be deemed by its acceptance of the Notes to have represented, warranted and agreed, on its behalf and on behalf of any investor accounts for which it is purchasing the Notes, that neither the Issuer nor the Guarantor nor the Initial Purchasers, nor any person acting on their behalf, has made any representation to it with respect to the offering or sale of any Notes, other than the information contained in this offering memorandum, which offering memorandum has been delivered to it and upon which it is solely relying in making its investment decision with respect to the Notes, has had access to such financial and other information concerning Deutsche Telekom and the Notes as it has deemed necessary in connection with its decision to purchase any of the Notes, and that:

(i) the purchaser understands and acknowledges that the Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state of the United States, and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in any transaction not subject thereto;

(ii) the purchaser, and the person, if any, for whose account or benefit the purchaser is acquiring the Notes, is not a U.S. person and is acquiring the Notes in an "offshore transaction" meeting the requirements of Regulation S and was located outside the United States at the time the buy order for the Shares was originated and continues to be outside of the United States and has not purchased the Notes for the account or benefit of any U.S. person or entered into any arrangement for the transfer of the Notes to any U.S. person;

(iii) the purchaser is aware of the restrictions on the offer and sale of the Notes pursuant to Regulation S described in this offering memorandum and agrees to give any subsequent purchaser of such Notes notice of any restrictions on the transfer thereof;

(iv) the Notes have not been offered to it by means of any "directed selling efforts" as defined in Regulation S; and

(v) Deutsche Telekom shall not recognize any offer, sale, pledge or other transfer of the Notes made other than in compliance with the above-stated restrictions.

Terms defined in Regulation S shall have the same meaning when used in the foregoing sections (i)-(v).

Until the 41st day after the later of the commencement of the sale of the Notes and the date of the original issuance of the Notes, the Regulation S notes will bear a restrictive legend to the following effect and may not be transferred otherwise than in accordance with the transfer restrictions set forth in such legend:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT. DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V. (THE "ISSUER") HAS AGREED THAT THIS LEGEND SHALL BE DEEMED TO HAVE BEEN REMOVED ON THE 41ST DAY FOLLOWING THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE SECURITIES AND THE FINAL DELIVERY DATE WITH RESPECT THERETO.

## LEGAL MATTERS

The validity of the Notes has been passed upon for us by our United States counsel, Cleary Gottlieb Steen & Hamilton LLP, and for the underwriters by their United States counsel, Sullivan & Cromwell LLP. The validity of the Notes under Dutch law has been passed upon by our Dutch counsel Clifford Chance LLP.

## INDEPENDENT ACCOUNTANTS

The consolidated financial statements of Deutsche Telekom AG as of and for the year ended December 31, 2011, which are included elsewhere in this offering memorandum, have been prepared in accordance with IFRS as adopted by the European Union, and have been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Moskauer Straße 19, 40227 Düsseldorf, Germany ("PwC"), independent accountants, as stated in its independent auditor's reports appearing elsewhere in this offering memorandum. PwC is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*), Berlin.

The consolidated financial statements of Deutsche Telekom AG as of and for the year ended December 31, 2010, which are included elsewhere in this offering memorandum, have been prepared in accordance with IFRS as issued by the IASB and in accordance with IFRS as adopted by the European Union, and have been audited by PwC and Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (formerly Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft) ("E&Y"), as stated in their auditors' reports appearing elsewhere in this offering memorandum.

The independent auditor's report of PwC for the consolidated financial statements of Deutsche Telekom AG as of and for the year ended December 31, 2011 and the independent auditors' reports of PwC and E&Y for the consolidated financial statements of Deutsche Telekom AG as of and for the year ended December 31, 2010 make reference to group management reports (*Konzernlageberichte*) that have not been included in the offering memorandum. The examination of and the independent auditors' reports upon such group management report are required under German generally accepted auditing standards and German standards for the review of financial statements. Those examinations and reports were not made in accordance with generally accepted auditing or attestation standards in the United States. Accordingly, PwC and E&Y do not express any opinion in accordance with U.S. generally accepted auditing standards or U.S. attestation standards on this information or on the consolidated financial statements prepared in accordance with IFRS as issued by the IASB and in accordance with IFRS as adopted by the European Union included in this offering memorandum.

## GENERAL INFORMATION

Resolutions of the Board of Managing Directors and the Supervisory Board of Finance, dated February 8, 2012, authorized the issuance of the Notes. Resolutions of the Management Board of Deutsche Telekom, dated January 31, 2012, authorized the guarantees.

We intend to apply to list the Notes on the regulated market of the Luxembourg Stock Exchange. The listing prospectus will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu) so long as any of the Notes are outstanding and listed on the Luxembourg Stock Exchange.

This document is an advertisement for the purposes of applicable measures implementing the Prospectus Directive. A prospectus prepared pursuant to the Prospectus Directive is intended to be published, which, when published, can be obtained from the offices of Deutsche Telekom.

## SCHEDULE

We have included the following agreement as a schedule to this offering memorandum to provide investors with more information regarding its terms and not to provide any other factual information about Deutsche Telekom AG or its subsidiaries.

| Schedule | Description |
|---|---|
| A | Form of Fiscal and Paying Agency Agreement |

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| (millions of €) | Note | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | **15,865** | **15,243** |
| Cash and cash equivalents | 1 | 3,749 | 2,808 |
| Trade and other receivables | 2 | 6,557 | 6,889 |
| Current recoverable income taxes | 25 | 129 | 224 |
| Other financial assets | 8 | 2,373 | 2,372 |
| Inventories | 3 | 1,084 | 1,310 |
| Non-current assets and disposal groups held for sale | 4 | 436 | 51 |
| Other assets | 9 | 1,537 | 1,589 |
| | | | |
| **Non-current assets** | | **106,677** | **112,569** |
| Intangible assets | 5 | 50,097 | 53,807 |
| Property, plant and equipment | 6 | 41,927 | 44,298 |
| Investments accounted for using the equity method | 7 | 6,873 | 7,242 |
| Other financial assets | 8 | 2,096 | 1,695 |
| Deferred tax assets | 25 | 4,449 | 5,129 |
| Other assets | 9 | 1,235 | 398 |
| **Total assets** | | 122,542 | 127,812 |
| | | | |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities** | | **24,338** | **26,452** |
| Financial liabilities | 10 | 10,219 | 11,689 |
| Trade and other payables | 11 | 6,436 | 6,750 |
| Income tax liabilities | 25 | 577 | 545 |
| Other provisions | 13 | 3,217 | 3,193 |
| Liabilities directly associated with non-current assets and disposal groups held for sale | 4 | - | - |
| Other liabilities | 14 | 3,889 | 4,275 |
| | | | |
| **Non-current liabilities** | | **58,263** | **58,332** |
| Financial liabilities | 10 | 38,099 | 38,857 |
| Provisions for pensions and other employee benefits | 12 | 6,095 | 6,373 |
| Other provisions | 13 | 1,689 | 1,628 |
| Deferred tax liabilities | 25 | 8,492 | 7,635 |
| Other liabilities | 14 | 3,888 | 3,839 |
| | | | |
| **Liabilities** | | **82,601** | **84,784** |
| **Shareholders' equity** | 15 | **39,941** | **43,028** |
| Issued capital | | 11,063 | 11,063 |
| Treasury shares | | (6) | (5) |
| | | 11,057 | 11,058 |
| Capital reserves | | 51,504 | 51,635 |
| Retained earnings including carryforwards | | (25,498) | (24,355) |
| Total other comprehensive income | | (2,326) | (2,017) |
| Net profit (loss) | | 557 | 1,695 |
| **Issued capital and reserves attributable to owners of the parent** | | **35,294** | **38,016** |
| Non-controlling interests | | 4,647 | 5,012 |
| | | | |
| **Total liabilities and shareholders' equity** | | **122,542** | **127,812** |

## CONSOLIDATED INCOME STATEMENT

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| **(millions of €)** | **2011** | **2010** | **2009** |
|---|---|---|---|
| **Profit (loss)** | **670** | **1,760** | **873** |
| Actuarial gains and losses on defined benefit pension plans | 177 | (32) | (461) |
| Revaluation due to business combinations | 0 | (2) | (38) |
| Exchange differences on translating foreign operations | | | |
| Recognition of other comprehensive income in income statement | - | 2,151 | - |
| Change in other comprehensive income (not recognized in income statement) | 10 | 1,547 | (211) |
| Available-for-sale financial assets | | | |
| Recognition of other comprehensive income in income statement | 0 | 0 | 0 |
| Change in other comprehensive income (not recognized in income statement) | 242 | (3) | (4) |
| Gains (losses) from hedging instruments | | | |
| Recognition of other comprehensive income in income statement | 200 | 0 | 8 |
| Change in other comprehensive income (not recognized in income statement) | (765) | 58 | (56) |
| Share of profit (loss) of investments accounted for using the equity method | - | 28 | - |
| Other income and expense recognized directly in equity | - | 0 | 11 |
| Income taxes relating to components of other comprehensive income | 102 | (5) | 138 |
| **Other comprehensive income** | **(34)** | **3,742** | **(613)** |
| | | | |
| **Total comprehensive income** | **636** | **5,502** | **260** |
| | | | |
| **Total comprehensive income attributable to** | **636** | **5,502** | **260** |
| Owners of the parent | 425 | 5,443 | (261) |
| Non-controlling interests | 211 | 59 | 521 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Issued capital and reserves attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|
| | **Number of shares** | **Equity contributed** | | **Consolidated shareholders' equity generated** | | |
| | | **Issued capital** | **Treasury shares** | **Capital reserves** | **Retained earnings incl. carryforwards** | **Net profit (loss)** |
| | **(thousands)** | **(millions of €)** | **(millions of €)** | **(millions of €)** | **(millions of €)** | **(millions of €)** |
| **Balance at January 1, 2009** | **4,361,320** | **11,165** | **(5)** | **51,526** | **(18,761)** | **1,483** |
| Changes in the composition of the Group | | | | | | |
| Unappropriated profit (loss) carried forward | | | | | 1,483 | (1,483) |
| Dividends | | | | | (3,386) | |
| Proceeds from the exercise of stock options | | | | 4 | | |
| Profit (loss) | | | | | | 353 |
| Other comprehensive income | | | | | (333) | |
| Transfer to retained earnings | | | | | 46 | |
| **Balance at December 31, 2009** | **4,361,320** | **11,165** | **(5)** | **51,530** | **(20,951)** | **353** |
| | | | | | | |
| **Balance at January 1, 2010** | **4,361,320** | **11,165** | **(5)** | **51,530** | **(20,951)** | **353** |
| Changes in the composition of the Group | | | | | | |
| Unappropriated profit (loss) carried forward | | | | | 353 | (353) |
| Dividends | | | | | (3,386) | |
| Proceeds from the exercise of stock options | | | | 3 | 2 | |
| Capital decrease | (40,001) | (102) | | 102 | (400) | |
| Profit (loss) | | | | | | 1,695 |
| Other comprehensive income | | | | | (52) | |
| Transfer to retained earnings | | | | | 79 | |
| **Balance at December 31, 2010** | **4,321,319** | **11,063** | **(5)** | **51,635** | **(24,355)** | **1,695** |
| | | | | | | |
| **Balance at January 1, 2011** | **4,321,319** | **11,063** | **(5)** | **51,635** | **(24,355)** | **1,695** |
| Changes in the composition of the Group | | | | (131) | | |
| Unappropriated profit (loss) carried forward | | | | | 1,695 | (1,695) |
| Dividends | | | | | (3,011) | |
| Proceeds from the exercise of stock options | | | | | | |
| Share buy-back | | | (1) | | (2) | |
| Profit (loss) | | | | | | 557 |
| Other comprehensive income | | | | | 105 | |
| Transfer to retained earnings | | | | | 70 | |
| **Balance at December 31, 2011** | **4,321,319** | **11,063** | **(6)** | **51,504** | **(25,498)** | **557** |

| Issued capital and reserves attributable to owners of the parent | | | | | | | Non-controlling interest | Total share-holders' equity |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Total other comprehensive income | | | | | | Total | | |
| **Translation of foreign operations** | **Revaluation surplus** | **Available-for-sale financial assets** | **Hedges** | **Other comprehensive income** | **Taxes** | | | |
| **(millions of €)** | **(millions of €)** | **(millions of €)** | **(millions of €)** | **(millions of €)** | **(millions of €)** | **(millions of €)** | **(millions of €)** | **(millions of €)** |
| **(6,356)** | **202** | **3** | **1,085** | **(11)** | **(334)** | **39,997** | **3,115** | **43,112** |
| | | | | | | 0 | 2,783 | 2,783 |
| | | | | | | 0 | | 0 |
| | | | | | | (3,386) | (840) | (4,226) |
| | | | | | | 4 | 4 | 8 |
| | | | | | | 353 | 520 | 873 |
| (221) | (38) | (6) | (48) | 11 | 21 | (614) | 1 | (613) |
| | (46) | | | | | 0 | | 0 |
| **(6,577)** | **118** | **(3)** | **1,037** | **0** | **(313)** | **36,354** | **5,583** | **41,937** |
| | | | | | | | | |
| **(6,577)** | **118** | **(3)** | **1,037** | **0** | **(313)** | **36,354** | **5,583** | **41,937** |
| | | | | | | 0 | (23) | (23) |
| | | | | | | 0 | | 0 |
| | | | | | | (3,386) | (612) | (3,998) |
| | | | | | | 5 | 5 | 10 |
| | | | | | | (400) | | (400) |
| | | | | | | 1,695 | 65 | 1,760 |
| 3,734 | (2) | (1) | 85 | | (16) | 3,748 | (6) | 3,742 |
| | (79) | | | | | 0 | | 0 |
| **(2,843)** | **37** | **(4)** | **1,122** | **0** | **(329)** | **38,016** | **5,012** | **43,028** |
| | | | | | | | | |
| **(2,843)** | **37** | **(4)** | **1,122** | **0** | **(329)** | **38,016** | **5,012** | **43,028** |
| (2) | | | | | | (133) | (77) | (210) |
| | | | | | | 0 | | 0 |
| | | | | | | (3,011) | (497) | (3,508) |
| | | | | | | 0 | (2) | (2) |
| | | | | | | (3) | | (3) |
| | | | | | | 557 | 113 | 670 |
| 67 | | 106 | (565) | | 155 | (132) | 98 | (34) |
| | (70) | | | | | 0 | | 0 |
| **(2,778)** | **(33)** | **102** | **557** | **0** | **(174)** | **35,294** | **4,647** | **39,941** |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| (millions of €) | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| | 31 | | | |
| **Profit (loss)** | | **670** | **1,760** | **873** |
| Depreciation, amortization and impairment losses | | 14,436 | 11,808 | 13,894 |
| Income tax expense (benefit) | | 2,349 | 935 | 1,782 |
| Interest income and interest expense | | 2,325 | 2,500 | 2,555 |
| Other financial (income) expense | | 169 | 253 | 826 |
| Share of (profit) loss of associates and joint ventures accounted for using the equity method | | 73 | 57 | (24) |
| (Profit) loss on the disposal of fully consolidated subsidiaries | | (4) | 349 | (26) |
| Other non-cash transactions in connection with the compensation from AT&T | | (705) | - | - |
| Other non-cash transactions | | 27 | (21) | (230) |
| (Gain) loss from the disposal of intangible assets and property, plant and equipment | | 28 | 90 | 51 |
| Change in assets carried as working capital | | 690 | (243) | 1,936 |
| Change in provisions | | 535 | (68) | (891) |
| Change in other liabilities carried as working capital | | (1,578) | (209) | (1,818) |
| Income taxes received (paid) | | (778) | (819) | (928) |
| Dividends received | | 515 | 412 | 29 |
| Net payments from entering into or canceling interest rate swaps | | - | 265 | 242 |
| **Cash generated from operations** | | 18,752 | 17,069 | 18,271 |
| Interest paid | | (3,397) | (3,223) | (3,456) |
| Interest received | | 859 | 885 | 980 |
| **Net cash from operating activities** | | **16,214** | **14,731** | **15,795** |
| Cash outflows for investments in | | | | |
| Intangible assets | | (1,837) | (2,978) | (1,598) |
| Property, plant and equipment | | (6,569) | (6,873) | (7,604) |
| Non-current financial assets | | (430) | (997) | (176) |
| Investments in fully consolidated subsidiaries and business units | | (1,239) | (448) | (1,007) |
| Proceeds from disposal of | | | | |
| Intangible assets | | 20 | 26 | 7 |
| Property, plant and equipment | | 336 | 318 | 369 |
| Non-current financial assets | | 61 | 162 | 99 |
| Investments in fully consolidated subsidiaries and business units | | 5 | 4 | 116 |
| Net change in short-term investments and marketable securities and receivables | | 339 | 491 | (320) |
| Net change in cash and cash equivalents due to the first-time full consolidation of OTE | | - | - | 1,558 |
| Other | | 39 | (416) | (93) |
| **Net cash used in investing activities** | | **(9,275)** | **(10,711)** | **(8,649)** |
| Proceeds from issue of current financial liabilities | | 66,349 | 30,046 | 3,318 |
| Repayment of current financial liabilities | | (71,685) | (34,762) | (9,314) |
| Proceeds from issue of non-current financial liabilities | | 3,303 | 3,219 | 5,379 |
| Repayment of non-current financial liabilities | | (51) | (149) | (93) |
| Dividend payments | | (3,521) | (4,003) | (4,287) |
| Proceeds from the exercise of stock options | | - | - | 2 |
| Share buy-back | | (3) | (400) | - |
| Repayment of lease liabilities | | (163) | (139) | (128) |
| Other | | (187) | (181) | - |
| **Net cash used in financing activities** | | (5,958) | (6,369) | (5,123) |
| Effect of exchange rate changes on cash and cash equivalents | | (40) | 50 | 58 |
| Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale | | - | 85 | (85) |
| **Net increase (decrease) in cash and cash equivalents** | | 941 | (2,214) | **1,996** |
| Cash and cash equivalents, at the beginning of the year | | 2,808 | 5,022 | 3,026 |
| Cash and cash equivalents, at the end of the year | | 3,749 | 2,808 | 5,022 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Summary of accounting policies

#### General information

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

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

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

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

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

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

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

#### Basis of preparation

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

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

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

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

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

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

| Pronouncement | Date of issue by the IASB | Title |
|---|---|---|
| IAS 32 | October 8, 2009 | Financial Instruments: Presentation |
| IFRIC 14 | November 26, 2009 | Prepayments of a Minimum Funding Requirement |
| IFRIC 19 | November 26, 2009 | Extinguishing Financial Liabilities with Equity Instruments |
| Annual Improvements Project | May 6, 2010 | Improvements to IFRSs 2010 |

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

In November 2009, the IASB issued an amendment to its requirements on accounting for pension plans. The European Union endorsed the amendment in July 2010. The amendment is to **IFRIC 14 "Prepayments of a Minimum Funding Requirement,"** which is an interpretation of IAS 19 "Employee Benefits." The amendment applies in limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover these requirements. It permits such an entity to treat the benefit of such an early payment as an asset. The amendment has an effective date for mandatory adoption of January 1, 2011. Retrospective adoption is required. The adoption of IFRIC 14 did not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

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

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

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

In November 2009, the IASB issued **IFRS 9 "Financial Instruments."** The European Union has not yet endorsed the amendments. The standard is the result of the first of three phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9. IFRS 9 governs the classification and measurement of financial assets. The rules for impairment of financial instruments and hedge accounting are currently being revised by the IASB. IFRS 9 requires financial assets to be assigned to one of the following two measurement categories: "at amortized cost" or "at fair value." IFRS 9 also grants a fair value option which allows financial assets that would normally be assigned to the "at amortized cost" category to be designated as "at fair value" if the fair value designation would eliminate or significantly reduce measurement or recognition inconsistency. It is mandatory to assign equity instruments to the "at fair value" category. If, however, the equity instrument is not held for trading, the standard allows an irrevocable option to be made at initial recognition to designate it as "at fair value" through other comprehensive income. Dividend income resulting from the equity instrument is recognized in profit or loss. IFRS 9 is effective for financial years beginning on or after January 1, 2015. Prior periods do not have to be adjusted for first-time adoption, but

there is a requirement to disclose the effects of first-time adoption. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

In October 2010, the IASB issued the pronouncement “Disclosures – Transfers of Financial Assets” as an amendment to **IFRS 7 "Financial Instruments: Disclosures."** The amendment requires quantitative and qualitative disclosures to be made for transfers of financial assets where the transferred assets are derecognized in their entirety or the transferor retains continuing involvement. The amendment is intended to provide greater transparency around such transactions (e.g., securitizations) and help users understand the possible effects of any risks that may remain with the entity that transferred the assets. The amendment also requires supplementary information to be disclosed if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period. The amendments are applicable for financial years beginning on or after July 1, 2011. The European Union endorsed this pronouncement in November 2011. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows and is expecting additional disclosure requirements.

Also in October 2010, the IASB issued requirements on accounting for financial liabilities. These are integrated into **IFRS 9 “Financial Instruments”** and replace the existing provisions on this subject in IAS 39 “Financial Instruments: Recognition and Measurement.” In the new pronouncement, the requirements relating to recognition and derecognition as well as most of the requirements for classification and measurement are carried forward unchanged from IAS 39. The new IFRS 9 modifies the requirements relating to fair value option for financial liabilities to address the issue of an entity's own credit risk. The prohibition of fair value measurement of derivative liabilities that are linked to an unquoted equity instrument and must be settled by delivery of an unquoted equity instrument, has been eliminated. The pronouncement is effective for financial years beginning on or after January 1, 2015. Prior periods do not have to be adjusted for first-time adoption, but there is a requirement to disclose the effects of first-time adoption. The European Union has not yet endorsed this pronouncement. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

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

In May 2011, the IASB published three new IFRSs (IFRS 10, IFRS 11, IFRS 12) and two revised standards (IAS 27, IAS 28) that govern the accounting for investments in subsidiaries, joint arrangements and associates. The provisions have not yet been endorsed by the European Union and are effective for financial years beginning on or after January 1, 2013. The adoption of the new and amended IFRSs will have an impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows. This does not apply to the revised IAS 27, however, because this standard exclusively relates to separate financial statements under IFRS which Deutsche Telekom does not prepare in accordance with § 325 (2a) HGB. The IASB is introducing a harmonized consolidation model by issuing **IFRS 10 "Consolidated Financial Statements."** This new standard does away with the distinction between "traditional" subsidiaries (IAS 27) and special-purpose entities (SIC-12). Control only exists if an investor has the power, is exposed to variable returns, and is able to use power to affect its amount of variable returns. Upon its entry into force, IFRS 10 will replace SIC-12 "Consolidation – Special Purpose Entities“ as well as the requirements relevant to consolidated financial statements in IAS 27 "Consolidated and Separate Financial Statements." **IFRS 11 "Joint Arrangements"** will replace IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers."
It governs the accounting for joint ventures and joint operations. Proportionate consolidation for joint ventures will no longer be permissible as a result of the discontinuation of IAS 31. The amended **IAS 28 "Interests in Associates and Joint Ventures"** governs the application of the equity method when accounting for investments in both associates and joint ventures. In case of a joint operation, the share of assets, liabilities, expenses and revenues is directly recognized in the consolidated financial statements and annual financial statements of a joint operator. **IFRS 12 "Disclosure of Interests in Other Entities"** combines all disclosures required in the consolidated financial statements regarding subsidiaries, joint arrangements and associates, as well as unconsolidated structured entities. The amended **IAS 27 "Separate Financial Statements"** exclusively governs the accounting for subsidiaries, joint ventures and associates in the annual financial statements and the corresponding notes (separate financial statements according to § 325 (2a) HGB).

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

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

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

In June 2011, the IASB also issued amendments to IAS **19 "Employee Benefits."** These amendments mean the discontinuation of existing options for the recognition of actuarial gains and losses. As the corridor method, as it is known, will no longer be permissible, with immediate effect actuarial gains and losses have to be recognized in full and exclusively directly in equity, which corresponds to the method we currently apply. Other amendments concern the recognition of past service cost and of the net interest income/expense resulting from defined benefit plans as well as the differentiation between termination benefits and other employee benefits. One significant consequence of these amendments is that top-up payments made as part of partial retirement programs may no longer be recognized as termination benefits and therefore have to be accrued over their vesting period. Disclosure requirements are also being extended, e. g., for characteristics of defined benefit plans and the risks arising from those plans. The amendments to IAS 19 are effective retrospectively for financial years beginning on or after January 1, 2013 and have not yet been endorsed by the European Union. Deutsche Telekom currently assumes the extended disclosure requirements are relevant to the financial statements and is also evaluating the effects resulting from the amendment on the presentation of results of operations, financial position or cash flows.

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

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

*Accounting policies*

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

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

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

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

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

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

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

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

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

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

**Property, plant and equipment** is carried at cost less straight-line depreciation, and impairment losses, if applicable. The depreciation period is based on the expected useful life. Items of property, plant and equipment are depreciated pro rata temporis in the year of acquisition. The residual values, useful lives and the depreciation method of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes

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

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

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

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

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

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

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

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

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

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

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

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

**Non-current assets and disposal groups held for sale** are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of the carrying amount and fair value less costs to sell and are classified as non-current assets and disposal groups held for sale. Such assets are no longer depreciated. As a rule, impairment of such assets is only recognized if fair value less costs to sell is lower than the carrying amount. If fair value less costs to sell subsequently increases, the impairment loss previously recognized must be reversed. The reversal of impairment losses is limited to the impairment losses previously recognized for the assets concerned. If the requirements for the classification of assets as held for sale are no longer met, the assets may no longer be shown as held for sale. The assets are to be measured at the lower of the carrying amount that would have applied if the asset had not been classified as held for sale, and the recoverable amount at the date at which the requirements for the classification as held for sale are no longer met.

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

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

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

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

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

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

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

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

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

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

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

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

to be considered severance instruments, top-up payments are recognized in full as soon as the obligation arises. In cases where the focus is on the future performance of work, the top-up payments are recognized over their vesting period.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The fair value of derivatives is the value that Deutsche Telekom would receive or have to pay if the financial instrument were discontinued at the reporting date. This is calculated on the basis of the contracting parties' relevant

exchange rates and interest rates at the reporting date. Calculations are made using middle rates. In the case of interest-bearing derivatives, a distinction is made between the "clean price" and the "dirty price." In contrast to the clean price, the dirty price also includes the interest accrued. The fair values carried correspond to the full fair value or the dirty price.

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

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

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

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

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

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

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

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

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

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

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

**Revenue recognition** at Deutsche Telekom is as follows:

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

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

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

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

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

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

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

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

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

***Judgments and estimates***

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

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

The determination of **impairments of property, plant and equipment**, and intangible assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the telecommunications industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Specifically, the estimation of cash flows underlying the fair values from the mobile business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for these products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment to write down these investments to their fair values. When determining the fair values, additional planning uncertainties are factored in that reflect the risks of macroeconomic development, which could adversely affect future operating results.

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

management has based its determination of fair value less costs to sell include the following assumptions that were primarily derived from internal sources and largely reflect past experience and/or are compared with external market values: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates were determined on the basis of external figures derived from the market. Any future changes in the aforementioned assumptions could have a significant impact on the fair values of the cash-generating units.

The valuation of **investments accounted for using the equity method** in the case of the 50-percent stake in the Everything Everywhere joint venture, which was based on the discounted cash flow method, involved the use of estimates for determining the fair value at the date of first-time inclusion using the equity method at April 1, 2010.

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

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

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

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

Deutsche Telekom exercises considerable judgment in measuring and recognizing **provisions** and the exposure to **contingent liabilities** related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are expected from executory contracts, a loss is considered probable and can be reasonably estimated. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. In addition, significant estimates are involved in the

determination of provisions related to taxes and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates of these losses from executory contracts may significantly affect future operating results.

**Revenue recognition**

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

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

***Consolidated group***

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

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

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

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

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

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

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

***Business combinations and other transactions***

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

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

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

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

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

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

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

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

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

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

Other effects:

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

**Pro forma information**

The pro forma information shown in the table on the right presents Deutsche Telekom's financial data, including its principal consolidated subsidiaries acquired in the financial years 2009 through 2011, as if they had been included in the consolidated financial statements from the beginning of each financial year in which they were acquired. There were no new principal subsidiaries to be fully consolidated in Deutsche Telekom's consolidated financial statements in the 2011 financial year.

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

***Principal subsidiaries***

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

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

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

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

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 1 Cash and cash equivalents

Cash and cash equivalents have an original maturity of less than three months and mainly comprise fixed-term bank deposits. They also include small amounts of cash-in-hand and checks. Deutsche Telekom obtained cash collateral of EUR 640 million (December 31, 2010: EUR 625 million) on the basis of collateral contracts as surety for potential credit risks arising from derivative transactions.

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

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

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

As of December 31, 2011, the Group reported cash and cash equivalents of EUR 20 million (December 31, 2010: EUR 0.5 billion [including Croatia]) held by subsidiaries in the F.Y.R.O. Macedonia and Montenegro. These countries are subject to foreign exchange controls or other legal restrictions. As a result, the cash balances are not fully available for use by the parent or other Group companies.

### 2 Trade and other receivables

| (millions of €) | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Trade receivables | 6,455 | 6,766 |
| Other receivables | 102 | 123 |
| | **6,557** | **6,889** |

Of the total of trade and other receivables, EUR 6,454 million (December 31, 2010: EUR 6,849 million) is due within one year. The development in receivables largely corresponds to the revenue trend. Major negative effects from the challenging macroeconomic situation in the Europe operating segment were prevented by means of improved collection activities. Against the background of a stable macroeconomic situation, improved collection activities in the Germany operating segment resulted in receivables decreasing at a faster rate than the revenue trend.

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

| Trade receivables (millions of €) | 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 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Less than 30 days | Between 30 and 60 days | Between 61 and 90 days | Between 91 and 180 days | Between 181 and 360 days | More than 360 days |
| **as of Dec. 31, 2011** | **3,190** | **490** | **78** | **47** | **71** | **71** | **20** |
| as of Dec. 31, 2010 | 3,295 | 483 | 93 | 59 | 96 | 97 | 32 |

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

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

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

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

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

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

## 3 Inventories

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

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

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

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

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

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

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

## 5 Intangible assets

| (millions of €) | Intenally geneated intangable assets | Acquired intangible assets | | | | | | | Good will | Advance pay-ments | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total | Aquired concessions, indutrial and similar rights and assets | LTE licenses | UMTS licenses | GSM licenses | FCC licenses (T-Mobile USA) | Other acquired intan-gible assets | | | |
| **Cost** | | | | | | | | | | | |
| **At December 31, 2009** | **2,515** | **40,205** | **1,530** | **0** | **10,022** | **1,491** | **17,115** | **10,047** | **26,553** | **1,109** | **70,382** |
| Currency translation | 59 | 1,521 | 12 | 0 | 12 | 13 | 1,308 | 176 | 702 | 1 | 2,283 |
| Changes in the compo-sition of the Group | 1 | 232 | 35 | 0 | 4 | 0 | 8 | 185 | 4 | 0 | 237 |
| Other changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (260) | 0 | (260) |
| Additions | 162 | 2,064 | 6 | 1,323 | 8 | 0 | 14 | 713 | 465 | 829 | 3,520 |
| Disposals | 334 | 1,067 | 1 | 0 | 0 | 0 | 0 | 1,066 | 19 | 19 | 1,439 |
| Change from non-cur-rent assets and disposal groups held for sale | 0 | (4) | 0 | 0 | 0 | 0 | (4) | 0 | 0 | 0 | (4) |
| Reclassifications | 513 | 1,001 | 9 | 0 | 0 | 71 | 1 | 920 | 2 | (861) | 655 |
| **At December 31, 2010** | **2,916** | **43,952** | **1,591** | **1,323** | **10,046** | **1,575** | **18,442** | **10,975** | **27,447** | **1,059** | **75,374** |
| Currency translation | 46 | 369 | (18) | 0 | (40) | (34) | 629 | (168) | (75) | (5) | 335 |
| Changes in the compo-sition of the Group | 2 | 8 | 1 | 0 | 0 | 0 | 0 | 7 | 1 | 0 | 11 |
| Other changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Additions | 122 | 845 | 7 | 21 | 17 | 48 | 54 | 698 | 71 | 1,000 | 2,038 |
| Disposals | 282 | 709 | 51 | 0 | 0 | 0 | 0 | 658 | 39 | 36 | 1,066 |
| Change from non-cur-rent assets and disposal groups held for sale | 0 | (24) | 0 | 0 | 0 | 0 | (24) | 0 | 0 | 0 | (24) |
| Reclassifications | 677 | 648 | (696) | 11 | 0 | 119 | 0 | 1,214 | 14 | (809) | 530 |
| **At December 31, 2011** | **3,481** | **45,089** | **834** | **1,355** | **10,023** | **1,708** | **19,101** | **12,068** | **27,419** | **1,209** | **77,198** |
| **Accumulated amortization** | | | | | | | | | | | |
| **At December 31, 2009** | **1,455** | **11,002** | **735** | **0** | **3,385** | **809** | **0** | **6,073** | **6,219** | **1** | **18,677** |
| Currency translation | 39 | 150 | 11 | 0 | 1 | 7 | 0 | 131 | 312 | (1) | 500 |
| Changes in the compo-sition of the Group | 0 | 11 | 0 | 0 | 0 | 0 | 0 | 11 | 0 | 0 | 11 |
| Additions (amortization) | 577 | 2,767 | 158 | 0 | 605 | 138 | 0 | 1,866 | 0 | 0 | 3,344 |
| Additions (impairment) | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 3 | 395 | 1 | 399 |
| Disposals | 332 | 1,061 | 6 | 0 | 0 | 0 | 0 | 1,055 | 0 | 1 | 1,394 |
| Change from non-cur-rent assets and disposal groups held for sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | (14) | 44 | (3) | 0 | 0 | 0 | 0 | 47 | 0 | 0 | 30 |
| **At December 31, 2010** | **1,725** | **12,916** | **895** | **0** | **3,991** | **954** | **0** | **7,076** | **6,926** | **0** | **21,567** |
| Currency translation | 35 | (211) | (18) | 0 | (14) | (22) | 0 | (157) | 221 | 0 | 45 |
| Changes in the compo-sition of the Group | 1 | (2) | 0 | 0 | 0 | 0 | 0 | (2) | 0 | 0 | (1) |
| Additions (amortization) | 662 | 2,662 | 78 | 66 | 606 | 129 | 0 | 1,783 | 0 | 0 | 3,324 |
| Additions (impairment) | 14 | 7 | 4 | 0 | 0 | 0 | 0 | 3 | 3,100 | 0 | 3,121 |
| Disposals | 278 | 692 | 51 | 0 | 0 | 0 | 0 | 641 | 0 | 0 | 970 |
| Change from non-cur-rent assets and disposal groups held for sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 4 | (3) | (272) | 0 | 1 | (1) | 0 | 269 | 14 | 0 | 15 |
| **At December 31, 2011** | **2,163** | **14,677** | **636** | **66** | **4,584** | **1,060** | **0** | **8,331** | **10,261** | **0** | 27,101 |
| **Net carrying amounts** | | | | | | | | | | | |
| At December 31, 2010 | 1,191 | 31,036 | 696 | 1,323 | 6,055 | 621 | 18,442 | 3,899 | 20,521 | 1,059 | 53,807 |
| **At December 31, 2011** | **1,318** | **30,412** | **198** | **1,289** | 5,439 | 648 | 19,101 | 3,737 | 17,158 | 1,209 | 50,097 |

The net carrying amount of the UMTS licenses of EUR 5.4 billion mainly relates to the Germany operating segment.

Deutsche Telekom had commitments for the acquisition of intangible assets in the amount of EUR 0.3 billion (December 31, 2010: EUR 0.3 billion) as of the reporting date. These are largely related to the network build-out in the Germany and United States operating segments.

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

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

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

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

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

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

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

**Disclosures on impairment tests.** Deutsche Telekom performed its annual impairment tests of the goodwill recognized for the cash-generating units at December 31, 2011. On the basis of information available at the reporting date and expectations with respect to the market and competitive environment, the year-end impairment tests indicated a need for impairment at the following cash-generating units:

| (millions of €) | Goodwill impairments | Impairments of property, plant and equipment | Assigned to segment |
|---|---|---|---|
| United States | 2,297 | - | United States |
| Greece – Mobile communications | 439 | - | Europe |
| Greece – Fixed network | 135 | - | Europe |
| Bulgaria | 130 | - | Europe |
| Macedonia | 92 | - | Europe |
| Romania – Fixed network | 7 | 237 | Europe |
| **Impairments (other operating expenses)** | **3,100** | **237** | |
| Deferred taxes | - | (38) | |
| **Effect on profit (loss)** | **3,100** | **199** | |
| Of which: non-controlling interests | (38) | (162) | |
| **Of which: owners of the parent (net profit (loss))** | **3,062** | **37** | |

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

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

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

The measurements of the cash-generating units are generally founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the planning horizon are extrapolated using appropriate growth rates. The key assumptions on which the determination of fair value less costs to sell are based include the following assumptions that were primarily derived from internal sources and largely reflect past experience and/or are compared with external market values: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market shares, and growth rates. Discount rates were determined on the basis of external figures derived from the market. Any significant future changes in the aforementioned assumptions would have an impact on the fair values of the cash-generating units. Any changes in the assumptions may have a negative impact, in particular in the Europe operating segment, as a result of the future macroeconomic trends, continued intense competition, further possible legislation changes (e.g., as part of national austerity programs) and regulatory intervention.

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

The following table gives an overview of the periods for which the Group has provided cash flow projections, the growth rates used as the basis for the cash flow projections, and the discount rates applied to the cash flow projections, broken down by operating segment:

| | Periods used (years) | Growth rates (%) | Discount rates (%) |
|---|---|---|---|
| Germany | 10 | 1.0 | 5.96 |
| Europe | 10 | 1.5 – 2.0 | 6.60 – 11.21 |
| United States | 10 | 1.0 | 6.74 |
| Systems Solutions | 10 | 1.5 | 7.17 |

If the discount rates used for impairment testing had been 0.5 percentage points higher, the resulting impairment losses would have increased by EUR 2.6 billion. If, by contrast, the discount rates had been 0.5 percentage points lower,

the resulting impairment losses would have been EUR 2.5 billion lower. If the growth rates used as a basis in the impairment tests had been 0.5 percentage points lower, the impairment losses would have been EUR 1.6 billion higher. In turn, impairment losses would have been EUR 1.7 billion lower if the growth rates had been 0.5 percentage points higher.

## 6 Property, plant and equipment

| (millions of €) | Land and equivalent rights, and buildings including buildings on land owned by third parties | Technical equipment and machinery | Other equipment, operating and office equipment | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At December 31, 2009** | **18,892** | **97,715** | **7,106** | **2,794** | **126,507** |
| Currency translation | 121 | 830 | 117 | 67 | 1,135 |
| Changes in the composition of the Group | 4 | 11 | 94 | (13) | 96 |
| Additions | 151 | 2,596 | 455 | 4,038 | 7,240 |
| Disposals | 93 | 3,638 | 543 | 113 | 4,387 |
| Change from non-current assets and disposal groups held for sale | (146) | (6) | (31) | (4) | (187) |
| Reclassifications | 491 | 2,315 | 285 | (3,746) | (655) |
| **At December 31, 2010** | **19,420** | **99,823** | **7,483** | **3,023** | **129,749** |
| Currency translation | (38) | (66) | (17) | 2 | (119) |
| Changes in the composition of the Group | 0 | 4 | 0 | 0 | 4 |
| Additions | 117 | 2,493 | 495 | 3,410 | 6,515 |
| Disposals | 81 | 3,460 | 623 | 43 | 4,207 |
| Change from non-current assets and disposal groups held for sale | (285) | (4) | (2) | (1) | (292) |
| Reclassifications | 326 | 2,693 | 245 | (3,794) | (530) |
| **At December 31, 2011** | **19,459** | **101,483** | **7,581** | **2,597** | **131,120** |
| | | | | | |
| **Accumulated depreciation** | | | | | |
| **At December 31, 2009** | **8,189** | **68,024** | **4,810** | **16** | **81,039** |
| Currency translation | 57 | 375 | 69 | (1) | 500 |
| Changes in the composition of the Group | 1 | 1 | 65 | 0 | 67 |
| Additions (depreciation) | 814 | 6,098 | 701 | 2 | 7,615 |
| Additions (impairment) | 158 | 271 | 1 | 19 | 449 |
| Disposals | 75 | 3,491 | 457 | 1 | 4,024 |
| Change from non-current assets and disposal groups held for sale | (109) | (6) | 0 | (7) | (122) |
| Reclassifications | 39 | (82) | 10 | 3 | (30) |
| Reversal of impairment losses | (43) | 0 | 0 | 0 | (43) |
| **At December 31, 2010** | **9,031** | **71,190** | **5,199** | **31** | **85,451** |
| Currency translation | (1) | (77) | (12) | 0 | (90) |
| Changes in the composition of the Group | 0 | 1 | 0 | 0 | 1 |
| Additions (depreciation) | 799 | 6,146 | 716 | 0 | 7,661 |
| Additions (impairment) | 77 | 247 | 2 | 4 | 330 |
| Disposals | 67 | 3,285 | 541 | 6 | 3,899 |
| Change from non-current assets and disposal groups held for sale | (223) | (3) | (1) | 0 | (227) |
| Reclassifications | 30 | (47) | 2 | 0 | (15) |
| Reversal of impairment losses | (19) | 0 | 0 | 0 | (19) |
| **At December 31, 2011** | **9,627** | **74,172** | **5,365** | **29** | **89,193** |
| | | | | | |
| **Net carrying amounts** | | | | | |
| At December 31, 2010 | 10,389 | 28,633 | 2,284 | 2,992 | 44,298 |
| **At December 31, 2011** | **9,832** | **27,311** | **2,216** | **2,568** | **41,927** |

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

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

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

## 7 Investments accounted for using the equity method

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

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

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

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

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

| (billions of €) | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Total assets | 0.2 | 0.2 |
| Total liabilities | 0.1 | 0.1 |
| | **2011** | **2010** |
| Net revenue | 0.1 | 0.2 |
| Profit (loss) | 0.0 | 0.0 |

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

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

| | Everything Everywhere | Other | Total as of | Total as of |
|---|---|---|---|---|
| (billions of €) | | | Dec. 31, 2011 | Dec. 31, 2010 |
| Total assets | 9.1 | 0.4 | 9.5 | 9.9 |
| Current | 1.0 | 0.3 | 1.3 | 1.5 |
| Non-current | 8.1 | 0.1 | 8.2 | 8.4 |
| | | | | |
| Total liabilities | 2.4 | 0.4 | 2.8 | 2.7 |
| Current | 1.6 | 0.3 | 1.9 | 2.3 |
| Non-current | 0.8 | 0.1 | 0.9 | 0.4 |
| | | | **Total in 2011** | **Total in 2010** |
| Net revenue | 4.0 | 0.2 | 4.2 | 3.3 |
| Profit (loss) | (0.1) | 0.0 | (0.1) | (0.1) |

## 8 Other financial assets

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

| Originated loans and receivables (millions of €) | 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 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Less than 30 days | Between 30 and 60 days | Between 61 and 90 days | Between 91 and 180 days | Between 181 and 360 days | More than 360 days |
| **as of Dec. 31, 2011** | | | | | | | |
| Due within one year | 1,435 | 11 | 7 | 5 | 14 | 4 | 1 |
| Due after more than one year | 516 | - | - | - | - | - | 2 |
| | | | | | | | |
| **as of Dec. 31, 2010** | | | | | | | |
| Due within one year | 1,960 | 76 | 11 | 4 | 21 | 11 | 12 |
| Due after more than one year | 491 | - | - | - | - | - | 2 |

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

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

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

The available-for-sale financial assets include unquoted equity instruments whose fair values could not be reliably measured, and which were therefore recognized at cost in the amount of EUR 270 million as of December 31, 2011 (December 31, 2010: EUR 335 million). No plans existed as of the reporting date to sell these instruments. The increase here is mainly attributable to the acquisition of government bonds amounting to EUR 0.3 billion. This was partially offset by the reclassification of Telekom Srbija accounting for EUR 0.2 billion to non-current assets and disposal groups held for sale.

In the 2011 financial year, EUR 15 million (2010: EUR 101 million) in impairment losses on available-for-sale financial assets were recognized in profit or loss because the impairment was permanent or significant.

## 9 Other assets

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

## 10 Financial liabilities

| | Dec. 31, 2011 | | | |
|---|---|---|---|---|
| **(millions of €)** | **Total** | **Due within 1 year** | **Due > 1 year ≤ 5 years** | **Due > 5 years** |
| **Bonds and other securitized liabilities** | | | | |
| Non-convertible bonds | 20,649 | 1,997 | 9,279 | 9,373 |
| Commercial paper, medium-term notes, and similar liabilities | 15,579 | 3,269 | 7,726 | 4,584 |
| Liabilities to banks | 4,916 | 1,562 | 3,225 | 129 |
| | 41,144 | 6,828 | 20,230 | 14,086 |
| | | | | |
| Lease liabilities | 1,885 | 159 | 987 | 739 |
| Liabilities to non-banks from promissory notes | 1,188 | 10 | 587 | 591 |
| Other interest-bearing liabilities | 1,179 | 941 | 122 | 116 |
| Other non-interest-bearing liabilities | 1,528 | 1,489 | 36 | 3 |
| Derivative financial liabilities | 1,394 | 792 | 453 | 149 |
| | 7,174 | 3,391 | 2,185 | 1,598 |
| **Financial liabilities** | **48,318** | **10,219** | **22,415** | **15,684** |

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

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

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

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

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

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

| (millions of €) | Carrying amounts Dec. 31, 2011 | Cash flows in 2012 | | | Cash flows in 2013 | | |
|---|---|---|---|---|---|---|---|
| | | Fixed interest rate | Variable interest rate | Repay-ment | Fixed interest rate | Variable interest rate | Repay-ment |
| **Non-derivative financial liabilities:** | | | | | | | |
| Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities | (42,332) | (2,018) | (143) | (6,853) | (1,700) | (83) | (6,305) |
| Finance lease liabilities | (1,351) | (99) | | (180) | (87) | | (112) |
| Other interest-bearing liabilities | (1,713) | (72) | | (961) | (10) | | (508) |
| Other non-interest-bearing liabilities | (1,528) | | | (1,489) | | | (18) |
| **Derivative financial liabilities and assets:** | | | | | | | |
| Derivative financial liabilities: | | | | | | | |
| Currency derivatives without a hedging relationship | (581) | | | (603) | | | (3) |
| Currency derivatives in connection with cash flow hedges | (13) | | | (9) | | | |
| Currency derivatives in connection with net investment hedges | (78) | | | (83) | | | |
| Interest rate derivatives without a hedging relationship | (245) | (17) | 1 | (97) | (38) | 13 | (64) |
| Interest rate derivatives in connection with fair value hedges | - | | | | | | |
| Interest rate derivatives in connection with cash flow hedges | (470) | (109) | 55 | | (161) | 67 | |
| **Derivative financial assets:** | | | | | | | |
| Currency derivatives without a hedging relationship | 259 | | | 271 | | | 2 |
| Currency derivatives in connection with cash flow hedges | 21 | | | 16 | | | 3 |
| Interest rate derivatives without a hedging relationship | 574 | 43 | (36) | 34 | 23 | (19) | 210 |
| Interest rate derivatives in connection with fair value hedges | 431 | 242 | (122) | | 245 | (110) | |
| Interest rate derivatives in connection with cash flow hedges | 248 | 12 | | 24 | 9 | | |
| | | | | | | | |
| **Financial guarantees and loan commitments**[1] | n.a. | | | (369) | | | |

| Cash flows in 2014 –2016 | | | Cash flows in 2017 –2021 | | | Cash flows in 2022 and thereafter | | |
|---|---|---|---|---|---|---|---|---|
| Fixed interest rate | Variable interest rate | Repay-ment | Fixed interest rate | Variable interest rate | Repay-ment | Fixed interest rate | Variable interest rate | Repay-ment |
| | | | | | | | | |
| (3,819) | (55) | (14,295) | (3,344) | | (7,123) | (3,770) | | (7,917) |
| (225) | | (321) | (225) | | (364) | (174) | | (374) |
| (21) | | (73) | (80) | | (133) | (22) | | (38) |
| | | (18) | | | (3) | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| (49) | 2 | | (27) | (2) | (2) | (5) | (3) | 14 |
| | | | | | | | | |
| (473) | 175 | | (112) | 23 | | | | |
| | | | | | | | | |
| | | 1 | | | | | | |
| | | 3 | | | | | | |
| 35 | (41) | 163 | 45 | (60) | 11 | 125 | (123) | 63 |
| 278 | (94) | | 41 | (15) | | 51 | (16) | |
| 28 | | 38 | 52 | | 25 | 28 | | 104 |
| | | | | | | | | |
| | | | | | | | | |

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

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

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

All instruments held at December 31, 2011 and for which payments were already contractually agreed are included. Planning data for future, new liabilities were not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2011. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period. In accordance with § 2 (4) of the German Act on the Transformation of the Deutsche Bundespost Enterprises into the Legal Structure of Stock Corporation (Stock Corporation Transformation Act - Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were already outstanding as at January 1, 1995. At December 31, 2011, this figure was a nominal EUR 2.0 billion (December 31, 2010: EUR 2.0 billion).

## 11 Trade and other payables

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

Of the total of trade and other payables, EUR 6,430 million (December 31, 2010: EUR 6,745 million) is due within one year.

## 12 Provisions for pensions and other employee benefits

### *Defined benefit plans*

The following table shows the composition of pension obligations:

| (millions of €) | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| **Defined benefit liability** | 6,095 | 6,373 |
| Defined benefit asset | (14) | (28) |
| | | |
| **Net defined benefit liability** | **6,081** | **6,345** |
| Pension obligations | | |
| Unfunded | 5,710 | 5,996 |
| Funded | 369 | 346 |
| Obligations in accordance with Article 131 GG | 2 | 3 |

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

Calculation of net defined benefit liability (defined benefit asset):

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

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

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

| (%) | | 2011 | 2010 |
|---|---|---|---|
| Discount rate | Germany | 5.31 | 5.16 |
| | Switzerland (T-Systems) | 2.57 | 3.05 |
| | Greece (OTE S.A.) | 4.72/4.18 | 4.56/3.71 |
| Projected salary increase | Germany (pay-scale employees) | 2.75 | 3.25 |
| | Germany (non-pay-scale employees) | 2.75 | 3.50 |
| | Switzerland (T-Systems) | 1.50 | 1.50 |
| | Greece (OTE S.A.) | (10.06)/(7.04)/(3.93)/9.09[a] | 2.20/3.20/2.40/2.50 |
| Projected pension increase | Germany (general) | 1.50 | 1.50 |
| | Germany (according to arrticles of association) | 1.00 | 1.00 |
| | Switzerland (T-Systems) | 0.30 | 0.30 |
| | Greece (OTE S.A.) | n.a | n.a |

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

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

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

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

Development of defined benefit obligations in the reporting year:

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

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

Sensitivity of defined benefit obligations:

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

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

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

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

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

Breakdown of plan assets at fair value by investment category:

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

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

At the reporting date, the plan assets include shares issued by Deutsche Telekom AG amounting to EUR 1.0 million (December 31, 2010: shares totaling EUR 0.8 million). No other own financial instruments were included in the years shown.

Determination of the expected return on essential plan assets:

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

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

| (millions of €) | Presentation in the income statement | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Current service cost | Functional costs[1] | 192 | 193 | 204 |
| Interest cost | Other financial income (expense) | 342 | 344 | 371 |
| Expected return on plan assets | Other financial income (expense) | (23) | (27) | (50) |
| Past service cost | Functional costs[1] | 9 | 9 | - |
| **Pension expense before curtailments/ settlements** | | 520 | 519 | 525 |
| Curtailments | Functional costs[1] | (2) | (2) | - |
| Settlements | Functional costs[1] | 12 | (3) | - |
| **Pension expense** | | **530** | **514** | **525** |
| | | | | |
| Actual return on plan assets | | 18 | 34 | (41) |

[1] Including other operating expenses.

The consolidated statement of **comprehensive** income contains the following amounts:

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

Pension payments expected:

| (millions of €) | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Total pensions payments | 359 | 382 | 411 | 439 | 468 |

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

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

| (millions of €) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Defined benefit obligations (present value) | 6,969 | 7,017 | 6,833 | 6,101 | 6,327 |
| Plan assets at fair value | (860) | (629) | (618) | (952) | (986) |
| **Defined benefit obligations in excess of plan assets** | **6,109** | **6,388** | **6,215** | **5,149** | **5,341** |
| | | | | | |
| **Adjustment in %** | | | | | |
| Experience-based increase (decrease) of pension obligations | (0.3) | 0.1 | (0.7) | (0.1) | (0.8) |
| Experience-based increase (decrease) of plan assets | (0.6) | 1.1 | (9.9) | (0.2) | (2.5) |

***Defined contribution plans***

In the 2011 financial year, current contributions for defined contributions plans, which are reported as an expense in the consolidated income statement of the respective year, amounted to EUR 118 million (2010: EUR 114 million, 2009: EUR 73 million).

***Civil-servant retirement arrangements at Deutsche Telekom***

An expense of EUR 610 million was recognized in the 2011 financial year (2010: EUR 676 million, 2009: EUR 684 million) for the annual contribution to the BPS-PT special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. The present value to the total obligation arising from payment obligations to this special pension fund was EUR 5.2 billion as of the reporting date (December 31, 2010: EUR 5.9 billion).

## 13 Other provisions

| (millions of €) | Provisions for termination benefits | Other provisions for personnel costs | Provisions for restoration obligations | Provisions for litigation risks | Provisions for sales and procurement support | Miscellaneous other provisions | Total |
|---|---|---|---|---|---|---|---|
| **At December 31, 2009** | **1,280** | **1,601** | **798** | **450** | **407** | **994** | **5,530** |
| Of which: current | 500 | 1,349 | 39 | 424 | 407 | 650 | 3,369 |
| Changes in the composition of the Group | 1 | 16 | 1 | 0 | 0 | 6 | 24 |
| Currency translation adjustments | (2) | 19 | 7 | 0 | 5 | 11 | 40 |
| Addition | 189 | 1,510 | 88 | 126 | 508 | 432 | 2,853 |
| Use | (991) | (1,433) | (36) | (104) | (443) | (358) | (3,365) |
| Reversal | (66) | (110) | (30) | (19) | (22) | (152) | (399) |
| Interest effect | (9) | 25 | 46 | 2 | 0 | 6 | 70 |
| Other changes | 35 | 11 | 0 | 2 | (1) | 21 | 68 |
| **At December 31, 2010** | **437** | **1,639** | **874** | **457** | **454** | **960** | **4,821** |
| Of which: current | 260 | 1,360 | 32 | 427 | 454 | 660 | 3,193 |
| Changes in the composition of the Group | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency translation adjustments | (1) | 13 | (6) | 0 | 0 | 0 | 6 |
| Addition | 312 | 1,592 | 113 | 132 | 305 | 572 | 3,026 |
| Use | (304) | (1,369) | (44) | (55) | (341) | (320) | (2,433) |
| Reversal | (87) | (122) | (38) | (83) | (82) | (205) | (617) |
| Interest effect | 0 | 5 | 28 | 1 | 0 | 8 | 42 |
| Other changes | (1) | 5 | (2) | 0 | 0 | 59 | 61 |
| **At December 31, 2011** | **356** | **1,763** | **925** | **452** | **336** | **1,074** | **4,906** |
| Of which: current | 219 | 1,424 | 32 | 425 | 336 | 781 | 3,217 |

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

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

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

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

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

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

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

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

## 14 Other liabilities

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

## 15 Shareholders' equity

### *Issued capital*

As of December 31, 2011, the **share capital** of Deutsche Telekom totaled EUR 11,063 million. The share capital is divided into 4,321,319,206 no par value registered shares.

| | 2011 | |
|---|---|---|
| | (thousands) | (%) |
| Federal Republic of Germany | 646,575 | 15.0 |
| KfW Bankengruppe | 735,662 | 17.0 |
| Free float | 2,939,082 | 68.0 |
| Of which: Blackstone Group | 191,700 | 4.4 |
| Of which: BlackRock | 145,762 | 3.4 |
| | **4,321,319** | **100.0** |

### *Buy-back of Deutsche Telekom shares*

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

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

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

### *Voting rights*

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

### *Authorized capital and contingent capital*

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

| | Amount (millions of €) | No par value shares (thousands) | Purpose |
|---|---|---|---|
| 2009 Authorized capital I[1] | 2,176 | 850,000 | Increase in share capital (until April 29, 2014) |
| 2009 Authorized capital II[1] | 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 |
| 2010 Contingent capital | 1,100 | 429,688 | Servicing guaranteed convertible bonds or bonds with warrants issued on or before May 2, 2015 |

[1] 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.

### *Total other comprehensive income*

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

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

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

### 16 Net revenue

Net revenue breaks down into the following revenue categories:

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

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

### 17 Cost of sales

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

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

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

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

### 18 Selling expenses

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

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

In line with the revenue decrease, selling expenses declined by EUR 0.6 billion year-on-year, EUR 0.2 billion of which was attributable to exchange rate effects. Other major effects were selling expenses of EUR 0.2 billion at T-Mobile

UK included in the prior year until the date of deconsolidation, whereas in the reporting year, expenses for civil servants early retirement arrangements accounted for an increase of EUR 0.2 billion.

## 19 General and administrative expenses

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

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

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

## 20 Other operating income

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

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

## 21 Other operating expenses

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

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

## 22 Finance costs

| (millions of €) | 2011 | 2010 | 2009 |
|---|---|---|---|
| Interest income | 268 | 349 | 341 |
| Interest expense | (2,593) | (2,849) | (2,896) |
| | **(2,325)** | **(2,500)** | **(2,555)** |
| | | | |
| **Of which: from financial instruments relating to categories in accordance with IAS 39:** | | | |
| Loans and receivables (LaR) | 67 | 77 | 132 |
| Held-to-maturity investments (HtM) | 4 | 2 | 3 |
| Available-for-sale financial assets (AfS) | 14 | 15 | 42 |
| Financial liabilities measured at amortized cost (FLAC)[1] | (2,315) | (2,490) | (2,637) |

[1] Interest expense calculated according to the effective interest method and adjusted for accrued interest from derivatives that were used as hedging instruments against interest rate-based changes in the fair values of financial liabilities measured at amortized cost in the reporting period for hedge accounting in accordance with IAS 39 (2011: interest income of EUR 126 million, 2010: interest income of EUR 155 million, 2009: interest income of EUR 107 million).

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

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

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

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

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

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

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

## 24 Other financial income/expense

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

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

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

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

## 25 Income taxes

### *Income taxes in the consolidated income statement*

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

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

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

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

***Reconciliation of the effective tax rate***

Income taxes of EUR 2,349 million in the reporting year (2010: EUR 935 million, 2009: EUR 1,782 million) are derived as follows from the expected income tax expense that would have arisen had the statutory income tax rate of the parent company (combined income tax rate) been applied to profit/loss before income taxes:

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

***Current income taxes in the consolidated income statement***

The following table provides a breakdown of current income taxes:

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

***Deferred taxes in the consolidated income statement***

The following table shows the development of deferred taxes:

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

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

carryforwards to be recognized in the United States, as it was no longer probable that they would be utilized. The same applies to part of the loss carryforwards in Austria resulting in a deferred tax expense of EUR 0.1 billion.

***Income taxes in the consolidated statement of financial position***

Current income taxes in the consolidated statement of financial position:

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

Deferred taxes in the consolidated statement of financial position:

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

Development of deferred taxes:

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

Development of deferred taxes on loss carryforwards:

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

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

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

The allowances relate primarily to loss carryforwards.

The loss carryforwards are shown in the following table:

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

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

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

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 95 million (December 31, 2010: EUR 88 million) and on temporary differences for trade tax purposes in the amount of EUR 3 million (December 31, 2010: EUR 1 million). Apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 342 million (December 31, 2010: EUR 160 million) were recognized for other foreign income tax loss carryforwards.

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

A positive tax effect in the amount of EUR 6 million (2010: EUR 301 million, 2009: EUR 12 million) attributable to the utilization of tax loss carryforwards on which deferred tax assets had not yet been recognized, was recorded in the reporting year.

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

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

| | 2011 | | | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|---|---|---|
| (millions of €) | Before tax amount | Tax (expense) benefit | Net of tax amount | Before tax amount | Tax (expense) benefit | Net of tax amount | Before tax amount | Tax (expense) benefit | Net of tax amount |
| Actuarial gains and losses on defined benefit pension plans | 177 | (53) | 124 | (32) | 12 | (20) | (461) | 116 | (345) |
| Revaluation due to business combinations | 0 | 0 | 0 | (2) | 0 | (2) | (38) | 3 | (35) |
| Exchange differences on translating foreign operations | 10 | 0 | 10 | 3,698 | 0 | 3,698 | (211) | 0 | (211) |
| Of which: recognized in income statement | 0 | 0 | 0 | 2,151 | 0 | 2,151 | 0 | 0 | 0 |
| Available-for-sale financial assets | 242 | (9) | 233 | (3) | 1 | (2) | (4) | 0 | (4) |
| Of which: recognized in income statement | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gains (losses) from hedging instruments | (565) | 164 | (401) | 58 | (18) | 40 | (48) | 19 | (29) |
| Of which: recognized in income statement | 200 | (61) | 139 | 0 | 0 | 0 | 8 | (1) | 7 |
| Share of profit (loss) of investments accounted for using the equity method | 0 | 0 | 0 | 28 | 0 | 28 | 0 | 0 | 0 |
| Other income and expense recognized directly in equity | 0 | 0 | 0 | 0 | 0 | 0 | 11 | 0 | 11 |
| **Other comprehensive income** | **(136)** | **102** | **(34)** | **3,747** | **(5)** | **3,742** | **(751)** | **138** | **(613)** |
| Profit (loss) | | | 670 | | | 1,760 | | | 873 |
| **Total comprehensive income** | | | **636** | | | **5,502** | | | **260** |

## 26 Profit/loss attributable to non-controlling interests

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

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

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

## 27 Earnings per share

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

Basic earnings per share.

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

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

Diluted earnings per share.

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

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

## 28 Dividend per share

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

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

## 29 Average number of employees and personnel costs

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

| | | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **Personnel costs** | **millions of €** | **14,743** | **15,071** | **14,333** |

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

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

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

## 30 Depreciation, amortization and impairment losses

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

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

The following table provides a breakdown of impairment losses:

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

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

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

## OTHER DISCLOSURES

### 31 Notes to the consolidated statement of cash flows

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

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

***Net cash from operating activities***

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

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

***Net cash used in investing activities***

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

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

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

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

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

***Net cash used in financing activities***

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

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

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

## 32 Segment reporting

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

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

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

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

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

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

The reconciliation summarizes the elimination of intersegment transactions.

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

The following tables show the performance indicators used by Deutsche Telekom to evaluate the operating segments' performance as well as additional segment-related indicators:

| (millions of €) | Year | Net revenue | Inter-segment revenue | Total revenue | Profit (loss) from opera-tions (EBIT) | Interest income | Interest expense | Share of profit (loss) of associates and joint ventures accounted for using the equity method | Income taxes |
|---|---|---|---|---|---|---|---|---|---|
| Germany | **2011** | **22,621** | **1,410** | **24,031** | **4,445** | **92** | **(622)** | **2** | **(14)** |
| | 2010 | 23,523 | 1,622 | 25,145 | 4,916 | 24 | (600) | - | 8 |
| | 2009 | 23,813 | 1,610 | 25,423 | 5,062 | 172 | (107) | 2 | (13) |
| Europe | **2011** | **14,431** | **693** | **15,124** | **780** | **141** | **(478)** | **(54)** | **(522)** |
| | 2010 | 16,183 | 657 | 16,840 | 985 | 147 | (840) | (52) | (319) |
| | 2009 | 18,996 | 611 | 19,607 | 140 | 218 | (666) | 7 | (582) |
| United States | **2011** | **14,801** | **10** | **14,811** | **(710)** | **86** | **(628)** | **(11)** | **(562)** |
| | 2010 | 16,075 | 12 | 16,087 | 2,092 | 24 | (514) | (1) | (595) |
| | 2009 | 15,457 | 14 | 15,471 | 2,233 | 16 | (543) | 6 | (643) |
| Systems Solutions | **2011** | **6,567** | **2,682** | **9,249** | **(43)** | **31** | **(31)** | **(10)** | **(12)** |
| | 2010 | 6,411 | 2,646 | 9,057 | 44 | 23 | (31) | (4) | (12) |
| | 2009 | 6,083 | 2,715 | 8,798 | (11) | 39 | (46) | 10 | (12) |
| Group Headquarters & | **2011** | **233** | **1,911** | **2,144** | **1,160** | **1,558** | **(2,418)** | **-** | **(1,279)** |
| 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) |
| **Total** | **2011** | **58,653** | **6,706** | **65,359** | **5,632** | **1,908** | **(4,177)** | **(73)** | **(2,389)** |
| | 2010 | 62,421 | 6,874 | 69,295 | 5,558 | 2,110 | (5,074) | (57) | (801) |
| | 2009 | 64,602 | 7,107 | 71,709 | 6,175 | 1,601 | (4,130) | 25 | (1,820) |
| Reconciliation | **2011** | **-** | **(6,706)** | **(6,706)** | **(46)** | **(1,640)** | **1,584** | **-** | **40** |
| | 2010 | - | (6,874) | (6,874) | (53) | (1,761) | 2,225 | - | (134) |
| | 2009 | - | (7,107) | (7,107) | (163) | (1,260) | 1,234 | (1) | 38 |
| Group | **2011** | **58,653** | **-** | **58,653** | **5,586** | **268** | **(2,593)** | **(73)** | **(2,349)** |
| | 2010 | 62,421 | - | 62,421 | 5,505 | 349 | (2,849) | (57) | (935) |
| | 2009 | 64,602 | - | 64,602 | 6,012 | 341 | (2,896) | 24 | (1,782) |

| (millions of €) | Year | Segment assets | Segment liabilities | Segment invest-ments | Investments accounted for using the equity method | Depre-ciation and amort-ization | Impair-ment losses | Average number of employees |
|---|---|---|---|---|---|---|---|---|
| Germany | **2011** | **33,522** | **24,450** | **3,717** | **27** | **(4,438)** | **(9)** | **76,028** |
| | 2010 | 35,334 | 26,111 | 4,902 | 26 | (4,178) | (15) | 79,364 |
| | 2009 | 52,002 | 16,244 | 3,221 | 23 | (4,189) | (7) | 84,584 |
| Europe | **2011** | **37,815** | **12,990** | **1,998** | **6,781** | **(3,159)** | **(1,056)** | **60,105** |
| | 2010 | 46,040 | 20,334 | 2,127 | 7,143 | (3,453) | (704) | 65,435 |
| | 2009 | 46,759 | 22,063 | 4,813 | 52 | (3,772) | (2,385) | 69,277 |
| United States | **2011** | **38,075** | **24,110** | **1,787** | **27** | **(2,110)** | **(2,297)** | **34,518** |
| | 2010 | 38,316 | 23,056 | 2,118 | 24 | (2,063) | (1) | 37,795 |
| | 2009 | 36,087 | 19,326 | 2,494 | 18 | (2,025) | (3) | 38,231 |
| Systems Solutions | **2011** | **8,751** | **5,460** | **615** | **38** | **(626)** | **(14)** | **48,224** |
| | 2010 | 8,855 | 5,783 | 819 | 49 | (619) | (4) | 47,588 |
| | 2009 | 8,872 | 5,932 | 837 | 54 | (718) | (3) | 45,328 |
| Group Headquarters & | **2011** | **101,152** | **57,182** | **623** | **-** | **(721)** | **(75)** | **21,494** |
| Shared Services | 2010 | 107,357 | 60,806 | 675 | - | (714) | (126) | 22,312 |
| | 2009 | 120,162 | 78,379 | 747 | - | (660) | (173) | 20,181 |
| **Total** | **2011** | **219,315** | **124,192** | **8,740** | **6,873** | **(11,054)** | **(3,451)** | **240,369** |
| | 2010 | 235,902 | 136,090 | 10,641 | 7,242 | (11,027) | (850) | 252,494 |
| | 2009 | 263,882 | 141,944 | 12,112 | 147 | (11,364) | (2,571) | 257,601 |
| Reconciliation | **2011** | **(96,773)** | **(41,591)** | **(187)** | **-** | **69** | **-** | **-** |
| | 2010 | (108,090) | (51,306) | (302) | - | 68 | 1 | - |
| | 2009 | (136,108) | (56,107) | (645) | - | 41 | - | - |
| Group | **2011** | **122,542** | **82,601** | **8,553** | **6,873** | **(10,985)** | **(3,451)** | **240,369** |
| | 2010 | 127,812 | 84,784 | 10,339 | 7,242 | (10,959) | (849) | 252,494 |
| | 2009 | 127,774 | 85,837 | 11,467 | 147 | (11,323) | (2,571) | 257,601 |

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

[1] 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.

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

***Information on products and services***

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

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

## 33 Contingent liabilities and assets

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

***Contingencies***

**Year-end bonus for civil servants.** In November 2004, the Federal Republic of Germany passed the first Act to amend the Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz), which abolished the obligation on Deutsche Telekom and other successor companies to Deutsche Bundespost to pay active civil servants an annual year-end bonus under the German Federal Act on Bonus Payments (Bundessonderzahlungsgesetz). Various court instances saw no conflict with constitutional law in this. In December 2008, the Federal Administrative Court decided to refer the standards in dispute to the Federal Constitutional Court for a judicial review pursuant to Article 100 of the Basic Law. We expect a decision from the Federal Constitutional Court in the next few months. If the court rules that the abolition of the bonus payment was unconstitutional, a supplementary payment of around EUR 0.2 billion for the period 2004 to June 2009 may have to be made.

**Reduced pay tables.** With the entry into force of the reform of civil service law (Dienstrechtsneuordnungsgesetz) on February 11, 2009, the legislator integrated the previous year-end bonus paid annually in accordance with the German Federal Act on Bonus Payments into the basic monthly salary for all federal civil servants. In accordance with § 78 of the Federal Civil Service Remuneration Act (Bundesbesoldungsgesetz), this does not apply for civil servants employed by the successor companies to Deutsche Bundespost. Some civil servants also appealed the new, reduced pay tables. The Stuttgart Administrative Court has submitted two cases to the Federal Constitutional Court for it to evaluate whether this was constitutional. Depending on the outcome, supplementary payments of up to EUR 0.1 billion may have to be made for the period beginning July 2009.

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

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

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

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

**European Commission investigates Slovak Telekom.** In April 2009, the European Commission started an investigation into allegedly abusive behavior of Slovak Telekom (ST) in the broadband market in Slovakia. According to the European Commission, such an infringement could consist of refusing access to the unbundled local loop or other wholesale services for the broadband infrastructure as well as margin squeeze situations in these areas. In December 2010, the European Commission formally extended the investigation to include Deutsche Telekom as Slovak Telekom's parent company, allowing the European Commission to also hold Deutsche Telekom liable for Slovak Telekom's alleged infringements. Should the European Commission ultimately ascertain an infringement of European anti-trust law, it could impose fines against ST and Deutsche Telekom.

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

A first hearing took place in June 2008 during which the arbitration court discussed legal issues with the parties, yet shed no light on the possible outcome of the case. Various witnesses and experts were heard at another hearing in December 2010. We expect the proceedings to continue in 2012.

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

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

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

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

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

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

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

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

*Contingent assets*

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

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

## 34 Disclosures on leases

*Deutsche Telekom as lessee*

**Finance leases**

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

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

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

The following table provides a breakdown of these amounts:

| | Dec. 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| (millions of €) | Minimum lease payments | | Interest component | | Present values | |
| Maturity | Total | Of which: sale and leaseback | Total | Of which: sale and leaseback | Total | Of which: sale and leaseback |
| Within 1 year | 257 | 108 | 100 | 60 | 157 | 48 |
| In 1 to 3 years | 413 | 218 | 177 | 109 | 236 | 109 |
| In 3 to 5 years | 363 | 209 | 142 | 90 | 221 | 119 |
| After 5 years | 1,136 | 666 | 399 | 257 | 737 | 409 |
| | **2,169** | **1,201** | **818** | **516** | **1,351** | **685** |

| | Dec. 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| (millions of €) | Minimum lease payments | | Interest component | | Present values | |
| Maturity | Total | Of which: sale and leaseback | Total | Of which: sale and leaseback | Total | Of which: sale and leaseback |
| Within 1 year | 235 | 106 | 93 | 63 | 142 | 43 |
| In 1 to 3 years | 405 | 213 | 185 | 114 | 220 | 99 |
| In 3 to 5 years | 360 | 211 | 154 | 96 | 206 | 115 |
| After 5 years | 1,279 | 758 | 447 | 290 | 832 | 468 |
| | **2,279** | **1,288** | **879** | **563** | **1,400** | **725** |

**Operating leases**

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

Some leases include extension options and provide for stepped rents. Most of these leases relate to radio towers in the United States.

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

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

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

***Deutsche Telekom as lessor***

**Finance leases**

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

The amount of the net investment in a finance lease is determined as shown in the following table:

| (millions of €) | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Minimum lease payments | 348 | 328 |
| Unguaranteed residual value | 3 | - |
| Gross investment | 351 | 328 |
| Unearned finance income | (33) | (39) |
| **Net investment (present value of the minimum lease payments)** | **318** | **289** |

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

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

***Operating leases***

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

| (millions of €) | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| **Maturity** | | |
| Within 1 year | 374 | 359 |
| In 1 to 3 years | 476 | 456 |
| In 3 to 5 years | 349 | 346 |
| After 5 years | 737 | 756 |
| | **1,936** | **1,917** |

***Agreements that are not leases in substance***

In 2002, Telekom Deutschland GmbH (formerly T-Mobile Deutschland GmbH) concluded so-called lease-in/lease-out agreements (QTE lease agreements) for substantial parts of its GSM mobile communications network (amounting to USD 0.8 billion). The contracting parties were initially four and, after the contract with one of them was terminated by mutual agreement in 2009, three U.S. trusts backed by U.S. investors. Under the terms of the principal lease agreements, Telekom Deutschland GmbH is obliged to grant the respective U.S. trust unhindered use of the leased objects for a period of 30 years. After expiry of the principal lease agreements, the U.S. trusts have the right to acquire the network components for a purchase price of USD 1.00 each. In return, Telekom Deutschland GmbH has leased the network components back for 16 years by means of sub-lease agreements. After around 13 years, Telekom Deutschland GmbH has the option of acquiring the rights of the respective U.S. trust arising from the principal lease agreements (call option). Upon exercise of this call option, all the rights of the U.S. trust in question to the leased objects arising are transferred to Telekom Deutschland GmbH. In this case, Telekom Deutschland GmbH would be the only party to the principal lease agreement, meaning that this agreement would be extinguished as a result of the fusion of rights and obligations under the agreement.

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

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

***Share matching plan***

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

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

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

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

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

At the end of the term of the individual plans, Deutsche Telekom AG's Supervisory Board will establish whether the absolute and relative performance targets for the Board of Management have been achieved. Based on these findings, the Board of Management will establish whether the target has been achieved for Deutsche Telekom and all participating companies as a whole and will communicate this decision. Once it has been established whether one or both targets have been achieved, the relevant amounts will be paid out to the beneficiaries. With the exception of Board of Management members who did not switch to the new compensation system for the Board of Management, the MTIP was issued for the last time in 2010.

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

| MTIP plan year | Maximum budget (millions of €) | Term of plan (years) | Share price at start of plan (€) | Absolute performance target (€) | Starting value of the index |
|---|---|---|---|---|---|
| 2009 | 55 | 3 | 11.01 | 14.31 | 328.55 |
| 2010 | 57 | 3 | 10.29 | 13.38 | 417.62 |
| **2011** | **1** | **3** | **9.79** | **12.73** | **441.12** |

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

The MTIP of **Magyar Telekom** is largely based on the model that has been used for the MTIP of Deutsche Telekom AG, except that the assessment benchmark is the performance of Magyar Telekom shares and the Dow Jones EURO STOXX® Total Return Index. In addition, the absolute performance target is achieved if, at the end of the individual plans, Magyar Telekom's share price has risen by at least 35 percent compared with Magyar Telekom's share price at the beginning of the plan. The 2009 to 2011 plans are still in operation.

The MTIP of **Hrvatski Telekom** is largely based on the model that has been used for the MTIP of Deutsche Telekom AG. The absolute performance target for the 2008 MTIP is, however, EBITDA, and the relative performance target is a combined index from a basket of telecommunications shares. The absolute performance target for the 2009 and 2010 MTIP is a 30-percent increase in the HT share price.

**PTC** has established a performance cash plan program with long-term incentive plans (LTIPs). The program provides for additional pay in the form of deferred compensation under the terms and conditions of the LTIP and is aimed at employees whose performance is of outstanding significance for the company's shareholder value. The LTIP is generally open to high-performers at specific management levels. Participants in the plans are selected individually by the management of PTC. Each plan encompasses three consecutive cycles, each running from January 1 through December 31. Participants receive payments from the plan after three years, provided the defined EBITDA target has been achieved (EBITDA hurdle). In addition, a bonus is paid at the end of each cycle. The amount of the bonus is determined for each cycle individually and depends on the level of target achievement. The 2009 to 2011 plans are still in operation.

***Phantom share plan (PSP)***

T-Mobile USA has established a phantom share plan (PSP) as long-term incentive plan (LTIP) on a revolving basis for the years 2005 through 2011, providing benefits for the top management. Under the PSP, T-Mobile USA grants performance-based cash bonus awards. These awards are earned (in full or in part) based upon customer growth on a sliding scale from 60 to 150 percent of the original number of phantom shares granted. The value of a phantom share appreciates or depreciates from its USD 10 per share face value proportionate to the change in the appraised enterprise value of T-Mobile USA over the performance period. The value of an award is determined by multiplying the number of phantom share awards earned by the appraised value of one phantom share. Awards are earned and paid out ratably over a performance period of two to three years.

***Stock option plans***

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

| Entity | Plan | Year of issuance | Stock options granted (thousands) | Vesting period (years) | Contractual term (years) | Weighted exercise price | Share price at grant date | Max. price for SARs | Classification/ accounting treatment |
|---|---|---|---|---|---|---|---|---|---|
| Stock option plans at Deutsche Telekom: | | | | | | | | | |
| **Deutsche Telekom AG** | 2001 SOP | 2002 | 3,928 | 2 - 3 | 10 | €12.36 | €10.30 | | Equity-settled |
| | SARs | 2002 | 3 | 2 - 3 | 10 | €12.36 | €10.30 | €20.60 | Cash-settled |
| **Deutsche Telekom AG (T-Online International AG)** | 2001 SOP | 2002 | 2,067 | 2 - 6 | 10 | €10.26 | €8.21 | | Cash-settled |
| **T-Mobile USA** | SOP | 2002 | 5,964 | up to 4 | max. 10 | USD 13.35 | | | Cash-settled |
| | | 2003 | 1,715 | up to 4 | max. 10 | USD 12.86 | | | Cash-settled |
| | T-Mobile USA/ Powertel | 2004 | 230 | up to 4 | max. 10 | USD 19.64 | | | Cash-settled |
| Stock option plans OTE: | | | | | | | | | |
| **OTE group** | Cosmote group | 2005-2007 | 3,440 | up to 3 | 6 | €14.90 | €15.48 | | Equity-settled |
| | OTE (original) 2008 | 2008 | 3,142 | up to 3 | max. 6 | €15.70 | €21.38 | | Equity-settled |
| | OTE group 2008 | 2009 | 3,226 | up to 3 | max. 6 | €16.20 | €10.40 | | Equity-settled |
| | | 2010 | 4,671 | up to 3 | max. 6 | €9.32 | €11.26 | | Equity-settled |
| | | 2011 | 6,633 | up to 3 | max. 6 | €4.96 | €5.64 | | Equity-settled |

**Deutsche Telekom AG (formerly T-Online International AG (prior to merger))**

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

The table below shows the changes in outstanding options from the stock option plans in the 2011 financial year:

| | Equity-settled | | Cash-settled | | |
|---|---|---|---|---|---|
| | Deutsche Telekom AG | OTE group | Deutsche Telekom AG | Deutsche Telekom AG (T-Online International AG) | T-Mobile USA |
| | Stock options (thousands) | Stock options (thousands) | SARs (thousands) | Stock options (thousands) | Stock options (thousands) |
| **Stock options outstanding at January 1, 2011** | 6,700 | 12,680 | 132 | 2,021 | 3,042 |
| Of which: stock options exercisable at January 1, 2011 | 6,700 | 6,713 | 132 | 2,021 | 3,042 |
| Granted | - | 6,633 | - | - | - |
| Exercised | - | - | - | - | 488 |
| Forfeited | 4,405 | 752 | 131 | 1,041 | 2,100 |
| Withdrawn | - | 732 | - | - | - |
| **Stock options outstanding at December 31, 2011** | **2,295** | **17,829** | **1** | **980** | **454** |
| **Of which: stock options exercisable at December 31, 2011** | **2,295** | **8,339** | **1** | **980** | **454** |
| Weighted average exercise price at December 31, 2011 (stock options outstanding) | €12.36 | €11.41 | €12.36 | €9.11 | USD 13.38 |
| Weighted average exercise price at December 31, 2011 (stock options exercisable) | €12.36 | €16.84 | €12.36 | €9.11 | USD 13.38 |

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

| | Deutsche Telekom AG | | Deutsche Telekom AG T-Online International AG | | OTE group | |
|---|---|---|---|---|---|---|
| Range of exercise prices (€) | Number (thousands) | Remaining contractual life (year)[1] | Number (thousands) | Remaining contractual life (year)[1] | Number (thousands) | Remaining contractual life (year)[1] |
| 8-20 | 2,295 | 0.5 | 980 | 0.5 | 17,829 | 3.5 |
| | **2,295** | **0.5** | **980** | **0.5** | **17,829** | **3.5** |

| | T-Mobile USA | |
|---|---|---|
| Range of exercise prices (USD) | Number (thousand)s | Remaining contractual life (year)[1] |
| 0.02 – 15.19 | 454 | 0.3 |
| | **454** | **0.3** |

[1] Weighted average.

## 36 Disclosures on financial instruments

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

| (millions of €) | Category in accordance with IAS 39 | Carrying amounts Dec. 31, 2011 | 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, 2011 |
|---|---|---|---|---|---|---|---|---|
| | | | Amortized cost | Cost | Fair value recognized in equity | Fair value recognized in profit or loss | | |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | LaR | 3,749 | 3,749 | | | | | 3,749 |
| Trade receivables | LaR | 6,455 | 6,455 | | | | | 6,455 |
| Originated loans and receivables | LaR/n.a. | 2,030 | 1,712 | | | | 318 | 2,030 |
| Other non-derivative financial assets | | | | | | | | |
| Held-to-maturity investments | HtM | 177 | 177 | | | | | 177 |
| Financial assets available for sale[1] | AfS | 729 | | 270 | 459 | | | 459 |
| Derivative financial assets[2] | | | | | | | | |
| Derivatives without a hedging relationship | FAHfT | 833 | | | | 833 | | 833 |
| Derivatives with a hedging relationship | n.a. | 700 | | | 269 | 431 | | 700 |
| Non-current assets and disposal groups held for sale[3] | AfS | 380 | | | 380 | | | 380 |
| **Liabilities and shareholders´equity[4]** | | | | | | | | |
| Trade payables | FLAC | 6,409 | 6,409 | | | | | 6,409 |
| Bonds and other securitized liabilities | FLAC | 36,228 | 36,228 | | | | | 38,539 |
| Liabilities to banks | FLAC | 4,916 | 4,916 | | | | | 5,037 |
| Liabilities to non-banks from promissory notes | FLAC | 1,188 | 1,188 | | | | | 1,321 |
| Other interest-bearing liabilities | FLAC | 1,713 | 1,713 | | | | | 1,713 |
| Other non-interest-bearing liabilities | FLAC | 1,528 | 1,528 | | | | | 1,528 |
| Finance lease liabilities | n.a. | 1,351 | | | | | 1,351 | 1,637 |
| Derivative financial liabilities[2] | | | | | | | | |
| Derivatives without a hedging relationship | FLHfT | 833 | | | | 833 | | 833 |
| Derivatives with a hedging relationship | n.a. | 561 | | | | 561 | | 561 |
| Of which: aggregated by category in accordance with IAS 39: | | | | | | | | |
| Loans and receivables | (LaR) | 11,916 | 11,916 | | | | | 11,916 |
| Held-to-maturity investments | (HtM) | 177 | 177 | | | | | 177 |
| Available-for-sale financial assets[1] | (AfS) | 1,109 | | 270 | 839 | | | 839 |
| Financial assets held for trading | (FAHfT) | 833 | | | | 833 | | 833 |
| Financial liabilities measured at amortized cost | (FLAC) | 51,982 | 51,982 | | | | | 54,548 |
| Financial liabilities held for trading | (FLHfT) | 833 | | | | 833 | | 833 |

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

| (millions of €) | Category in accordance with IAS 39 | Carrying amounts Dec. 31, 2010 | 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, 2010 |
|---|---|---|---|---|---|---|---|---|
| | | | Amortized cost | Cost | Fair value recognized in equity | Fair value recognized in profit or loss | | |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | LaR | 2,808 | 2,808 | | | | | 2,808 |
| Trade receivables | LaR | 6,766 | 6,766 | | | | | 6,766 |
| Originated loans and receivables | LaR/n.a. | 2,628 | 2,340 | | | | 288 | 2,628 |
| Other non-derivative financial assets | | | | | | | | |
| Held-to-maturity investments | HtM | 91 | 91 | | | | | 91 |
| Financial assets available for sale[1] | AfS | 513 | | 335 | 178 | | | 178 |
| Derivative financial assets[2] | | | | | | | | |
| Derivatives without a hedging relationship | FAHfT | 560 | | | | 560 | | 560 |
| Derivatives with a hedging relationship | n.a. | 275 | | | 131 | 144 | | 275 |
| Non-current assets and disposal groups held for sale[3] | | | | | | | | |
| | | | | | | | | |
| **Liabilities and shareholders equity[4]** | | | | | | | | |
| Trade payables | FLAC | 6,737 | 6,737 | | | | | 6,737 |
| Bonds and other securitized liabilities | FLAC | 38,190 | 38,190 | | | | | 41,806 |
| Liabilities to banks | FLAC | 4,190 | 4,190 | | | | | 4,346 |
| Liabilities to non-banks from promissory notes | FLAC | 1,164 | 1,164 | | | | | 1,326 |
| Other interest-bearing liabilities | FLAC | 1,838 | 1,838 | | | | | 1,838 |
| Other non-interest-bearing liabilities | FLAC | 3,193 | 3,193 | | | | | 3,193 |
| Finance lease liabilities | n.a. | 1,400 | | | | | 1,400 | 1,671 |
| Derivative financial liabilities[2] | | | | | | | | |
| Derivatives without a hedging relationship | FLHfT | 249 | | | | 249 | | 249 |
| Derivatives with a hedging relationship | n.a. | 322 | | | 322 | | | 322 |
| | | | | | | | | |
| Of which: aggregated by category in accordance with IAS 39: | | | | | | | | |
| Loans and receivables | (LaR) | 11,914 | 11,914 | | | | | 11,914 |
| Held-to-maturity investments | (HtM) | 91 | 91 | | | | | 91 |
| Available-for-sale financial assets[1] | (AfS) | 513 | | 335 | 178 | | | 178 |
| Financial assets held for trading | (FAHfT) | 560 | | | | 560 | | 560 |
| Financial liabilities measured at amortized cost | (FLAC) | 55,312 | 55,312 | | | | | 59,246 |
| Financial liabilities held for trading | (FLHfT) | 249 | | | | 249 | | 249 |

***Classes of financial instruments according to IFRS 7.27et seq***

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

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

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

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

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

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

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

***Net gain/loss by measurement category***

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

Interest from financial instruments is recognized in finance costs, dividends in other financial income/expense (please also refer to Notes 22 and 24). Deutsche Telekom recognizes the other components of net gain/loss in other financial income/expense, except for impairments/reversal of impairments of trade receivables (please also refer to Note

2) that are classified as loans and receivables which are reported under selling expenses. The net gain from the subsequent measurement for financial instruments held for trading (EUR 576 million) also includes interest and currency translation effects. The net currency translation gains on financial assets classified as loans and receivables (EUR 370 million) are primarily attributable to the Group-internal transfer of foreign-currency loans taken out by Deutsche Telekom's financing company, Deutsche Telekom International Finance B.V., on the capital market. These were offset by corresponding currency translation losses on capital market liabilities of EUR 616 million. Finance costs from financial liabilities measured at amortized cost (EUR 2,440 million) primarily consist of interest expense on bonds and other (securitized) financial liabilities. The item also includes interest expenses from interest added back and interest income from interest discounted from trade payables. However, it does not include the interest expense and interest income from interest rate derivatives Deutsche Telekom used in the reporting period to hedge the fair value risk of financial liabilities (please also refer to Note 22).

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

### *Principles of risk management*

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

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

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

### *Currency risks*

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

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

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

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

The Group entities predominantly execute their operating activities in their respective functional currencies. Payments made in a currency other than the respective functional currency result in foreign-currency risks in the Group.

These relate in particular to payments for the procurement of network equipment and mobile handsets as well as payments to international telecommunications companies for the provision of access services. Deutsche Telekom uses currency derivatives and, in individual cases, currency options for hedging purposes. On account of these hedging activities, Deutsche Telekom was not exposed to any significant exchange rate risks from its operating activities at the reporting date.

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

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

The currency sensitivity analysis is based on the following assumptions:

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

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

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

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

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

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

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

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

If the euro had gained (lost) 10 percent against all currencies at December 31, 2011, other financial income and the fair value of the hedging instruments before taxes would have been EUR 4 million higher (lower) (December 31,

2010: EUR 17 million lower (higher)). The hypothetical effect on profit or loss of EUR 4 million primarily results from the currency sensitivities EUR/USD: EUR -41 million, EUR/PLN: EUR 42 million, EUR/CZK: EUR 7 million and EUR/INR: EUR -4 million.

***Interest rate risks***

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

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

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

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

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

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

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

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

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

If the market interest rates had been 100 basis points higher (lower) at December 31, 2011, profit or loss before taxes would have been EUR 223 million (December 31, 2010: EUR 249 million) lower (higher). The hypothetical effect of EUR -223 million on income results from the potential effects of EUR -190 million from interest rate derivatives and EUR -33 million from non-derivative, variable-interest financial liabilities. Potential effects from interest rate derivatives are partially balanced out by the contrasting performance of non-derivative financial instruments which cannot, however, be shown as a result of applicable accounting standards. If the market interest rates had been 100 basis points higher (lower) at December 31, 2011, the hedging reserve would have been EUR 208 million (December 31, 2010: EUR 164 million) higher (lower).

***Other price risks***

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

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

***Credit risks***

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

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

In line with the contractual provisions, in the event of insolvency all derivatives with a positive or negative fair value that exist with the respective counterparty are offset against each other, leaving a net receivable or liability. When the netting of the positive and negative fair values of all derivatives was positive from Deutsche Telekom's perspective, the counterparty provided Deutsche Telekom with unrestricted cash pursuant to the collateral contracts mentioned in Note 1. The credit risk was thus further reduced. (for details on the fair value of the cash reported under cash and cash equivalents; please also refer to Note 36). On the basis of these contracts, derivatives with a positive fair value and a total carrying amount of EUR 1,533 million (December 31, 2010: EUR 835 million) have a maximum credit risk of EUR 45 million (December 31, 2010: EUR 126 million) as of the reporting date. When the netting of the positive and negative fair values of all derivatives was negative from Deutsche Telekom's perspective, Deutsche Telekom provided cash collateral to counterparties pursuant to collateral contracts. The corresponding receivables of EUR 302 million (December 31, 2010: EUR 223 million) were thus not exposed to any credit risks as of the reporting date (please also refer to Note 8). No other significant agreements reducing the maximum exposure to the credit risks of financial assets existed. The maximum exposure to credit risk of the other financial assets thus corresponds to their carrying amounts. In addition, Deutsche Telekom is exposed to a credit risk through the granting of financial guarantees. Guarantees amounting to a nominal total of EUR 100 million had been pledged as of the reporting date (December 31, 2010: EUR 115 million), which also represent the maximum exposure to credit risk.

***Risks from financial guarantees and loan commitments***

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

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

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

***Liquidity risks***

Please refer to Note 10.

*Hedge accounting*

**Fair value hedges**

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

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

As the list of the fair values of derivatives shows (please refer to table under Derivatives), Deutsche Telekom had interest rate derivatives with a net fair value of EUR + 0.4 billion (December 31, 2010: EUR + 0.1 billion) designated as hedging instruments in fair value hedges at December 31, 2011. The remeasurement of the hedged items resulted in losses of EUR 0.3 billion being recorded in other financial income/expense in the 2011 financial year (2010: losses of EUR 0.3 billion); the changes in the fair values of the hedging instruments resulted in gains of EUR 0.2 billion (2010: gains of EUR 0.3 billion) being recorded in other financial income/expense.

**Cash flow hedges – interest rate risks**

Deutsche Telekom entered into payer interest rate swaps and forward payer interest rate swaps (receive variable, pay fixed) to hedge the cash flow risk of variable-interest debt. The interest payments to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The changes in the cash flows of the hedged items resulting from changes in the Euribor and Libor rates are offset against the changes in the cash flows of the interest rate swaps. The aim of this hedging is to transform the variable-interest bonds into fixed-income debt, thus hedging the cash flows of the financial liabilities. The terms of the hedging relationships will end in the years 2012 through 2017. Credit risks are not part of the hedging.

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

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

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

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

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

As the list of the fair values of derivatives shows (please refer to table under Derivatives), Deutsche Telekom had interest rate derivatives with a fair value of EUR –0.5 billion (2010: EUR –0.3 billion) amounting to a nominal total

of EUR 8.8 billion (2010: EUR 6.7 billion) designated as hedging instruments for the hedging of interest rate risks as part of cash flow hedges at December 31, 2011.

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

**Cash flow hedges – currency risks**

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

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

In the 2011 financial year, gains (before taxes) totaling EUR 130 million (2010: gains of EUR 238 million) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve) (excluding the cash flow hedge for the cash payment from AT&T totaling USD 3 billion). These changes constitute the effective portion of the hedging relationship. In the 2011 financial year, gains totaling EUR 61 million (2010: gains of EUR 98 million) recognized directly in equity were reclassified to other financial income/expense (excluding the cash flow hedge for the cash payment from AT&T totaling USD 3 billion). There was no material ineffectiveness of these hedges recorded as of the reporting date.

As the list of the fair values of derivatives shows (please refer to table under Derivatives), Deutsche Telekom had currency forwards of a net fair value of EUR 8 million (December 31, 2010: EUR – 43 million) and a total volume of EUR 0.5 billion (December 31, 2010: EUR 0.3 billion), as well as cross-currency swaps of a net fair value of EUR + 0.2 billion (December 31, 2010: EUR + 0.1 billion) and a total volume of EUR 2.1 billion (December 31, 2010: EUR 2.1 billion) designated as hedging instruments for cash flow hedges as of December 31, 2011.

**Cash flow hedge for the cash payment from AT&T totaling USD 3 billion**

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

**Hedging of a net investment**

In April 2011 Deutsche Telekom designated a net investment hedge for a nominal amount of USD 7 billion to hedge the net investment in T-Mobile USA against fluctuations in the U.S. dollar spot exchange rate. Currency forwards were used as hedging instruments ("sell USD - receive EUR") with a change in the U.S. dollar spot exchange rate being designated as the hedged risk. Any changes in value of the hedged item resulting from changes in the U.S. dollar spot exchange rate are offset by changes in the value of the currency forwards. The change in fair value of EUR + 0.1 billion (before taxes) attributable to the forward component of the hedging instrument was not part of the hedge and was recognized in the income statement under other financial income/expense. After the hedged amount had been reduced, currency forwards with a nominal volume of USD 1.2 billion and a fair value of EUR -0.1 billion (before taxes) remained

designated as hedge instruments at December 31, 2011. Losses totaling EUR 0.4 billion (before taxes) from the hedging relationship were recognized directly in equity (total other comprehensive income) in the 2011 financial year. The effectiveness of the hedging relationship is tested prospectively and retrospectively at each reporting date by comparing the cumulative value changes of hedging instruments and hedged item. The hedging relationship was fully effective for the total hedging period and as of the reporting date (please also refer to "Corporate transactions" in the section "Summary of accounting policies").

### Derivatives

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

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

## Disclosures on capital management

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

An important indicator of capital management is the gearing ratio of net debt to shareholders' equity as shown in the consolidated statement of financial position. Deutsche Telekom considers net debt to be an important measure for investors, analysts, and rating agencies. It is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. The gearing remained constant year-on-year at 1.0 as of December 31, 2011. The target corridor for this indicator is between 0.8 and 1.2.

Calculation of net debt; shareholders' equity.

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

## 38 Related party disclosures

### *Federal Republic of Germany and other related parties*

The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds approximately 32.0 percent (December 31, 2010: 32.0 percent) of the share capital of Deutsche Telekom AG. The Federal Republic usually represents a solid majority at the shareholders' meeting due to its high attendance rate, giving the Federal Republic control over Deutsche Telekom. Therefore, the Federal Republic and the companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence are classified as related parties of Deutsche Telekom. Charges for services provided to the Federal Republic and its departments and agencies, and the individual companies are based on Deutsche Telekom's commercial pricing policies. Deutsche Telekom participates in the spectrum auctions of the Federal Network Agency. The acquisition of mobile communications spectrum though licenses may result in build-out requirements stipulated by the Agency.

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

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

### *Joint ventures*

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

***Related individuals***

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

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

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

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

***Compensation of the Board of Management***

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

*Changes in the composition of the Board of Management and contract extensions*

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

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

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

*Change in Board of Management compensation*

On February 24, 2010, the Supervisory Board resolved on a new system for the compensation of the Board of Management members, taking into account the provisions specified in the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) that has been in effect since August 5, 2009. The shareholders' meeting of Deutsche Telekom AG on May 3, 2010 approved this new system. Pursuant to the VorstAG explanatory memorandum (document 16/13433), the contracts of the Board of Management members that were in existence before the Act entered into force enjoy vested rights protection. These Board of Management members nevertheless have the option of voluntarily changing over to the new compensation system. At December 31, 2011, Board of Management members René Obermann, Reinhard Clemens, Niek Jan van Damme, Timotheus Höttges, Claudia Nemat, and Edward R. Kozel had changed over to the new system while the other members remained with the old system, the vast majority of whose provisions have already been brought in line with the requirements of VorstAG. The new and old systems are explained on the following pages.

*Basis of Board of Management compensation*

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

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

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

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

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

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

*Variable performance-based remuneration (old system)*

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

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

| | 2011 MTIP | 2011 MTIP | | 2010 MTIP | |
|---|---|---|---|---|---|
| (€)[2] | Award amount | Fair value at grant date | Total expense for share-based payments 2011 | Award amount | Total expense for share-based payments 2010[1] |
| René Obermann | 0 | 0 | 0 | 0 | 181,341 |
| Dr. Manfred Balz | 330,000 | 10,190 | 85,581 | 330,000 | 61,375 |
| Reinhard Clemens | 0 | 0 | 0 | 0 | 101,551 |
| Niek Jan van Damme | 0 | 0 | 0 | 0 | 22,737 |
| Timotheus Höttges | 0 | 0 | 0 | 0 | 108,805 |
| Guido Kerkhoff | 0 | 0 | 0 | 0 | 46,776 |
| Thomas Sattelberger | 515,000 | 15,902 | 133,558 | 515,000 | 163,652 |
| | **845,000** | **26,092** | **219,139** | **845,000** | **686,237** |

[1] Amounts relating to Board of Management members who left the Company in the course of 2010 are no longer included in the table.
[2] Fair value calculated using the Monte Carlo model.

*Variable performance-based remuneration (new system)*

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

**Variable I**

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

**Variable II**

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

**Information on the share matching plan**

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

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

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

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

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

**Arrangements in the event of termination of a position on the Board of Management**

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

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

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

*Company pension plan*

**Company pension plan (existing entitlement)**

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

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

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

**Company pension plan (new entitlement)**

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

In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In the event of a permanent inability to work (invalidity), the beneficiary is entitled to the pension fund.

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

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

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

An annual contribution of EUR 290,000 was credited to the pension accounts of Guido Kerkhoff and Niek Jan van Damme in accordance with the provisions of the new company pension plan; EUR 270,000 was credited to the account of Dr. Manfred Balz. Claudia Nemat and Edward R. Kozel each received an annual credit of EUR 250,000. The contributions for Claudia Nemat and Guido Kerkhoff for 2011 were defined pro rata temporis for the period of their office as a member of the Board. The pension benefit rights of Edward R. Kozel were not yet vested at his date of resignation and were therefore forfeited without replacement or compensation.

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

*Stock option plan*

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

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

The stock options that have been granted can be exercised under the terms of the stock option plans. However, no options have yet been exercised.

The 2001 tranche of the 2001 Stock Option Plan expired in the 2011 financial year. The decrease in stock options in this tranche compared with the prior year exclusively results from the entitlements of the 2001 tranche that were forfeited.

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

| | Year | Number of options 2001 SOP 2001 tranche | Value of options on issue (2001) (€) | Number of options 2001 SOP 2002 tranche | Value of options on issue (2002) (€) | Weighted average exercise price of stock options (€) |
|---|---|---|---|---|---|---|
| René Obermann | **2011** | 0 | | 28,830 | 3.79 | 12.36 |
| | 2010 | 48,195 | 4.87 | 28,830 | 3.79 | 23.40 |
| Dr. Manfred Balz | **2011** | 0 | | 17,360 | 3.79 | 12.36 |
| | 2010 | 32,130 | 4.87 | 17,360 | 3.79 | 23.81 |
| Timotheus Höttges | **2011** | 0 | | 17,050 | 3.79 | 12.36 |
| | 2010 | 0 | | 17,050 | 3.79 | 12.36 |
| Guido Kerkhoff | **2011** | 0 | | 0 | | |
| | 2010 | 0 | | 4,650 | 3.79 | 12.36 |
| | **2011** | 0 | | 63,240 | | |
| | 2010 | 80,325 | | 67,890 | | |

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

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

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

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

***Board of Management compensation for the 2011 financial year***

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

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

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

All other remuneration is totally unrelated to performance.

***Total compensation***

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

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

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

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

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

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

*Former members of the Board of Management*

A total of EUR 5.0 million (2010: EUR 5.4 million) was recorded for payments to and entitlements for former members of the Board of Management and their surviving dependents.

Provisions (measured in accordance with IAS 19) totaling EUR 100.6 million (2010: EUR 99.3 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

*Other*

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

***Compensation of the Supervisory Board***

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation of Deutsche Telekom AG. Supervisory Board members receive fixed annual remuneration of EUR 40,000.00 plus variable, performance-related remuneration depending on the development of net profit per no par value share.

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

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

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

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

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

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

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

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

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

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

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

## 41 Events after the reporting period

### *Sale of stake in Telekom Srbija*

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

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

The following tables provide a breakdown of professional fees recognized as expenses in the 2011 financial year:

**PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft**

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

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

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

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

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

**Responsibility statement**

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

Bonn, February 6, 2012

**Deutsche Telekom AG**
**Board of Management**

René Obermann

| Dr. Manfred Balz | Reinhard Clemens | Niek Jan van Damme |
|---|---|---|
| Timotheus Höttges | Claudia Nemat | Thomas Sattelberger |

**The following independent auditor's report (*Bestätigungsvermerk*) has been issued in accordance with §322 German Commercial Code (*Handelsgesetzbuch*) on the consolidated financial statements and the group management report (*Konzernlagebericht*) of Deutsche Telekom Aktiengesellschaft as of and for the financial year ended December 31, 2011. The list of shareholdings in accordance with § 313 German Commercial Code (Handelsgesetzbuch) of Deutsche Telekom AG as of December 31, 2011, which is an integral part of the consolidated financial statements of Deutsche Telekom AG, and the group management report are neither included nor incorporated by reference in this offering memorandum.**

## Independent auditor's report

To Deutsche Telekom AG, Bonn.

***Report on the consolidated financial statements***

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

**Board of Management's responsibility for the consolidated financial statements**

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

**Auditor's responsibility**

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

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

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

**Audit opinion**

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

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

**Report on the Group management report**

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

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

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

Frankfurt (Main), February 6, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| (Kayser) | (Tandetzki) |
|---|---|
| Wirtschaftsprüfer | Wirtschaftsprüfer |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| (millions of €) | Note | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|---|
| **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 |
| | | | |
| **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 | | 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

| (millions of €) | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| **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

| **(millions of €)** | **2010** | **2009** | **2008** |
|---|---|---|---|
| **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 | | | | | |
|---|---|---|---|---|---|---|
| | | Equity contributed | | | Consolidated shareholders' equity generated | |
| | Number of shares | 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 |
| Total 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 |
| Total 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 interest | Total shareholders' equity |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Total other comprehensive income | | | | | | Total | | |
| Translation of foreign operations | Revaluation surplus | Available-for-sale financial assets | Cash-flow hedges | Other comprehensive income | Taxes | | | |
| (millions of €) | (millions of €) | (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

| (millions of €) | Note | Dec. 31, 2010 | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|---|---|
| | 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:

| | **Years** |
|---|---|

| Mobile communications licenses: | |
| --- | --- |
| 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 | 2009 | 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

| (millions of €) | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| 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 | Of which: not impaired on the reporting date and past due in the following periods | | | | | |
|---|---|---|---|---|---|---|---|
| (millions of €) | | Less than 30 days | Between 30 and 60 days | Between 61 and 90 days | Between 91 and 180 days | Between 181 and 360 days | More than 360 days |
| **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:

| (millions of €) | 2010 | 2009 |
|---|---|---|
| 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:

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| 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

| (millions of €) | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| 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

| (millions of €) | Internally generated intangible assets | Acquired intangible assets | | | | | | Goodwill | Advance payments | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Total | Acquired concessions, industrial and similar rights and assets | UMTS licenses | GSM licenses | FCC licenses (T-Mobile USA) | Other acquired intangible assets | | | |
| **Cost** | | | | | | | | | | |
| **At December 31, 2008** | **2,220** | **42,940** | **1,180** | **13,870** | **1,280** | **17,666** | **8,944** | **29,788** | **872** | **75,820** |
| Currency translation | (12) | (98) | 3 | 410 | 2 | (547) | 34 | 246 | 2 | 138 |
| Changes in the composition of the Group | 0 | 2,953 | 425 | 327 | 198 | 0 | 2,003 | 0 | 0 | 2,953 |
| Additions | 232 | 713 | 26 | 0 | 11 | 31 | 645 | 2,470 | 676 | 4,091 |
| Disposals | 278 | 1,352 | 88 | 0 | 0 | 0 | 1,264 | 18 | 11 | 1,659 |
| Change from non-current assets and disposal groups held for sale | (219) | (5,413) | 0 | (4,593) | 0 | (35) | (785) | (5,933) | 0 | (11,565) |
| Reclassifications | 572 | 462 | (16) | 8 | 0 | 0 | 470 | 0 | (430) | 604 |
| **At December 31, 2009** | **2,515** | **40,205** | **1,530** | **10,022** | **1,491** | **17,115** | **10,047** | **26,553** | **1,109** | **70,382** |
| Currency translation | 59 | 1,521 | 12 | 12 | 13 | 1,308 | 176 | 702 | 1 | 2,283 |
| Changes in the composition of the Group | 1 | 232 | 35 | 4 | 0 | 8 | 185 | 4 | 0 | 237 |
| Other Changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (260) | 0 | (260) |
| Additions | 162 | 2,064 | 6 | 8 | 0 | 14 | 2,036 | 465 | 829 | 3,520 |
| Disposals | 334 | 1,067 | 1 | 0 | 0 | 0 | 1,066 | 19 | 19 | 1,439 |
| Change from non-current assets and disposal groups held for sale | 0 | (4) | 0 | 0 | 0 | (4) | 0 | 0 | 0 | (4) |
| Reclassifications | 513 | 1,001 | 9 | 0 | 71 | 1 | 920 | 2 | (861) | 655 |
| **At December 31, 2010** | **2,916** | **43,952** | **1,591** | **10,046** | **1,575** | **18,442** | **12,298** | **27,447** | **1,059** | **75,374** |
| **Accumulated amortization** | | | | | | | | | | |
| **At December 31, 2008** | **1,310** | **11,421** | **646** | **3,865** | **669** | **0** | **6,241** | **9,162** | **0** | **21,893** |
| Currency translation | (8) | 163 | 2 | 109 | 2 | 0 | 50 | 250 | 1 | 406 |
| Changes in the composition of the Group | 0 | (33) | 0 | 0 | 0 | 0 | (33) | 0 | 0 | (33) |
| Additions (amortization) | 561 | 2,742 | 175 | 767 | 138 | 0 | 1,662 | 0 | 0 | 3,303 |
| Additions (impairment) | 0 | 7 | 7 | 0 | 0 | 0 | 0 | 2,345 | 0 | 2,352 |
| Disposals | 278 | 1,344 | 81 | 0 | 0 | 0 | 1,263 | 0 | 0 | 1,622 |
| Change from non-current assets and disposal groups held for sale | (132) | (1,969) | 0 | (1,356) | 0 | 0 | (613) | (5,538) | 0 | (7,639) |
| Reclassifications | 2 | 15 | (14) | 0 | 0 | 0 | 29 | 0 | 0 | 17 |
| **At December 31, 2009** | **1,455** | **11,002** | **735** | **3,385** | **809** | **0** | **6,073** | **6,219** | **1** | **18,677** |
| Currency translation | 39 | 150 | 11 | 1 | 7 | 0 | 131 | 312 | (1) | 500 |
| Changes in the composition of the Group | 0 | 11 | 0 | 0 | 0 | 0 | 11 | 0 | 0 | 11 |
| Additions (amortization) | 577 | 2,767 | 158 | 605 | 138 | 0 | 1,866 | 0 | 0 | 3,344 |
| Additions (impairment) | 0 | 3 | 0 | 0 | 0 | 0 | 3 | 395 | 1 | 399 |
| Disposals | 332 | 1,061 | 6 | 0 | 0 | 0 | 1,055 | 0 | 1 | 1,394 |
| Change from non-current assets and disposal groups held for sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | (14) | 44 | (3) | 0 | 0 | 0 | 47 | 0 | 0 | 30 |
| **At December 31, 2010** | **1,725** | **12,916** | **895** | **3,991** | **954** | **0** | **7,076** | **6,926** | **0** | **21,567** |
| **Net carrying amounts** | | | | | | | | | | |
| At December 31, 2009 | 1,060 | 29,203 | 795 | 6,637 | 682 | 17,115 | 3,974 | 20,334 | 1,108 | 51,705 |
| **At December 31, 2010** | **1,191** | **31,036** | **696** | **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:

| (millions of €) | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| Germany | 4,016 | 3,587 |
| Europe | 8,683 | 9,282 |
| Of which:<br>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:

| (millions of €) | Goodwill impairments | Impairment of property, plant and equipment | 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

| (millions of €) | Land and equivalent rights, and buildings including buildings on land owned by third parties | Technical equipment and machinery | Other equipment, operating and office equipment | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|
| **Costs** | | | | | |
| **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 | |
|---|---|---|---|---|
| | Deutsche Telekom share | Net carrying amounts | Deutsche Telekom share | Net carrying amounts |
| **Name** | **%** | **(millions of €)** | **%** | **(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.

| (billions of €) | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| Total assets | 0.2 | 0.2 |
| Total liabilities | 0.1 | 0.1 |
| | **2010** | **2009** |
| 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:

| | Everything Everywhere | Other | Total as of | Total as of |
|---|---|---|---|---|
| **(billions of €)** | | | **Dec. 31, 2010** | **Dec. 31, 2009** |
| 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 |
| | | | **Total in 2010** | **Total in 2009** |
| Net revenue | 3.1 | 0.2 | 3.3 | 0.2 |
| Profit (loss) | 0.0 | (0.1) | (0.1) | 0.0 |

## 8 Other financial assets

| (millions of €) | Dec. 31, 2010 Total | Dec. 31, 2010 Of which: current | Dec. 31, 2009 Total | Dec. 31, 2009 Of which: current |
|---|---|---|---|---|
| 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** |

| Originated loans and receivables (millions of €) | 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 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Less than 30 days | Between 30 and 60 days | Between 61 and 90 days | Between 91 and 180 days | Between 181 and 360 days | More than 360 days |
| **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

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

| (millions of €) | Dec. 31, 2009 Total | Due within 1 year | Due > 1 year ≤ 5 years | Due > 5 years |
|---|---|---|---|---|
| **Bonds and other securitized liabilities** | | | | |
| Non-convertible bonds | 25,055 | 4,121 | 9,686 | 11,248 |
| Commercial paper, medium-term notes and similar liabilities | 13,453 | 285 | 8,318 | 4,850 |
| Liabilities to banks | 4,718 | 974 | 2,764 | 980 |
| | 43,226 | 5,380 | 20,768 | 17,078 |
| | | | | |
| Lease liabilities | 1,909 | 131 | 446 | 1,332 |
| Liabilities to non-banks from promissory notes | 1,057 | - | 177 | 880 |
| Other interest-bearing liabilities | 1,025 | 675 | 229 | 121 |
| Other non-interest-bearing liabilities | 2,995 | 2,908 | 85 | 2 |
| Derivative financial liabilities | 979 | 297 | 463 | 219 |
| | 7,965 | 4,011 | 1,400 | 2,554 |
| **Financial liabilities** | **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 | Cash flows in 2011 | | | Cash flows in 2012 | | |
|---|---|---|---|---|---|---|---|
| **(millions of €)** | | **Fixed interest rate** | **Variable interest rate** | **Repay-ment** | **Fixed interest rate** | **Variable interest rate** | **Repay-ment** |
| **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) | (1,822) | (47) | (4,618) |
| Finance lease liabilities | (1,400) | (105) | | (168) | (91) | | (104) |
| Other interest-bearing liabilities | (1,838) | (55) | (5) | (1,055) | (52) | | (41) |
| Other non-interest-bearing liabilities | (3,193) | | | (3,176) | | | (8) |
| **Derivative financial liabilities and assets:** | | | | | | | |
| Derivative financial liabilities: | | | | | | | |
| Currency derivatives without a hedging relationship | (43) | | | (44) | | | |
| Currency derivatives in connection with cash flow hedges | (56) | | | (50) | | | (4) |
| Interest rate derivatives without a hedging relationship | (196) | 49 | (60) | (3) | 12 | (17) | (106) |
| Interest rate derivatives in connection with fair value hedges | - | | | | | | |
| Interest rate derivatives in connection with cash flow hedges | (266) | (71) | 36 | | (141) | 54 | |
| **Derivative financial assets:** | | | | | | | |
| Currency derivatives without a hedging relationship | 53 | | | 56 | | | 1 |
| Currency derivatives in connection with cash flow hedges | 13 | | | 8 | | | 2 |
| Interest rate derivatives without a hedging relationship | 507 | 46 | (27) | 48 | 21 | (9) | 34 |
| Interest rate derivatives in connection with fair value hedges | 144 | 163 | (57) | | 163 | (55) | |
| Interest rate derivatives in connection with cash flow hedges | 118 | 8 | | | 8 | | 15 |

| Cash flows in 2013 –2015 | | | Cash flows in 2016 –2020 | | | Cash flows in 2021 and thereafter | | |
|---|---|---|---|---|---|---|---|---|
| Fixed interest rate | Variable interest rate | Fixed interest rate | Variable interest rate | Repay-ment | Repay-ment | Fixed interest rate | Variable interest rate | Repay-ment |
| | | | | | | | | |
| (4,188) | (42) | (14,255) | (3,821) | | (9,962) | (4,207) | | (8,096) |
| (241) | | (295) | (247) | | (441) | (201) | | (392) |
| (159) | | (94) | (177) | | (624) | (43) | | (25) |
| | | (7) | | | (1) | | | (1) |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| (26) | (8) | (75) | (2) | (2) | (1) | (1) | (4) | (3) |
| | | | | | | | | |
| (474) | 131 | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | 3 | | | | | | |
| 21 | (24) | 359 | 29 | (48) | | 108 | (115) | 107 |
| 301 | (99) | | 36 | (9) | | 57 | (14) | |
| 17 | | | 36 | | 44 | 23 | | 65 |

| (millions of €) | Carrying amounts Dec. 31, 2009 | Cash flows in | | | | |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities:** | | **2010** | **2011** | **2012-2014** | **2015-2019** | **2020 and thereafter** |
| 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

| (millions of €) | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| 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:

| (millions of €) | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| **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 (–):

| (millions of €) | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| 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 arrticles 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 arrticles 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:

| (millions of €) | 2010 | 2009 |
|---|---|---|
| **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) |
| 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:

| (millions of €) | 2010 | 2009 |
|---|---|---|
| **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:

| (millions of €) | Presentation in the income statement | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Current service cost | Functional costs[1] | 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[1] | 9 | - | - |
| **Pension expense before curtailments/ settlements** | | 519 | 525 | 483 |
| Curtailments | Functional costs[1] | (2) | - | - |
| Settlements | Functional costs[1] | (3) | - | - |
| **Pension expense** | | **514** | **525** | **483** |
| | | | | |
| Actual return on plan assets | | 34 | (41) | 50 |

[1] Including other operating expenses.

The consolidated statement of **comprehensive** income contains the following amounts:

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Cumulative losses (gains) recognized directly in equity as of January 1 | 576 | 115 | 342 |
| Actuarial (gains) losses as shown in the consolidated statement of comprehensive income | 32 | 461 | (227) |
| Of which: recognition directly in equity of actuarial (gains) losses 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:

| (millions of €) | 2011 |
|---|---|
| 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:

| (millions of €) | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| 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 in %** | **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

| (millions of €) | Provisions for restruc-turing expenses | Other provisions for personnel costs | Provisions for restoration obligations | Provisions for litigation risks | Provisions for sales and procurement support | Miscellaneous other provisions | Total |
|---|---|---|---|---|---|---|---|
| **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:

| (millions of €) | Jan. 1, 2010 | Addition | Use | Reversal | Other changes | Dec. 31, 2010 |
|---|---|---|---|---|---|---|
| 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

| (millions of €) | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| 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[1] | 2,176 | 850,000 | Increase in share capital (until April 29, 2014) |
| 2009 Authorized capital II[1] | 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 |

[1] 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:

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| 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

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Income from reimbursements | 381 | 344 | 272 |
| Income from the reversal of impairment losses on noncurrent 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

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **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 |
| Loss 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

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| 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[1] | (2,490) | (2,637) | (2,668) |

[1] 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

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| 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

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| 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:

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **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:

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Profit 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 tax | 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:

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **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:

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **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:

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

Deferred taxes in the consolidated statement of financial position:

| **(millions of €)** | **Dec. 31, 2010** | **Dec. 31, 2009** |
|---|---|---|
| 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:

| **(millions of €)** | **Dec. 31, 2010** | **Dec. 31, 2009** |
|---|---|---|
| Deferred taxes recognized in 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 | |
|---|---|---|---|---|
| **(millions of €)** | **Deferred tax assets** | **Deferred tax liabilities** | **Deferred tax assets** | **Deferred tax liabilities** |
| **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:

| **(millions of €)** | **Dec. 31, 2010** | **Dec. 31, 2009** |
|---|---|---|
| **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:

| (millions of €) | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| **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 | | |
|---|---|---|---|---|---|---|---|---|---|
| (millions of €) | Before tax amount | Tax (expense) benefit | Net of tax amount | Before tax amount | Tax (expense) benefit | Net of tax amount | Before tax amount | Tax (expense) benefit | Net of tax amount |
| 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:

| | | 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

| | 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 |

| | | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| **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:

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Amortization and impairment of intangible assets** | **3,743** | **5,657** | **3,397** |
| Of which: goodwill impairment losses | 395 | 2,345 | 289 |
| Of which: 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:

| (millions of €) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Intangible assets** | 399 | **2,354** | **340** |
| Of which: goodwill from the year-end impairment test | 395 | 2,345 | 289 |
| Of which: 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:

| (millions of €) | Year | Net revenue | Inter-segment revenue | Total revenue | Profit (loss) from operations (EBIT) | Interest income | Interest expense | Share of profit (loss) of associates and joint ventures accounted for using the equity method | Income taxes |
|---|---|---|---|---|---|---|---|---|---|
| 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) |

| (millions of €) | Year | Segment assets | Segment liabilities | Segment invest-ments | Investments accounted for using the equity method | Depre-ciation and amort-ization | Impair-ment losses | Average number of employees (average) |
|---|---|---|---|---|---|---|---|---|
| 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 |

| (millions of €) | Year | Net cash from operating activities | Net cash (used in) from investing activities | Of which: Cash capex[1] | Net cash (used in) from financing activities |
|---|---|---|---|---|---|
| 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 & | **2010** | **7,486** | **3,424** | **(406)** | **(5,554)** |
| Shared Services | 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) |

[1] 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.

| | Non-current assets | | | Net revenue | | |
|---|---|---|---|---|---|---|
| (millions of €) | Dec. 31, 2010 | Dec. 31, 2009 | Dec. 31, 2008 | 2010 | 2009 | 2008 |
| 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** |

***Information on products and services***

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

| | Net revenue | | |
|---|---|---|---|
| **(millions of €)** | **2010** | **2009** | **2008** |
| 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** |

## 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:

| (millions of €) | Dec. 31, 2010 | Of which: sale and leaseback transactions | Dec. 31, 2009 | Of which: sale and leaseback transactions |
|---|---|---|---|---|
| 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:

| | Dec. 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| **(millions of €)** | **Minimum lease payments** | | **Interest component** | | **Present values** | |
| **Maturity** | **Total** | **Of which: sale and leaseback** | **Total** | **Of which: sale and leaseback** | **Total** | **Of which: sale and leaseback** |
| 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 | | | | | |
|---|---|---|---|---|---|---|
| **(millions of €)** | **Minimum lease payments** | | **Interest component** | | **Present values** | |
| **Maturity** | **Total** | **Of which: sale and leaseback** | **Total** | **Of which: sale and leaseback** | **Total** | **Of which: sale and leaseback** |
| 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:

| (millions of €) | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| **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:

| (millions of €) | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| 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:

| (millions of €) | Dec. 31, 2010 | | Dec. 31, 2009 | |
|---|---|---|---|---|
| **Maturity** | **Gross investment** | **Present value of minimum lease payments** | **Gross investment** | **Present value of minimum lease payments** |
| 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:

| (millions of €) | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| **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 | Term of plan | Share price at start of plan | Absolute performance target | Starting value of the index |
|---|---|---|---|---|---|
| | (millions of €) | (years) | (€) | (€) | |
| 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 (thousands) | Vesting period (years) | Contractual term (years) | Weighted exercise price | Share price at grant date | Max. price for SARs | Classification/ accounting treatment |
|---|---|---|---|---|---|---|---|---|---|
| **Deutsche Telekom AG** | 2001 SOP | 2001 | 8,221 | 2 - 3 | 10 | €30.00 | €19.10 | | Equity-settled |
| | | 2002 | 3,928 | 2 - 3 | 10 | €12.36 | €10.30 | | Equity-settled |
| | SARs | 2001 | 165 | 2 - 3 | 10 | €30.00 | €19.10 | €50.00 | Cash-settled |
| | | 2002 | 3 | 2 - 3 | 10 | €12.36 | €10.30 | €20.60 | Cash-settled |
| **T-Online International AG** | 2001 SOP | 2001 | 2,369 | 2 – 3 | 10 | €10.35 | €8.28 | | Cash-settled |
| | | 2002 | 2,067 | 2 – 6 | 10 | €10.26 | €8.21 | | Cash-settled |
| **T-Mobile USA** | SOP | 2001 | 24,278 | up to 4 | max. 10 | USD 15.36 | | | Cash-settled |
| | | 2002 | 5,964 | up to 4 | max. 10 | USD 13.35 | | | Cash-settled |
| | | 2003 | 1,715 | up to 4 | max. 10 | USD 12.86 | | | Cash-settled |
| | Powertel | 2001 | 5,323 | up to 4 | max. 10 | USD 20.04 | | | Cash-settled |
| | T-Mobile USA/ Powertel | 2004 | 230 | up to 4 | max. 10 | USD 19.64 | | | Cash-settled |
| **OTE group** | Cosmote group | 2005-2007 | 3,440 | up to 3 | 6 | €14.90 | €15.48 | | Equity-settled |
| | OTE (original) 2008 | 2008 | 3,142 | up to 3 | max. 6 | €15.70 | €21.38 | | 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 | T-Online International AG | T-Mobile USA |
| | Stock options (thousands) | Stock options (thousands) | SARs options (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 | | T-Online International AG | | OTE group | |
|---|---|---|---|---|---|---|
| Range of exercise prices € | Number thousands | Remaining contractual life years[1] | Number thousands | Remaining contractual life years[1] | Number thousands | Remaining contractual life years[1] |
| 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** |

[1] Weighted average.

| | T-Mobile USA | |
|---|---|---|
| Range of exercise prices € | Number thousands | Remaining contractual life years[1] |
| 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** |

[1] Weighted average.

## 36 Disclosures on financial instruments

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

| (millions of €) | Category in accordance with IAS 39 | Carrying amounts Dec. 31, 2010 | 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, 2010 |
|---|---|---|---|---|---|---|---|---|
| | | | Amortized cost | Cost | Fair value recognized in equity | Fair value recognized in profit or loss | | |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | LaR | 2,808 | 2,808 | | | | | 2,808 |
| Trade receivables | LaR | 6,766 | 6,766 | | | | | 6,766 |
| Other receivables | LaR/n.a. | 2,628 | 2,340 | | | | 288 | 2,628 |
| Other non-derivative financial assets | | | | | | | | |
| Held-to-maturity investments | HtM | 91 | 91 | | | | | 91 |
| Available-for-sale financial assets | AfS | 513 | | 335 | 178 | | | 178[1] |
| Derivative financial assets | | | | | | | | |
| Derivatives without a hedging relationship | FAHfT | 560 | | | | 560 | | 560 |
| Derivatives with a hedging relationship | n.a. | 275 | | | 131 | 144 | | 275 |
| | | | | | | | | |
| **Liabilities and shareholders´equity** | | | | | | | | |
| Trade payables | FLAC | 6,737 | 6,737 | | | | | 6,737 |
| Bonds and other securitized liabilities | FLAC | 38,190 | 38,190 | | | | | 41,806 |
| Liabilities to banks | FLAC | 4,190 | 4,190 | | | | | 4,346 |
| Liabilities to non-banks from promissory notes | FLAC | 1,164 | 1,164 | | | | | 1,326 |
| Other interest-bearing liabilities | FLAC | 1,838 | 1,838 | | | | | 1,838 |
| Other non-interest-bearing liabilities | FLAC | 3,193 | 3,193 | | | | | 3,193 |
| Finance lease liabilities | n.a. | 1,400 | | | | | 1,400 | 1,671 |
| Derivative financial liabilities | | | | | | | | |
| Derivatives without a hedging relationship (held for trading) | FLHfT | 249 | | | | 249 | | 249 |
| Derivatives with a hedging relationship (hedge accounting) | n.a. | 322 | | | 322 | | | 322 |
| | | | | | | | | |
| **Of which: aggregated by category in accordance with IAS 39:** | | | | | | | | |
| Loans and receivables (LaR) | | 11,914 | 11,914 | | | | | 11,941 |
| Held-to-maturity investments (HtM) | | 91 | 91 | | | | | 91 |
| Available-for-sale financial assets (AfS) | | 513 | | 335 | 178 | | | 178[1] |
| Financial assets held for trading (FAHfT) | | 560 | | | | 560 | | 560 |
| Financial liabilities measured at amortized cost (FLAC) | | 55,312 | 55,312 | | | | | 59,246 |
| Financial liabilities held for trading (FLHfT) | | 249 | | | | 249 | | 249 |

[1] For details please refer to Note 8.

| (millions of €) | 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 | | |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | LaR | 5,022 | 5,022 | | | | | 5,022 |
| Trade receivables | LaR | 6,643 | 6,643 | | | | | 6,643 |
| Other receivables | LaR/n.a. | 2,003 | 1,739 | | | | 264 | 2,003 |
| Other non-derivative financial assets | | | | | | | | |
| Held-to-maturity investments | HtM | 80 | 80 | | | | | 80 |
| Available-for-sale financial assets | AfS | 609 | | 411 | 198 | | | 198[1] |
| Derivative financial assets | | | | | | | | |
| Derivatives without a hedging relationship | FAHfT | 653 | | | | 653 | | 653 |
| Derivatives with a hedging relationship | n.a. | 395 | | | 170 | 225 | | 395 |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Trade payables | FLAC | 6,294 | 6,294 | | | | | 6 294 |
| Bonds and other securitized liabilities | FLAC | 38,508 | 38,508 | | | | | 41,813 |
| Liabilities to banks | FLAC | 4,718 | 4,718 | | | | | 4,864 |
| Liabilities to non-banks from promissory notes | FLAC | 1,057 | 1,057 | | | | | 1,205 |
| Other interest-bearing liabilities | FLAC | 1,511 | 1,511 | | | | | 1,562 |
| Other non-interest-bearing liabilities | FLAC | 2,995 | 2,995 | | | | | 2,995 |
| Finance lease liabilities | n.a. | 1,423 | | | | | 1,423 | 1,703 |
| Derivative financial liabilities | | | | | | | | |
| Derivatives without a hedging relationship (held for trading) | FLHfT | 730 | | | | 730 | | 730 |
| Derivatives with a hedging relationship (hedge accounting) | n.a. | 249 | | | 197 | 52 | | 249 |
| | | | | | | | | |
| **Of which: aggregated by category in accordance with IAS 39:** | | | | | | | | |
| Loans and receivables (LaR) | | 13,404 | 13,404 | | | | | 13,404 |
| Held-to-maturity investments (HtM) | | 80 | 80 | | | | | 80 |
| Available-for-sale financial assets (AfS) | | 609 | | 411 | 198 | | | 198[1] |
| Financial assets held for trading (FAHfT) | | 653 | | | | 653 | | 653 |
| Financial liabilities measured at amortized cost (FLAC) | | 55,083 | 55,083 | | | | | 58,733 |
| Financial liabilities held for trading (FLHfT) | | 730 | | | | 730 | | 730 |

[1] For details please refer to Note 8.

***Classes of financial instruments according to IFRS 7.27***

| | Dec. 31, 2010 | | | | Dec. 31, 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| **(millions of €)** | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **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 derecog-nition | Net gain (loss) | |
|---|---|---|---|---|---|---|---|
| **(millions of €)** | | **At fair value** | **Currency translation** | **Impairment/ reversal of impairment** | | **2010** | **2009** |
| 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 | Net carrying amounts |
|---|---|---|
| **(millions of €)** | **Dec. 31, 2010** | **Dec. 31, 2009** |
| **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.

| (millions of €) | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| 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 | 2010 MTIP | | 2009 MTIP | |
|---|---|---|---|---|---|
| €[1] | Award amount | Fair value at grant date | Total expense for share-based payments 2010 | Award amount | Total expense for share-based payments 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** |

[1] 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.

| Member of the Board of Management | 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:

| **Member of the Board of Management** | **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.

| | Year | 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 | | |

***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.

***Total compensation***

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

| € | Year | 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** |
| | 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<br>€ | Imputed long-term remuneration entitlement[a]<br>€ |
|---|---:|---:|
| 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**

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

**Ernst & Young GmbH**

| **millions of €** | **2010** |
|---|---|
| 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

**The following auditor's report (*Bestätigungsvermerk*) has been issued in accordance with §322 German Commercial Code (*Handelsgesetzbuch*) on the consolidated financial statements and the group management report (*Konzernlagebericht*) of Deutsche Telekom Aktiengesellschaft as of and for the financial year ended December 31, 2010. The list of shareholdings in accordance with § 313 German Commercial Code (Handelsgesetzbuch) of Deutsche Telekom AG as of December 31, 2010, which is an integral part of the consolidated financial statements of Deutsche Telekom AG, and the group management report are neither included nor incorporated by reference in this offering memorandum.**

## Auditor's 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

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

(Kayser) (Tandetzki)
Wirtschaftsprüfer Wirtschaftsprüfer

**Schedule A**

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FISCAL AND PAYING AGENCY AGREEMENT

Dated as of [ ], 20[__]

U.S. $[ ] [ ]% Notes due [ ]
U.S. $[ ] [ ]% Notes due [ ]

between

Deutsche Telekom International Finance B.V.
as Issuer,

Deutsche Telekom AG
as Guarantor

and

Deutsche Bank Trust Company Americas
as Fiscal Agent, Paying Agent and Registrar

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Exhibit G-1 Form of Transfer Certificate for Transfer from Regulation S Global Security To Rule 144A Global Security (Transferee)
Exhibit G-2 Form of Transfer Certificate for Transfer from Regulation S Global Security To Rule 144A Global Security (Transferor)

THIS FISCAL AND PAYING AGENCY AGREEMENT dated as of [ ], 20[__] between Deutsche Telekom International Finance B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) established under the laws of The Netherlands, having its seat in Amsterdam, The Netherlands and its registered office at Herengracht 124-128 1015 BT Amsterdam, and registered with the Dutch Commercial Register (*Handelsregister*) under number 33274743, as the Issuer, Deutsche Telekom AG, a stock corporation (*Aktiengesellschaft*) organized under the laws of the Federal Republic of Germany, as the Guarantor and Deutsche Bank Trust Company Americas, a New York banking corporation, as Fiscal Agent, Paying Agent and Registrar.

WITNESSETH:

WHEREAS, the Issuer has duly authorized the issue of U.S.$[ ] in aggregate principal amount of the Issuer's [ ]% Notes due 20[__] (the "20[___] Notes") and U.S.$[ ] in aggregate principal amount of the Issuer's [ ]% Notes due 20[__] (the "20[___] Notes and, together with the 20[___] Notes, the "Securities") (the aggregate principal amount of such Securities may be increased by the issuance of Additional Securities (as defined herein)), and to provide, among other things, for the authentication, delivery and administration thereof, the Issuer has duly authorized the execution and delivery of this Agreement;

WHEREAS, the Guarantor has duly authorized its Guarantee of the due and punctual payment of principal of, and interest and Additional Amounts (as defined herein), if any, on, the Securities, and to provide, among other things, for the execution and delivery of the Guarantees, the Guarantor has duly authorized the execution and delivery of this Agreement;

WHEREAS, the Issuer and the Guarantor have authorized the issuance and initial sale of the Securities pursuant to a purchase agreement dated [ ], 20[__] among the Issuer, the Guarantor and the initial purchasers named therein; and

WHEREAS, all things necessary to make the Securities and the Guarantees, when executed by the Issuer and the Guarantor, respectively, and authenticated and delivered by the Fiscal Agent as provided in this Agreement, the valid, binding and legal obligations of the Issuer and the Guarantor, respectively, and to make this instrument constitute an agreement valid in accordance with its terms, have been done;

NOW, THEREFORE:

In consideration of the premises and the purchases of the Securities by the Holders thereof, the Issuer, the Guarantor and the Fiscal Agent mutually covenant and agree for the equal and proportionate benefit of the respective Holders from time to time of the Securities as follows:

## ARTICLE 1
## DEFINITIONS

Section 1.01. Certain Terms Defined. The following terms (except as otherwise expressly provided or unless the context otherwise clearly requires) for all purposes of this Agreement and of any agreement supplemental hereto shall have the respective meanings

specified in this Section. All accounting terms used herein and not expressly defined shall have the meanings given to them in accordance with International Financial Reporting Standards, as adopted for use in the European Union by the European Commission ("IFRS"), at the date or time of any computation. The words "herein", "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular article, section or other subdivision. The terms defined in this Article include the plural as well as the singular.

"20[___] Notes" has the meaning set forth in the recitals to this Agreement.

"20[___] Notes" has the meaning set forth in the recitals to this Agreement.

"Additional Amounts" has the meaning set forth in Section 3.05.

"Additional Securities" has the meaning set forth in Section 2.10.

"Adjusted Treasury Yield" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date plus [ ] basis points.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agents" means the Fiscal Agent, Registrar, Paying Agent, Authenticating Agent and any additional paying agents appointed hereunder.

"Agreement" means this instrument as originally executed and delivered or, if amended or supplemented as herein provided, as so amended or supplemented.

"Authenticating Agent" means any Person authorized by the Fiscal Agent pursuant to Section 5.11 of this Agreement to act on behalf of the Fiscal Agent to authenticate the Securities.

"Authorized Officer" means (i) any director or officer of the Issuer or the Guarantor, respectively, or (ii) any other director, general manager or manager or attorney-in-fact of the Issuer or the Guarantor, as the case may be, who is authorized to represent the Issuer or the Guarantor, respectively. In the case of the Guarantor, a *Prokurist* shall be deemed to be an Authorized Officer for purposes of this Agreement.

"Beneficial Owner" means any Person owning an interest in a Global Security as reflected on the books of the Depositary or on the books of a Depositary Participant or on the books of an indirect participant for which a Depositary Participant acts as agent.

"Board of Directors" when used with reference to the Issuer or the Guarantor, means the Managing Directors of the Issuer or the Management Board (*Vorstand*) of the Guarantor, as the

case may be, or any committee of such Managing Directors of the Issuer or the Management Board of the Guarantor, as the case may be, duly authorized to act for such Managing Directors or Management Board hereunder.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in a Place of Payment are authorized or obligated by law or executive order to close.

"Capital Market Indebtedness" means any obligation for the payment of borrowed money which is in the form of, or represented or evidenced by, a certificate of indebtedness or in the form of, or represented or evidenced by, bonds, notes or other securities which are, or are capable of being, quoted, listed, dealt in or traded on a stock exchange or other recognized securities market. For the avoidance of doubt in respect of asset-backed financings originated by the Issuer or the Guarantor, the expression "assets" as used in Section 3.07 of this Agreement does not include assets of the Guarantor that are sold on a non-recourse basis determined in accordance with the civil law applicable to such transaction.

"Certificated Security" has the meaning set forth in Section 2.01(c).

"Certificate of Authentication" has the meaning set forth in Section 2.03(f).

"Clearstream" means Clearstream Banking, société anonyme.

"Closing Date" means [ ], 20[__].

"Comparable Treasury Issue" means the U.S. Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

"Comparable Treasury Price" means, with respect to any redemption date, the average of the Quotation Agent's Quotations for the redemption date.

"Corporate Office" means the principal office of the Fiscal Agent in the Borough of Manhattan, The City of New York at which the business of the Fiscal Agent shall, at any particular time, be principally administered and which is currently located at Deutsche Bank Trust Company Americas; Trust & Securities Services; 60 Wall Street; Mailstop NYC60-2710; New York, New York, 10005.

"Covenant Defeasance" has the meaning set forth in Section 9.02.

"Depositary" means DTC with respect to the Global Securities, or such other Person or Persons as shall be appointed as Depositary by the Issuer pursuant to Section 2.09(a).

"Depositary Participant" means a broker, dealer, bank or other financial institution or other Person for whom from time to time the Depositary effects book-entry transfers and pledges of securities deposited with the Depositary.

"DTC" means The Depository Trust Company, its nominees, and their respective successors.

"Encumbrance" means any mortgage, pledge, security interest or lien.

"Euroclear" means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

"Event of Default" has the meaning set forth in Section 4.01.

"Exchange Act" means the United States Securities Exchange Act of 1934, as amended.

"Fiscal Agent" means the entity identified as "Fiscal Agent" in the first paragraph hereof and, subject to the provisions of Article 5, shall also include any successor fiscal agent.

"Global Security" means a Rule 144A Global Security or a Regulation S Global Security, as the case may be.

"Guarantee" means the Guarantor's unconditional and irrevocable guarantee of a Security (collectively, the "Guarantees").

"Guarantor" means Deutsche Telekom AG, a stock corporation (*Aktiengesellschaft*) established under the laws of the Federal Republic of Germany, and, subject to Article 8, its successors and assigns.

"Holder" means the registered holder of any Security.

"Independent Investment Banker" means an independent investment banking institution of national standing in the United States appointed by the Issuer.

"Issuer" means Deutsche Telekom International Finance B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) established under the laws of The Netherlands, and, subject to Article 8, its successors and assigns.

"Issuer Order" means a written statement, request or order of the Issuer signed in its name by an Authorized Officer of the Issuer and delivered to the Fiscal Agent.

"Maturity Date" means, as the case may be, [ ], 20[__] for the 20[___] Notes, [ ] and [ ], 20[__] for the 20[___] Notes.

"Officer's Certificate" means, as the context requires, a certificate signed by any Authorized Officer and delivered to the Fiscal Agent.

"Opinion of Counsel" means an opinion in writing signed by legal counsel, who may be an employee of, or counsel to, the Issuer or the Guarantor, or who may be other counsel reasonably satisfactory to the Fiscal Agent.

"Opinion of Tax Counsel" means an opinion in writing signed by an independent tax counsel or independent tax consultant, in either case of recognized standing.

“Original Issue Date” of any Security (or portion thereof) means the date of such Security.

“Outstanding”, when used with reference to Securities, shall, subject to the provisions of Section 6.04, mean, as of the date of determination, all Securities authenticated and delivered by the Fiscal Agent under this Agreement, except:

(a) Securities theretofore paid and cancelled by the Fiscal Agent or delivered to the Fiscal Agent for cancellation;

(b) Securities, or portions thereof, for the payment, redemption or early repayment of which monies in the necessary amount in United States Dollars shall have been deposited irrevocably in trust with the Fiscal Agent (which may not be the Issuer or the Guarantor or any Affiliate thereof) for the Holders, *provided* that if such Securities are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as herein provided, or provision satisfactory to the Fiscal Agent shall have been made for giving such notice; and

(c) Securities in substitution for which other Securities shall have been authenticated and delivered pursuant to the terms of Section 2.05 (unless proof satisfactory to the Fiscal Agent is presented that any of such Securities is held by a Person in whose hands such Security is a legal, valid and binding obligation of the Issuer).

*provided*, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Securities owned by the Issuer, the Guarantor or any other obligor upon the Securities or any Affiliate of the Issuer, the Guarantor or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Fiscal Agent shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which a Responsible Officer of the Fiscal Agent actually knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Fiscal Agent the pledgee's right so to act with respect to such Securities and that the pledgee is not the Issuer, the Guarantor or any other obligor upon the Securities or any Affiliate of the Issuer, the Guarantor or of such other obligor.

“Paying Agents” (each a “Paying Agent”) means (i) the Paying Agent, which initially shall be Deutsche Bank Trust Company Americas, and (ii) such other paying agents as the Issuer shall specify to the Fiscal Agent as paying agents for the Securities, provided that all Paying Agents shall also act as transfer agents for the Securities.

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment" means the place or places where the principal of and any premium and interest on the Securities of that series are payable as specified pursuant to Section 3.02 of this Agreement.

"*Prokurist*" means a holder of a general commercial power of attorney known as *Prokura* pursuant to the German Commercial Code (*Handelsgesetzbuch*).

"Qualified Institutional Buyer" or "QIB" means a "qualified institutional buyer," as defined in Rule 144A under the Securities Act.

"Quotation Agent" means a reference treasury dealer that is a primary U.S. government securities dealer in New York City. The Independent Investment Banker will appoint the Quotation Agent after first consulting with the Guarantor.

"Quotation Agent's Quotations" means with respect to any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by the Quotation Agent at 5:00 p. m. on the third Business Day before the redemption date.

"Record Date" as used with respect to any interest payment date (except a date for payment of defaulted interest) shall have the meaning set forth in the applicable form of the Security.

"Register" has the meaning set forth in Section 2.04(a).

"Registrar" has the meaning set forth in Section 2.04(a).

"Regulation S" means Regulation S under the Securities Act.

"Regulation S Certificated Security" has the meaning set forth in Section 2.09(b).

"Regulation S Global Security" has the meaning set forth in Section 2.01(a).

"Regulation S Security" has the meaning set forth in Section 2.01(a).

"Relevant Persons" has the meaning set forth in Section 2.07.

"Relevant Jurisdiction" has the meaning set forth in Section 3.05.

"Responsible Officer", when used with respect to the Fiscal Agent, means (a) any officer of the Fiscal Agent including any managing director, director, vice president, assistant vice president or any other officer of the Fiscal Agent who customarily performs functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any matter is referred because of such person's knowledge of and familiarity with the particular subject and (b) who shall have direct responsibility for the administration of this Agreement.

"Rule 144A" has the meaning set forth in Section 2.04(b)(iv)(A).

"Rule 144A Certificated Security" has the meaning set forth in Section 2.09(b).

"Rule 144A Global Security" has the meaning set forth in Section 2.01(b).

"Rule 144A Information" has the meaning set forth in Section 3.08.

"Rule 144A Security" has the meaning set forth in Section 2.01(b).

"Securities Act" means the United States Securities Act of 1933, as amended.

"Securities Act Legend" means each of the Rule 144A Security Legend and the Regulation S Security Legend, as applicable.

"Securities" has the meaning set forth in the recitals to this Agreement.

"Specified Person" has the meaning set forth in Section 2.05.

"Subsidiary" means any company of which more than 50% of the outstanding voting stock or share capital is for the time being owned by the Issuer, by one or more Subsidiaries of the Issuer or by the Issuer together with one or more of its Subsidiaries, or any company otherwise controlled by the Issuer in accordance with the Company Law (and for the purposes of this definition "voting stock" means stock or shares having voting power for the election of directors, or persons exercising the same functions as directors of such company).

"Transfer Certificate" means a certificate substantially in the form of Exhibit E, Exhibit F, Exhibit G-1 or Exhibit G-2.

"U.S. Dollars" or "U.S.$" means the lawful currency of the United States.

"U.S. Government Obligations" means securities which are (i) direct obligations of the United States government or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States government, the payment of which is unconditionally guaranteed by the United States government, which, in either case, are "full faith and credit" obligations of the United States government payable in U.S. Dollars and are not callable or redeemable at the option of the issuer thereof and shall also include a depositary receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depositary receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depositary receipt.

"U.S. Person" means a "U.S. person" as defined in Rule 902 under the Securities Act.

ARTICLE 2
ISSUE, EXECUTION, FORM AND REGISTRATION OF SECURITIES

Section 2.01. Forms Generally.

(a) Securities offered and sold in reliance on Regulation S (each, a "Regulation S Security") shall be issued in fully registered form without interest coupons and substantially in the form of the note attached as Exhibit B (with the Guarantee in the form set forth in such exhibit executed by the Guarantor) and with the reverse of such Security in the form of Exhibit D (each, a "Regulation S Global Security") with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Agreement and such legends as may be applicable thereto, which shall be deposited with the Fiscal Agent at its Corporate Office, as custodian for the Depositary and registered in the name of the Depositary or a nominee of the Depositary, duly executed by the Issuer and authenticated by the Fiscal Agent as hereinafter provided. The aggregate outstanding amount of each Regulation S Global Security may from time to time be increased or decreased by adjustments made on the records of the Fiscal Agent, as custodian for the Depositary or its nominee, as the case may be. Interests in the Regulation S Global Securities will be shown on, and transfers thereof will be effected only through, records maintained by the Depositary and its direct and indirect participants.

(b) Securities offered and sold in the United States to Qualified Institutional Buyers under the Securities Act (each a "Rule 144A Security") shall be issued in fully registered form without interest coupons and substantially in the form of the note attached as Exhibit A (with the Guarantee in the form set forth in such exhibit executed by the Guarantor) and with the reverse of such Security in the form of Exhibit D (each, a "Rule 144A Global Security"), with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Agreement and such legends as may be applicable thereto, which shall be deposited with the Fiscal Agent at its Corporate Office, as custodian for the Depositary and registered in the name of the Depositary or a nominee of the Depositary, duly executed by the Issuer and authenticated by the Fiscal Agent as hereinafter provided. The aggregate outstanding amount of each Rule 144A Global Security may from time to time be increased or decreased by adjustments made on the records of the Fiscal Agent, as custodian for the Depositary or its nominee, as the case may be. Interests in the Rule 144A Global Securities will be shown on, and transfers thereof will be effected only through, records maintained by the Depositary and its direct and indirect participants.

(c) Regulation S Global Securities and Rule 144A Global Securities may also be exchanged under the limited circumstances set forth in Section 2.04 for notes in definitive fully registered form without interest coupons, substantially in the form of the certificated note attached as Exhibit C (with the Guarantee in the form set forth in such exhibit executed by the Guarantor) and with the reverse of such Security in the form of Exhibit D (each a "Certificated Security"), which may be either a Regulation S Certificated Security or a Rule 144A Certificated Security, with such legends as may be applicable thereto, which shall be duly executed by the Issuer and authenticated by the Fiscal Agent or the Authenticating Agent as hereinafter provided.

Section 2.02. Authorized Amount; Note Interest Rate; Denominations.

(a) The Securities will be issuable in minimum denominations of U.S. $150,000 and integral multiples of U.S. $1,000 in excess thereof.

(b) Each Security shall be dated the date of its authentication and shall bear interest from the date of authentication, which shall be payable on the dates specified in the applicable Security.

(c) The Securities shall be numbered, lettered or otherwise distinguished in such manner as may be consistent herewith, determined by the Authorized Officer of the Issuer executing such Securities as evidenced by his or her execution of such Securities bearing such numbers, letters or distinguishing marks.

(d) For all purposes hereof, all of the Securities are entitled to receive payments *pari passu* among themselves based upon the respective outstanding principal amounts thereof (in the case of any payment of principal thereon) or based upon the respective amounts of interest due thereon (in the case of any payment of interest thereon).

Section 2.03. Execution, Authentication, Delivery and Dating.

(a) The Securities shall be executed on behalf of the Issuer by two Authorized Officers of the Issuer and the Guarantees endorsed on the Securities shall be signed on behalf of the Guarantor by two Authorized Officers of the Guarantor. Any such signature of such Authorized Officers may be manual or facsimile. Typographical and other minor errors or defects in any such reproduction of any such signature shall not affect the validity or enforceability of any Security or any Guarantee, in each case which has been duly authenticated and delivered by the Fiscal Agent.

(b) Securities bearing the manual or facsimile signature of an individual who was at any time the Authorized Officer of the Issuer shall bind such Person, notwithstanding the fact that such individual has ceased to hold such office prior to the authentication and delivery of such Securities or did not hold such office at the date of issuance of such Securities.

(c) At any time and from time to time after the execution and delivery of this Agreement, the Issuer may deliver Securities executed by the Issuer to the Fiscal Agent for authentication, and the Fiscal Agent, upon an Issuer Order, shall authenticate and deliver such Securities as provided in this Agreement and not otherwise.

(d) Each Security authenticated and delivered by the Fiscal Agent shall be dated the date of its authentication.

(e) Securities issued upon transfer, exchange or replacement of other Securities shall be issued in authorized denominations reflecting the aggregate original principal amount of the Securities so transferred, exchanged or replaced, but shall represent only the current aggregate outstanding amount of the Securities so transferred, exchanged or replaced. In the event that any Security is divided into more than one Security in accordance with this Article 2, the original principal amount of such Security shall be proportionately divided among the

Securities delivered in exchange therefor and shall be deemed to be the aggregate original principal amount of such subsequently issued Securities.

(f) No Security shall be entitled to any benefit under this Agreement or be valid or obligatory for any purpose, unless there appears on such Security a Certificate of Authentication (the "Certificate of Authentication"), substantially in the form provided for in Exhibit A, Exhibit B or Exhibit C, as appropriate, executed by the Fiscal Agent by the manual signature of one of its Responsible Officers, and such certificate upon any registered Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder.

(g) Book-Entry Provisions. This Section 2.03(g) shall apply only to Global Securities deposited with or on behalf of the Depositary. The Issuer shall execute and the Fiscal Agent shall, in accordance with this Section 2.03(g), authenticate and deliver initially one or more Global Securities that (i) shall be registered in the name of the nominee of the Depositary for such Global Securities and (ii) shall be delivered by the Fiscal Agent to such Depositary or, pursuant to such Depositary's instructions, held by the Fiscal Agent as custodian for the Depositary. Depositary Participants shall have no rights under this Agreement with respect to any Global Security held on their behalf by the Fiscal Agent, as custodian for the Depositary or under the Global Security and the Depositary may be treated by the Issuer, the Guarantor, the Fiscal Agent, and any agent of the Issuer, the Guarantor or the Fiscal Agent as the absolute owner of such Global Security for all purposes whatsoever. Ownership of beneficial interests in a Global Security will be shown on, and the transfer of that ownership interest will be effected only through, records maintained by the Depositary or its nominee (with respect to interests of Depositary Participants) and the records of Depositary Participants (with respect to interests of persons other than Depositary Participants). Notwithstanding the foregoing, nothing herein shall prevent the Issuer, the Fiscal Agent, or any agent of the Issuer or the Fiscal Agent, from giving effect to any written certification, proxy or other authorization furnished by the Depositary or impair, as between the Depositary and the Depositary Participants, the operation of customary practices governing the exercise of the rights of a Holder of any Global Security.

(h) Certificated Securities. Except as provided in Section 2.04 and Section 2.09 hereof, owners of beneficial interests in Global Securities will not be entitled to receive physical delivery of Certificated Securities.

Section 2.04. Registration, Transfer and Exchange of Securities.

(a) Registration of Securities.

(i) The Fiscal Agent is hereby appointed as the registrar of the Securities (the "Registrar"). The Registrar shall also act as the principal transfer agent with respect to the transfer or exchange of the Securities or any beneficial interest in the Securities. The Registrar shall keep, on behalf of the Issuer, a register (the "Register") for the Securities in its Corporate Office in which, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration of and the registration of transfers of Securities.

(ii) Subject to Section 2.03(g), the Register will show the amount of the Securities, the date of issue, all subsequent transfers and changes of ownership in respect thereof and the names, tax identifying numbers (if relevant to a specific Holder) and the addresses of Holders and any payment instructions with respect thereto (if different from a Holder's registered address). The Registrar will also maintain a record or a series of records, which will include notations as to whether the Securities have been paid or canceled, and, in the case of mutilated, destroyed, stolen or lost Securities, whether such Securities have been replaced. In the case of the replacement of any Securities, such records will include notations of each Security so replaced, and the Security issued in replacement thereof. In the case of the cancellation of any of the Securities, such records will include notations of each Security so canceled and the date on which each such Security was canceled. The Registrar shall, upon written request, make the Register and such records available during normal office hours to the Issuer, or any Person authorized by the Issuer in writing, for inspection and for the taking of copies thereof or extracts therefrom, and, at the expense of the Issuer, the Registrar shall deliver to such Persons all lists of Holders, their addresses and the amounts of such holdings as they may request. The Register and the records referred to above shall be in written form in the English language or in any other form capable of being converted into such form within a reasonable time.

(iii) Upon any resignation or removal of the Registrar, the Issuer shall promptly appoint a successor or, in the absence of such appointment, assume the duties of the Registrar.

(iv) Except as otherwise set forth in this Section 2.04, upon surrender for registration of transfer of any Security at the office or agency of the Issuer to be maintained as provided in Section 3.02, the Issuer shall execute, and the Fiscal Agent shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of any authorized denomination and of a like aggregate principal amount.

(v) At the option of the Holder, Securities may be exchanged for Securities of like terms, in any authorized denominations and of like aggregate principal amount, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Security is surrendered for exchange, the Issuer shall execute and the Fiscal Agent shall authenticate and deliver the Securities that the Holder making the exchange is entitled to receive.

(vi) All Securities issued and authenticated upon any registration of transfer or exchange of Securities shall be the valid obligations of the Issuer evidencing the same debt, and entitled to the same benefits under this Agreement, as the Securities surrendered upon such registration of transfer or exchange.

(vii) Every Security presented or surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Issuer and the Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

(viii) No service charge shall be made to a Holder for any registration of transfer or exchange of a Security, but the Fiscal Agent may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith and expenses of delivery (if any) not made by regular mail.

(b) Transfer of Securities. No Security may be sold or transferred (including, without limitation, by pledge or hypothecation) unless such sale or transfer is exempt from the registration requirements of the Securities Act and is exempt under applicable state securities laws.

(i) No Security may be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. Persons prior to the expiration of the 40-day distribution compliance period (as defined in Regulation S), except in accordance with Rule 144A or an exemption from the registration requirements of the Securities Act, to Persons purchasing for their own account or for the accounts of one or more Qualified Institutional Buyers, for which the purchaser is acting as fiduciary or agent. The Securities may be sold or resold, as the case may be, in offshore transactions to Persons other than U.S. Persons in reliance on Regulation S. None of the Issuer, the Fiscal Agent or any other Person may register the Securities under the Securities Act or any state securities law.

(ii) Upon final payment due on the Maturity Date of any Security, the Holder thereof shall present and surrender such Security at the Corporate Office of the Fiscal Agent or at the office of any Paying Agent; *provided*, *however*, that if there is delivered to the Issuer and the Fiscal Agent such security or indemnity as may be required by them to save each of them harmless and an undertaking thereafter to surrender such certificate, then, in the absence of notice to the Issuer or the Fiscal Agent that the applicable Security has been acquired by a protected purchaser, such final payment shall be made without presentation or surrender.

(iii) So long as a Global Security remains Outstanding and is held by or on behalf of the Depositary, transfers of ownership of beneficial interests in such Global Security, in whole or in part, shall only be made in accordance with Section 2.03(g) and this Section 2.04(b).

(iv) Subject to clause (D) of this Section 2.04(b)(iv), transfers of a Global Security shall be limited to transfers of such Global Security in whole, but not in part, to nominees of the Depositary or to a successor of the Depositary or such successor's nominee.

(A) Rule 144A Global Security to Regulation S Global Security. If a Beneficial Owner of an interest in the Rule 144A Global Security wishes at any time to exchange its interest in the Rule 144A Global Security for an interest in the Regulation S Global Security, or to transfer its interest in the Rule 144A Global Security to a Person who wishes to take delivery thereof in the form of a beneficial interest in the Regulation S Global Security, such Holder may, subject to the restrictions of this Section 2.04 and to the applicable rules and

procedures of DTC, Euroclear and Clearstream, exchange or transfer or cause the exchange or transfer of such interest for an equivalent beneficial interest in the Regulation S Global Security. Such exchange or transfer shall only be made upon receipt by the Fiscal Agent from a Holder of (1) instructions given in accordance with the applicable procedures of DTC, Euroclear and Clearstream directing the Fiscal Agent to credit or cause to be credited a beneficial interest in the Regulation S Global Security in an amount equal to the beneficial interest in the Rule 144A Global Security to be exchanged or transferred and (2) a duly completed certificate in the form provided in Exhibit F hereto given by the Holder of such beneficial interest stating that the exchange or transfer of such interest has been made in compliance with the transfer restrictions applicable to the Securities and (A) pursuant to and in accordance with Regulation S or (B) that the Security exchanged or transferred is being exchanged or transferred in a transaction permitted by Rule 144A under the Securities Act ("Rule 144A"). Upon such receipt, the Fiscal Agent shall instruct the Registrar acting as agent for the Fiscal Agent to reduce the Rule 144A Global Security by the aggregate amount of the beneficial interest in the Rule 144A Global Security to be so exchanged or transferred and, concurrently with such reduction, to increase the aggregate amount of the Regulation S Global Security by the aggregate amount of the beneficial interest in the Rule 144A Global Security to be so exchanged or transferred.

(B) Regulation S Global Security to Rule 144A Global Security. If a Beneficial Owner of an interest in the Regulation S Global Security wishes at any time to exchange its interest in the Regulation S Global Security for an interest in the Rule 144A Global Security, or to transfer its interest in the Regulation S Global Security to a Person who wishes to take delivery thereof in the form of a beneficial interest in the Rule 144A Global Security, on or prior to the fortieth day after the later of the commencement of the offering of the Securities and the final delivery date with respect thereto, such Holder may, subject to this Section 2.04 and subject to the applicable rules and procedures of DTC, Euroclear and Clearstream, exchange or transfer or cause the exchange or transfer of such interest for an equivalent beneficial interest in the Rule 144A Global Security. Such exchange or transfer shall only be made upon receipt by the Fiscal Agent from a Holder of (1) instructions given in accordance with the applicable procedures of DTC, Euroclear and Clearstream directing the Fiscal Agent to credit or cause to be credited a beneficial interest in the Rule 144A Global Security in an amount equal to the beneficial interest in the Regulation S Global Security to be exchanged or transferred, (2) a duly completed certificate in the form provided in Exhibit G-1 hereto given by the transferee of such beneficial interest stating that it is purchasing the Security for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a Qualified Institutional Buyer, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Issuer as it has requested pursuant to Rule 144A and that it is aware that the transferor is relying upon its foregoing representations in

order to claim the exemption from registration provided by Rule 144A and (3) a duly completed certificate in the form provided in Exhibit G-2 hereto given by the Holder of such beneficial interest stating that (x) the Person transferring such interest reasonably believes that the Person acquiring such interest is a Qualified Institutional Buyer and is obtaining such interest in a transaction meeting the requirements of Rule 144A and any applicable securities laws of any state of the United States or (y) that the Person transferring such interest is relying on an exemption other than Rule 144A from the registration requirements of the Securities Act. Upon such receipt, the Fiscal Agent shall instruct the Registrar acting as agent for the Fiscal Agent to reduce the Regulation S Global Security by the aggregate amount of the beneficial interest in the Regulation S Global Security to be so exchanged or transferred and, concurrently with such reduction, to increase the aggregate amount of the Rule 144A Global Security by the aggregate amount of the beneficial interest in the Regulation S Global Security to be so exchanged or transferred.

(C) Other Exchanges. In the event that a Global Security is exchanged for Securities in definitive registered form without interest coupons pursuant to Section 2.09 hereof, such Securities may be exchanged for one another only in accordance with such procedures as are substantially consistent with the provisions above (including certification requirements intended to ensure that such transfers are made only in compliance with Rule 144A or Regulation S, as the case may be) and as may be from time to time adopted by the Issuer and the Fiscal Agent.

(D) Restrictions on U.S. Transfers. Prior to the expiration of the 40-day distribution compliance period (within the meaning of Regulation S), transfers of interests in a Regulation S Global Security to U.S. Persons shall be limited to transfers made pursuant to the provisions of Section 2.04(b)(iv)(B).

(E) Regulation S Global Securities. Prior to the expiration of the 40-day distribution compliance period (within the meaning of Regulation S), an owner of a beneficial interest in a Regulation S Global Security may transfer such interest in the form of a beneficial interest in such Regulation S Global Security only to a transferee that is not a U.S. Person that is acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 903 or 904 of Regulation S. Such transfer may be made without the provision of written certification.

(F) Rule 144A Global Securities. An owner of a beneficial interest in a Rule 144A Global Security may transfer such interest in the form of a beneficial interest in such Rule 144A Global Security without the provision of written certification.

(v) If Securities are issued upon the transfer, exchange or replacement of Securities bearing the applicable legends set forth in Exhibit A or Exhibit B, and if a request is made to remove such applicable legend on such Securities, the Securities so

issued shall bear such applicable legend, or such applicable legend shall not be removed, as the case may be, unless there is delivered to the Issuer, the Fiscal Agent and the Registrar (if other than the Fiscal Agent) such satisfactory evidence, which may include an Opinion of Counsel licensed to practice law in the State of New York, as may be reasonably required by the Issuer to the effect that neither such applicable legend nor the restrictions on transfer set forth therein are required to ensure that transfers thereof comply with the provisions of Rule 144A or Regulation S, as applicable. Upon provision of such satisfactory evidence, the Fiscal Agent, at the direction of the Issuer shall authenticate and deliver Securities that do not bear such applicable legend.

(vi) By its acceptance of any Security bearing a transfer-restriction legend, as set forth in Exhibit A or Exhibit B, each Holder of such a Security acknowledges the restrictions on transfer of such Security set forth in this Agreement and in the applicable legend, and agrees that it will transfer such Security only in accordance with such restrictions in this Agreement. Subject to the following sentence, the Registrar shall not register a transfer of any Security unless such transfer complies with the restrictions on transfer of such Security set forth in this Agreement. In connection with any transfer of Securities, each Holder agrees by its acceptance of the Securities to furnish the Registrar or the Issuer such certifications, legal opinions or other information as either of them may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act; provided that the Registrar shall not be required to determine (but may rely on a determination made by the Issuer with respect to) the sufficiency of any such certification, legal opinions or other information.

(vii) Any purported transfer of a Security not in accordance with this Section 2.04 shall not be recognized or effective and shall not be given effect for any purpose hereunder.

(viii) The Registrar shall retain copies of all letters, notices and other written communications received pursuant to Section 2.04. The Registrar shall, upon written request, make such records available during normal office hours to the Issuer, or any Person authorized by the Issuer in writing, for inspection and for the taking of copies thereof or extracts therefrom.

(c) No duty to Monitor. The Fiscal Agent shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Agreement or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among Beneficial Owners of interests in any Regulation S Global Security) other than to require delivery of such certificates and other documentation or evidence as are required by, and to do so if and when expressly required by the terms of, this Agreement, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

(d) Expenses; Acknowledgement of Transfer. No service charge shall be made to a Holder for any registration of transfer or exchange of a Security, but the Fiscal Agent may require payment of a sum sufficient to cover any tax or other governmental charge payable

in connection therewith and expenses of delivery (if any) not made by regular mail. Registration of the transfer of a Security by the Fiscal Agent shall be deemed to be the acknowledgment of such transfer on behalf of the Issuer.

(e) Surrender upon Final Payment. Upon final payment due on the Maturity Date of any Security, the Holder thereof shall present and surrender such Security at the Corporate Office of the Fiscal Agent or at the office of any Paying Agent; *provided*, *however*, that if there is delivered to the Issuer and the Fiscal Agent such security or indemnity as may be required by them to save each of them harmless and an undertaking thereafter to surrender such certificate, then, in the absence of notice to the Issuer or the Fiscal Agent that the applicable Security has been acquired by a protected purchaser, such final payment shall be made without presentation or surrender.

Section 2.05. Mutilated, Defaced, Destroyed, Lost or Stolen Securities.

If (a) any mutilated or defaced Security is surrendered to the Transfer Agent, or if there shall be delivered to the Issuer, the Fiscal Agent and the Transfer Agent (each, a "Specified Person") evidence to their reasonable satisfaction of the destruction, loss or theft of any Security, and (b) there is delivered to the Specified Persons such security or indemnity as may reasonably be required by them to save each of them harmless then, in the absence of notice to the Specified Persons that such Security has been acquired by a bona fide or protected purchaser, the Issuer shall execute and shall direct the Fiscal Agent to authenticate, and upon an Issuer Order the Fiscal Agent shall authenticate and deliver, in lieu of any such mutilated, defaced, destroyed, lost or stolen Security, a new Security of the same Class as such mutilated, defaced, destroyed, lost or stolen Security, of like tenor (including the same date of issuance) and equal principal amount, registered in the same manner, dated the date of its authentication, bearing interest from the date to which interest has been paid on the mutilated, defaced, destroyed, lost or stolen Security and bearing a number not contemporaneously outstanding.

If, after delivery of such new Security, a bona fide or protected purchaser of the predecessor Security presents for payment, transfer or exchange such predecessor Security, the Specified Persons shall be entitled to recover such new Security from the Person to whom it was delivered or any Person taking therefrom, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Specified Persons in connection therewith.

In case any such mutilated, defaced, destroyed, lost or stolen Security has become due and payable, the Issuer in its discretion may, instead of issuing a new Security, pay such Security upon receipt of indemnity without requiring surrender thereof except that any mutilated Security shall be surrendered.

Upon the issuance of any new Security under this Section 2.05, the Issuer, the Fiscal Agent or any Transfer Agent may require the payment by the registered holder thereof of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Fiscal Agent) connected therewith.

Every new Security issued pursuant to this Section 2.05 in lieu of any mutilated, defaced, destroyed, lost or stolen Security, shall constitute an original additional contractual obligation of the Issuer and such new Security shall be entitled, subject to the second paragraph of this Section 2.05, to all the benefits of this Agreement equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section 2.05 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, defaced, destroyed, lost or stolen Securities.

Section 2.06. Computation of Interest. Interest on the Securities shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

Section 2.07. Persons Deemed Owners.

The Issuer, the Fiscal Agent and any agent of any of them (collectively, the "Relevant Persons") may treat the Person in whose name any Security on the Register is registered as the owner of such Security on the applicable Record Date for the purpose of receiving payments of principal of and interest on such Security and on any other date for all other purposes whatsoever (whether or not such Security is overdue), and no Relevant Person shall be affected by notice to the contrary, except if and to the extent the Issuer shall default in the payment of the interest due on such interest payment date, in which case such defaulted interest shall be paid (whether by the Issuer or the Guarantor) to the Person in whose names Outstanding Securities are registered on a subsequent Record Date (which shall not be less than 5 Business Days prior to the date of payment of such defaulted interest) established by notice given by mail by or on behalf of the Issuer to the Holders of Securities not less than 15 days preceding such subsequent Record Date.

Section 2.08. Cancellation.

All Securities surrendered for payment, registration of transfer, exchange or redemption, or deemed lost or stolen, shall, if surrendered to any Person other than the Fiscal Agent, be delivered to the Fiscal Agent, shall promptly be canceled by it and may not be reissued or resold. No Securities shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section 2.08, except as expressly permitted by this Agreement. All canceled Securities held by the Fiscal Agent shall be destroyed or held by the Fiscal Agent in accordance with its standard retention policy unless the Issuer shall direct by an Issuer Order that they be returned to it. Any Securities purchased by the Issuer shall be immediately delivered to the Fiscal Agent for cancellation.

Section 2.09. Certificated Securities; Temporary Securities.

(a) If at any time the Depositary for any Global Securities notifies the Issuer that it is unwilling or unable to continue as Depositary for the Global Securities or if at any time the Depositary for such Global Securities ceases to be a "Clearing Agency" registered under the Exchange Act, the Issuer shall appoint a successor Depositary with respect to the relevant Global Securities. If a successor Depositary is not appointed by the Issuer within 90 days after such

notice or the occurrence of such event, or there shall have occurred and be continuing an Event of Default and a Holder so requests, the Global Securities deposited with such Depositary pursuant to Section 2.01 shall be transferred to the Beneficial Owners thereof in accordance with Section 2.04 of this Agreement and this Section 2.09.

(b) Any Global Security that is transferable to the Beneficial Owners thereof pursuant to this Section 2.09 shall be surrendered by the Depositary to the Corporate Office of the Fiscal Agent, to be so transferred, in whole or from time to time in part, without charge, and, upon receipt of an Issuer Order directing the authentication and delivery thereof, the Fiscal Agent shall authenticate and deliver, upon such transfer and registration of each portion of such Global Security, an equal aggregate principal amount of Securities of authorized denominations. Any portion of a Global Security transferred pursuant to this Section 2.09 shall be executed, authenticated and delivered only in the minimum denominations and integral multiples of the amounts set forth in Section 2.02 in the form of Certificated Securities. Any Certificated Security delivered in exchange for an interest in a Regulation S Global Security (a "Regulation S Certificated Security") and any Certificated Security delivered in exchange for an interest in a Rule 144A Global Security (a "Rule 144A Certificated Security"), as applicable, shall bear the applicable legend set forth in Exhibit C and shall be subject to the transfer restrictions referred to in such applicable legends. The Holder of such a registered individual Security may transfer such Security by surrendering it at the Corporate Office.

(c) Subject to the provisions of Section 2.09(b) above, the Holder of a Global Security may grant proxies and otherwise authorize any Person, including Depositary Participants and Persons that may hold interests through Depositary Participants, to take any action which a Holder is entitled to take under this Agreement or the Securities.

(d) In the event of the occurrence of either of the events specified in paragraph (a) of this Section 2.09, the Issuer will make available to the Fiscal Agent a reasonable supply of Certificated Securities in definitive, fully registered form without interest coupons.

(e) Pending the preparation of Certificated Securities pursuant to this Section 2.09, the Issuer may execute, and upon Issuer Order the Fiscal Agent shall authenticate and deliver, temporary Securities that are printed, lithographed, typewritten, mimeographed or otherwise reproduced, in any authorized denomination, substantially of the tenor of the Certificated Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the Authorized Officers executing such Securities may determine, as conclusively evidenced by their execution of such Securities.

(f) If temporary Securities are issued, the Issuer will cause Certificated Securities to be prepared without unreasonable delay. The Certificated Securities shall be printed, lithographed or engraved, or provided by any combination thereof, or in any other manner permitted by the rules and regulations of any applicable securities exchange, all as determined by the Officers executing such Certificated Securities. After the preparation of Certificated Securities, the temporary Securities shall be exchangeable for Certificated Securities upon surrender of the temporary Securities at the office or agency maintained by the Issuer for such purpose, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities, the Issuer shall execute, and the Fiscal Agent shall authenticate and

deliver, in exchange therefor the same aggregate principal amount of Certificated Securities of authorized denominations. Until so exchanged, the temporary Securities shall in all respects be entitled to the same benefits under this Agreement as Certificated Securities.

(g) If the Holders have instituted any judicial proceeding in a court to enforce the rights of the Holders under the Securities or the Guarantees, and the Holders, the Issuer and the Guarantor have been advised by counsel that in connection with such proceeding it is necessary or appropriate for the Holders to obtain possession of the Securities, the Issuer shall, at the request of any Holder, execute and deliver to the Fiscal Agent, and the Fiscal Agent will authenticate and deliver, in exchange for such Holders' interest in Global Securities, Certificated Securities (and if the Fiscal Agent has in its possession Certificated Securities previously executed by the Issuer, the Fiscal Agent will authenticate and deliver such Securities) with the Guarantees thereon executed by the Guarantor, in authorized denominations, in an aggregate principal amount equal to the principal amount of such Global Securities and registered in such name or names as the Issuer deems appropriate.

(h) Subject to the restrictions on transfer and exchange set forth in Section 2.04 or this Section 2.09 and to the Registrar's right to decline to accept any request for registration of transfer or exchange during the period of 15 days preceding the due date for any payment of principal of or interest on the Securities, the Holder of any Certificated Security may transfer or exchange for a like principal amount the same as a whole or in part (in a principal amount equal to the minimum authorized denomination or any integral multiple thereof) by surrendering such Certificated Security at the Corporate Office, duly endorsed, together with an executed instrument of assignment and transfer substantially in the form of Exhibit E in the case of transfer and a written request for exchange in the case of exchange. The presentation for transfer or exchange of any Certificated Security shall not be valid unless made at the Corporate Office by the registered Holder in person, or by a duly authorized attorney in fact. Prior to the registration of any transfer by a Holder as provided herein, the Issuer, the Guarantor, the Fiscal Agent, and any agent of the Issuer, the Guarantor or the Fiscal Agent shall treat the Person in whose name the Security is registered as the owner thereof for all purposes whether or not the Security shall be overdue, and none of the Issuer, the Guarantor, the Fiscal Agent, nor any such agent shall be affected by notice to the contrary. When Securities are presented to the Registrar with a request to register the transfer or to exchange them for an equal principal amount of Securities of other authorized denominations, the Registrar shall register the transfer or make the exchange as requested if the requirements for such transactions set forth herein are met. To permit registrations of transfers and exchanges, the Issuer shall execute and the Fiscal Agent shall authenticate Securities upon receipt of an Issuer Order.

Section 2.10. Additional Securities. The Issuer may, from time to time, without notice to or the consent of the Holders, create and issue, pursuant to this Agreement and in accordance with applicable laws and regulations, additional Securities (the "Additional Securities") maturing on the same Maturity Date as the Securities and having the same terms and conditions hereunder (including with respect to the Guarantor and the Guarantees) as the previously Outstanding Securities of that series in all respects (or in all respects except for the issue date, CUSIP number and for the amount and the date of the first payment of interest thereon), so that such Additional Securities shall be consolidated and form a single series with the previously Outstanding Securities of that series; *provided*, *however*, that for so long as may

be required by the applicable provisions of the Securities Act or the Depositary's procedures, such Additional Securities shall be represented by one or more separate Global Securities bearing the applicable legend (as shown in Exhibit A or Exhibit B hereto) or other applicable transfer restriction legends. Additional Securities may be created and issued in the same manner as Securities are created and issued (including the requirement that Guarantees, executed by the Guarantor be endorsed thereon), subject to the additional condition that the Fiscal Agent shall have received an Officer's Certificate stating that no default hereunder shall have occurred and be continuing, and that after giving effect to the proposed issuance of Additional Securities no default hereunder shall have occurred and be continuing and an Opinion of Counsel that such Additional Securities are issued in compliance with this Agreement. Additional Securities shall bear interest from the Original Issue Date of such Additional Securities.

Section 2.11. Unconditional Guarantee. Pursuant to the Guarantee endorsed upon each Security, substantially in the form attached to the forms of Security set forth in Exhibits A, C and D hereto, the Guarantor will unconditionally and irrevocably guarantee to each Holder (a) the due and punctual payment of any principal, accrued and unpaid interest and Additional Amounts, if any, on, such Security in accordance with this Agreement, including without limitation Article 3 hereof, and (b) any Additional Amounts in respect of such Guarantee.

Section 2.12. Execution of Guarantees. To evidence each Guarantee to the Holders specified in Section 2.11, the Guarantor hereby agrees to execute such Guarantee, in substantially the form attached to the forms of Security set forth in Exhibits A, C and D hereto, to be endorsed on each Security authenticated and delivered by the Fiscal Agent. Each such Guarantee shall be signed on behalf of the Guarantor as set forth in Section 2.03 prior to the authentication of the Security on which it is endorsed, and the delivery of such Security by the Fiscal Agent, after the authentication thereof hereunder, shall constitute due delivery of such Guarantee on behalf of the Guarantor.

Section 2.13. Assumption by the Guarantor. The Guarantor shall assume all of the rights and obligations of the Issuer hereunder with respect to the Securities if, upon a default by the Issuer in the due and punctual payment of the principal, or interest on such Securities, the Guarantor is prevented by any court order or judicial proceeding from fulfilling its obligations under Section 2.11 with respect to such Securities. Such assumption shall result in the Securities becoming the direct obligations of the Guarantor and shall be effected without the consent of the Holders. Upon such an assumption, the Guarantor shall execute an amendment to this Agreement evidencing its assumption of all rights and obligations of the Issuer hereunder with respect to the Securities, and the Issuer shall be released from its liabilities hereunder and under such Securities as obligor on the Securities

## ARTICLE 3
## COVENANTS OF THE ISSUER

Section 3.01. Payment of Principal and Interest. The Issuer covenants and agrees that it will duly and punctually pay or cause to be paid the principal of, and interest on, each of the Securities at the place or places, at the respective times and in the manner provided in the Securities and in this Agreement. Each installment of interest on the Securities may be paid by

mailing checks for such interest payable to or upon the written order of the Holders of Securities entitled thereto as they shall appear on the Register of the Issuer; *provided* that as long as the Securities then Outstanding are represented by one or more Global Securities, the Issuer shall pay or cause to be paid the principal of, and interest on, such Global Securities to the Holder thereof or a single nominee of the Holder, or, at the option of the Issuer and with prior notice to the Paying Agent, to such other Persons as the Holder thereof may designate, by wire transfer of immediately available U.S. dollar funds on the date such payments are due; *further provided* that, at the option of the Issuer and with prior notice to the Paying Agent, payment of interest may be made by check mailed to the address of the Holder as such address appears in the Register. So long as the Fiscal Agent or the Paying Agent shall make such payments on behalf of the Issuer, funds for each such payment will be delivered by the Issuer to the Fiscal Agent or the Paying Agent in immediately available U.S. dollar funds by 9:00 a.m., New York City time on the relevant Business Day on which payment is due.

Any payment to be made in respect of the Securities or Guarantees by the Issuer or the Guarantor to or to the order of a Paying Agent shall be in satisfaction pro tanto of the obligations of the Issuer under the Securities.

Section 3.02. Offices for Payments, Etc. So long as any of the Securities remain Outstanding, the Issuer will maintain in the Borough of Manhattan, the City of New York, United States of America, the following: (a) an office or agency where the Securities may be presented for payment, (b) an office or agency where the Securities may be presented for registration of transfer and for exchange as in this Agreement provided and (c) an office or agency where notices and demands to or upon the Issuer in respect of the Securities or of this Agreement may be served. The Issuer hereby initially designates the Corporate Office as the office or agency for each such purpose. The Issuer will give to the Fiscal Agent written notice of any change of the location of any such office or agency. In case the Issuer shall fail to maintain any such office or agency or shall fail to give such notice of the location or of any change in the location thereof, presentations and demands may be made and notices may be served at the Corporate Office or other office or agency as previously notified by the Issuer.

Section 3.03. Appointment to Fill a Vacancy in Office of Fiscal Agent. The Issuer, whenever necessary to avoid or fill a vacancy in the office of Fiscal Agent, will appoint, in the manner provided in Section 5.08, a Fiscal Agent, so that there shall at all times be a Fiscal Agent hereunder.

Section 3.04. Paying Agents. Deutsche Bank Trust Company Americas is hereby appointed initial Paying Agent. Whenever the Issuer shall appoint a Paying Agent other than the Fiscal Agent, it will cause such Paying Agent to execute and deliver to the Fiscal Agent an instrument in which such agent shall agree with the Fiscal Agent, subject to the provisions of this Section 3.04, that it will:

(a) hold all sums received by it as such agent for the payment of the principal of or interest on the Securities (whether such sums have been paid to it by the Issuer or by any other obligor on the Securities) in trust for the benefit of the Holders of the Securities or of the Fiscal Agent until such sums shall be paid to such Holders or otherwise disposed of as provided herein;

(b) give the Fiscal Agent notice of any failure by the Issuer (or by any other obligor on the Securities) to make any payment of the principal of or interest on the Securities when the same shall be due and payable; and

(c) pay any such sums so held in trust by it to the Fiscal Agent upon the Fiscal Agent's written request at any time during the continuance of the failure referred to in clause (b) above.

The Issuer will, in accordance with Section 3.01 hereof, on or prior to each due date of the principal of or interest on the Securities, deposit with the Fiscal Agent or the Paying Agent a sum in immediately available funds in U.S. Dollars, sufficient to pay such principal or interest, and (unless such Paying Agent is also the Fiscal Agent) the Issuer will promptly notify the Fiscal Agent of any failure to take such action.

If the Issuer shall act as its own Paying Agent, it will, on or before each due date of the principal of or interest on the Securities, set aside, segregate and hold in trust for the benefit of the Holders of the Securities a sum sufficient to pay such principal or interest so becoming due until such sums shall be paid to such Holders or otherwise disposed of as provided herein. The Issuer will promptly notify the Fiscal Agent of any failure to take such action.

A Paying Agent shall be permitted to resign upon 30 days' written notice to the Issuer. In addition, the Issuer shall have the right within 30 days' prior written notice to terminate any appointment of any Paying Agent, and to appoint any additional or other Paying Agents. The Issuer will give to the Fiscal Agent written notice of the location of any such office or agency and of any change of location thereof. Notice of any such termination or appointment and of any change in the office through which any Paying Agent will act will be given in accordance with this Agreement.

Anything in this Section to the contrary notwithstanding, the Issuer may at any time, for the purpose of obtaining a satisfaction and discharge of this Agreement or for any other reason, pay or cause to be paid to the Fiscal Agent all sums held in trust by the Issuer or any Paying Agent hereunder, as required by this Section, such sums to be held by the Fiscal Agent upon the trusts herein contained.

Anything in this Section to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section 3.04 are subject to the provisions of Sections 9.04 and 9.05.

Section 3.05. Additional Amounts. If any deduction or withholding for any present or future taxes or other governmental charges of the jurisdiction (or any political subdivision or taxing authority thereof or therein) in which the Issuer or the Guarantor is incorporated, shall at any time be required by such jurisdiction (or any such political subdivision or taxing authority) (each a "Relevant Jurisdiction") in respect of any amounts to be paid by the Issuer of principal of or interest on the Securities, or by the Guarantor under the Guarantees, the Issuer or the Guarantor, as the case may be, will pay to the Holder of the Securities such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts paid to such Holder of the Securities shall be not less than the amounts specified in such Securities or coupon to which such Holder is entitled; provided, however, that the Issuer or the

Guarantor, as the case may be, shall not be required to make any payment of additional amounts for or on account of: (a) any tax or other governmental charge which would not have been imposed but for the existence of any present or former connection between such Holder and the Relevant Jurisdiction (other than the mere holding of Securities and the receipt of payments thereon), including, without limitation, such Holder being or having been a citizen or resident thereof or being or having been present or engaged in trade or business therein or having or having had a permanent establishment therein; (b) any tax or other governmental charge which would not have been imposed but for the status of such Holder as an individual resident of a member state of the European Union; (c) any tax or other governmental charge that would not have been imposed but for a failure by the Holder or the beneficial owner of a Security to comply with any applicable certification, information, identification, documentation or other reporting requirements concerning the nationality, residence, identity or connection with the Relevant Jurisdiction if such compliance is required as a precondition to relief or exemption from such tax or other governmental charge (including without limitation a certification that such Holder is not resident in the Relevant Jurisdiction); (d) any tax or other governmental charge which would not have been imposed but for a change in law that becomes effective more than 30 days after a payment by the Issuer on the Securities, or by the Guarantor under the Guarantees, as the case may be, becomes due and payable, or is duly provided for and notice thereof is duly published, whichever occurs later; (e) any tax or other governmental charge required to be withheld by any Paying Agent from a payment on the Securities, if such payment can be made without such deduction or withholding by any other Paying Agent; or (f) any combination of items (a), (b), (c), (d) and (e) above. The foregoing provisions shall apply mutatis mutandis to any withholding or deduction for or on account of any present or future taxes or governmental charges of whatever nature of any jurisdiction in which any successor Person to the Issuer or the Guarantor, as the case may be, is organized, or any political subdivision or taxing authority thereof or therein. As used in (a), (b) and (c) above, references to Holder shall include a fiduciary, settler, beneficiary, member or shareholder of, or possessor of a power over, such Holder, if such Holder is an estate, trust, partnership or corporation. Subject to the foregoing provisions, whenever in this Agreement there is mentioned, in any context, the payment of the principal of or any premium or interest on, or in respect of, the Securities or the net proceeds received on the sale or exchange of the Securities, such mention shall be deemed to include mention of the payment of additional amounts provided for in this Section to the extent that, in such context, additional amounts are, were or would be payable in respect thereof pursuant to the provisions of this Section and express mention of the payment of additional amounts (if applicable) in any provisions hereof shall not be construed as excluding additional amounts in those provisions hereof where such express mention is not made.

Section 3.06. Holders' Lists. If and so long as the Fiscal Agent shall not be the Registrar of the Securities, the Issuer will furnish or cause to be furnished to the Fiscal Agent a list in such form as the Fiscal Agent may reasonably require of the names and addresses of the Holders of the Securities (a) semi-annually not more than 10 days after each Record Date for the payment of semi-annual interest on the Securities, as hereinabove specified, as of such Record Date, and (b) at such other times as the Fiscal Agent may request in writing, within thirty days after receipt by the Issuer of any such request as of a date not more than 15 days prior to the time such information is furnished.

Section 3.07. Limitation on Liens. So long as any of the Securities are Outstanding, but only up to the time all amounts of principal and interest have been placed at the disposal of the Fiscal Agent, neither the Issuer nor the Guarantor shall grant or permit to subsist any Encumbrance over any or all of its present or future assets, to secure any present or future Capital Market Indebtedness issued or guaranteed by the Issuer, the Guarantor or by any other Person without making effective provision whereby the Securities shall be secured equally and ratably with such Capital Market Indebtedness, so long as such Capital Market Indebtedness shall be so secured. For the avoidance of doubt, this section shall not apply to any security which is provided by the Issuer or any other subsidiary of the Guarantor over any claims of the Issuer or such other subsidiary of the Guarantor, as the case may be, against the Guarantor or any of its subsidiaries, which claims exist now or arise at any time in the future, as a result of the passing on of the proceeds from the sale by the Issuer or another subsidiary of the Guarantor, as the case may be, of any bonds, provided that any such security serves to secure obligations under such bonds of the Issuer or the other subsidiary of the Guarantor, as the case may be. Any security to be provided pursuant to the preceding sentence may also be provided to a person acting as trustee for the holders of such bonds.

Section 3.08. Rule 144A Information. For so long as the Issuer or the Guarantor is not subject to Section 13 or 15(d) of the Exchange Act, and is not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, and for long as any of the Securities remain "restricted securities" within the meaning of Rule 144 under the Securities Act, upon the request of a Holder or Beneficial Owner of a Security, the Issuer or the Guarantor, as the case may be, shall furnish or cause to be furnished Rule 144A Information (as defined below) to such Holder or Beneficial Owner, to a prospective purchaser of such Security designated by such Holder or Beneficial Owner or to the Fiscal Agent for delivery to such Holder or Beneficial Owner or a prospective purchaser designated by such Holder or Beneficial Owner, as the case may be, in order to permit compliance by such Holder or Beneficial Owner with Rule 144A in connection with the resale of such Security by such Holder or Beneficial Owner. "Rule 144A Information" shall be such information as is at the time of such proposed purchase specified pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

## ARTICLE 4
## REMEDIES OF HOLDERS UPON AN EVENT OF DEFAULT

Section 4.01. Event of Default Defined; Acceleration of Maturity; Waiver of Default. "Event of Default", wherever used herein with respect to the Securities, means any one of the following events with respect to the Issuer or the Guarantor, as the case may be (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) the Issuer fails to pay principal or interest upon any Security within 30 days from the relevant due date; or

(b) the Issuer fails duly to perform any other obligation arising from any Security or the Guarantor fails to perform any obligation arising from the Guarantee which failure is not capable of remedy or, if such failure is capable of remedy, such failure continues for more than

60 days after any Holder of the Securities Outstanding affected thereby has given written notice thereof to the Issuer, Guarantor and the Fiscal Agent; or

(c) (i) any Capital Market Indebtedness of the Issuer or the Guarantor becomes prematurely repayable as a result of a default in respect of the terms thereof; or

(ii) the Issuer or the Guarantor fails to fulfill any payment obligation in excess of EUR 25,000,000 or the equivalent thereof under any Capital Market Indebtedness or under any guarantee or suretyship given for any Capital Market Indebtedness of any other Person within 30 days from its due date or, in the case of a guarantee or suretyship, within 30 days after the guarantee or suretyship has been invoked, unless the Issuer or the Guarantor shall contest in good faith that such payment obligation exists or is due or that such guarantee or suretyship has been validly invoked; or

(iii) if a security granted in respect of any Capital Market Indebtedness or any guarantee or suretyship therefor is enforced on behalf of or by the creditor(s) entitled thereto; or

(d) the Issuer or the Guarantor announces its inability to meet its financial obligations or ceases its payments; or

(e) a court opens insolvency proceedings against the Issuer or the Guarantor, or the Issuer or the Guarantor applies for or institutes such proceedings or offers or makes an arrangement for the benefit of its creditors generally, or the Issuer applies for a "*surseance van betaling*" (within the meaning of the Bankruptcy Act (*Faillissementswet*) of The Netherlands); or

(f) the Issuer or the Guarantor goes into liquidation unless this is done in connection with a merger, or other form of combination with another company and such company assumes all obligations contracted by the Issuer or the Guarantor, as the case may be, in connection with this issue; or

(g) any governmental order, decree or enactment shall be made in or by The Netherlands or the Federal Republic of Germany whereby the Issuer or the Guarantor is prevented from observing and performing in full its obligations as set forth in this Agreement and in the Guarantee, respectively, and this situation is not cured within 90 days; or

(h) the Guarantee ceases to be valid and legally binding for any reason whatsoever.

If an Event of Default with respect to Outstanding Securities of the Issuer occurs and is continuing, then in every such case the Holders of not less than 25% in principal amount of the Outstanding Securities of the Issuer may declare the principal amount of the Securities to be due and payable immediately, by a notice in writing to the Issuer and the Guarantor with a copy to the Fiscal Agent, specifying such principal amount and upon any such declaration such specified amount shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to the Securities has been made and before a judgment or decree for payment of the money due has been obtained by the Fiscal Agent as hereinafter in this Article provided, the Holders of a majority in principal amount of the

Outstanding Securities, by written notice to the Issuer, the Guarantor and the Fiscal Agent, may rescind and annul such declaration and its consequences if:

(1) the Issuer or the Guarantor has paid or deposited with the Fiscal Agent a sum sufficient to pay:

(A) all overdue interest on the Securities,

(B) the principal of (and premium, if any, on) any Securities which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in the Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in the Securities, and

(D) all sums paid or advanced by the Fiscal Agent hereunder and the reasonable compensation, expenses, disbursements and advances of the Fiscal Agent, its agents and counsel;

and

(2) all Events of Default with respect to the Securities, other than the non-payment of the principal of the Securities which have become due solely by such declaration of acceleration, have been cured or waived as provided in this Section.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

The Holders of a majority in aggregate principal amount of the Securities then Outstanding may, by written notice to the Issuer and to the Fiscal Agent, waive all defaults and rescind and annul such declaration and its consequences, except a default

(1) in the payment of the principal of or any premium or interest on any Security of such series of the Issuer, or

(2) in respect of a covenant or provision hereof which under Article Seven cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected;

and no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or impair any right consequent thereon.

Section 4.02. Restoration of Rights on Abandonment of Proceedings. In case any Holder shall have proceeded to enforce any right under this Agreement and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to such Holder, then and in every such case the Issuer, the Guarantor, the Fiscal Agent and the Holder shall, subject to any determination in such proceeding, be restored severally and

respectively to their former positions and rights hereunder, and thereafter all rights, remedies and powers of the Issuer, the Guarantor, the Fiscal Agent and the Holders shall continue as though no such proceedings had been taken.

Section 4.03. Rights and Remedies Cumulative; Delay or Omission Not Waiver of Default. Except as provided in Section 2.05, no right or remedy herein conferred upon or reserved to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No delay or omission of any Holder of any of the Securities to exercise any right or remedy accruing upon any Event of Default occurring and continuing as aforesaid shall impair any such right or remedy or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; and every right and remedy given by this Agreement or by law to the Holders may be exercised from time to time, and as often as shall be deemed expedient, by the Holders.

Section 4.04. Enforcement of Claims and Limitation on Suits.

(a) All rights of action or claims under this Agreement or the Securities may be prosecuted and enforced by the Fiscal Agent without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceedings instituted by such Fiscal Agent as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of such Fiscal Agent its agents and counsel and all other amounts due to such Fiscal Agent under this Agreement, be for the ratable benefit of the Holders of the Securities of such series in respect of which such judgment has been recovered

(b) No Holder of the Securities shall have any right to institute any proceeding, judicial or otherwise, with respect to this Agreement, the Guarantees, the Securities or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) the Holders of not less than 25% in principal amount of the Outstanding Securities shall have made written request to the Fiscal Agent to institute proceedings in respect of such Event of Default in its own name as Fiscal Agent hereunder;

(2) such Holder or Holders have offered to the Fiscal Agent reasonable indemnity and/or security satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;

(3) the Fiscal Agent for 60 days after its receipt of such notice, request and offer of indemnity and/or security has failed to institute any such proceeding; and

(4) no direction inconsistent with such written request has been given to the Fiscal Agent during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Agreement to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Agreement, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

Section 4.05. Unconditional Right of Holders to Institute Certain Actions. Notwithstanding any other provision of this Agreement and any provision of any Security, the right of any Holder to receive payment of the principal of and interest on such Security on or after the respective due dates expressed in such Security, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

Section 4.06. Waiver of Stay or Extension Laws. Each of the Issuer and the Guarantor covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever acted, now or at any time hereafter in force, which may affect the covenants or the performance of this Agreement; and each of the Issuer and the Guarantor (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Holders, but will suffer and permit the execution of every such power as though no such law had been enacted.

## ARTICLE 5
## THE AGENTS

Section 5.01. Duties and Responsibilities of the Fiscal Agent. The Fiscal Agent undertakes to perform such duties and only such duties as are specifically set forth in this Agreement. The Fiscal Agent acts under this Agreement solely as agent of the Issuer and does not assume any obligation or relationship of agency or trust for or with the Holders of the Securities, except as provided in Section 5.05 below.

No provision of this Agreement shall be construed to relieve the Fiscal Agent from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(a) the duties and obligations of the Fiscal Agent shall be determined solely by the express provisions of this Agreement, and the Fiscal Agent shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Fiscal Agent;

(b) in the absence of bad faith or negligence on the part of the Fiscal Agent, the Fiscal Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any statements, certificates or opinions furnished to the Fiscal Agent and conforming to the requirements of this Agreement; but in the case of any such statements, certificates or opinions which by any provision hereof are specifically required to be furnished to

the Fiscal Agent, the Fiscal Agent shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement;

(c) the Fiscal Agent shall not be liable for any error of judgment made in good faith by a Responsible Officer or Responsible Officers of the Fiscal Agent, unless it shall be proved that the Fiscal Agent was negligent in ascertaining the pertinent facts; and

(d) no provisions of this Agreement shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Section 5.02. Certain Rights of the Fiscal Agent. Subject to Section 5.01:

(a) the Fiscal Agent may rely and shall be protected in acting or refraining from acting upon any resolution, Officer's Certificate or any other certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, note, coupon, security or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties and shall not be required to investigate any fact or matter stated in such document;

(b) any request, direction, order or demand of the Issuer mentioned herein shall be sufficiently evidenced by an Officer's Certificate or Issuer Order (unless other evidence in respect thereof be herein specifically prescribed); and any resolution of the Board of Directors of the Issuer or the Guarantor may be evidenced to the Fiscal Agent by a copy thereof certified by an officer of the Issuer or the Guarantor, as the case may be;

(c) the Fiscal Agent shall not be liable for any action taken or omitted by it in good faith without negligence and reasonably believed by it to be authorized or within the discretion, rights or powers conferred upon it by this Agreement;

(d) the Fiscal Agent shall not be liable for any failure or delay in the performance of its obligations hereunder because of circumstances beyond its control, including, but not limited to, acts of God, flood, war (whether declared or undeclared), terrorism, fire, riot, embargo, government action, including any laws, ordinances, regulations, governmental action or the like which delay, restrict or prohibit the providing of the services contemplated by this Agreement;

(e) the parties hereto acknowledge that in accordance with Section 326 of the USA Patriot Act, the Fiscal Agent is required to obtain, verify and record information that identifies each person or legal entity that establishes a relationship or opens an account with the Fiscal Agent. To the extent permitted by Dutch law and otherwise upon reasonable written request, the parties to this Agreement agree that they will provide the Fiscal Agent with such information as it may request in order for it to satisfy the requirements of the USA Patriot Act;

(f) the Fiscal Agent may consult with counsel reasonably acceptable to the Fiscal Agent, which may be counsel to the Issuer or the Guarantor, and the advice of such counsel as to matters of law shall be full and complete authorization and protection in respect of any action

taken, omitted or suffered by it hereunder in good faith without negligence and in accordance with the advice or opinion of such counsel;

(g) the Fiscal Agent shall not be bound and shall have no duty to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the Issuer or the Guarantor under this Agreement; but the Fiscal Agent may require of the Issuer or the Guarantor full information and advice as to the performance or the covenants, conditions and agreements aforesaid;

(h) the Fiscal Agent shall not be required to give any bond or surety in respect of the execution of its trusts and powers or in respect of this Agreement;

(i) the Fiscal Agent may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and except with respect to affiliates of the Fiscal Agent, the Fiscal Agent shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed by it hereunder with due care; and

(j) the Fiscal Agent shall be under no liability to the Issuer or the Guarantor for interest on any money received by it hereunder except as otherwise agreed in writing with the Issuer or the Guarantor, as applicable.

Section 5.03. Fiscal Agent Not Responsible for Recitals, Disposition of Securities or Application of Proceeds Thereof. The recitals contained herein and in the Securities and the Guarantees, except the Fiscal Agent's certificates of authentication, shall be taken as the statements of the Issuer and the Guarantor, and the Fiscal Agent assumes no responsibility for the correctness of the same. The Fiscal Agent makes no representation as to the validity or sufficiency of this Agreement or of the Securities. The Fiscal Agent shall not be accountable for the use or application by the Issuer of any of the Securities or of the proceeds thereof.

Section 5.04. Fiscal Agent and Agents May Hold Securities; Collections, Etc. The Fiscal Agent or any agent of the Issuer, the Guarantor or the Fiscal Agent, in its individual or any other capacity, may become the owner or pledgee of Securities with the same rights it would have if it were not the Fiscal Agent or such agent and may otherwise deal with the Issuer or the Guarantor and receive, collect, hold and retain collections from the Issuer or the Guarantor with the same rights it would have if it were not the Fiscal Agent or such agent.

Section 5.05. Monies Held by Fiscal Agent. Subject to the provisions of Section 9.05 hereof, all monies received by the Fiscal Agent shall, until used or applied as provided herein or in the Securities, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law and as agreed upon separately by the Issuer, Guarantor and the Fiscal Agent. Neither the Fiscal Agent nor any agent of the Issuer, the Guarantor or the Fiscal Agent shall be under any liability for interest on any monies received by it hereunder except to the extent required by the mandatory provisions of law or judicial order.

Section 5.06. Compensation and Indemnification of Fiscal Agent and Its Prior Claim. The Issuer and the Guarantor jointly covenant and agree to pay to the Fiscal Agent

(which for purposes of this Section 5.06 shall include its directors, officers, employees and agents) from time to time, and the Fiscal Agent shall be entitled to, reasonable compensation and the Issuer and the Guarantor jointly covenant and agree to pay or reimburse the Fiscal Agent and each predecessor Fiscal Agent upon its request for all reasonable expenses, disbursements and advances incurred or made by or on behalf of it in accordance with any of the provisions of this Agreement (including the reasonable compensation and the reasonable expenses and disbursements of its counsel and of all agents and other Persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Issuer and the Guarantor also jointly covenant to indemnify the Fiscal Agent (which for purposes of this Section 5.06 shall include its officers, directors, employees and agents) and each predecessor Fiscal Agent for, and to hold each such Person harmless against, any loss, liability, expense, claims, obligations, damages, penalties, stamp or other similar taxes, actions, suits, judgments of whatever kind or nature regardless of their merit, demanded, asserted or claimed against the Fiscal Agent, directly or indirectly, relating to, or arising from, claims against the Fiscal Agent incurred without negligence or bad faith on such Person's part, arising out of or in connection with the acceptance or administration of this Agreement and its duties hereunder, including the reasonable costs and expenses of defending itself against or investigating any claim of liability in the premises. The obligations of the Issuer and the Guarantor under this Section 5.06 to compensate and indemnify the Fiscal Agent and each predecessor Fiscal Agent and to pay or reimburse the Fiscal Agent and each predecessor Fiscal Agent for such expenses, disbursements and advances shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of this Agreement or the resignation or removal of the Fiscal Agent.

Section 5.07. Persons Eligible for Appointment as Fiscal Agent. There shall at all times be a Fiscal Agent hereunder which shall at all times be a corporation, a bank or trust company organized and doing business under the laws of the United States, any State thereof or the District of Columbia, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least U.S.$50,000,000, subject to supervision and examination by Federal or State authority and having an established place of business in the Borough of Manhattan, The City of New York. If such corporation, bank or trust company publishes reports of condition at least annually, pursuant to law or to the requirements of a federal, state or District of Columbia supervising or examining authority, then for the purposes of this Section 5.07, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Fiscal Agent shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article 5.

Section 5.08. Resignation and Removal; Appointment of Successor Fiscal Agent. (a) The Fiscal Agent may at any time resign by giving written notice of resignation to the Issuer and the Guarantor. Upon receiving such notice of resignation, the Issuer shall promptly appoint a successor Fiscal Agent by written instrument in duplicate, executed by authority of the Board of Directors or an Authorized Officer of the Issuer, one copy of which instrument shall be delivered to the resigning Fiscal Agent and one copy to the successor Fiscal Agent. If no successor Fiscal Agent shall have been so appointed and have accepted appointment within 30 days after the giving of such notice of resignation, the resigning Fiscal Agent may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent, or any Holder

who has been a bona fide Holder of a Security or Securities for at least six months may, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor Fiscal Agent. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor Fiscal Agent.

(b) In case at any time any of the following shall occur:

(i) the Fiscal Agent shall cease to be eligible in accordance with the provisions of Section 5.07 and shall fail to resign after written request therefor by the Issuer or by any Holder who has been a *bona fide* Holder of a Security or Securities for at least six months; or

(ii) the Fiscal Agent shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or a receiver or liquidator of the Fiscal Agent or of its property shall be appointed, or any public officer shall take charge or control of the Fiscal Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation;

then, in any such case, the Issuer and the Guarantor may remove the Fiscal Agent and appoint a successor Fiscal Agent by written instrument, in duplicate, executed by authority of the Board of Directors or an Authorized Officer of each of the Issuer and the Guarantor, one copy of which instrument shall be delivered to the Fiscal Agent so removed and one copy to the successor Fiscal Agent, or any Holder who has been a *bona fide* Holder of a Security or Securities for at least six months may on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Fiscal Agent and the appointment of a successor Fiscal Agent. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Fiscal Agent and appoint a successor Fiscal Agent.

(c) Any resignation or removal of the Fiscal Agent and any appointment of a successor Fiscal Agent pursuant to any of the provisions of this Section 5.08 shall become effective upon acceptance of appointment by the successor Fiscal Agent as provided in Section 5.09.

(d) The Issuer shall give notice of each resignation and each removal of the Fiscal Agent and each appointment of a successor Fiscal Agent by mailing written notice of such event by first class mail, postage prepaid, to the Holders at their addresses as shown in the Register. Each notice shall include the name and address of the principal Corporate Office of the successor Fiscal Agent.

Section 5.09. <u>Acceptance of Appointment by Successor Fiscal Agent</u>. Any successor Fiscal Agent appointed as provided in Section 5.08 shall execute and deliver to the Issuer and the Guarantor and to its predecessor Fiscal Agent an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor Fiscal Agent shall become effective and such successor Fiscal Agent, without any further act, deed or conveyance, shall become vested with all rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as Fiscal Agent herein; but, nevertheless, on the written request of the Issuer or of the successor Fiscal Agent, upon payment of its charges then unpaid, the Fiscal Agent ceasing to act shall, subject to Section 9.05, pay over to the successor

Fiscal Agent all monies at the time held by it hereunder and shall execute and deliver an instrument transferring to such successor Fiscal Agent all such rights, powers, duties and obligations. Upon request of any such successor Fiscal Agent, the Issuer shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor Fiscal Agent all such rights and powers. Any Fiscal Agent ceasing to act shall, nevertheless, retain a prior claim upon all property or funds held or collected by such Fiscal Agent to secure any amounts then due it pursuant to the provisions of Section 5.06.

Upon acceptance of appointment by a successor Fiscal Agent as provided in this Section 5.09, the Issuer shall mail notice thereof by first class mail to the Holders of Securities at their last addresses as they shall appear in the Register. If the acceptance of appointment is substantially contemporaneous with the resignation, then the notice called for by the preceding sentence may be combined with the notice called for by Section 5.08. If the Issuer fails to mail such notice within 10 days after acceptance of appointment by the successor Fiscal Agent, the successor Fiscal Agent shall cause such notice to be mailed at the expense of the Issuer.

Section 5.10. Merger, Conversion, Consolidation or Succession to Business of Fiscal Agent. Any corporation into which the Fiscal Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Fiscal Agent shall be a party, or any corporation succeeding to the business of the Fiscal Agent, shall be the successor of the Fiscal Agent hereunder, provided that such corporation shall be eligible under the provisions of Section 5.07, without the execution or filing of any paper or any further act, including, without limitation, providing notices to any Holder of Securities, on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

In case at the time such successor to the Fiscal Agent shall succeed to the trusts created by this Agreement any of the Securities shall have been authenticated but not delivered, any such successor to the Fiscal Agent may adopt the certificate of authentication of any predecessor Fiscal Agent and deliver such Securities so authenticated; and, in case at that time any of the Securities shall not have been authenticated, any successor to the Fiscal Agent may authenticate such Securities in the name of the successor Fiscal Agent; and in all such cases such certificate shall have the full force which it is anywhere in the Securities or in this Agreement provided that the certificate of the Fiscal Agent shall have; *provided*, that the right to adopt the certificate of authentication of any predecessor Fiscal Agent shall apply only to its successor or successors by merger, conversion or consolidation. The Paying Agent, Registrar, Authenticating Agent and any additional paying agent made a party hereto shall be entitled to the same rights and protections as the Fiscal Agent set forth in this Article 5.

Section 5.11. Appointment of Authenticating Agent. The Fiscal Agent may appoint an Authenticating Agent or Agents with respect to the Securities which shall be authorized to act on behalf of the Fiscal Agent to authenticate Securities of such series issued upon original issue and upon exchange, registration of transfer or partial conversion or partial redemption thereof or pursuant to this Agreement, and Securities so authenticated shall be entitled to the benefits of this Agreement and shall be valid and obligatory for all purposes as if authenticated by the Fiscal Agent hereunder. Wherever reference is made in this Agreement to the authentication and delivery of Securities by the Fiscal Agent or the Fiscal Agent's certificate

of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Fiscal Agent by an Authenticating Agent and a certificate of authentication executed on behalf of the Fiscal Agent by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Issuer.

If an appointment with respect to the Securities is made pursuant to this Section, the Securities may have endorsed thereon, in addition to the Fiscal Agent's certificate of authentication, an alternative certificate of authentication in the following form:

Certificate of Authentication

This is one of the Certificated Securities described in the within-mentioned Agreement.

Dated: _______________, 20__

Deutsche Bank Trust Company Americas, as
Fiscal Agent

By: Deutsche Bank National Trust Company

By:_____________________________
As Authenticating Agent

By:_____________________________
Authorized Signatory

## ARTICLE 6
## CONCERNING THE HOLDERS

Section 6.01. Evidence of Action Taken by Holders. Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Agreement to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Fiscal Agent. Proof of execution of any instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Agreement and (subject to Sections 5.01 and 5.02) conclusive in favor of the Fiscal Agent, the Issuer or the Guarantor, if made in the manner provided in this Article.

Section 6.02. Proof of Execution of Instruments and of Holding of Securities; Record Date. Subject to Sections 5.01 and 5.02, the execution of any instrument by a Holder or his agent or proxy may be proved in accordance with such reasonable rules and regulations as may be prescribed by the Fiscal Agent or in such manner as shall be satisfactory to the Fiscal Agent. The holding of Securities shall be proved by the Register or by a certificate of the

Registrar. The Issuer may set a record date for purposes of determining the identity of Holders of Securities entitled to vote or consent to any action referred to in Section 6.01, which record date may be set at any time or from time to time by notice to the Fiscal Agent, for any date or dates (in the case of any adjournment or re-solicitation) not more than 60 days nor less than ten days prior to the proposed date of such vote or consent, and thereafter, notwithstanding any other provisions hereof, only Holders of Securities of record on such record date shall be entitled to so vote or give such consent or to withdraw such vote or consent.

Section 6.03. Holders to Be Treated as Owners. The Issuer, the Guarantor, the Fiscal Agent and any authorized agent of the Issuer, the Guarantor or the Fiscal Agent may deem and treat the Person in whose name any Security shall be registered upon the Register as the absolute owner of such Security (whether or not such Security shall be overdue and notwithstanding any notation of ownership or other writing thereon) for the purpose of receiving payment of, or on account of, the principal of and, subject to the provisions of this Agreement, interest on such Security and for all other purposes; and none of the Issuer, the Guarantor nor the Fiscal Agent nor any authorized agent of the Issuer, the Guarantor or the Fiscal Agent shall be affected by any notice to the contrary. All such payments so made to any such Person, or upon his order, shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for monies payable upon any such Security.

Section 6.04. Securities Owned by the Issuer or the Guarantor Deemed Not Outstanding. In determining whether the Holders of the requisite aggregate principal amount of Securities then Outstanding have concurred in any direction, consent or waiver under this Agreement, Securities which are owned by the Issuer, the Guarantor or any other obligor on the Securities or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer, the Guarantor or any other obligor on the Securities shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, except that for the purpose of determining whether the Fiscal Agent shall be protected in relying on any such direction, consent or waiver only Securities which the Fiscal Agent actually knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Fiscal Agent the pledgee's right so to act with respect to such Securities and that the pledgee is not the Issuer, the Guarantor or any other obligor upon the Securities or any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer, the Guarantor or any other obligor on the Securities. In case of a dispute as to such right, the advice of counsel shall be full protection in respect of any decision made by the Fiscal Agent in accordance with such advice. Upon request of the Fiscal Agent, the Guarantor shall furnish to the Fiscal Agent promptly an Officer's Certificate listing and identifying all Securities, if any, known by the Guarantor to be owned or held by or for the account of any of the above described Persons; and, subject to Sections 5.01 and 5.02, the Fiscal Agent shall be entitled to accept such Officer's Certificate as conclusive evidence of the facts therein set forth and of the fact that all Securities not listed therein are Outstanding for the purpose of any such determination.

Section 6.05. Right of Revocation of Action Taken. Subject to the provisions of Section 6.02, at any time prior to (but not after) the evidencing to the Fiscal Agent, as provided in Section 6.01, of the taking of any action by the Holders of the percentage in aggregate

principal amount of the Securities specified in this Agreement in connection with such action, any Holder of a Security the serial number of which is shown by the evidence to be included among the serial numbers of the Securities the Holders of which have consented to such action may, by filing written notice at the Corporate Office and upon proof of holding as provided in this Article, revoke such action so far as concerns such Security. Except as aforesaid any such action taken by the Holder of any Security shall be conclusive and binding upon such Holder and upon all future Holders and owners of such Security and of any Securities issued in exchange or substitution therefor, whether or not any notation in regard thereto is made upon any such Security. Any action taken by the Holders of the percentage in aggregate principal amount of the Securities specified in this Agreement in connection with such action shall be conclusively binding upon the Issuer, the Fiscal Agent and the Holders of all the Securities.

## ARTICLE 7
## SUPPLEMENTAL AGREEMENTS

Section 7.01. Supplemental Agreements without Consent of Holders. The Issuer, the Guarantor and the Fiscal Agent may from time to time and at any time, without the consent of the Holders, enter into an agreement or agreements supplemental hereto for one or more of the following purposes:

(a) to convey, transfer, assign, mortgage or pledge to the Fiscal Agent or another person as security for the Securities any property or assets;

(b) to evidence the succession of another Person to the Issuer or the Guarantor, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Issuer or the Guarantor pursuant to this Agreement;

(c) to evidence and provide for the acceptance of appointment of a successor or successors to the Fiscal Agent in any of its capacities;

(d) to add to the covenants of the Issuer or the Guarantor, such further covenants, restrictions, conditions or provisions as the Issuer or the Guarantor, as the case may be, shall reasonably consider to be for the protection of the Holders and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default under the Securities permitting the enforcement of all or any of the several remedies provided in this Agreement as herein set forth; *provided*, that in respect of any such additional covenant, restriction, condition or provision such supplemental agreement may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such an Event of Default or may limit the right of the Holders of a majority in aggregate principal amount of the Securities to waive such an Event of Default;

(e) to modify the restrictions on, and procedures for, resale and other transfers of the Securities pursuant to law, regulation or practice relating to the resale or transfer of restricted securities generally;

(f) to cure any ambiguity or to correct or supplement any provision contained herein, in the Securities or the Guarantees, or in any supplemental agreement which may be defective or inconsistent with any other provision contained herein or in any supplemental agreement; or to make such other provisions in regard to matters or questions arising under this Agreement or under any supplemental agreement as the Issuer may deem necessary or desirable and which shall not adversely affect in any material respect the interests of the Holders of the Securities to which such provisions relate; and

(g) to "reopen" the Securities of any series and create and issue additional Securities of that series having identical terms and conditions as the existing Securities of such series (or in all respects except for the issue date, issue price, the CUSIP number and first interest payment date) so that the additional Securities are consolidated and form a single series with the Outstanding such Securities.

The Fiscal Agent is hereby authorized to join in the execution of any such supplemental agreement, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer, assignment, mortgage or pledge of any property thereunder, but the Fiscal Agent shall not be obligated to enter into any such supplemental agreement which affects the Fiscal Agent's own rights, duties or immunities under this Agreement or otherwise.

Any supplemental agreement authorized by the provisions of this Section may be executed without the consent of the Holders of any of the Securities then Outstanding, notwithstanding any of the provisions of Section 7.02.

Section 7.02. Supplemental Agreements with Consent of Holders. The Issuer, the Guarantor and the Fiscal Agent may, from time to time and at any time, with the consent (evidenced as provided in Article 6) of the Holders of not less than a majority in aggregate principal amount of the Securities then Outstanding, enter into an agreement or agreements supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Agreement or of any supplemental agreement or modifying in any manner the rights of the Holders under the Securities or the Guarantees; *provided*, that no such agreement shall (a) change the maturity of the principal of any Security, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of any installment of interest thereon, or change the place or currency of payment of principal of, or interest on, any Security, or change the Issuer's or the Guarantor's respective obligations to pay Additional Amounts, or impair or affect the right of any Holder to institute suit for the enforcement of any such payment on or after the due date thereof (or in the case of redemption, on or after the redemption date) or change in any manner adverse to the interests of the Holders the terms and provisions of the Guarantees in respect of the due and punctual payment of principal amount of the Securities then outstanding plus accrued and unpaid interest (and all Additional Amounts, if any) without the consent of the Holder of each Security so affected, or (b) reduce the aforesaid percentage of Securities, the consent of the Holders of which is required for any such agreement, without the consent of the Holders of all Securities then Outstanding.

Upon the request of the Issuer and the Guarantor, and upon the filing with the Fiscal Agent of evidence of the consent of Holders and other documents, if any, required by Section 6.01, the Fiscal Agent shall join with the Issuer and the Guarantor in the execution of such supplemental agreement unless such supplemental agreement affects the Fiscal Agent's own rights, duties or immunities under this Agreement or otherwise, in which case the Fiscal Agent may in its discretion, but shall not be obligated to, enter into such supplemental agreement.

It shall not be necessary for the consent of the Holders under this Section to approve the particular form of any proposed supplemental agreement, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the Issuer, the Guarantor and the Fiscal Agent of any supplemental agreement pursuant to the provisions of this Section, the Issuer shall, or shall direct the Fiscal Agent to, mail a notice thereof by first class mail at the expense of the Issuer to the Holders at their addresses as they shall appear on the Register, setting forth in general terms the substance of such supplemental agreement. Any failure of the Issuer or the Fiscal Agent, as the case may be, to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental agreement.

Section 7.03. Effect of Supplemental Agreements. Upon the execution of any supplemental agreement pursuant to the provisions hereof, this Agreement shall be, and be deemed to be, modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Agreement of the Fiscal Agent, the Issuer, the Guarantor and the Holders shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental agreement shall be and be deemed to be part of the terms and conditions of this Agreement for any and all purposes.

Section 7.04. Documents to be Given to Fiscal Agent. The Fiscal Agent, subject to the provisions of Sections 5.01 and 5.02, may receive an Officer's Certificate and an Opinion of Counsel as conclusive evidence that any such supplemental agreement complies with the applicable provisions of this Agreement.

Section 7.05. Notation on Securities in Respect of Supplemental Agreements. Securities authenticated and delivered after the execution of any supplemental agreement pursuant to the provisions of this Article may bear a notation in form approved by the Issuer and the Guarantor as to any matter provided for by such supplemental agreement. If the Issuer and the Guarantor shall so determine, new Securities and Guarantees so modified as to conform, in the opinion of the Issuer and the Guarantor, to any modification of this Agreement contained in any such supplemental agreement may be prepared and executed by the Issuer and the Guarantor authenticated by the Fiscal Agent and delivered in exchange for the Securities and Guarantees then Outstanding.

## ARTICLE 8
## SUBSTITUTION OF ISSUER; CONSOLIDATION, MERGER, SALE OR CONVEYANCE

Section 8.01. Covenant Not to Substitute the Issuer, Merge, Consolidate, Sell or Convey Property Except Under Certain Conditions. Neither the Issuer nor the Guarantor shall consolidate with or merge (which term shall include for the avoidance of doubt a scheme of arrangement) into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless:

(a) in case the Issuer or the Guarantor shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Issuer or the Guarantor is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Issuer or the Guarantor substantially as an entirety shall be a corporation, partnership or trust, shall be organized and validly existing, under the laws of the jurisdiction of its organization shall expressly assume, by an agreement supplemental hereto executed and delivered to the Fiscal Agent in form reasonably satisfactory to the Fiscal Agent, the due and punctual payment of the principal of and any premium and interest (including all Additional Amounts and any additional amounts payable pursuant to subsection (c) below) on all the Securities and the performance or observance of every covenant of this Agreement on the part of the Issuer to be performed or observed, and, in the case of the Guarantor, the due and punctual performance of the Guarantees (including all Additional Amounts and any additional amounts payable pursuant to subsection (c) below) and the performance of every covenant of this Agreement on the part of the Guarantor to be performed or observed;

(b) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Issuer or the Guarantor as a result of such transaction as having been incurred by the Issuer or the Guarantor at the time of such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing;

(c) the Person formed by such consolidation or into which the Issuer or the Guarantor is merged or to whom the Issuer or the Guarantor has conveyed, transferred or leased its properties or assets (if such Person is organized and validly existing under the laws of a jurisdiction other than the United States, any State thereof, or the District of Columbia) agrees to indemnify the Holder of each Security against (a) any tax, assessment or governmental charge imposed on any such Holder or required to be withheld or deducted from any payment to such Holder as a consequence of such consolidation, merger, conveyance, transfer or lease; and (b) any costs or expenses of the act of such consolidation, merger, conveyance, transfer or lease; and

(d) the Issuer or the Guarantor, as the case may be, has delivered to the Fiscal Agent an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental agreement is required in connection with such transaction, such supplemental agreement comply with

this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

Section 8.02. Successor Corporation Substituted. In case of any such consolidation, merger, sale, transfer, lease or conveyance, or substitution, and following such an assumption by a successor corporation, such successor corporation shall succeed to and be substituted for the Issuer or the Guarantor, as the case may be, with the same effect as if it had been named herein.

Such successor corporation may cause to be signed, and may issue either in its own name or in the name of the Issuer or the Guarantor, as the case may be, prior to such succession, any or all of the Securities and Guarantees issuable hereunder which theretofore shall not have been signed by the Issuer or the Guarantor and delivered to the Fiscal Agent; and, upon the order of such successor corporation, instead of the Issuer or the Guarantor, as the case may be, and subject to all the terms, conditions and limitations in this Agreement prescribed, the Fiscal Agent shall authenticate and shall deliver any Securities (with signed Guarantees endorsed thereon) which previously shall have been signed and delivered by the officers of the Issuer or the Guarantor to the Fiscal Agent for authentication, and any Securities (with signed Guarantees endorsed thereon) which such successor corporation thereafter shall cause to be signed and delivered to the Fiscal Agent for that purpose. All of the Securities and Guarantees so issued shall in all respects have the same legal rank and benefit under this Agreement as the Securities and Guarantees heretofore or thereafter issued in accordance with the terms of this Agreement as though all of such Securities and Guarantees had been issued at the date of the execution hereof.

In case of any such consolidation, merger, sale, transfer, lease or conveyance, such changes in phraseology and form (but not in substance) may be made in the Securities and the Guarantees thereafter to be issued as may be appropriate.

In the event of any such sale, transfer or conveyance (other than a conveyance by way of lease) by the Issuer, the Guarantor or any successor corporation which shall theretofore have become such successor corporation in the manner described in this Article, the Issuer, the Guarantor or such corporation, as the case may be, shall be discharged from all obligations and covenants under this Agreement, the Securities and the Guarantees and may be liquidated and dissolved.

## ARTICLE 9
## DISCHARGE; UNCLAIMED MONIES

Section 9.01. Discharge. If at any time (a) the Issuer shall have paid or caused to be paid in full the principal of and interest on all Securities Outstanding hereunder, or (b) the Issuer shall have delivered to the Fiscal Agent for cancellation all Securities Outstanding theretofore authenticated (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.05) or (c) all Securities not theretofore delivered to the Fiscal Agent for cancellation (i) have become due and payable, (ii) will become due and payable in accordance with their terms within one year or (iii) are to be, or have been, called for redemption pursuant to Article 10 within one year under arrangements satisfactory to the Fiscal Agent for the giving of notice of redemption and, in any

such case, the Issuer shall have irrevocably deposited or caused to be deposited with the Fiscal Agent as trust funds in irrevocable trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities, (A) cash in United States Dollars (other than monies repaid by the Fiscal Agent or any Paying Agent to the Issuer in accordance with Section 9.05) in an amount, or (B) U.S. Government Obligations which through the payment of interest thereon and principal thereof in accordance with their terms will provide not later than the due date of any payment, cash in United States Dollars in an amount, or (C) any combination of (A) and (B), sufficient to pay all of the principal of, and interest (and Additional Amounts, if any) on, all such Securities not theretofore delivered to the Fiscal Agent for cancellation, on the dates such payments are due in accordance with the terms of the Securities and all other amounts payable hereunder by the Issuer; then this Agreement shall cease to be of further effect with respect to the Securities and the Issuer and the Guarantor shall be discharged from any and all obligations hereunder, *in each case except as to* (A) rights of registration of transfer and exchange, (B) substitution of apparently mutilated, defaced, destroyed, lost or stolen Securities, (C) rights of Holders to receive payments of principal thereof and interest thereon (including the right to receive from or on behalf of the Issuer payments of any Additional Amounts due pursuant to Section 3.04), (D) the rights, obligations and immunities of the Agents hereunder, (E) the rights of the Holders as beneficiaries hereof with respect to the property so deposited with the Fiscal Agent payable to all or any of them and (F) the obligations of the Issuer under Section 3.02; and the Issuer shall cause the Fiscal Agent, on demand of the Issuer accompanied by an Officer's Certificate and an Opinion of Counsel and at the cost and expense of the Issuer, to execute proper instruments acknowledging such satisfaction of and discharging this Agreement. The Issuer and the Guarantor shall agree to reimburse the Fiscal Agent for any costs or expenses thereafter reasonably and properly incurred and to compensate the Fiscal Agent for any services thereafter reasonably and properly rendered by the Fiscal Agent in connection with this Agreement or the Securities.

Section 9.02. Covenant Defeasance. At the Issuer's or the Guarantor's option, the Issuer, or the Guarantor, as the case may be, shall cease to be under any obligation to comply with any term, provision or condition set forth in Sections 3.07 and 4.01(c), and the Guarantor shall cease to be under any obligation under the Guarantees, and noncompliance with such Sections or the Guarantor's obligations under the Guarantees shall not give rise to any Event of Default under Section 4.01(b) ("Covenant Defeasance"), with respect to the Securities at any time after the applicable conditions set forth below have been satisfied:

(a) the Issuer or the Guarantor, as the case may be, shall have irrevocably deposited or caused to be deposited with the Fiscal Agent as trust funds in irrevocable trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders, (i) cash in United States Dollars in an amount, or (ii) U.S. Government Obligations which through the payment of interest thereon and principal thereof in accordance with their terms will provide not later than the due date of any payment cash in United States Dollars in an amount, or (iii) any combination of (i) and (ii), sufficient to pay all of the principal of, and interest and Additional Amounts on, the Securities then Outstanding on the dates such payments are due in accordance with the terms of such Securities;

(b) no Event of Default under, or event which, with notice, or lapse of time or both, would become an Event of Default under Section 4.01(e), 4.01(f), 4.01(g) or 4.01(h) shall have occurred and be continuing on the date of such deposit;

(c) the Issuer or the Guarantor, as the case may be, shall have delivered to the Fiscal Agent an Opinion of Tax Counsel with respect to U.S. federal income tax matters to the effect that the Beneficial Owners of Securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the exercise of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would be the case if such Covenant Defeasance had not occurred;

(d) the Issuer or the Guarantor, as the case may be, shall have delivered to the Fiscal Agent an Opinion of Tax Counsel in its jurisdiction of incorporation with respect to tax matters in such jurisdictions of incorporation to the effect that such deposit and related Covenant Defeasance will not cause the Holders, other than Holders who are or who are deemed to be residents of such jurisdiction of incorporation or use or hold or are deemed to use or hold their Securities in carrying on a business in such jurisdiction of incorporation, to recognize income, gain or loss for income tax purposes in such jurisdiction of incorporation, and to the effect that payments out of the trust fund will be free and exempt from any and all withholding and other income taxes of whatever nature of such jurisdiction of incorporation or any political subdivision thereof or therein having power to tax, except in the case of Securities beneficially owned (x) by a Person who is or is deemed to be a resident of such jurisdiction of incorporation or (y) by a Person who uses or holds or is deemed to use or hold such Securities in carrying on a business in such jurisdiction of incorporation; and

(e) the Issuer or the Guarantor, as the case may be, shall have delivered to the Fiscal Agent an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to such Covenant Defeasance have been complied with.

Section 9.03. Application by Defeasance Agent of Funds Deposited for Payment of Securities. Subject to Section 9.05, the Issuer and the Guarantor shall cause all monies and U.S. Government Obligations deposited with the Fiscal Agent pursuant to Section 9.01 or 9.02 to be held in trust and applied by the Fiscal Agent to the payment, either directly or through any Paying Agent (excluding the Issuer acting as its own Paying Agent), to the Holders for the payment or redemption of which such monies and U.S. Government Obligations have been deposited with the Fiscal Agent, of all sums due and to become due thereon for principal and interest; but such money need not be segregated from other funds except to the extent required by law.

Anything in this Article 9 to the contrary notwithstanding, the Issuer or the Guarantor, as the case may be, shall cause the Fiscal Agent to deliver or pay to the Issuer or the Guarantor, respectively, from time to time upon an Officer's Certificate so requesting any money or U.S. Government Obligations (or other property and any proceeds therefrom) held by it as provided in Section 9.02 which, in the opinion of a nationally recognized firm of independent

public accountants expressed in a written certification thereof delivered to the Fiscal Agent, are in excess of the amount thereof which would then be required to be deposited to effect an equivalent Covenant Defeasance in accordance with this Article 9.

Section 9.04. Repayment of Monies Held by Paying Agent. In connection with the satisfaction and discharge of this Agreement all monies then held by any Paying Agent under the provisions of this Agreement shall, upon demand of the Issuer, be repaid to it or paid to the Fiscal Agent and thereupon such Paying Agent shall be released from all further liability with respect to such monies.

Section 9.05. Return of Unclaimed Monies Held by Defeasance Agent and Paying Agent. Any monies deposited with or paid to the Fiscal Agent or any Paying Agent for the payment of the principal of or interest on any Security and not applied but remaining unclaimed for two years after the date upon which such principal or interest shall have become due and payable (such two-year period the "Residual Period"), shall, upon Issuer Order and unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, be paid to the Issuer by the Fiscal Agent or such Paying Agent, and the Holder of such Security shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, thereafter look only to the Issuer for any payment which such Holder may be entitled to collect, and all liability of the Fiscal Agent or any Paying Agent with respect to such monies shall thereupon cease. No later than 30 days before the date upon which such principal or interest shall become due and payable (for purposes of the section, the "Relevant Date"), the Issuer may instruct the Fiscal Agent in writing that any monies deposited with or paid to the Fiscal Agent or any Paying Agent for the purposes of defeasance or discharge under this Article 9 that remain unclaimed during the two-year period following the Relevant Date but prior to the last date of the Residual Period shall be deposited by the Fiscal Agent or any Paying Agent to an interest-bearing deposit account with a regulated deposit-taking financial institution in the United States and shall bear interest for the benefit of the Issuer.

## ARTICLE 10
## REDEMPTION AND OPTIONAL REPAYMENT OF SECURITIES

Section 10.01. Optional Redemption Due to Changes in Tax Treatment. The Securities may be redeemed at the option of the Issuer or the Guarantor, in whole or in part, at any time at a Redemption Price equal to the principal amount thereof plus accrued interest to the date fixed for redemption if, as a result of any change in or amendment to the laws or any regulations or rulings promulgated thereunder of the jurisdiction (or of any political subdivision or taxing authority thereof or therein) in which the Issuer or the Guarantor is incorporated (or, in the case of a successor Person to the Issuer or the Guarantor, of the jurisdiction in which such successor Person is organized or any political subdivision or taxing authority thereof or therein) or any change in the official application or interpretation of such laws, regulations or rulings, or any change in the official application or interpretation of, or any execution of or amendment to, any treaty or treaties affecting taxation to which such jurisdiction or such political subdivision or taxing authority (or such other jurisdiction or political subdivision or taxing authority) is a party, which change, execution or amendment becomes effective on or after the date specified pursuant to the terms of the Securities (or in the case of a successor Person to the Issuer or the Guarantor, the date on which such successor Person became such pursuant to Sections 8.01 and 8.02, the

date of such assumption), (i) the Issuer or the Guarantor (or such successor Person or such Subsidiary) is or would be required to pay additional amounts with respect to the Securities or the Guarantees, as the case may be, on the next succeeding Interest Payment Date as described in Section 3.05 or (ii) the Guarantor or any Subsidiary of the Guarantor is or would be required to deduct or withhold tax on any payment to the Issuer to enable the Issuer to make any payment of principal, premium, if any, or interest and, in each case, the payment of such additional amounts in the case of (i) above or such deductions or withholding in the case of (ii) above cannot be avoided by the use of any reasonable measures available to the Issuer, the Guarantor or the Subsidiary. Prior to the giving of notice of redemption of such Securities pursuant to this Agreement, the Issuer or the Guarantor will deliver to the Fiscal Agent an Officer's Certificate, stating that the Issuer or the Guarantor is entitled to effect such redemption and setting forth in reasonable detail a statement of circumstances showing that the conditions precedent to the right of the Issuer or the Guarantor to redeem the Securities pursuant to this Section have been satisfied.

Further, if, pursuant to Section 8.01(3)(a) of this Agreement, a Person into which the Issuer or the Guarantor is merged or to whom the Issuer or the Guarantor has conveyed, transferred or leased its properties or assets has been or would be required to pay any additional amounts as therein provided, the Securities may be redeemed at the option of such Person in whole, or in part, at any time, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. Prior to the giving of notice of redemption of the Securities pursuant to this Agreement, such Person shall deliver to the Fiscal Agent an Officer's Certificate, stating that such Person is entitled to effect such redemption and setting forth in reasonable detail a statement of circumstances showing that the conditions precedent to the right of such Person to redeem such Securities pursuant to this Section have been satisfied.

Section 10.02. Optional Redemption. The Issuer may, at its option, redeem the Securities as a whole or in part at any time, upon due notice as described in Section 10.03 hereof, at a redemption price equal to the greater of (1) 100% of the principal amount of the Securities plus accrued interest and Additional Amounts, if any, to the Redemption Date; or (2) as determined by the Quotation Agent, the sum of the present values of the remaining scheduled payments of principal and interest on the Securities (not including any portion of such payments of interest accrued as of the Redemption Date), plus accrued but unpaid interest and additional amounts, if any. Such present values shall be determined by discounting the remaining principal and interest payments to the Redemption Date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months), using the Adjusted Treasury Yield. The following terms shall have the meanings ascribed below:

"Adjusted Treasury Yield" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date plus [ ] basis points.

"Comparable Treasury Issue" means the U.S. Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Securities to be redeemed that would be utilized, at the time of selection and in accordance with

customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Securities.

"Comparable Treasury Price" means, with respect to any redemption date, the average of the Quotation Agent's Quotations for the redemption date.

"Independent Investment Banker" means an independent investment banking institution of national standing in the United States appointed by the Issuer.

"Quotation Agent" means a reference treasury dealer that is a primary U.S. government securities dealer in New York City. The Independent Investment Banker will appoint the Quotation Agent after first consulting with the Guarantor.

"Quotation Agent's Quotations" means with respect to any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by the Quotation Agent at 5:00 p.m. on the third Business Day before the redemption date.

Whenever in this Agreement there is mentioned, in any context, the payment of the principal of any Security, such mention shall be deemed to mean the payment of the redemption price provided for in this Section 10.02 to the extent that, in such context, such redemption price is, was or would be payable in respect thereof pursuant to the provisions of this Section 10.02.

Section 10.03. Notice of Redemption. Notice of redemption to the Holders shall be given by mailing notice of such redemption by first class mail, postage prepaid, not less than 30 days nor more than 60 days prior to the date fixed for redemption to the Holders at their last addresses as they shall appear in the Register with a copy to the Fiscal Agent at the address specified in Section 11.04 hereof. Any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the Holder received the notice. Failure to give notice by mail, or any defect in the notice to the Holder of any Security, shall not affect the validity of the proceedings for the redemption of any other Security.

The notice of redemption to each Holder shall specify the date fixed for redemption, the redemption price, the place or places of payment, that payment will be made upon presentation and surrender of the Securities, the CUSIP number of the relevant Securities, that interest accrued to the date fixed for redemption will be paid as specified in said notice and that from and after said date interest thereon will cease to accrue.

Any notice of redemption of the Securities shall be given by the Issuer or, at the Issuer's request, by the Fiscal Agent in the name and at the expense of the Issuer.

On the redemption date specified in the notice of redemption given as provided in this Section 10.03, the Issuer will deposit with the Fiscal Agent or with one or more Paying Agents (or, if the Issuer is acting as its own Paying Agent, set aside, segregate and hold in trust as provided in Section 5.14) money sufficient to pay the redemption price of and accrued interest (and Additional Amounts, if any) on the Securities to be redeemed on such date.

If fewer than all of the Securities are to be redeemed, the Fiscal Agent shall select, not more than 60 days prior to the date fixed for redemption, the particular Securities or portions thereof for redemption from the Outstanding Securities not previously called for redemption, on a pro rata basis, by lot or by such method as the Fiscal Agent deems fair and appropriate and in accordance with the procedures of the Depositary in the case of Global Securities.

Section 10.04. Payment of Securities Called for Redemption. If notice of redemption has been given as above provided, the Securities or portions of Securities specified in such notice shall become due and payable on the date and at the place stated in such notice at the applicable redemption price, together with interest accrued to the date fixed for redemption (and Additional Amounts, if any), and from and after said date (unless the Issuer and/or the Guarantor shall default in the payment of the Securities at the redemption price, together with interest accrued to said date (and Additional Amounts, if any)) interest on the Securities or portions of Securities so called for redemption shall cease to accrue and, except as provided in Sections 5.05 and 9.05, the Securities shall cease from and after the date fixed for redemption to be entitled to any benefit or security under this Agreement, and the Holders thereof shall have no right in respect of such Securities except the right to receive the redemption price thereof and unpaid interest (and Additional Amounts, if any) to the date fixed for redemption. On presentation and surrender of such Securities at a place of payment specified in said notice, said Securities or the specified portions thereof shall be paid and redeemed by the Issuer at the applicable redemption price, together with interest accrued thereon (and Additional Amounts, if any) to the date fixed for redemption; provided that any semi-annual payment of interest becoming due on the date fixed for redemption shall be payable to the Holders of such Securities registered as such on the relevant Record Date subject to the terms and provisions of Section 3.01 hereof.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid or duly provided for, bear interest from the date fixed for redemption at the rate borne by the Security.

Upon presentation and surrender of any Security redeemed in part only, the Issuer shall execute and the Fiscal Agent shall authenticate and deliver to or on the order of the Holder thereof, at the expense of the Issuer, a new Security or Securities, of authorized denominations, in principal amount equal to the unredeemed portion of the Security so presented.

## ARTICLE 11
## MISCELLANEOUS PROVISIONS

Section 11.01. Incorporators, Stockholders, Officers and Directors of Issuer and Guarantor Exempt from Individual Liability. No recourse under or upon any obligation, covenant or agreement contained in this Agreement, or in any Security, or because of any Indebtedness evidenced thereby, shall be had against any incorporator, as such, or against any past, present or future stockholder, officer or director, as such, of the Issuer, of the Guarantor or of any successor, either directly or through the Issuer, the Guarantor or any successor, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance of the Securities by the Holders and as part of the consideration for the issue of the Securities.

Section 11.02. Provisions of Agreement for the Sole Benefit of Parties and Holders. Nothing in this Agreement or in the Securities, expressed or implied, shall give or be construed to give to any Person, other than the parties hereto and their successors and the Holders, any legal or equitable right, remedy or claim under this Agreement or under any covenant or provision herein contained, all such covenants and provisions being for the sole benefit of the parties hereto and their successors and of the Holders.

Section 11.03. Successors and Assigns of Issuer Bound by Agreement. All the covenants, stipulations, promises and agreements in this Agreement contained by or on behalf of the Issuer and the Guarantor shall bind their successors and assigns, whether so expressed or not.

Section 11.04. Notices and Demands on Issuer, Fiscal Agent and Holders. Any notice or demand which by any provision of this Agreement is required or permitted to be given or served by the Fiscal Agent or by the Holders of Securities to or on the Issuer or the Guarantor shall be in writing, in English (or accompanied by a certified translation), and may be given or served by being deposited postage prepaid, first class mail (except as otherwise specifically provided herein) addressed, in the case of the Issuer and until another address of the Issuer is filed by the Issuer with the Fiscal Agent, to Deutsche Telekom International Finance B.V., Herengracht 124-128, 1015 BT Amsterdam, The Netherlands and, in the case of the Guarantor and until another address of the Guarantor is filed by the Guarantor with the Fiscal Agent, to Deutsche Telekom AG, Treasury Department, Head of Capital Markets, Friedrich-Ebert-Allee 140, D-53113 Bonn, Federal Republic of Germany. Any notice, direction, request or demand by the Issuer, the Guarantor or any Holder to or upon the Fiscal Agent shall be deemed to have been sufficiently given or made, for all purposes, if given or made in writing and in English at the Corporate Office, which is currently located at:

Deutsche Bank Trust Company Americas
Trust & Securities Services
60 Wall Street, MS NYC60-2710
New York, New York 10005
Attn: Corporates Team Deal Manager - Deutsche Telekom Int'l. Fin. B.V.

Tel: 212-250-4565
Fax: 732-578-4635

With a copy to:

Deutsche Bank Trust Company Americas
c/o Deutsche Bank National Trust Company
Trust & Securities Services
100 Plaza One, Mailstop JCY03-0699
Jersey City, New Jersey 07311
Attn: Corporates Team Deal Manager - Deutsche Telekom Int'l. Fin. B.V.

Tel: 212-250-4565
Fax: 732-578-4635

Any such notice or demand to be given or served by the Fiscal Agent to or on the Issuer, and any such notice, direction, request or demand by the Issuer to or upon the Fiscal Agent, may be transmitted by facsimile transmission and confirmed by overnight courier.

Where this Agreement provides for notice to Holders, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and in English and mailed, first class postage prepaid, to each Holder entitled thereto, at his or her last address as it appears in the Register. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Agreement provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Fiscal Agent, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case, by reason of the suspension of or irregularities in regular mail service, it shall be impracticable to mail notice to the Issuer, the Guarantor or Holders when such notice is required to be given pursuant to any provision of this Agreement, then any manner of giving such notice as shall be reasonably satisfactory to the Issuer shall be deemed to be a sufficient giving of such notice.

As long as the Securities are Global Securities, notice to Holders may be provided by delivery of such notice to the Depositary for delivery to the Holders in accordance with the Depositary's applicable procedures

Section 11.05. <u>Officer's Certificates and Opinions of Counsel; Statements to Be Contained Therein</u>. Upon any application or demand by the Issuer and/or the Guarantor to the Fiscal Agent to take any action under any of the provisions of this Agreement, the Issuer, and/or the Guarantor, if applicable, shall furnish to the Fiscal Agent an Officer's Certificate stating that all conditions precedent, if any, provided for in this Agreement relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or demand as to which the furnishing of such documents is specifically required by any provision of this Agreement relating to such particular application or demand, no additional certificate need be furnished.

All such Officer's Certificates and Opinions of Counsel shall be in English or accompanied by a certified translation.

Each certificate or opinion provided for in this Agreement and delivered to the Fiscal Agent with respect to compliance with a condition or covenant provided for in this Agreement shall include: (a) a statement that the Person making such certificate or opinion has read such covenant or condition and any related definitions, (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based, (c) a statement that, in the opinion of such Person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with and (d) a

statement as to whether or not, in the opinion of such Person, such condition or covenant has been complied with.

Any certificate, statement or opinion of an Authorized Officer of the Issuer or the Guarantor may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such Authorized Officer knows that the certificate or opinion or representations with respect to the matters upon which his certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous. Any certificate, statement, Opinion of Counsel or Opinion of Tax Counsel may be based, insofar as it relates to factual matters, on information which is in the possession of the Issuer or the Guarantor, upon the certificate, statement or opinion of or representations by a director or officers of the Issuer or the Guarantor, unless such counsel knows that the certificate, statement or opinion or representations with respect to the matters upon which his certificate, statement or opinion may be based as aforesaid are erroneous.

Section 11.06. Payments Due on Saturdays, Sundays and Holidays. If the date of payment of interest on or principal of the Securities or the date fixed for redemption or repayment of any Security shall not be a Business Day, then payment of interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date for payment of principal of, or interest on, the Securities or the date fixed for redemption or repayment, and no interest shall accrue for the period after such date.

Section 11.07. New York Law to Govern. This Agreement, each Security and each Guarantee shall be deemed to be a contract under and governed by the laws of the State of New York, and for all purposes shall be construed in, and governed by, the laws of said state, without regard to conflict of laws principles.

Section 11.08. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

Section 11.09. Effect of Headings. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 11.10. Submission to Jurisdiction. Each of the Issuer and the Guarantor (a) agrees that any legal suit, action or proceeding arising out of or based upon the Agreement, the Securities or the Guarantees may be instituted in any United States state or federal court in the Borough of Manhattan in the City of New York, New York, (b) waives, to the extent it may effectively do so, any objection which it may have now or hereafter to the laying of the venue of any such suit, action or proceeding, and (c) irrevocably submits to the non-exclusive jurisdiction of any such court in any such suit, action or proceeding. Each of the Issuer and the Guarantor hereby designates Deutsche Telekom Inc. as its authorized agent to accept and acknowledge on its behalf service of any and all process which may be served in any such suit, action or proceeding in any such court and agrees that service of process upon said agent at its office at 14 Wall Street, Suite 6B, New York, New York 10005 (or at such other address in the Borough of Manhattan, The City of New York, as such agent may designate by written notice to the Issuer,

the Guarantor and the Fiscal Agent), and written notice of said service to either the Issuer or the Guarantor, mailed or delivered to it, at its address for notices as provided in Section 11.04, shall be deemed in every respect effective service of process upon the Issuer or the Guarantor, as the case may be, in any such suit, action or proceeding and shall be taken and held to be valid personal service upon the Issuer or the Guarantor, as the case may be, whether or not the Issuer or the Guarantor, as the case may be, shall then be doing, or at any time shall have done, business within the State of New York, and that any such service of process shall be of the same force and validity as if service were made upon it according to the laws governing the validity and requirements of such service in such state, and waives all claim of error by reason of any such service. Said designation and appointment shall be irrevocable until this Agreement shall have been satisfied and discharged in accordance with Article 9.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first written above.

DEUTSCHE TELEKOM
INTERNATIONAL FINANCE B.V.

By:____________________________
Name:
Title:

By:____________________________
Name:
Title:

DEUTSCHE TELEKOM AG

By:____________________________
Name:
Title:

By:____________________________
Name:
Title:

Deutsche Bank Trust Company Americas,
as Fiscal Agent, Paying Agent and
Registrar

By: Deutsche Bank National Trust Company

By:___________________________
Name:
Title:

By: ___________________________
Name:
Title:

EXHIBIT A

## FORM OF FACE OF RULE 144A GLOBAL SECURITY

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND (B) AGREES THAT THIS SECURITY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) TO DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V. (THE "ISSUER"), (2) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (5) PURSUANT TO ANOTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, PROVIDED THAT, AS A CONDITION TO THE REGISTRATION OF THE TRANSFER HEREOF, THE ISSUER OR THE FISCAL AGENT MAY REQUIRE THE DELIVERY OF ANY DOCUMENTS, INCLUDING AN OPINION OF COUNSEL, THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION. THE HOLDER HEREOF, BY, PURCHASING OR ACCEPTING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM THE HOLDER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

UNLESS THIS SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK LIMITED PURPOSE TRUST COMPANY ("DTC"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY SECURITY ISSUED THEREUPON IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN. TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE AGREEMENT REFERRED TO ON THE REVERSE HEREOF.

| | |
|---|---|
| | U.S.$ |
| No. Rule144A-<br>CUSIP No. [ ]<br>ISIN: [ ] | or such other amount<br>as is specified in the<br>Security Register |

DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V.
RULE 144A GLOBAL SECURITY

[ ]% Notes due 20[ ]

Deutsche Telekom International Finance B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) established under the laws of The Netherlands (the "Issuer"), for value received, hereby promises to pay on [ ] to Cede & Co. or registered assigns the principal sum of ______________________U.S. Dollars, or such other amount as is evidenced in the Security Register on such date, at the Issuer's office or agency for said purpose in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest, semi-annually in arrears, on [ ] and [ ] of each year, on the principal amount of this Security outstanding from time to time, in like coin or currency at the rate per annum set forth above at said office or agency from the [ ] or [ ], as the case may be, next preceding the date of this Security to which interest on the Securities has been paid or duly provided for, unless the date hereof is a date to which interest on the Securities has been paid or duly provided for, in which case from the date of this Security, or unless no interest has been paid or duly provided for on the Securities, in which case from [ ], 20[__] until payment of said principal sum has been made or duly provided for.

The interest so payable on any [ ] or [ ] will, except as otherwise provided in the Agreement referred to on the reverse hereof, be paid to the person in whose name this Security is registered on the [ ] or [ ] (each, a "Record Date") preceding such [ ] or [ ], whether or not such day is a Business Day.

This Security is being deposited with DTC acting as depositary, and registered in the name of Cede & Co., a nominee of DTC. Cede & Co., as Holder of record of this Security, shall be entitled to receive payments of principal and interest, other than principal and interest due at the maturity date. Payment of interest on this Security will be made in the manner specified in the Agreement referred to on the reverse hereof.

Reference is made to the further provisions set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Security shall not be valid or obligatory until the Certificate of Authentication hereon shall have been duly signed by the Fiscal Agent acting under the Agreement.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be duly executed.

DEUTSCHE TELEKOM
INTERNATIONAL FINANCE B.V.

By: ___________________________
Name:
Title:

By: ___________________________
Name:
Title:

Certificate of Authentication

This is one of the Global Securities described in the within-mentioned Agreement.

Dated: ____________, 20__

Deutsche Bank Trust Company Americas, as Fiscal Agent

By: Deutsche Bank National Trust Company

By:___________________________
Name:
Title:

## GUARANTEE

For value received and in accordance with the Fiscal and Paying Agency Agreement (the "Agreement") dated [ ], 20[__] among Deutsche Telekom International Finance B.V. (the "Issuer"), Deutsche Telekom AG, (the "Guarantor") and Deutsche Bank Trust Company Americas, a New York banking corporation, as fiscal agent, paying agent and registrar (the "Fiscal Agent") the undersigned Guarantor hereby unconditionally and irrevocably guarantees, on an unsecured and unsubordinated basis (such guarantee being referred to herein as the "Guarantee") the due and punctual payment of principal and interest and any Additional Amounts on this Security, whether at maturity or upon redemption or acceleration or otherwise, the due and punctual payment of interest on any overdue principal of or interest or Additional Amounts, if any, on this Security, to the extent lawful, and the due and punctual performance of all other obligations of the Issuer to the Holders, all in accordance with the terms set forth in the Agreement.

This Guarantee shall not be valid or obligatory for any purpose until the Certificate of Authentication on the Security upon which this Guarantee is endorsed shall have been executed by the Fiscal Agent under the Agreement by the manual signature of one of its authorized signatories.

IN WITNESS WHEREOF, the Guarantor has caused this instrument to be duly executed.

Dated: ____________, 20__

DEUTSCHE TELEKOM AG

By:____________________________
Name:
Title:

By:____________________________
Name:
Title:

EXHIBIT B

FORM OF FACE OF REGULATION S GLOBAL SECURITY

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT. DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V. (THE "ISSUER") HAS AGREED THAT THIS LEGEND SHALL BE DEEMED TO HAVE BEEN REMOVED ON THE 41ST DAY FOLLOWING THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE SECURITIES AND THE FINAL DELIVERY DATE WITH RESPECT THERETO.

UNLESS THIS SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK LIMITED PURPOSE TRUST COMPANY ("DTC"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY SECURITY ISSUED THEREUPON IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN. TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE AGREEMENT REFERRED TO ON THE REVERSE HEREOF.

No. Reg S-<br>CUSIP No. [ ]<br>ISIN: [ ]<br>Common Code: [ ]

U.S.$<br>or such other amount<br>as is specified in the<br>Security Register

DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V.
REGULATION S GLOBAL SECURITY

[ ]% Notes due 20[ ]

Deutsche Telekom International Finance B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) established under the laws of The Netherlands (the "Issuer"), for value received, hereby promises to pay on [ ] to Cede & Co. or registered assigns the principal sum of _________________ U.S. Dollars, or such other amount as is evidenced in the Security Register on such date, at the Issuer's office or agency for said purpose in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest, semi-annually in arrears, on [ ] and [ ] of each year, on the principal amount of this Security outstanding from time to time, in like coin or currency at the rate per annum set forth above at said office or agency from [ ] or [ ], as the case may be, next preceding the date of this Security to which interest on the Securities has been paid or duly provided for, unless the date hereof is a date to which interest on the Securities has been paid or duly provided for, in which case from the date of this Security, or unless no interest has been paid or duly provided for on the Securities, in which case from [ ], 20[__] until payment of said principal sum has been made or duly provided for. The interest so payable on any [ ] or [ ] will, except as otherwise provided in the Agreement referred to on the reverse hereof, be paid to the person in whose name this Security is registered on the [ ] or [ ] (each, a "Record Date") preceding such [ ] or [ ], whether or not such day is a Business Day.

This Security is being deposited with DTC acting as depositary, and registered in the name of Cede & Co., a nominee of DTC. Cede & Co., as Holder of record of this Security, shall be entitled to receive payments of principal and interest, other than principal and interest due at the maturity date. Payment of interest on this Security will be made in the manner specified in the Agreement referred to on the reverse hereof.

Reference is made to the further provisions set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Security shall not be valid or obligatory until the Certificate of Authentication hereon shall have been duly signed by the Fiscal Agent acting under the Agreement.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be duly executed.

DEUTSCHE TELEKOM
INTERNATIONAL FINANCE B.V.

By:____________________________
Name:
Title:

By:____________________________
Name:
Title:

Certificate of Authentication

This is one of the Global Securities described in the within-mentioned Agreement.

Dated: ____________, 20__

Deutsche Bank Trust Company Americas, as
Fiscal Agent

By: Deutsche Bank National Trust Company

By:____________________________
Name:
Title:

GUARANTEE

For value received and in accordance with the Fiscal and Paying Agency Agreement (the "Agreement") dated [ ], 20[__] among Deutsche Telekom International Finance B.V. (the "Issuer"), Deutsche Telekom AG, (the "Guarantor") and Deutsche Bank Trust Company Americas, a New York banking corporation, as fiscal agent, paying agent and registrar (the "Fiscal Agent") the undersigned Guarantor hereby unconditionally and irrevocably guarantees, on an unsecured and unsubordinated basis (such guarantee being referred to herein as the "Guarantee") the due and punctual payment of principal and interest and any Additional Amounts on this Security, whether at maturity or upon redemption or acceleration or otherwise, the due and punctual payment of interest on any overdue principal of or interest or Additional Amounts, if any, on this Security, to the extent lawful, and the due and punctual performance of all other obligations of the Issuer to the Holders, all in accordance with the terms set forth in the Agreement.

This Guarantee shall not be valid or obligatory for any purpose until the Certificate of Authentication on the Security upon which this Guarantee is endorsed shall have been executed by the Fiscal Agent under the Agreement by the manual signature of one of its authorized signatories.

IN WITNESS WHEREOF, the Guarantor has caused this instrument to be duly executed.

Dated: ____________, 20__

DEUTSCHE TELEKOM AG

By:___________________________
Name:
Title:

By:___________________________
Name:
Title:

EXHIBIT C

FORM OF FACE OF CERTIFICATED SECURITY

[Insert the following Legend for a Regulation S Certificated Security]

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT. DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V. (THE "ISSUER") HAS AGREED THAT THIS LEGEND SHALL BE DEEMED TO HAVE BEEN REMOVED ON THE 41ST DAY FOLLOWING THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE SECURITIES AND THE FINAL DELIVERY DATE WITH RESPECT THERETO.

[Insert the following Legend for a Rule 144A Certificated Security]

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND (B) AGREES THAT THIS SECURITY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) TO DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V. (THE "ISSUER"), (2) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (5) PURSUANT TO ANOTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, PROVIDED THAT, AS A CONDITION TO THE REGISTRATION OF THE TRANSFER THEREOF, THE ISSUER OR THE FISCAL AGENT MAY REQUIRE THE DELIVERY OF ANY DOCUMENTS, INCLUDING AN OPINION OF COUNSEL, THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION. THE HOLDER HEREOF, BY, PURCHASING OR ACCEPTING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT

WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM THE HOLDER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

No. U.S.$

DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V.

[ ]% Notes due 20[ ]

CERTIFICATED SECURITY

Deutsche Telekom International Finance B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) established under the laws of The Netherlands (the "Issuer"), for value received, hereby promises to pay on [ ] to [Holder of Certificated Security] or registered assigns the principal sum of ________________ U.S. Dollars at the Issuer's office or agency for said purpose in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest, semi-annually in arrears, on [ ] and [ ] of each year, on said principal sum in like coin or currency at the rate per annum set forth above at said office or agency from the [ ] or [ ], as the case may be, next preceding the date of this Security to which interest on the Securities has been paid or duly provided for, unless the date hereof is a date to which interest on the Securities has been paid or duly provided for, in which case from the date of this Security, or unless no interest has been paid or duly provided for on the Securities, in which case from [ ] until payment of said principal sum has been made or duly provided for. The interest so payable on any [ ] or [ ] will, except as otherwise provided in the Agreement referred to on the reverse hereof, be paid to the person in whose name this Security is registered on the [ ] or [ ] (each, a "Record Date") preceding such [ ] or [ ], whether or not such day is a Business Day; *provided* that, unless this Security is a Global Security, interest may be paid, at the option of the Issuer, by mailing a check therefor payable to the registered Holder entitled thereto at his last address as it appears on the Register.

Reference is made to the further provisions set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Security shall not be valid or obligatory until the Certificate of Authentication hereon shall have been duly signed by the Fiscal Agent acting under the Agreement.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be duly executed.

Dated: _______________, 20__

DEUTSCHE TELEKOM
INTERNATIONAL FINANCE B.V.

By:____________________________
Name:
Title:

By:____________________________
Name:
Title:

Certificate of Authentication

This is one of the Certificated Securities described in the within-mentioned Agreement.

Dated: _______________, 20__

Deutsche Bank Trust Company Americas, as
Fiscal Agent

By: Deutsche Bank National Trust Company

By:____________________________
Authorized Signatory

GUARANTEE

For value received and in accordance with the Fiscal and Paying Agency Agreement (the "Agreement") dated [ ], 20[__] among Deutsche Telekom International Finance B.V. (the "Issuer"), Deutsche Telekom AG, (the "Guarantor") and Deutsche Bank Trust Company Americas, a New York banking corporation, as fiscal agent, paying agent and registrar (the "Fiscal Agent") the undersigned Guarantor hereby unconditionally and irrevocably guarantees, on an unsecured and unsubordinated basis (such guarantee being referred to herein as the "Guarantee") the due and punctual payment of principal and interest and any Additional Amounts on this Security, whether at maturity or upon redemption or acceleration or otherwise, the due and punctual payment of interest on any overdue principal of or interest or Additional Amounts, if any, on this Security, to the extent lawful, and the due and punctual performance of all other obligations of the Issuer to the Holders, all in accordance with the terms set forth in the Agreement.

This Guarantee shall not be valid or obligatory for any purpose until the Certificate of Authentication on the Security upon which this Guarantee is endorsed shall have been executed by the Fiscal Agent under the Agreement by the manual signature of one of its authorized signatories

IN WITNESS WHEREOF, the Guarantor has caused this instrument to be duly executed.

Dated: ____________, 20__

DEUTSCHE TELEKOM AG

By:___________________________
Name:
Title:

By:___________________________
Name:
Title:

EXHIBIT D

[FORM OF REVERSE OF SECURITY]

1. General.

(a) This Security is one of a duly authorized issue of debt securities of the Issuer, issued or to be issued pursuant to the Fiscal and Paying Agency Agreement (the "Agreement") dated as of [ ], 20[__] among Deutsche Telekom International Finance B.V., a limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) established under the laws of The Netherlands, as the Issuer, Deutsche Telekom AG, a corporation (*Aktiengesellschaft*) organized under the laws of the Federal Republic of Germany, as Guarantor and Deutsche Bank Trust Company Americas, as Fiscal Agent, Paying Agent and Registrar. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Agreement. Reference is hereby made to the Agreement and all agreements supplemental thereto for a description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Fiscal Agent, the Issuer, the Guarantor and the Holder (the term "Holder" meaning the registered holders or registered holder) of the Securities.

(b) The Securities are the direct, unconditional, unsecured and unsubordinated general obligations of the Issuer. The Securities will rank *pari passu* among themselves, without any preference one over the other by reason of priority of date of issue or otherwise, and at least equally with all other outstanding unsecured and unsubordinated general obligations of the Issuer.

(c) The Guarantees are the unconditional and irrevocable, unsecured and unsubordinated general obligations of the Guarantor. The Guarantees will rank *pari passu* among themselves, without any preference one over the other by reason of priority of date of issue or otherwise, and at least equally with all other outstanding unsecured and unsubordinated general obligations of the Guarantor.

(d) No reference herein to the Agreement and no provision of this Security or of the Agreement shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and interest on this Security at the place, times, and rate, and in the currency, herein prescribed.

2. Additional Amounts.

If any deduction or withholding for any present or future taxes or other governmental charges of the jurisdiction (or any political subdivision or taxing authority thereof or therein) in which the Issuer or the Guarantor is incorporated, shall at any time be required by such jurisdiction (or any such political subdivision or taxing authority) (each a "Relevant Jurisdiction") in respect of any amounts to be paid by the Issuer of principal of or interest on this Security, or by the Guarantor under the Guarantees, the Issuer or the Guarantor, as the case may be, will pay to the Holder of this Security such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts paid to such Holder of this Security shall be not less than the amounts specified in this Security or coupon to which such Holder is entitled;

provided, however, that the Issuer or the Guarantor, as the case may be, shall not be required to make any payment of additional amounts for or on account of: (a) any tax or other governmental charge which would not have been imposed but for the existence of any present or former connection between such Holder and the Relevant Jurisdiction (other than the mere holding of this Security and the receipt of payments thereon), including, without limitation, such Holder being or having been a citizen or resident thereof or being or having been present or engaged in trade or business therein or having or having had a permanent establishment therein; (b) any tax or other governmental charge which would not have been imposed but for the status of such Holder as an individual resident of a member state of the European Union; (c) any tax or other governmental charge that would not have been imposed but for a failure by the Holder or the beneficial owner of this Security to comply with any applicable certification, information, identification, documentation or other reporting requirements concerning the nationality, residence, identity or connection with the Relevant Jurisdiction if such compliance is required as a precondition to relief or exemption from such tax or other governmental charge (including without limitation a certification that such Holder is not resident in the Relevant Jurisdiction); (d) any tax or other governmental charge which would not have been imposed but for a change in law that becomes effective more than 30 days after a payment by the Issuer on this Security, or by the Guarantor under the Guarantees, as the case may be, becomes due and payable, or is duly provided for and notice thereof is duly published, whichever occurs later; (e) any tax or other governmental charge required to be withheld by any Paying Agent from a payment on the Securities, if such payment can be made without such deduction or withholding by any other Paying Agent; or (f) any combination of items (a), (b), (c), (d) and (e) above. The foregoing provisions shall apply mutatis mutandis to any withholding or deduction for or on account of any present or future taxes or governmental charges of whatever nature of any jurisdiction in which any successor Person to the Issuer or the Guarantor, as the case may be, is organized, or any political subdivision or taxing authority thereof or therein. As used in (a), (b) and (c) above, references to Holder shall include a fiduciary, settler, beneficiary, member or shareholder of, or possessor of a power over, such Holder, if such Holder is an estate, trust, partnership or corporation. Subject to the foregoing provisions, whenever in the Agreement there is mentioned, in any context, the payment of the principal of or any premium or interest on, or in respect of, the Securities or the net proceeds received on the sale or exchange of the Securities, such mention shall be deemed to include mention of the payment of additional amounts provided for in this Section 2 to the extent that, in such context, additional amounts are, were or would be payable in respect thereof pursuant to the provisions of this Section 2 and express mention of the payment of additional amounts (if applicable) in any provisions hereof shall not be construed as excluding additional amounts in those provisions hereof where such express mention is not made.

3. Discharge.

If at any time (a) the Issuer shall have paid or caused to be paid in full the principal of and interest on all Securities Outstanding under the Agreement, or (b) the Issuer shall have delivered to the Fiscal Agent for cancellation all Securities Outstanding theretofore authenticated (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.05 of the Agreement) or (c) all Securities not theretofore delivered to the Fiscal Agent for cancellation (i) have become due and payable, (ii) will become due and payable in accordance with their terms within one year or (iii) are to be, or have been, called for redemption pursuant to Article 10 of the Agreement within one year under

arrangements satisfactory to the Fiscal Agent for the giving of notice of redemption and, in any such case, the Issuer shall have irrevocably deposited or caused to be deposited with the Fiscal Agent as trust funds in irrevocable trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities, (A) cash in United States Dollars (other than monies repaid by the Fiscal Agent or any Paying Agent to the Issuer in accordance with Section 9.05 of the Agreement) in an amount, or (B) U.S. Government Obligations which through the payment of interest thereon and principal thereof in accordance with their terms will provide not later than the due date of any payment, cash in United States Dollars in an amount, or (C) any combination of (A) and (B), sufficient to pay all of the principal of, and interest (and Additional Amounts, if any) on, all such Securities not theretofore delivered to the Fiscal Agent for cancellation, on the dates such payments are due in accordance with the terms of the Securities and all other amounts payable under the Agreement by the Issuer; then the Agreement shall cease to be of further effect with respect to the Securities and the Issuer and the Guarantor shall be discharged from any and all obligations hereunder, *in each case except as to* (A) rights of registration of transfer and exchange, (B) substitution of apparently mutilated, defaced, destroyed, lost or stolen Securities, (C) rights of Holders to receive payments of principal thereof and interest thereon (including the right to receive from or on behalf of the Issuer payments of any Additional Amounts due pursuant to Section 3.04 of the Agreement), (D) the rights, obligations and immunities of the Agents under the Agreement, (E) the rights of the Holders as beneficiaries hereof with respect to the property so deposited with the Fiscal Agent payable to all or any of them and (F) the obligations of the Issuer under Section 3.02 of the Agreement; and the Issuer shall cause the Fiscal Agent, on demand of the Issuer accompanied by an Officer's Certificate and an Opinion of Counsel and at the cost and expense of the Issuer, to execute proper instruments acknowledging such satisfaction of and discharging the Agreement. The Issuer and the Guarantor shall agree to reimburse the Fiscal Agent for any costs or expenses thereafter reasonably and properly incurred and to compensate the Fiscal Agent for any services thereafter reasonably and properly rendered by the Fiscal Agent in connection with the Agreement or the Securities.

4. Covenant Defeasance.

At the Issuer's or the Guarantor's option, the Issuer, or the Guarantor, as the case may be, shall cease to be under any obligation to comply with any term, provision or condition set forth in Sections 3.07 and 4.01(c) of the Agreement, and the Guarantor shall cease to be under any obligation under the Guarantees, and noncompliance with such Sections or the Guarantor's obligations under the Guarantees shall not give rise to any Event of Default under Section 4.01(b) of the Agreement ("Covenant Defeasance"), with respect to the Securities at any time after the applicable conditions set forth below have been satisfied:

(a) the Issuer or the Guarantor, as the case may be, shall have irrevocably deposited or caused to be deposited with the Fiscal Agent as trust funds in irrevocable trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders, (i) cash in United States Dollars in an amount, or (ii) U.S. Government Obligations which through the payment of interest thereon and principal thereof in accordance with their terms will provide not later than the due date of any payment cash in United States Dollars in an amount, or (iii) any combination of (i) and (ii), sufficient to pay all of the principal of, and interest and Additional Amounts on,

the Securities then Outstanding on the dates such payments are due in accordance with the terms of such Securities;

(b) no Event of Default under, or event which, with notice, or lapse of time or both, would become an Event of Default under Section 4.01(e), 4.01(f), 4.01(g) or 4.01(h) of the Agreement shall have occurred and be continuing on the date of such deposit;

(c) the Issuer or the Guarantor, as the case may be, shall have delivered to the Fiscal Agent an Opinion of Tax Counsel with respect to U.S. federal income tax matters to the effect that the Beneficial Owners of Securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the exercise of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would be the case if such Covenant Defeasance had not occurred;

(d) the Issuer or the Guarantor, as the case may be, shall have delivered to the Fiscal Agent an Opinion of Tax Counsel in its jurisdiction of incorporation with respect to tax matters in such jurisdictions of incorporation to the effect that such deposit and related Covenant Defeasance will not cause the Holders, other than Holders who are or who are deemed to be residents of such jurisdiction of incorporation or use or hold or are deemed to use or hold their Securities in carrying on a business in such jurisdiction of incorporation, to recognize income, gain or loss for income tax purposes in such jurisdiction of incorporation, and to the effect that payments out of the trust fund will be free and exempt from any and all withholding and other income taxes of whatever nature of such jurisdiction of incorporation or any political subdivision thereof or therein having power to tax, except in the case of Securities beneficially owned (x) by a Person who is or is deemed to be a resident of such jurisdiction of incorporation or (y) by a Person who uses or holds or is deemed to use or hold such Securities in carrying on a business in such jurisdiction of incorporation; and

(e) the Issuer or the Guarantor, as the case may be, shall have delivered to the Fiscal Agent an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to such Covenant Defeasance have been complied with.

5. Optional Tax Redemption.

This Security may be redeemed at the option of the Issuer or the Guarantor, in whole or in part, at any time at a Redemption Price equal to the principal amount hereof plus accrued interest to the date fixed for redemption if, as a result of any change in or amendment to the laws or any regulations or rulings promulgated thereunder of the jurisdiction (or of any political subdivision or taxing authority thereof or therein) in which the Issuer or the Guarantor is incorporated (or, in the case of a successor Person to the Issuer or the Guarantor, of the jurisdiction in which such successor Person is organized or any political subdivision or taxing authority thereof or therein) or any change in the official application or interpretation of such laws, regulations or rulings, or any change in the official application or interpretation of, or any execution of or amendment to, any treaty or treaties affecting taxation to which such jurisdiction or such political subdivision or taxing authority (or such other jurisdiction or political subdivision or taxing authority) is a party, which change, execution or amendment becomes effective on or after the date specified pursuant to the terms of this Security (or in the case of a

successor Person to the Issuer or the Guarantor, the date on which such successor Person became such pursuant to Sections 8.01 and 8.02, the date of such assumption), (i) the Issuer or the Guarantor (or such successor Person or such Subsidiary) is or would be required to pay additional amounts with respect to the Securities or the Guarantees, as the case may be, on the next succeeding Interest Payment Date as described in Section 3.05 of the Agreement or (ii) the Guarantor or any Subsidiary of the Guarantor is or would be required to deduct or withhold tax on any payment to the Issuer to enable the Issuer to make any payment of principal, premium, if any, or interest and, in each case, the payment of such additional amounts in the case of (i) above or such deductions or withholding in the case of (ii) above cannot be avoided by the use of any reasonable measures available to the Issuer, the Guarantor or the Subsidiary. Prior to the giving of notice of redemption of this Security pursuant to this section, the Issuer or the Guarantor will deliver to the Fiscal Agent an Officer's Certificate, stating that the Issuer or the Guarantor is entitled to effect such redemption and setting forth in reasonable detail a statement of circumstances showing that the conditions precedent to the right of the Issuer or the Guarantor to redeem the Securities pursuant to this Section have been satisfied.

Further, if, pursuant to Section 8.01(3)(a) of the Agreement, a Person into which the Issuer or the Guarantor is merged or to whom the Issuer or the Guarantor has conveyed, transferred or leased its properties or assets has been or would be required to pay any additional amounts as therein provided, this Security may be redeemed at the option of such Person in whole, or in part, at any time, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. Prior to the giving of notice of redemption of the Securities pursuant to the Agreement, such Person shall deliver to the Fiscal Agent an Officer's Certificate, stating that such Person is entitled to effect such redemption and setting forth in reasonable detail a statement of circumstances showing that the conditions precedent to the right of such Person to redeem this Security pursuant to this Section have been satisfied.

6. Optional Redemption.

The Issuer may, at its option, redeem this Security as a whole or in part at any time, upon due notice as described in Section 10.03 of the Agreement, at a redemption price equal to the greater of (1) 100% of the principal amount of this Security plus accrued interest and Additional Amounts, if any, to the Redemption Date; or (2) as determined by the Quotation Agent, the sum of the present values of the remaining scheduled payments of principal and interest on this Security (not including any portion of such payments of interest accrued as of the Redemption Date), plus accrued but unpaid interest and Additional Amounts, if any. Such present values shall be determined by discounting the remaining principal and interest payments to the Redemption Date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months), using the Adjusted Treasury Yield. The following terms shall have the meanings ascribed below:

> "Adjusted Treasury Yield" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date plus [ ] basis points.

"Comparable Treasury Issue" means the U.S. Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Securities to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Securities.

"Comparable Treasury Price" means, with respect to any redemption date, the average of the Quotation Agent's Quotations for the redemption date.

"Independent Investment Banker" means an independent investment banking institution of national standing in the United States appointed by the Issuer.

"Quotation Agent" means a reference treasury dealer that is a primary U.S. government securities dealer in New York City. The Independent Investment Banker will appoint the Quotation Agent after first consulting with the Guarantor.

"Quotation Agent's Quotations" means with respect to any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by the Quotation Agent at 5:00 p.m. on the third Business Day before the redemption date.

Whenever in this Section there is mentioned, in any context, the payment of the principal of this Security, such mention shall be deemed to mean the payment of the redemption price provided for in Section 10.02 of the Agreement to the extent that, in such context, such redemption price is, was or would be payable in respect thereof pursuant to the provisions of Section 10.02 of the Agreement.

7. Limitation on Liens.

So long as any of the Securities are Outstanding, but only up to the time all amounts of principal and interest have been placed at the disposal of the Fiscal Agent, neither the Issuer nor the Guarantor shall grant or permit to subsist any Encumbrance over any or all of its present or future assets, to secure any present or future Capital Market Indebtedness issued or guaranteed by the Issuer, the Guarantor or by any other Person without making effective provision whereby the Securities shall be secured equally and ratably with such Capital Market Indebtedness, so long as such Capital Market Indebtedness shall be so secured. For the avoidance of doubt, this section shall not apply to any security which is provided by the Issuer or any other subsidiary of the Guarantor over any claims of the Issuer or such other subsidiary of the Guarantor, as the case may be, against the Guarantor or any of its subsidiaries, which claims exist now or arise at any time in the future, as a result of the passing on of the proceeds from the sale by the Issuer or another subsidiary of the Guarantor, as the case may be, of any bonds, provided that any such security serves to secure obligations under such bonds of the Issuer or the other subsidiary of the Guarantor, as the case may be. Any security to be provided pursuant to the preceding sentence may also be provided to a person acting as trustee for the holders of such bonds.

8. Event of Default; Acceleration of Maturity; Waiver of Default.

"Event of Default", wherever used herein with respect to the Securities, means any one of the following events with respect to the Issuer or the Guarantor, as the case may be (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) the Issuer fails to pay principal or interest upon any Security within 30 days from the relevant due date; or

(b) the Issuer fails duly to perform any other obligation arising from any Security or the Guarantor fails to perform any obligation arising from the Guarantee which failure is not capable of remedy or, if such failure is capable of remedy, such failure continues for more than 60 days after any Holder of the Securities Outstanding affected thereby has given written notice thereof to the Issuer, Guarantor and the Fiscal Agent; or

(c) (i) any Capital Market Indebtedness of the Issuer or the Guarantor becomes prematurely repayable as a result of a default in respect of the terms thereof; or

(ii) the Issuer or the Guarantor fails to fulfill any payment obligation in excess of EUR 25,000,000 or the equivalent thereof under any Capital Market Indebtedness or under any guarantee or suretyship given for any Capital Market Indebtedness of any other Person within 30 days from its due date or, in the case of a guarantee or suretyship, within 30 days after the guarantee or suretyship has been invoked, unless the Issuer or the Guarantor shall contest in good faith that such payment obligation exists or is due or that such guarantee or suretyship has been validly invoked; or

(iii) if a security granted in respect of any Capital Market Indebtedness or any guarantee or suretyship therefor is enforced on behalf of or by the creditor(s) entitled thereto;

(d) the Issuer or the Guarantor announces its inability to meet its financial obligations or ceases its payments; or

(e) a court opens insolvency proceedings against the Issuer or the Guarantor, or the Issuer or the Guarantor applies for or institutes such proceedings or offers or makes an arrangement for the benefit of its creditors generally, or the Issuer applies for a "*surseance van betaling*" (within the meaning of the Bankruptcy Act (*Faillissementswet*) of The Netherlands); or

(f) the Issuer or the Guarantor goes into liquidation unless this is done in connection with a merger, or other form of combination with another company and such company assumes all obligations contracted by the Issuer or the Guarantor, as the case may be, in connection with this issue; or

(g) any governmental order, decree or enactment shall be made in or by The Netherlands or the Federal Republic of Germany whereby the Issuer or the Guarantor is prevented from observing and performing in full its obligations as set forth in this Agreement and in the Guarantee, respectively, and this situation is not cured within 90 days; or

(h) the Guarantee ceases to be valid and legally binding for any reason whatsoever.

If an Event of Default with respect to Outstanding Securities of the Issuer occurs and is continuing, then in every such case the Holders of not less than 25% in principal amount of the Outstanding Securities of the Issuer may declare the principal amount of the Securities to be due and payable immediately, by a notice in writing to the Issuer and the Guarantor with a copy to the Fiscal Agent, specifying such principal amount and upon any such declaration such specified amount shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to the Securities has been made and before a judgment or decree for payment of the money due has been obtained by the Fiscal Agent as hereinafter in this Section provided, the Holders of a majority in principal amount of the Outstanding Securities, by written notice to the Issuer, the Guarantor and the Fiscal Agent, may rescind and annul such declaration and its consequences if:

(1) the Issuer or the Guarantor has paid or deposited with the Fiscal Agent a sum sufficient to pay:

(A) all overdue interest on the Securities,

(B) the principal of (and premium, if any, on) any Securities which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in the Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in the Securities, and

(D) all sums paid or advanced by the Fiscal Agent hereunder and the reasonable compensation, expenses, disbursements and advances of the Fiscal Agent, its agents and counsel;

and

(2) all Events of Default with respect to the Securities, other than the non-payment of the principal of the Securities which have become due solely by such declaration of acceleration, have been cured or waived as provided in this Section.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

The Holders of a majority in aggregate principal amount of the Securities then Outstanding may, by written notice to the Issuer and to the Fiscal Agent, waive all defaults and rescind and annul such declaration and its consequences, except a default

(1) in the payment of the principal of or any premium or interest on any Security of such series of the Issuer, or

(2) in respect of a covenant or provision hereof which under Article Seven cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected;

and no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or impair any right consequent thereon.

9. Rights and Remedies Cumulative; Delay or Omission Not Waiver of Default.

Except as provided in Section 2.05 of the Agreement, no right or remedy herein conferred upon or reserved to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No delay or omission of any Holder of any of the Securities to exercise any right or remedy accruing upon any Event of Default occurring and continuing as aforesaid shall impair any such right or remedy or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; and every right and remedy given by the Agreement or by law to the Holders may be exercised from time to time, and as often as shall be deemed expedient, by the Holders.

10. Limitation on Suits; Unconditional Right of Holders to Institute Certain Actions.

No Holder of the Securities shall have any right to institute any proceeding, judicial or otherwise, with respect to this Agreement, the Guarantees, the Securities or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) the Holders of not less than 25% in principal amount of the Outstanding Securities shall have made written request to the Fiscal Agent to institute proceedings in respect of such Event of Default in its own name as Fiscal Agent hereunder;

(2) such Holder or Holders have offered to the Fiscal Agent reasonable indemnity and/or security satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;

(3) the Fiscal Agent for 60 days after its receipt of such notice, request and offer of indemnity and/or security has failed to institute any such proceeding; and

(4) no direction inconsistent with such written request has been given to the Fiscal Agent during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Agreement to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under the

Agreement, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

Notwithstanding any other provision of the Agreement and any provision of any Security, the right of any Holder to receive payment of the principal of and interest on such Security on or after the respective due dates expressed in such Security, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

11. Supplemental Agreements.

The Agreement permits the Issuer, the Guarantor and the Fiscal Agent, from time to time and at any time, with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities then Outstanding, evidenced as in the Agreement provided, to execute supplemental agreements for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Agreement or of any supplemental agreement or modifying in any manner the rights of the Holders under the Securities or the Guarantees; *provided*, that no such supplemental agreement shall (a) change the maturity of the principal of any Security, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of any installment of interest thereon, or change the place or currency of payment of principal of, or interest on, any Security, or change the Issuer's or the Guarantor's respective obligations to pay Additional Amounts, or impair or affect the right of any Holder to institute suit for the enforcement of any such payment on or after the due date thereof (or in the case of redemption, on or after the redemption date) or change in any manner adverse to the interests of the Holders the terms and provisions of the Guarantees in respect of the due and punctual payment of principal amount of the Securities then outstanding plus accrued and unpaid interest (and all Additional Amounts, if any) without the consent of the Holder of each Security so affected, or (b) reduce the aforesaid percentage of Securities, the consent of the Holders of which is required for any such supplemental agreement, without the consent of the Holders of all Securities then Outstanding.

12. Denominations; Exchange; Transfer.

This Security is in fully registered form without interest coupons. The Securities are issuable in denominations of U.S.$150,000 and integral multiples of U.S.$1,000 in excess thereof.

The Holder of this Security may only transfer or exchange this Security in accordance with the Agreement. The Registrar may require the Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes and fees required by law or permitted by the Agreement.

The Registrar shall not be required to exchange or register a transfer of this Security during the period of 15 days preceding the due date for the payment of any principal of or interest on the Securities.

13. Holders to Be Treated as Owners.

The Issuer, the Guarantor, the Fiscal Agent and any authorized agent of the Issuer, the Guarantor or the Fiscal Agent may treat the registered Holder hereof as the owners of this Security (whether or not this Security shall be overdue and notwithstanding any notation of ownership or other writing hereon) for the purpose of receiving payment of, or on account of, the principal hereof and, subject to the provisions on the face hereof and the Agreement, interest hereon and for all other purposes; and none of the Issuer, the Guarantor nor the Fiscal Agent nor any authorized agent of the Issuer, the Guarantor or the Fiscal Agent shall be affected by any notice to the contrary.

14. Incorporators, Stockholders, Officers and Directors of Issuer Exempt from Individual Liability.

No recourse under or upon any obligation, covenant or agreement contained in the Agreement, or in this Security, or because of any Indebtedness evidenced thereby, shall be had against any incorporator, as such, or against any past, present or future stockholder, officer or director, as such, of the Issuer, of the Guarantor or of any successor, either directly or through the Issuer, the Guarantor or any successor, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance of the Securities by the Holders hereof and as part of the consideration for the issue of this Security.

15. Covenant Not to Substitute the Issuer, Merge, Consolidate, Sell or Convey Property Except Under Certain Conditions.

Neither the Issuer nor the Guarantor shall consolidate with or merge (which term shall include for the avoidance of doubt a scheme of arrangement) into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless:

(a) in case the Issuer or the Guarantor shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Issuer or the Guarantor is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Issuer or the Guarantor substantially as an entirety shall be a corporation, partnership or trust, shall be organized and validly existing, under the laws of the jurisdiction of its organization shall expressly assume, by an agreement supplemental hereto executed and delivered to the Fiscal Agent in form reasonably satisfactory to the Fiscal Agent, the due and punctual payment of the principal of and any premium and interest (including all Additional Amounts and any additional amounts payable pursuant to subsection (c) below) on all the Securities and the performance or observance of every covenant of the Agreement on the part of the Issuer to be performed or observed, and, in the case of the Guarantor, the due and punctual performance of the Guarantees (including all Additional Amounts and any additional amounts payable pursuant to subsection (c) below) and the performance of every covenant of the Agreement on the part of the Guarantor to be performed or observed;

(b) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Issuer or the Guarantor as a result of such transaction as having been incurred by the Issuer or the Guarantor at the time of such transaction, no Event of

Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing;

(c) the Person formed by such consolidation or into which the Issuer or the Guarantor is merged or to whom the Issuer or the Guarantor has conveyed, transferred or leased its properties or assets (if such Person is organized and validly existing under the laws of a jurisdiction other than the United States, any State thereof, or the District of Columbia) agrees to indemnify the Holder of each Security against (a) any tax, assessment or governmental charge imposed on any such Holder or required to be withheld or deducted from any payment to such Holder as a consequence of such consolidation, merger, conveyance, transfer or lease; and (b) any costs or expenses of the act of such consolidation, merger, conveyance, transfer or lease; and

(d) the Issuer or the Guarantor, as the case may be, has delivered to the Fiscal Agent an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental agreement is required in connection with such transaction, such supplemental agreement comply with this Section and that all conditions precedent herein provided for relating to such transaction have been complied with.

16. Successor Corporation Substituted.

In case of any such consolidation, merger, sale, transfer, lease or conveyance, or substitution, and following such an assumption by a successor corporation, such successor corporation shall succeed to and be substituted for the Issuer or the Guarantor, as the case may be, with the same effect as if it had been named herein.

In the event of any such sale, transfer or conveyance (other than a conveyance by way of lease) by the Issuer, the Guarantor or any successor corporation which shall theretofore have become such successor corporation in the manner described in this Article, the Issuer, the Guarantor or such corporation, as the case may be, shall be discharged from all obligations and covenants under this Agreement, the Securities and the Guarantees and may be liquidated and dissolved.

17. Governing Law.

This Security, the Agreement and the Guarantee endorsed hereon shall be deemed to be a contract made under, governed by and construed in accordance with the laws of the State of New York without regard to the conflicts of law rules.

18. Submission to Jurisdiction.

Each of the Issuer and the Guarantor (a) agrees that any legal suit, action or proceeding arising out of or based upon the Agreement, the Securities or the Guarantees may be instituted in any United States state or federal court in the Borough of Manhattan in the City of New York, New York, (b) waives, to the extent it may effectively do so, any objection which it may have now or hereafter to the laying of the venue of any such suit, action or proceeding, and (c) irrevocably submits to the non-exclusive jurisdiction of any such court in any such suit, action or proceeding.

[THE FOLLOWING PROVISION TO BE INCLUDED ON ALL CERTIFICATED SECURITIES ONLY.]

In connection with any transfer of this Security occurring prior to the date which is the earlier of (i) the date of an effective registration statement under the Securities Act of 1933, as amended or (ii) six months after the later of the original issuance of this Security or the last date on which this Security was held by the Issuer or an Affiliate of the Issuer, the undersigned confirms that without utilizing any general solicitation or general advertising:

[*Check one*]

☐ (a) this Security is being transferred in compliance with the exemption from registration under the Securities Act of 1933, as amended, provided by Rule 144A thereunder;

*or*

☐ (b) this Security is being transferred other than in accordance with (a) above and documents are being furnished which comply with the conditions of transfer set forth in this Security and the Agreement.

If neither of the foregoing boxes is checked, the Fiscal Agent or other Registrar shall not be obligated to register this Security in the name of any Person other than the Holder hereof unless and until the conditions to any such transfer or registration set forth herein and in Section 2.06 of the Agreement shall have been satisfied.

Date: ______________________________ ______________________________

EXHIBIT E

FORM OF TRANSFER

FOR VALUE RECEIVED, the undersigned hereby transfers to

_______________________________________________________________
_______________________________________________________________
_______________________________________________________________

(PRINT NAME AND ADDRESS OF TRANSFEREE)

U.S.$_________________ principal amount of this Security, and all rights with respect thereto, and irrevocably constitutes and appoints ___________________ as attorney to transfer this Security on the books kept for registration thereof, with full power of substitution.

Dated__________________________________ _______________________________________
Certifying Signature

Signed_________________________________

SIGNATURE GUARANTEE: ______________________________

Signatures must be guaranteed by an “eligible guarantor institution” meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program (“STAMP”) or such other “signature guarantee program” as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

Notes:

(i) The signature on this transfer form must correspond to the name as it appears on the face of this Security in every particular.

(ii) A representative of the Holder should state the capacity in which he or she signs (*e.g.*, executor).

(iii) The signature of the person effecting the transfer shall conform to any list of duly authorized specimen signatures supplied by the registered Holder or in such other manner as the Fiscal Agent, acting in its capacity as transfer agent or registrar, or the relevant transfer agent, may require.

EXHIBIT F

FORM OF TRANSFER CERTIFICATE FOR TRANSFER FROM RULE 144A GLOBAL SECURITY TO REGULATION S GLOBAL SECURITY*

(Transfers pursuant to Section 2.04(a) of the Agreement)

Deutsche Bank
Trust Company
Americas,
as Fiscal Agent
Trust & Securities Services
60 Wall Street, MS NYC60-2710
New York, New York 10005
Attn: Corporates Team Deal Manager -
Deutsche Telekom Int'l. Fin. B.V.

Re: Deutsche Telekom International Finance B.V.
[ ]% Notes due 20[ ]

Reference is hereby made to the Fiscal and Paying Agency Agreement (the "Agreement") dated as of [ ], 20[__] among Deutsche Telekom International Finance B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) established under the laws of The Netherlands, as Issuer, Deutsche Telekom AG, a corporation (*Aktiengesellschaft*) incorporated under the laws of the Federal Republic of Germany, as Guarantor and Deutsche Bank Trust Company Americas, as Fiscal Agent, Paying Agent and Registrar. Capitalized terms used but not defined herein shall have the meanings given them in the Agreement.

This letter relates to U.S.$____________ aggregate principal amount of Securities that are held as a beneficial interest in the Rule 144A Global Security (CUSIP [ ]; ISIN [ ]) with the Depositary in the name of ____________ (the "Transferor") The Transferor has requested an exchange or transfer of such beneficial interest for an equivalent beneficial interest in the Regulation S Global Security (CUSIP [ ]; ISIN [ ]).

In connection with such request, the Transferor does hereby certify that such transfer has been effected in accordance with the transfer restrictions set forth in the Securities and:

(a) with respect to transfers made in reliance on Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), does certify that:

(i) the offer of the Securities was not made to a U.S. Person within the meaning of Regulation S;

* If the Security is a Certificated Security, appropriate changes need to be made to the form of this transfer certificate.

(ii) either (i) at the time the buy order is originated the transferee is outside the United States or the Transferor and any person acting on its behalf reasonably believe that the transferee is outside the United States or; (ii) the transaction was executed in, on or through the facilities of a designated offshore securities market described in paragraph (b) of Rule 902 of Regulation S and neither the Transferor nor any person acting on its behalf knows that the transaction was prearranged with a buyer in the United States;

(iii) no directed selling efforts have been made in the United States by the Transferor, an affiliate thereof or any person their behalf in contravention of the requirements of Rule 903 or 904 of Regulation S, as applicable;

(iv) the transaction is not part of a plan or scheme to evade the registration requirements of the U.S. Securities Act; and

(v) the Transferor is not the Issuer, a distributor of the Securities, an affiliate of the Issuer or any such distributor (except any officer or director who is an affiliate solely by virtue of holding such position) or a person acting on behalf of any of the foregoing.

(b) with respect to transfers made in reliance on Rule 144 the Transferor certifies that the Securities are being transferred in a transaction permitted by Rule 144 under the U.S. Securities Act.

You, the Issuer and the Guarantor are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby. Terms used in this certificate not otherwise defined have the meanings set forth in Regulation S.

______________________________________

By: ___________________________________
Name:
Title:
Date:

SIGNATURE GUARANTEE: ____________________________

Signatures must be guaranteed by an “eligible guarantor institution” meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program (“STAMP”) or such other “signature guarantee program” as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

EXHIBIT G-1

# FORM OF TRANSFER CERTIFICATE FOR TRANSFER FROM REGULATION S GLOBAL SECURITY TO RULE 144A GLOBAL SECURITY (TRANSFEREE)*

(Transfers pursuant to Section 2.04(b) of the Agreement)

Deutsche Bank
Trust Company
Americas,
as Fiscal Agent
Trust & Securities Services
60 Wall Street, MS NYC60-2710
New York, New York 10005
Attn: Corporates Team Deal Manager -
Deutsche Telekom Int'l. Fin. B.V.

Re: Deutsche Telekom International Finance B.V. (the "Issuer")
[ ]% Notes due 20[ ] (the "Securities")

Dear Sirs:

In connection with our proposed purchase of U.S.$___________ aggregate principal amount of the Securities, we confirm that:

We and, if applicable, each account for which we are acting, are "qualified institutional buyers" within the meaning of Rule 144A ("Rule 144A") under the Securities Act of 1933, as amended (the "Securities Act") and we are purchasing the Securities for our own account or for accounts as to which we exercise sole investment discretion. We are aware that the transfer of Securities to us is being made in reliance on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. We agree to comply with the restrictions on transfer set forth under "Transfer Restrictions" in the Offering Memorandum related to the Securities dated [ ], 20[__]. Prior to the date of this letter we have been given the opportunity to obtain from the Issuer the information referred to in Rule 144A(d)(4) under the Securities Act, and have either declined such opportunity or have received such information. We are aware that the transferor of the Securities to us is relying upon the foregoing representations in order to claim the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

* If the Security is a Certificated Security, appropriate changes need to be made to the form of this transfer certificate.

This certificate is being delivered to you in accordance with Section 2.04(b) of the Fiscal and Paying Agency Agreement dated [     ], 20[__] related to the Securities. You are entitled to rely upon this letter and you are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

______________________________

By: ___________________________
Name:
Title:
Date:

SIGNATURE GUARANTEE: ______________________

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

EXHIBIT G-2

# FORM OF TRANSFER CERTIFICATE FOR TRANSFER FROM REGULATION S GLOBAL SECURITY TO RULE 144A GLOBAL SECURITY (TRANSFEROR)*

(Transfers pursuant to Section 2.04(b) of the Agreement)

Deutsche Bank
Trust Company
Americas,
as Fiscal Agent
Trust & Securities Services
60 Wall Street, MS NYC60-2710
New York, New York 10005
Attn: Corporates Team Deal Manager -
Deutsche Telekom Int'l. Fin. B.V.

Re: Deutsche Telekom International Finance B.V.
[ ]% Notes due 20[ ]

Reference is hereby made to the Fiscal and Paying Agency Agreement (the "Agreement") dated as of [ ], 20[__] among Deutsche Telekom International Finance B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) established under the laws of The Netherlands, as Issuer, Deutsche Telekom AG, a corporation (*Aktiengesellschaft*) incorporated under the laws of the Federal Republic of Germany, as Guarantor and Deutsche Bank Trust Company Americas, as Fiscal Agent, Paying Agent and Registrar. Capitalized terms used but not defined herein shall have the meanings given them in the Agreement.

This letter relates to U.S.$_____________ aggregate principal amount of Securities that are held as a beneficial interest in the Regulation S Global Security (CUSIP [ ]; ISIN [ ]) with the Depositary in the name of _____________ (the "Transferor"). The Transferor has requested an exchange or transfer of such beneficial interest for an equivalent beneficial interest in the Rule 144A Global Security (CUSIP [ ]; ISIN [ ]).

In connection with such request, the Transferor does hereby certify that such transfer has been effected in accordance with the transfer restrictions set forth in the Securities and that:

CHECK ONE BOX BELOW:

☐ the Transferor is relying on Rule 144A under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), for exemption from the registration requirements of the U.S. Securities Act; it is transferring such

* If the Security is a Certificated Security, appropriate changes need to be made to the form of this transfer certificate.

Securities to a person it reasonably believes is a Qualified Institutional Buyer as defined in Rule 144A that purchases for its own account, or for the account of a Qualified Institutional Buyer, and to whom the Transferor has given notice that the transfer is made in reliance on Rule 144A and the transfer is being made in accordance with any applicable securities laws of any state of the United States; or

☐ the Transferor is relying on an exemption other than Rule 144A from the registration requirements of the U.S. Securities Act, subject to the Issuer's and the Fiscal Agent's right prior to any such offer, sale or transfer to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them.

You, the Issuer and the Guarantor are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby.

____________________________________

By: _________________________________
Name:
Title:
Date:

SIGNATURE GUARANTEE: __________________________

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

**Issuer**
Deutsche Telekom International Finance B.V.
Herengracht 124-128
1015 BT Amsterdam
The Netherlands

**Guarantor**
Deutsche Telekom AG
Friedrich-Ebert-Allee 140
53113 Bonn
Germany

**Agents**
***Fiscal Agent, Paying Agent, Registrar and Transfer Agent***
Deutsche Bank Trust Company Americas
60 Wall Street, 27th Floor
New York, NY 10005
U.S.A.

***Listing Agent and Luxembourg Paying Agent***
Deutsche Bank Luxembourg S.A.
2 boulevard Konrad Adenauer
1115 Luxembourg
Luxembourg

**Legal Advisers**
***To the Issuer and Guarantor***

*As to United States and German law*
Cleary Gottlieb Steen & Hamilton LLP
1 Liberty Plaza
New York, New York 10006
U.S.A.

*As to Dutch law*
Clifford Chance LLP
Droogbak 1A
1013 GE Amsterdam
The Netherlands

***To the Underwriters***

*As to United States law*
Sullivan & Cromwell LLP
Neue Mainzer Straße 52
60311 Frankfurt am Main
Germany

**Auditors of Deutsche Telekom AG**
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Moskauer Straße 19
40227 Düsseldorf
Germany

# Deutsche Telekom International Finance B.V.

**$1,000,000,000 2.250% Notes due March 6, 2017**

**$1,000,000,000 4.875% Notes due March 6, 2042**

**Guaranteed as to Payment**
**of Principal and Interest by**

## Deutsche Telekom AG

## Credit Suisse
## Morgan Stanley
## SOCIETE GENERALE

**Banca IMI**
**COMMERZBANK**
**Lloyds Securities**
**Mitsubishi UFJ Securities**
**RBS**