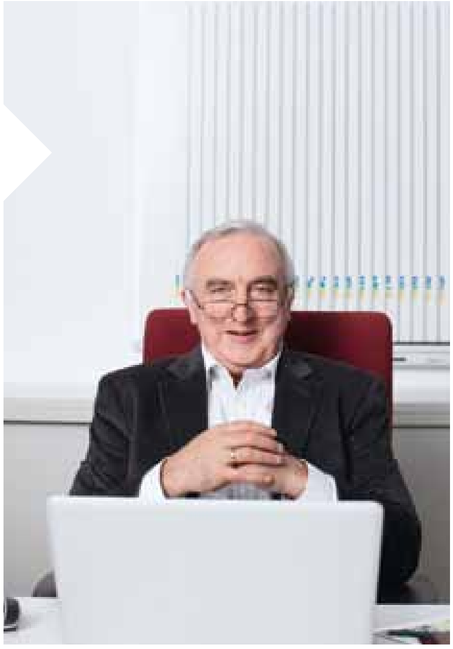
The 2011 financial year.



Whenever. Whatever. Wherever.

Life is for sharing.

Selected financial data of the Group.

		Change compared to prior year % [a]	2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €	2007 billions of €	2006 billions of €	2005 billions of €
Revenue and earnings									
Net revenue		(6.0)	58.7	62.4	64.6	61.7	62.5	61.3	59.6
Of which: domestic [a]	%	1.2	44.9	43.7	43.4	46.8	49.1	52.9	57.4
Of which: international [a]	%	(1.2)	55.1	56.3	56.6	53.2	50.9	47.1	42.6
Profit from operations (EBIT)		1.5	5.6	5.5	6.0	7.0	5.3	5.3	7.6
Net profit (loss)		(67.1)	0.6	1.7	0.4	1.5	0.6	3.2	5.6
Net profit (loss) (adjusted for special factors)		(15.2)	2.9	3.4	3.4	3.4	3.0	3.9	4.7
EBITDA [a, b, c]		15.6	20.0	17.3	19.9	18.0	16.9	16.3	20.1
EBITDA (adjusted for special factors) [a, b, c]		(4.0)	18.7	19.5	20.7	19.5	19.3	19.4	20.7
EBITDA margin (adjusted for special factors) [a]	%	0.6	31.8	31.2	32.0	31.6	30.9	31.7	34.8
Profitability									
ROCE	%	0.3	3.8	3.5	3.9	–	–	–	–
Statement of financial position									
Total assets		(4.1)	122.5	127.8	127.8	123.1	120.7	130.2	128.5
Shareholders' equity		(7.2)	39.9	43.0	41.9	43.1	45.2	49.7	48.6
Equity ratio [a]	%	(1.1)	32.6	33.7	32.8	35.0	37.5	38.2	37.8
Net debt [a, c]		(5.1)	40.1	42.3	40.9	38.2	37.2	39.6	38.6
Relative debt (Net debt/EBITDA (adjusted for special factors))		n.a.	2.1	2.2	2.0	2.0	1.9	2.0	1.9
Gearing (Net debt/Shareholders' equity)		0.0	1.0	1.0	1.0	0.9	0.8	0.8	0.8
Cash capex		(14.7)	(8.4)	(9.9)	(9.2)	(8.7)	(8.0)	(11.8)	(9.3)
Cash flows									
Net cash from operating activities		10.1	16.2	14.7	15.8	15.4	13.7	14.2	15.1
Free cash flow (before dividend payments, spectrum investment, PTC transaction and AT&T break-up fee) [a, c, d, e]		(1.9)	6.4	6.5	7.0	7.0	6.6	3.0	6.2
Net cash used in investing activities		13.4	(9.3)	(10.7)	(8.6)	(11.4)	(8.1)	(14.3)	(10.1)
Net cash used in financing activities		6.5	(6.0)	(6.4)	(5.1)	(3.1)	(6.1)	(2.1)	(8.0)
Employees									
Average number of employees (full-time equivalents, without trainees/student interns)	thousands	(4.8)	240	252	258	235	244	248	244
Revenue per employee [a]	thousands of €	(1.3)	244.0	247.2	250.8	262.5	256.5	246.9	244.3
T-Share – key figures									
Earnings per share (basic and diluted) in accordance with IFRS	€	(66.7)	0.13	0.39	0.08	0.34	0.13	0.74	1.31
Dividend per share	€	0.0	0.70	0.70	0.78	0.78	0.78	0.72	0.72
Total dividend [f]	billions of €	0.0	3.0	3.0	3.4	3.4	3.4	3.1	3.0
Share buy-back [g]	billions of €	n.a.	0.0	0.4	–	–	–	–	–
Total number of ordinary shares at the reporting date [h]	millions	0.0	4,321	4,321	4,361	4,361	4,361	4,361	4,198

[a] Calculated on the basis of millions for greater precision. Changes to percentages expressed as percentage points.
[b] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses.
[c] EBITDA, EBITDA adjusted for special factors, net debt, and free cash flow are non-GAAP figures not governed by the International Financial Reporting Standards (IFRS). They should not be viewed in isolation as an alternative to profit or loss from operations, net profit or loss, net cash from operating activities, the debt reported in the consolidated statement of financial position, or other Deutsche Telekom key performance indicators presented in accordance with IFRS. For detailed information and calculations, please refer to the section on "Development of business in the Group" of the combined management report in this Annual Report, page 76 et seq.
[d] Figures for 2006 include EUR 3.3 billion for the acquisition of licenses.
[e] Since the beginning of the 2007 financial year, Deutsche Telekom has defined free cash flow as cash generated from operations less interest paid and net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment. Prior-year figures have been adjusted accordingly.
[f] Subject to approval from the 2012 shareholders' meeting concerning the dividend payments for the 2011 financial year. For more detailed explanations, please refer to Note 28 in the notes to the consolidated financial statements, "Dividend per share" on page 214.
[g] Relating to the shareholder remuneration policy adopted in 2010 for the 2010 to 2012 financial years.
[h] Including treasury shares held by Deutsche Telekom AG.

Deutsche Telekom is an integrated telecommunications company that offers products and services from a single source. We provide fixed-network and mobile services, Internet, and TV for consumers, as well as ICT solutions for business customers and multinational corporations.

Our high-speed networks form the backbone of modern communication. Thanks to our Internet- and cloud-based services, our customers enjoy unrestricted and convenient access to information, communication, and entertainment.

We are one of the world's leading integrated telecommunications companies. Quality, security, and sustainability are our top priorities. We live up to our social responsibility by engaging in programs to protect the climate and the environment and in initiatives to promote education and integration.

Content.

The operating segments.

Germany. Pages 90 – 95

We enhanced profitability in our German operations despite increased competition and tighter regulation. At 39.9 percent, our (adjusted) EBITDA margin was significantly higher than last year. Our Entertain TV service generated customer growth of more than 33 percent. We gained one million mobile contract customers and maintained our position as market leader in terms of service revenues. Mobile data revenues grew by more than 30 percent, due above all to the sharp increase in smartphone sales and attractive rate plans for mobile Internet use. In the fixed network, the number of line losses was around 21 percent lower than in 2010 – a historical low.

	Change %	2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €
Total revenue	**(4.4)**	**24.0**	**25.1**	**25.4**	**26.4**
EBIT (profit from operations)	(9.6)	4.4	4.9	5.1	4.6
EBITDA (adjusted for special factors)	(0.2)	9.6	9.6	9.6	9.8
Average number of employees (full-time equivalents, without trainees/student interns)	(4.2)	76,028	79,364	84,584	89,961

Europe. Pages 96 – 101

We continued to step up the capacities and speeds of our European networks and saw the number of broadband lines climb by 4.5 percent to 4.6 million, our Internet television (IPTV) customer base grow by 24 percent, and the number of mobile contract customers expand by 3 percent to 27 million customers. Mobile data revenues grew by a substantial 15 percent, enabling us to maintain key growth courses despite the difficult economic situation. While the adjusted EBITDA margin climbed slightly, the development of revenue in our European operations was impacted by regulatory decisions and intensified competition.

	Change %	2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €
Total revenue	**(10.2)**	**15.1**	**16.8**	**19.6**	**15.9**
EBIT (profit from operations)	(20.8)	0.8	1.0	0.1	1.4
EBITDA (adjusted for special factors)	(8.8)	5.2	5.7	6.4	5.0
Average number of employees (full-time equivalents, without trainees/student interns)	(8.1)	60,105	65,435	69,277	39,174

United States. Pages 102 – 104

Despite intensified competition and the special situation at T-Mobile USA as a result of the planned deal with AT&T, revenue measured in dollars declined by just 3.3 percent while exchange rate fluctuations caused revenue measured in euros to decrease. The company's strong increase in data revenues was able to compensate in part for the decline in service revenues. On a U.S. dollar basis, service revenues grew by over 16 percent. The number of smartphone customers grew by over 34 percent to 11 million.

	Change %	2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €
Total revenue	**(7.9)**	**14.8**	**16.1**	**15.5**	**15.0**
EBIT (profit (loss) from operations)	n.a.	(0.7)	2.1	2.2	2.3
EBITDA (adjusted for special factors)	(7.8)	3.8	4.2	4.3	4.2
Average number of employees (full-time equivalents, without trainees/student interns)	(8.7)	34,518	37,795	38,231	36,076

Systems Solutions. Pages 105 – 107

T-Systems provides customized ICT solutions for corporate customers. Despite severe competition in the ICT market T-Systems' revenue increased by more than 2 percent, thanks especially to major deals signed in 2010 and 2011 with, e.g., E.ON, Daimler, and Everything Everywhere, and contracts on providing services in the cloud computing growth market. While on the one hand investments in quality assurance impacted on financial expenses, on the other T-Systems reported an all-time high in customer satisfaction as a result.

	Change %	2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €
Total revenue	**2.1**	**9.2**	**9.1**	**8.8**	**9.3**
EBIT (profit (loss) from operations)	n.a.	(0.04)	0.04	(0.01)	0.08
EBITDA (adjusted for special factors)	(8.0)	0.9	0.9	0.9	0.8
Average number of employees (full-time equivalents, without trainees/student interns)	1.3	48,224	47,588	45,328	46,095

Group Headquarters & Shared Services. Pages 108 – 109

This area performs strategic and cross-divisional management functions and is responsible for operating activities that are not directly related to our core business, such as financial accounting and procurement; it also includes units such as Real Estate Services, DeTeFleetServices GmbH, and Vivento. Vivento is responsible for providing employees with new employment opportunities as part of our staff restructuring program.

	Change %	2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €
Total revenue	**(1.0)**	**2.1**	**2.2**	**2.4**	**2.8**
EBIT (profit (loss) from operations)	n.a.	1.2	(2.5)	(1.2)	(1.3)
EBITDA (adjusted for special factors)	14.7	(0.7)	(0.9)	(0.3)	(0.2)
Average number of employees (full-time equivalents, without trainees/student interns)	(3.7)	21,494	22,312	20,181	23,581

For detailed tables on the development of the operating segments and Group Headquarters & Shared Services, please refer to the management report.

Editorial.

Whenever. Whatever. Wherever.

Dear readers,

The popularity of connected life and work is growing apace. People no longer want to have to be without Internet access or their personal contacts – whenever, wherever. School friends are invited to birthday parties via Facebook, doctors diagnose patients remotely by exchanging virtual information with them, businesses transact complex global deals using SAP solutions from the cloud.

For all of these customers, Deutsche Telekom offers products and services. This has long since ceased to be a far-off vision and is now part and parcel of our daily business.

The lifelines that feed this digital world and the hunger for ever greater data volumes are modern, high-speed networks. Deutsche Telekom builds and operates these networks – and the intelligent IT systems to go with them. This forms the basis of all of our products, from attractive rate plans for Internet access abroad, or our interactive TV service, through to flexible communication solutions for small and medium-sized enterprises.

On the following pages, our customers and partners talk about their personal experiences of these services. Enjoy reading our Annual Report.

Sincerely,

René Obermann

LTE

A milestone in modern network technology.

"LTE will become the new standard in mobile communications."

Ricky Hudi.

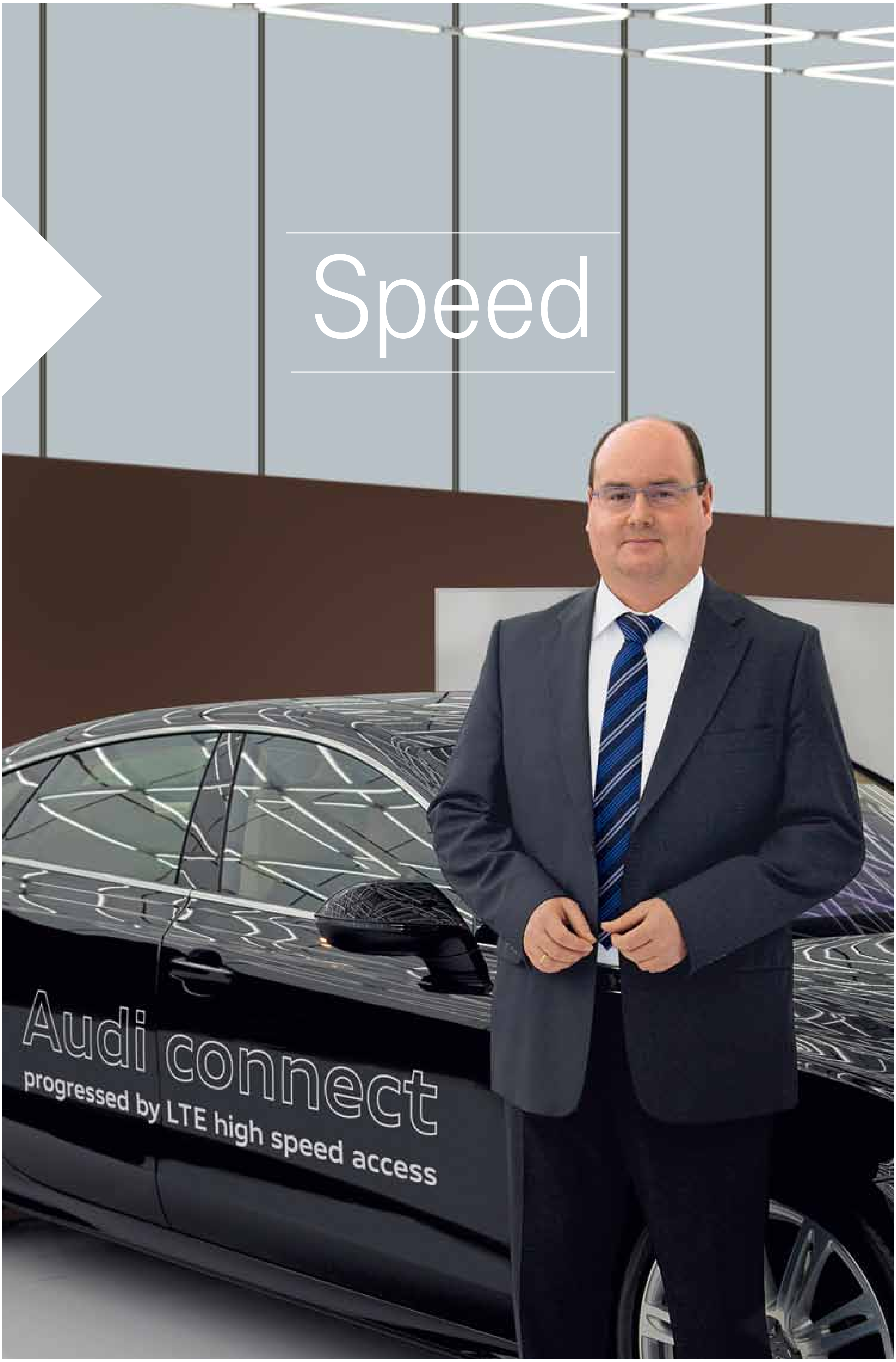
A data transfer rate of 100 Mbit/s – until just a few years ago, this kind of speed was still considered Utopian in mobile communications. But now a new era of the mobile Internet has been ushered in with the LTE (Long Term Evolution) standard. In Cologne in mid-2011, Deutsche Telekom switched on the first LTE high-speed network in a major German city. This was a successful test pilot not only for Telekom, but also for Audi, with both companies probing the tremendous possibilities that LTE opens up in the field of automotive networking. In an interview, Ricky Hudi, Head of Electrical and Electronic Development at AUDI AG since 2009, explains Audi's plans to use the high-speed network.

Cologne was connected up to the LTE network on July 1, 2011. This was a grand opening not only for Telekom, but also for Audi. How did it come about?

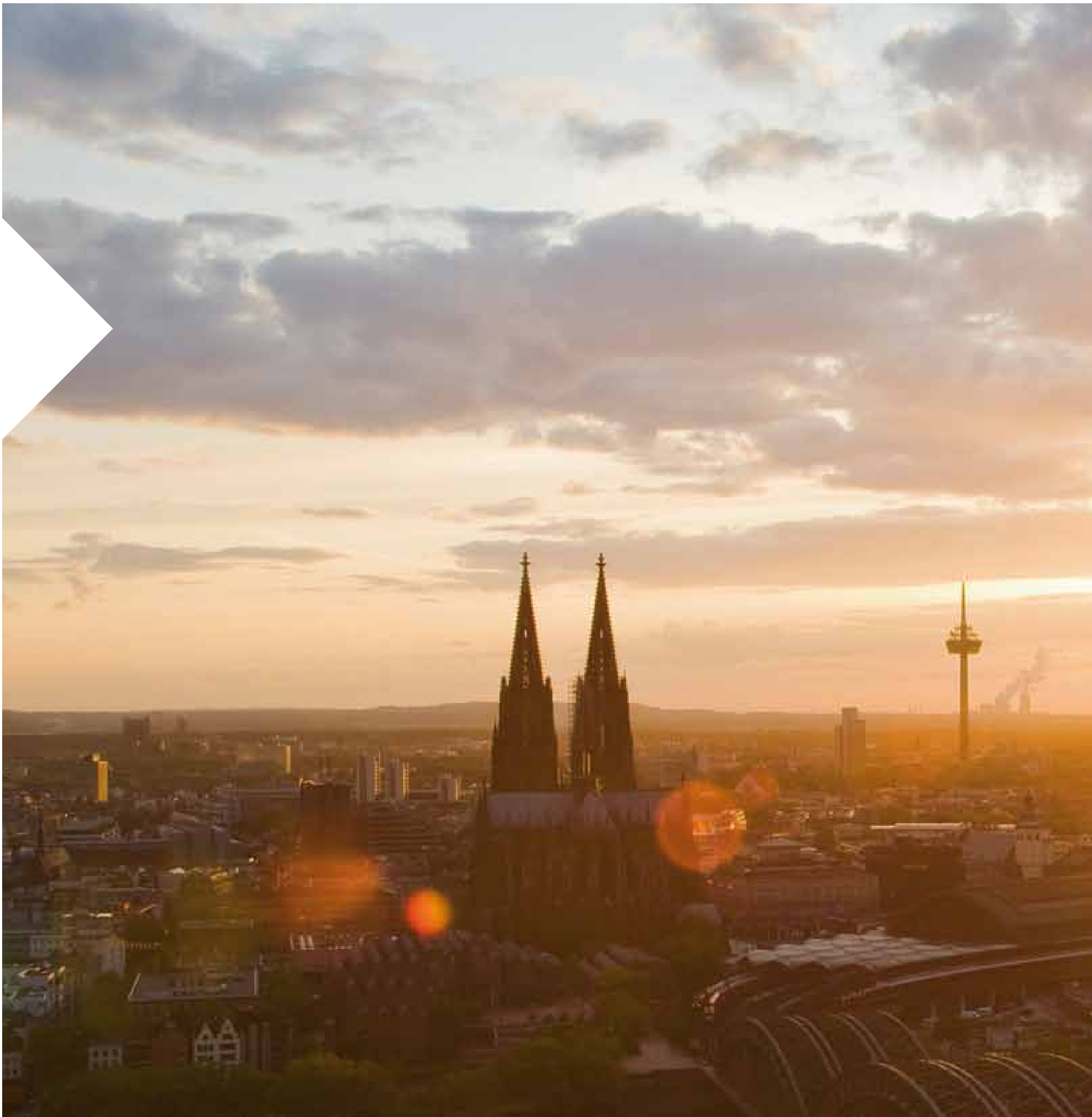
Audi is the leading provider of premium infotainment and aims to become the first manufacturer to bring the benefits of the new LTE mobile communications standard to its vehicles. Telekom and Audi have been working together for some time now, so developing a partnership in this field with Telekom as the LTE network operator right from the offset was a natural progression. Telekom was able to test the stability of the network across the entire city, while Audi collected key information for future infotainment features and convenience functions.

LTE means the mobile communications network is ready to handle the rapidly growing volume of data traffic. Telekom is thus meeting the needs of customers and their modern lifestyles. What developments in demand are you seeing among your customers?

We, too, are observing the desire among customers for a decisive move towards data applications in the car. They expect the features inherent in modern communications to be available in their cars, and this has to be fast and simple without suffering any loss of quality in terms of data transmission or function scope. We are tackling this challenge head on by taking on a pioneering role with our connect strategy. Audi connect has already opened the door to a comprehensive range of services for our customers. ▶



Ricky Hudi, Head of Electrical and Electronic Development, AUDI AG, at the Consumer Electronics Show (CES) in Las Vegas, United States.



Specifically, what does LTE enable in terms of Internet in the car that was not possible before?
Primarily we are talking about infotainment functions on a previously unseen scale. The new mobile communications standard enables extremely fast access to high-definition online content, as well as the latest applications and data from the cloud. High data transmission speeds of up to 100 Mbit/s will make it possible to watch HDTV or hold video conferences while the car is moving. Surfing the Internet using a personal input device and logging onto a mobile hotspot will become even easier.

The intensity of your work in this field, for which you are using testing equipment developed in-house, would suggest that you firmly believe in the future of LTE.
That's absolutely true. We want to continue building out our leadership vision and set the course today for the services of tomorrow. LTE will become the new standard in mobile communications, and we don't want to wait until that happens before we respond. We want to be in a position where we can turn round to our customers and offer them an innovative portfolio. In short, this means that as soon as the infrastructure is ready, so are we.

2011 – the year of the high-speed network for Deutsche Telekom.

High data volumes, a booming smartphone market and customer demand for high-speed networks.

It is precisely factors such as these that make the telecommunications industry a growth market. In Germany alone, data traffic has seen spectacular development, with around 400,000 terabytes flowing through Deutsche Telekom's networks every month in 2011. That is the equivalent of 200 trillion pages of print.

But data traffic is not only driving growth on the domestic market. Our national companies are evolving similarly. Croatia took the title of European data champion in 2011, reporting an increase in mobile data traffic of 159 percent compared with 2010. Across Europe as a whole, mobile data traffic has grown by 64 percent on average.

This hunger for ever more bandwidth in turn requires investment and innovation. To keep pace with this demand in future, we are working intensively on building out a nationwide, high-performance broadband network using a combination of mobile communications and fixed-network technologies. What is more, our success in doing so is reflected in top spots in the three key network tests – conducted by the Stiftung Warentest consumer testing organization, the Chip Online portal, and Connect magazine.

Even faster.
The installation of 100 LTE base stations is bringing the fourth generation in mobile communications technology (4G) to life in the pilot city of Cologne. Now that the first network is up and running, we are working to supply another 100 towns and cities across Germany with LTE high-speed networks.

Even better coverage.
In 2011 we closed around 2,000 gaps in rural areas by expanding the broadband network with LTE 800 mobile communications technology.

TelekomCloud

"I can access my files from the cloud wherever I am from my PC, laptop or smartphone – even on my TV."

Goran Milakovic.

The evening sun dips toward the horizon, its rays turning the glass of wine deep red. Goran Milakovic and his girlfriend are chilling out on a sunny vacation in Dubrovnik on the Adriatic Coast with friends and enjoying a taste of la dolce vita. The group are in high spirits and while waiting for their food in a cosy restaurant in the historic Old Town, Goran Milakovic recalls an anecdote from last New Year's Eve. **"The party was unbelievable! Just a minute – I'll show you what I'm talking about."** In just a few seconds he has taken out his smartphone and opened the photos from the party. It doesn't take many clicks before everyone's in the mood. **"And I can't remember what it was but this one song kept playing all night,"** says his girlfriend. Goran takes a quick look at his music and suddenly the opening bars to a song start playing on his smartphone. **"Yeah, that's it!"** she whoops, and they all carry on singing the song together.

The pictures and songs that Goran Milakovic opened on his smartphone that evening are stored in the Croatian media center Spremalica. He has plenty of space in this virtual archive to save personal files such as photos, music, and videos. **"I can access my files from the cloud wherever I am from my PC, laptop or smartphone – even on my TV. Regardless of what device I am using I can always open my personal archive and use all files with the right medium."** All content is stored online on a protected server. **"So all my data is safe if I ever lose my smartphone because it's saved in the cloud and not on the handset. I could always access it on another smartphone without any trouble."**

Independence

Goran Milakovic and his girlfriend Marina Jurak, Zagreb, Croatia.

Back home. The 25-year-old Croat lives and works in the capital, Zagreb. He has invited his friends around to look at the photos and videos from their vacation together. As a user of MAXtv, the IPTV product of the Croatian telecom provider Hrvatski Telekom – Croatia's answer to Entertain – Goran can also open files he has saved in the media center on an Internet-capable TV set. The friends make themselves comfortable on the couch and watch a slide-show of their holiday pictures on the widescreen TV. **"It's great that we don't all have to crowd around my computer. We can enjoy them in high resolution on the TV instead."**

He has also set his photo album in the media center to "share" so his friends have access to the fun memories from their vacation. The sharing function lets him specify exactly who can view, comment and download which files. **"It makes sharing large files much less complicated and means I don't have to send the pictures via e-mail or copy them onto a USB flash drive or external hard drive."**

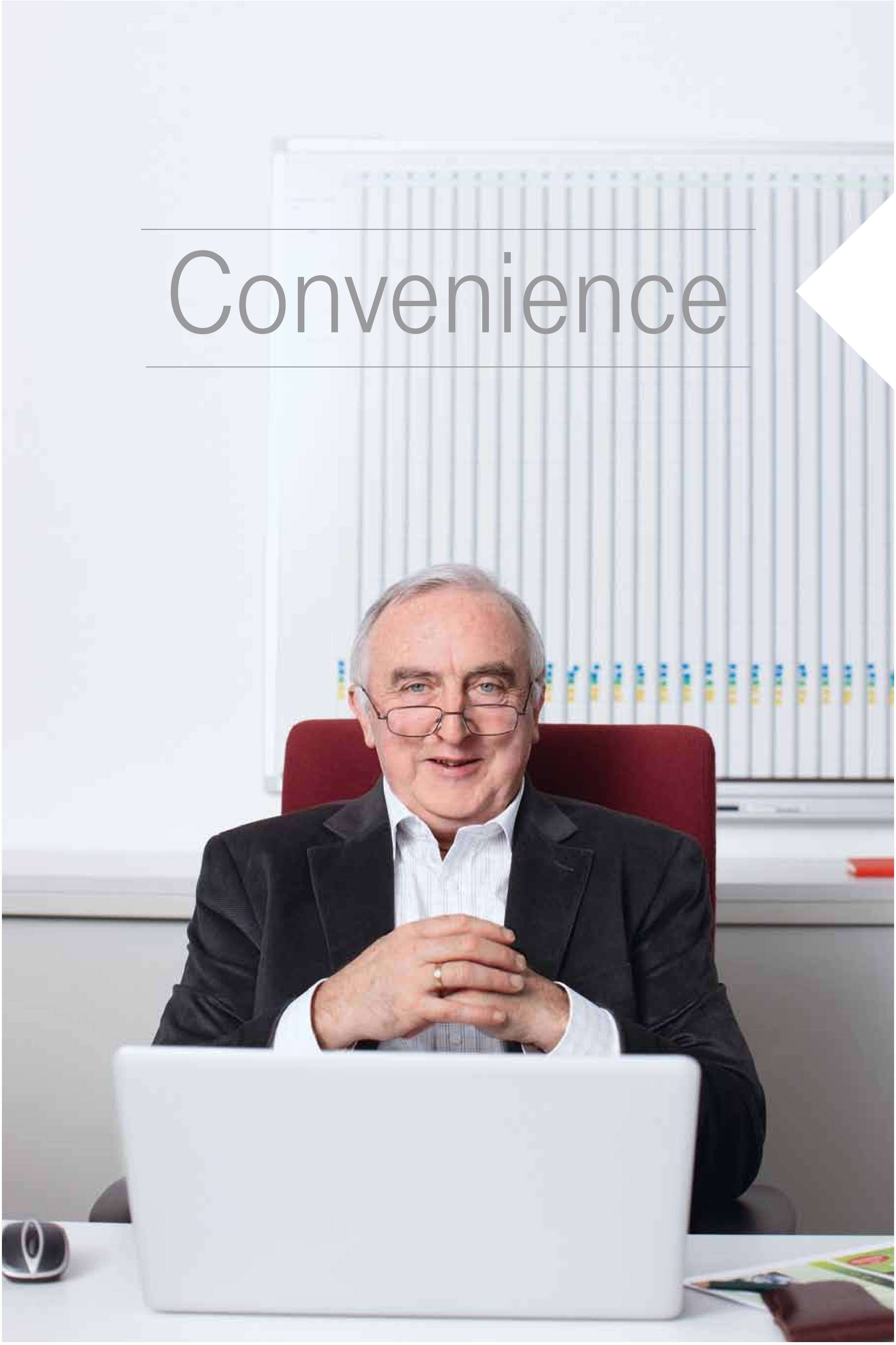
Goran Milakovic sees the virtual storage in Spremalica, which roughly translates to "little treasure chest," as a real enhancement. The managing director of an Internet consulting agency for website development, mobile applications, and online marketing literally makes a living from

his affinity for everything relating to communication technology. **"I can get incredibly driven when my job is to find out and test the entire range of functions. And there's loads to discover with Spremalica,"** says Milakovic enthusiastically, referring to the raft of possibilities it offers. **"It lets you link together several different applications in a really useful way – a very intelligent design indeed."** Another thing he really likes about Spremalica is that it is connected to MyPhonebook. This service enables automatic address book synchronization and gives you easy access to information such as e-mail addresses and phone numbers from several different devices. That way you know your phonebook is always up to date. **"The biggest advantage is that I can transfer and save my personal contact information from my smartphone to a secure server and draw on it at any time."**

Access your files and data from wherever you are with almost any Internet-capable device.

In Germany, too, Deutsche Telekom is placing a wide range of products and services in the TelekomCloud. The services are capable of meeting any user's needs. Consumers are entitled to 25 gigabytes of space for photos, videos, music, and e-mail. Business customers are offered cloud-based e-mail systems and server applications, while multinational corporations can select a customized package of cloud services that enable them to manage their business processes efficiently. Security is a top priority when it comes to cloud services. All data is saved in secure, certified computing centers and protected from unauthorized access.

Convenience



Siegfried Simolke, Head of Training at the megalearn training academy, Magdeburg, Germany.

DeutschlandLAN

“With DeutschlandLAN our communication is bundled into one solution. And because this solution comes entirely from the cloud, we have the flexibility to expand it at any time.”

Siegfried Simolke.

Siegfried Simolke is in a hurry. Today’s agenda is packed with visits to companies across the region interested in learning more about the services of megalearn, where Simolke is Head of Training. The Magdeburg-based IT and new media academy provides programs for retraining as an IT specialist, teaches basic programming to companies, and supports budding entrepreneurs as they set up their own businesses. On the way to his next appointment, Siegfried Simolke checks his e-mails and confirms the details of his next customer in megalearn’s central address book and calendar. **“It’s really handy that all the company’s applications are accessible via one standard user interface,”** he says before he’s interrupted by an incoming call on his cell phone. An assistant from the Dessau branch is ringing to tell him about a video conference in the afternoon to discuss course contents with his colleagues.

The presence management system had told her that Simolke was on the road and only contactable via cell phone. But she didn’t need to specifically call his cell phone to get in touch, because each megalearn employee has just one telephone number under which they can be contacted at any time. DeutschlandLAN has taken the stress out of communication for Siegfried Simolke and his colleagues. The first product of its kind for connected work, it bundles fixed-network, mobile, and PC communication into a one-stop package, opening the door to maximum flexibility and efficiency from which small and medium-sized companies benefit most. **“It’s like the solution was tailor-made just for us,”** says Simolke. **“We get our customers ready for the labor market of tomorrow and equip them with the skills they need to apply modern information and communication media as a useful tool. But that can only work, of course, if we use forward-looking solutions ourselves.”**

On top of high availability and the ability to communicate with other sites using video conferencing, the high-speed data lines are a real advantage for megalearn. **“Putting our e-learning courses online means uploading huge amounts of data but it’s so quick and easy now that we have broadband,”** says Simolke. DeutschlandLAN is attractive to businesses firstly thanks to the complete cost transparency it provides, with a fixed monthly charge and flat rates for internal and external calls. Secondly, it takes away the need to invest in hardware and software as what makes DeutschlandLAN really special is its use of the cloud – with integrated telecommunications and IT services coming straight from the net. **“That means our communications infrastructure can keep growing with us,”** says Simolke.

According to experts, in 2020 many companies will no longer have their own servers and instead switch to the cloud so they can choose an IT infrastructure that fits their needs.

Telephony and Internet services require a professional line that enables both upload and download speeds of up to 10 Mbit/s. With the DeutschlandLAN solution, the PABX and e-mail server are located exclusively in the cloud – essentially one of Deutsche Telekom's high-security computing centers based in Germany and tested by the technical inspectors at TÜV. All services are accessed via a secure Internet connection. It's a secure, hassle-free process, with Deutsche Telekom even looking after the administration and maintenance side.

Freedom

Agnieszka Stepien, Business Assistant, Warsaw, Poland.

Travel

& Surf

“Knowing what it costs to surf the net abroad before you go is fantastic! I can use my smartphone without having to worry.”

Agnieszka Stepien.

Whether it’s keeping in touch via e-mail, updating social networks, or reading up on travel destinations online, vacation pastimes like these are much more enjoyable when one crucial thing has been sorted in advance: the cost. **“Before, I was always worried about the expense of using the Internet abroad so I turned data roaming off completely to be on the safe side,”** says keen traveler Agnieszka Stepien from Warsaw. Thanks to the Travel & Surf data roaming add-on for a flat-rate fee, Deutsche Telekom takes the worry out of mobile e-mailing and surfing worldwide. Last summer, Agnieszka Stepien went to Spain on her summer vacation. **“Travel & Surf was perfect for my trip to Madrid. I used Google to explore the city and find out about all the places of interest. I was particularly taken by the bars and restaurants I found from reading insider tips online – places that would never be in a standard travel guide.”**

In the evening, 28-year-old Agnieszka relaxed, put her feet up, and shared her impressions of the day on Facebook. She also uploaded her holiday pictures to Flickr for her friends to see right away. On business trips abroad Agnieszka, who works for a Danish company, activates T-Mobile Poland’s Travel & Surf add-on on her smartphone. **“I fly to our head office in Denmark several times a year and it’s really handy to be able to keep up with my e-mails while I’m away from home.”**

The data passes come in various shapes and sizes. **“Depending on how long I’m away for, I either go for the one-day flat rate or the full-week option,”** she says. This keeps data roaming costs transparent. Travel & Surf also offers low-cost rate plans in all of Telekom’s roaming country groups.

TV

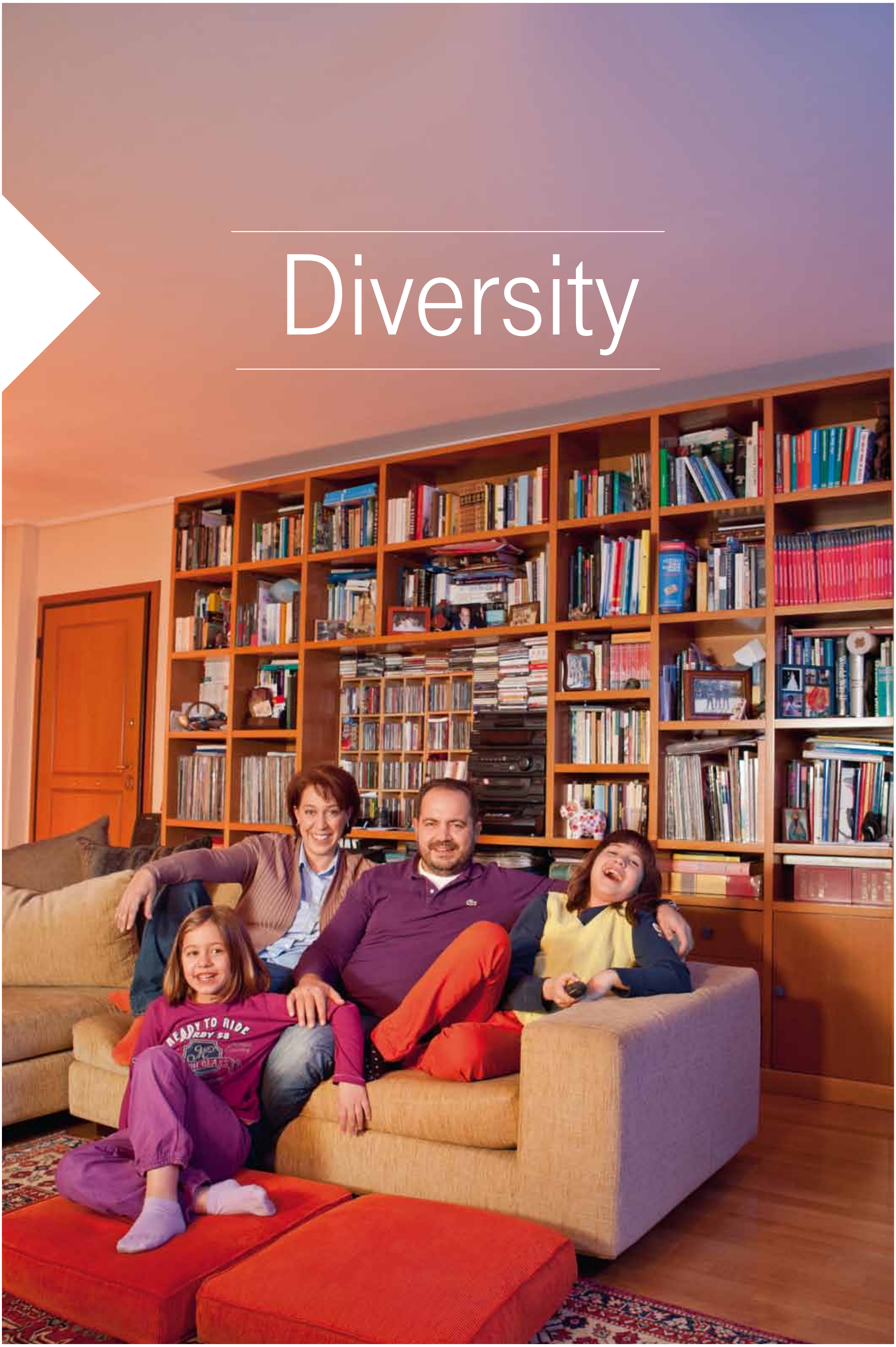
The European dimension.

"We really have the full works on TV: sport, news, children's programs, series, a lot of them in HD."

Kostas Daskarolis.

"Potato chips, beer, and OTE TV - that's all my friends and I need for the perfect soccer evening, as we can now watch matches from the top European leagues." Since Kostas Daskarolis opted for OTE TV via Satellite, his TV has become a showcase for international sporting events. And that's not all. While his two daughters are thrilled with all the children's channels, his wife doesn't have to miss any of her favorite series. **"Fortunately, they are not on at the same time as the soccer matches,"** says the 41-year-old with a chuckle. Like the Daskarolis family from Lycovryssi, Attica, some 60,000 Greek OTE customers enjoy a wide range of programs. The Deutsche Telekom subsidiary offers its pay-TV service under the name OTE TV. With OTE TV via Satellite customers have access to almost 50 channels from around the world, eight of them in HD (high definition) quality at no extra cost. New channels are being added all the time, most recently BBC World News. **"As I can speak three languages, I can watch different news channels to gain a good overview of world events,"** says Daskarolis. OTE TV via Conn-x is designed for those who, in addition to viewing the diverse range of programs, wish to use other services such as the online video library or the digital program-recording option. The Internet-based TV service offered in Greece is the equivalent of Deutsche Telekom's product Entertain, the undisputed leader in the German IPTV market. We also offer Entertain via satellite, making it possible for over 75 percent of all German households to receive the service. Whether in Greece, Germany, Hungary, Romania, Slovakia, Croatia, Montenegro or the F.Y.R.O. Macedonia – by constantly expanding our wide range of TV services, we are establishing a new dimension in TV entertainment across Europe.

Diversity



Daskarolis family, Lycovryssi, Attica, Greece.

Quality of life

Dr. Wolfram von Pannwitz, Head of Corporate Development at Charité hospital, Berlin, Germany.

Tele

medicine

“To us, medical advancement also means integrating new communications technologies into day-to-day clinical practice.”

Dr. Wolfram von Pannwitz.

The patients at the Charité hospital in Berlin look astonished. Hasn’t the attending physician forgotten something crucial? Instead of a pile of patient records packed with test results, x-rays and paperwork, he’s simply carrying a tablet PC. It soon becomes quite clear, though, that that’s all he needs as the handheld device contains all the necessary information. In just a few finger swipes, the physician has direct access to all patient data, saving him a huge amount of time and effort. **“We call this the digital hospital round. It’s part of Charité’s ‘digital workstation of the future’ concept,”** explains Dr. Wolfram von Pannwitz, Head of Corporate Development at Charité. His department looks after industry collaboration and thus is also responsible for the newly established partnership with Deutsche Telekom. **“We want to work together to test new advancements in information and communications technology in practice, as one thing is certain: networked communication is increasingly gaining a foothold in healthcare,”** he says.

A second element of the project is the ongoing development of the Digital Second Opinion system. **“This system will help us obtain a medical opinion from our specialists, even if the patient is not on site,”** says Dr. von Pannwitz. Experts from Charité use video conferencing to talk to the patient and their attending physician. If necessary, diagnostic information and test results can be called up directly on the monitor. **“Which means that in future, a much larger group of patients will be able to benefit from our specialists’ knowledge,”** explains Dr. von Pannwitz. The third part of the project is already extremely advanced both in technological and medical terms. The Remote Patient Monitoring system transmits specific vital patient data digitally to the telemedicine center. A team of doctors monitors the data around the clock and can intervene rapidly if needed. In October 2011, Germany’s first nationwide telemedicine network went live in Brandenburg. The network enables patients with heart problems to receive online support regardless of their location. **“The example of telemedicine shows both the high demands that will be placed on the healthcare network of tomorrow and the enormous potential of new ideas,”** says Dr. von Pannwitz.

The number of doctors in private practice is declining yet the population continues to age. Patients often have to undertake long journeys to see specialists or attend clinics. In rural areas, in particular, the level of care is threatening to decline sharply over the next few years if no measures are taken. **“Telemedicine opens up a whole new world of possibilities, such as continuous monitoring for the chronically ill. Patients are linked to a secure network and their quality of life is improved significantly as it enables them to take their measurements any time, any place – whether at home or on vacation.”** Another factor that turns the networking of healthcare services into a potential growth market is the costs. In light of demographic change and the spread of lifestyle diseases such as diabetes or high blood pressure, the race is on to find solutions that keep medical services within financial reach for everyone over the long term. In this context, forward-looking concepts such as telemedicine can play a key role. **“Together with Deutsche Telekom we are making promising progress,”** says Dr. von Pannwitz, who firmly believes in the solution’s viability. **“But in all our efforts to advance technology, we must not forget that we are developing measures to enhance the existing system in a way that makes sense. They can and will never replace personal interaction between physician and patient – that is something that remains at the very heart of medicine.”**

Telekom – central partner for the healthcare sector.

The healthcare system as we know it today is facing massive hurdles.

One way of improving efficiency and security whilst at the same time reducing costs is by better networking all agents involved in healthcare using modern information and communications technology (ICT). A pioneer in this field, Deutsche Telekom works closely with high-caliber partners to develop technologies to tackle the challenges in healthcare. In particular the corporate customer arm, T-Systems, is working on ICT solutions that digitally support administration and medical processes. Our efforts in the healthcare sector now extend beyond the IT and telecommunications portfolio. We are tapping new market potential with innovative healthcare products that we sell directly. GlucoDock, ThermoDock, CardioDock, and TargetScale – all products from the VitaDock family – allow users to collect and save data such as blood sugar levels, temperature, blood pressure, and weight on their iPhone or iPad and send this data to their physician if necessary. Connected health is a key market for Deutsche Telekom and we have set up a dedicated business area to accelerate developments in this field both in strategic and in operational terms. We are also focusing on topics such as connected car and energy as we see further growth potential in these areas, too. For example, equipping cars with an uninterrupted Internet connection allows drivers to benefit from improved convenience and security. We support the energy industry with intelligent technologies that – particularly in light of the growing share of renewable energies – help to stabilize the power grids of the future.

Content

To our shareholders.

René Obermann, Chairman of the Board of Management, Bonn, Germany.

Continuity

Dear shareholders,

Deutsche Telekom largely succeeded in meeting its annual targets, with adjusted EBITDA and free cash flow at EUR 18.7 billion and EUR 6.4 billion, respectively. This is an achievement that cannot be taken for granted considering the difficult economic situation in Europe as well as the huge challenges we are facing in our industry – continuing intense competition in our core business with network connections, unfavorable regulation, and the imposition of special taxes in some countries in Southern and Eastern Europe.

On top of this, the situation at our U.S. mobile subsidiary remains difficult after the U.S. authorities in charge did not give approval to the sale of T-Mobile USA to AT&T. Still, we believe it was the right decision to pursue the sale, particularly since we had negotiated a safety net in the shape of a high break-up fee – in fact one of the highest ever to be agreed worldwide. AT&T has paid us USD 3 billion, or around EUR 2.3 billion, in cash. We also stand to receive a considerable amount of mobile spectrum and have an option to share AT&T's UMTS network for several years.

This break-up fee also brought the Group's unadjusted EBITDA to EUR 20 billion, EUR 2.7 billion over the prior-year figure. In addition, it impacted on our net debt, which decreased by more than EUR 2 billion to EUR 40.1 billion.

Our equity ratio lies within the expected target range. The liquidity reserve not only covers, but also well exceeds our maturities for the next 24 months. All of which means we have retained our solid financial basis in times of economic uncertainty.

Turning to operational business, a mixed picture emerges. This is also true for Germany – still our most important market. The adjusted EBITDA margin improved further in 2011, to almost 40 percent. We have boosted efficiency, which has allowed us to compensate almost entirely for the effects on EBITDA from declining fixed-line business. In Germany, however, revenues dropped overall. Reversing this trend will involve a lot of hard work over the next few years.

We will only be successful here by focusing even more squarely on innovative products and services. Take the mobile Internet, for example, where revenues climbed sharply in 2011 by 30 percent to currently EUR 1.6 billion. This is a sustained trend. We recognized this at an early stage, which is why we are the market leader in this segment. Today, more than 60 percent of all mobile handsets we sell in Germany are Internet-capable smartphones. Growth in our customer base for IPTV – television via the Internet – continues unabated, too. Our Entertain product has been available via satellite since summer 2011, which doubled our reach. At the end of the year, we had 1.6 million Entertain customers in Germany.

Our entire TV business is also seeing highly promising growth in the rest of Europe, with as many as 2.6 million customers throughout Europe now using Deutsche Telekom's TV products and services. However, the economic environment in almost all countries, particularly in Southern and Eastern Europe, has depressed revenue and earnings. In Greece, especially, the situation is still extremely tense, with no recognizable signs of improvement in 2012. In light of these uncertainties and in the face of increased competition, in the Europe operating segment we recognized impairment losses on goodwill and property, plant and equipment in the amount of EUR 1 billion.

We want to continue offering modern broadband networks with the best quality while keeping the costs of rolling out these networks down to a minimum. We are thus working with partners in Europe such as France Télécom on network level – currently in Poland and Austria.

T-Systems succeeded in boosting external revenue in our business customer segment, thanks to major deals with Shell and Daimler, among others. Yet our EBIT margin is still unsatisfactory, which means we need to continue driving up efficiency.

In 2011 our U.S. business was fraught with uncertainty surrounding the approval process as part of the planned sale of T-Mobile USA. In the fourth quarter we had to recognize goodwill impairments of EUR 2.3 billion in this area. However, the frequency spectrum we received under the terms of the break-up arrangement reinforces our position on the U.S. market. We will be investing in modernizing the network and continuing our efforts to establish T-Mobile as the carrier that offers customers the best value for money.

2011 was certainly not an easy year for shareholders. The capital market was under intense pressure and the DAX fell by more than 15 percent overall. The T-Share developed significantly better over the course of the year, with overall return – performance plus dividend – just 2.6 percent lower than in the prior year. The T-Share outperformed most of Deutsche Telekom's European competitors as well.

In times like these, what investors are mainly looking out for is stability and reliability. While a number of other industry players are cutting their dividends, we are sticking to our targets. For the 2011 financial year, together with the Supervisory Board we will therefore recommend to the shareholders' meeting a dividend of EUR 0.70 per share.

As always, my team and I will continue to work in the interests of the shareholders. According to all major forecasts, the economy in 2012 will probably not be very helpful in that regard. However, we have the strength to prevail even in a difficult market.

We will continue to invest in key growth areas despite unfavorable regulation. We are building modern broadband networks, both wireless and wireline, which makes us a major contributor to the online society. At the same time we are focusing on innovation – with some areas, such as mobile Internet and cloud computing, already generating substantial revenues. Others, such as intelligent network solutions for the energy, healthcare, and transportation sectors, are still developing. We should give these new areas the time they need to flourish.

Our employees are absolutely dedicated to transforming Deutsche Telekom from a conventional telephony provider into the most highly regarded service company for connected life and work. Without their expertise and commitment, this transition would not be possible and therefore I want to express my sincere gratitude.

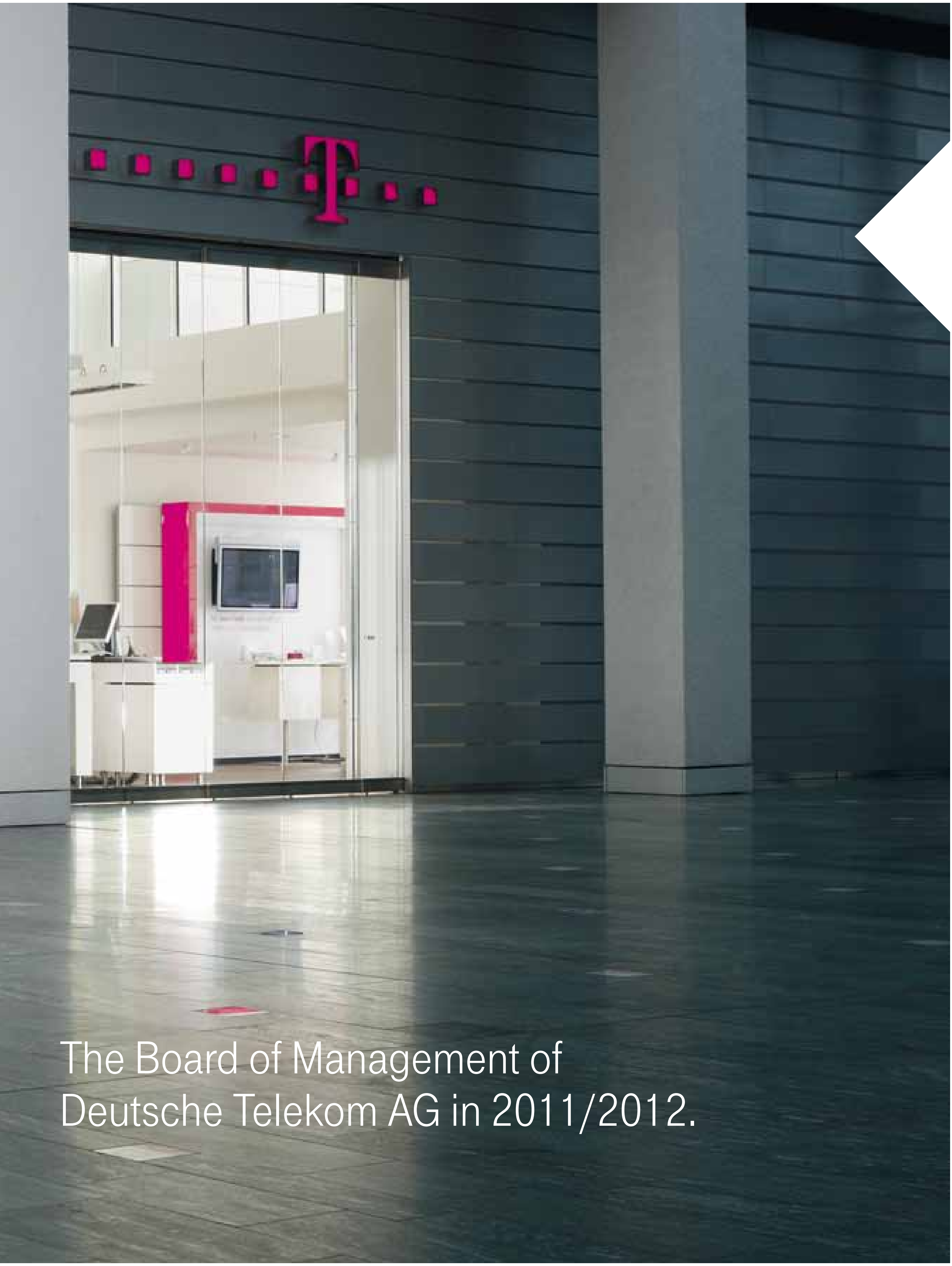
I would also like to thank you, our shareholders, for the trust you have placed in Deutsche Telekom in recent years. I hope that your confidence in us continues in future. We aim to delight our customers with innovative products and the best service, while generating appropriate returns on a sustainable basis for our shareholders. And that is what my colleagues and I are committed to.

Bonn, February 2012

Sincerely,

René Obermann
Chairman of the Board of Management, Deutsche Telekom AG

Left to right: Niek Jan van Damme, Thomas Sattelberger, Timotheus Höttges, René Obermann, Dr. Manfred Balz, Claudia Nemat, Reinhard Clemens.



The Board of Management of Deutsche Telekom AG in 2011/2012.

The Board of Management of Deutsche Telekom AG in 2011/2012.

"Innovation is one of our top priorities. It is crucial to the successful future of our Company."

René Obermann.

Chairman of the Board of Management.

Born in 1963. After training to become an industrial business administrator at BMW AG in Munich, René Obermann set up the trading company ABC Telekom in 1986. He headed ABC's successor company, Hutchison Mobilfunk GmbH, as Managing Partner and was Chairman of the company's Managing Board from 1994 to 1998. In 1998 he joined the Deutsche Telekom Group as Sales Director of T-Mobile Deutschland. In April 2000 he became Managing Director of T-Mobile Deutschland and one year later was appointed Member of the Board of Management for European Operations and Group Synergies at T-Mobile International. He joined the Deutsche Telekom Board of Management in November 2002, where he headed the mobile communications department and at the same time was appointed Chairman of the T-Mobile International Board of Management. On November 13, 2006 René Obermann took over as Chairman of the Board of Management of Deutsche Telekom AG. He has also been responsible for Products and Innovation since January 2012.

"Data privacy and security are essential to Deutsche Telekom. They are a vital element of our product development."

Dr. Manfred Balz.

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

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

"Thanks to our end-to-end service, from the infrastructure through to applications, our customers have safe access to the cloud."

Reinhard Clemens.

Board member responsible for T-Systems.

Born in 1960. After graduating with a degree in electrical engineering from Aachen University, Reinhard Clemens started his career as General Manager of the Association for Industry Automation in 1990. Between 1994 and 2001 he held various positions within the IBM group of companies, before moving to the Board of Management of Systematics AG with responsibility for the sales department. He then became chairman of the Executive Board of EDS in Germany. Since December 2007 Reinhard Clemens has served on the Deutsche Telekom Board of Management, where he is in charge of T-Systems. He is also T-Systems' Chief Executive Officer. Reinhard Clemens also assumed all-embracing responsibility for the Group's IT activities in January 2012.

"Digital opportunities have to be seized. We make it possible thanks to our modern broadband networks."

Niek Jan van Damme.

Board member responsible for Germany.

Born in 1961. Niek Jan van Damme, a business administration graduate of VU University Amsterdam, began his career at Procter & Gamble in 1986. Between 1993 and 1997 he occupied various commercial positions at Ahold N.V. He joined Floor Heijn Retail as Managing Partner in 1997 before moving to Ben Nederland, later T-Mobile Netherlands, as Director of Marketing Communications in 1999. In 2004 he was appointed Managing Director of the firm, a post he held until 2009. Niek Jan van Damme has been Member of the Deutsche Telekom Board of Management since March 2009. Since July 2009 he has headed the Germany department, where he is in charge of the sales, marketing and service activities in connection with standard fixed-network and mobile products for consumers and business customers in Germany. In April 2010 he was also appointed Managing Director of Telekom Deutschland GmbH.

"Our solid financial ratios and active risk management open up new horizons for the Group."

Timotheus Höttges.
Board member responsible for Finance.
Born in 1962. After studying business administration in Cologne, Timotheus Höttges started his career with Mummert + Partner, a business consulting firm in Hamburg, moving on to the VIAG group in 1992. He joined Deutsche Telekom in September 2000, where he has held various positions including Managing Director of T-Mobile Deutschland and Member of the T-Mobile International Board of Management with responsibility for Sales and Service Operations Europe, before taking over the T-Home and Sales & Services department on the Group Board of Management. Timotheus Höttges is also in charge of the Group-wide efficiency program, Save for Service. On March 1, 2009 he became Member of the Deutsche Telekom AG Board of Management with responsibility for Finance.

"My objectives for the Europe business: defend our core business and leverage growth opportunities."

Claudia Nemat.
Board member responsible for Europe and Technology.
Born in 1968. Claudia Nemat studied physics at Cologne University, where she also taught for the Institute of Theoretical Physics and Mathematics. Following this, she spent 17 years in a range of positions at business consulting firm McKinsey&Company, most recently as Senior Partner in charge of the High Tech sector in Europe, the Middle East, and Africa. In addition, she was responsible for projects in the fields of information and communications technology integration, sustainable IT, and medical technology for international companies. Her role as consultant also focused extensively on issues surrounding leadership and performance culture, as well as the influence of diversity on corporate success. Since October 2011 Claudia Nemat has been Member of the Board of Management responsible for Europe. In January 2012 she also took charge of the strategic management of Technology.

"Talent and leadership diversity are key elements of our future-oriented HR management."

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

Supervisory Board's report to the 2012 shareholders' meeting.

Top row, left to right: Hermann Josef Becker, Hans-Jürgen Kallmeier, Michael Sommer, Ulrich Hocker, Dr. Hubertus von Grünberg, Dr. Hans Bernhard Beus.
Middle row, left to right: Lothar Holzwarth, Hans Martin Bury, Michael Löffler, Prof. h.c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelmann, Sibylle Spoo, Sylvia Hauke.
Bottom row, left to right: Dr. Ulrich Schröder, Dr. Wulf H. Bernotat, Waltraud Litzenberger, Prof. Dr. Ulrich Lehner, Lothar Schröder, Monika Brandl, Dr. h.c. Bernhard Walter.
Not pictured: Lawrence H. Guffey.

For Deutsche Telekom, the 2011 financial year was marked by the strategic planning for the U.S. business, a challenging macroeconomic environment, in particular in Southern and Eastern Europe, and persistently high competitive and regulatory pressure. Despite these challenges, the Group generated good results in the 2011 financial year and fulfilled the expectations. The Supervisory Board exercised its statutory functions as an advisory and supervisory body and gave the Board of Management its full support.

Supervisory Board activities in the 2011 financial year.

The Supervisory Board continually monitored the Board of Management's activities to manage the business and the Group as a whole. Specifically, its supervisory role consisted of ensuring that these activities were lawful, compliant, appropriate, and efficient. The primary prerequisites for fulfilling this role were the Board of Management's written and oral reports. In particular, the Board of Management regularly reported to the Supervisory Board on business developments, planning, corporate strategy, the risk situation, risk management, compliance and any deviations in the business developments from original plans, as well as significant business transactions involving the Company and significant subsidiaries and associates. The Supervisory Board regularly reviewed the situation of the Company on the basis of the Board of Management's written and oral reports each time the Supervisory Board or one of its committees met. The business trends were discussed at each meeting of the Supervisory Board. The Board of Management fulfilled its duties to inform the Supervisory Board quickly and in full. The Board of Management's reports met all statutory requirements, the standards of good corporate governance, and the criteria imposed on them by the Supervisory Board with regard to both content and scope. In addition to the reports, the Supervisory Board requested and received supplementary information. The Supervisory Board critically analyzed and verified the plausibility of these reports and this information.

A document prepared by the Supervisory Board lists all types of transactions and measures of fundamental importance for which the Board of Management has to obtain approval from the Supervisory Board. This document is an integral part of the Rules of Procedure of the Supervisory Board and the Board of Management. The Supervisory Board met with the Board of Management for a discussion and thorough review of all the transactions and measures that require the Supervisory Board's approval. The Supervisory Board approved the transactions and measures submitted for resolution. The Audit Committee regularly met to examine a variety of issues, including the quarterly reports, discuss these with the external auditors, and approve them.

Between meetings, the Chairman of the Supervisory Board regularly met with the Board of Management and especially with its Chairman to discuss the Company's strategy, the development of its business, and its risk management, and was informed of the general business situation and significant events.

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

- The business strategy in the United States and the sale of T-Mobile USA to AT&T.
- The development of the OTE group in Greece, with special consideration given to the current state of the Greek economy.
- Implementation of the Group strategy.
- The broadband strategy in Germany.
- The development of the regulatory and competitive environment and implications for Group strategy and planning.
- The development of growth areas.
- The development of the Group's portfolio of shareholdings.
- The establishment of the procurement alliance with France Télécom.
- The appointment of new Board of Management members (Europe, Human Resources).
- Participation in spectrum auctions in individual European countries.
- Monitoring of innovation and technical developments.
- The Group's budget and medium-term planning and shareholder remuneration policy.
- The aggregation of Group-wide IT units within T-Systems.
- The development of staffing requirements, headcount, and qualitative personnel planning.
- The Group's risk and compliance situation.
- Results of the impairment tests that must be carried out at regular intervals under International Financial Reporting Standards (IFRS), and review of accounting methods used for intangible assets in accordance with German GAAP.

- Corporate governance, with special emphasis given to the recommendations and suggestions of the German Corporate Governance Code.
- The annual financial statements, the consolidated financial statements for the 2010 financial year.
- The motions for resolution to the 2011 ordinary shareholders' meeting, in particular the Supervisory Board's recommendation to the shareholders' meeting concerning the appointment of external auditors and the Supervisory Board's recommendation to the shareholders' meeting concerning the reappointment of two members of the Supervisory Board.
- The settlement of disputes concerning claims for compensation from the former member of the Board of Management Kai Uwe Ricke and the former member of the Supervisory Board Dr. Klaus Zumwinkel.
- The efficiency and adequate independence of the Supervisory Board.

The Supervisory Board and the Audit Committee in particular verified that the Board of Management acted lawfully and ensured compliance with legal provisions and internal standards and policies. For example, a Group-wide compliance organization was set up. The Supervisory Board also regularly met with the Board of Management to discuss the Group-wide risk management and risk controlling systems that had been introduced. Having conducted its own reviews and discussed the matter with the external auditors, the Supervisory Board came to the conclusion that both the internal control and risk management system and Group-wide risk controlling are effective.

Organization of the Supervisory Board's activities.

To increase the efficiency of its work, and in consideration of the specific requirements it has to fulfill, the Supervisory Board of Deutsche Telekom AG has set up the following committees, all of which have an equal number of shareholders' and employees' representatives, with the exception of the Nomination Committee:

The **General Committee** is responsible for preparing the meetings and major decisions of the Supervisory Board, as well as for preparing matters relating to the individual members of the Board of Management. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Hans Bernhard Beus (since December 15, 2011), Jörg Asmussen (until December 14, 2011), Waltraud Litzenberger, Lothar Schröder.

The **Finance Committee** deals with complex financial and business transactions that are referred to it by the Supervisory Board or its Chairman for discussion. Members: Prof. h. c. (CHN) Dr.-Ing. E.h. Dr. Ulrich Middelmann (Chairman), Hermann Josef Becker, Dr. Wulf H. Bernotat, Monika Brandl, Lothar Holzwarth, Dr. Ulrich Schröder.

The **Audit Committee's** area of responsibility is essentially defined by German legislation and the German Corporate Governance Code. Amongst other things, it monitors accounting activities and supervises the effectiveness of the internal control system, the risk management system, and the internal auditing system. The committee also handles matters relating to the audit of the Company's financial statements, verifies the independence of the external auditors, and monitors any additional services provided by the external auditors as well as compliance and data privacy issues. After thorough discussion, the Audit Committee issued a recommendation to the Supervisory Board about the external auditors to be nominated by the 2012 shareholders' meeting.

Dr. h. c. Bernhard Walter, Chairman of the Audit Committee, is an independent member and has expert knowledge of accounting and auditing (§ 100 (5) of the German Stock Corporation Act (Aktiengesetz – AktG)). He is also particularly knowledgeable and experienced in the use of accounting standards and internal control procedures. The other Committee members are Hermann Josef Becker, Hans Martin Bury, Lawrence H. Guffey, Hans-Jürgen Kallmeier, and Waltraud Litzenberger.

In the 2011 financial year, the Audit Committee again held its annual extraordinary meeting on fundamental issues – in addition to its regular meetings. The agenda for the 2011 extraordinary meeting dealt mainly with risk management, compliance, data privacy and data security, financial statement audits, the responsibilities of the Audit Committee, and new developments in the fields of legislation and accounting.

The **Staff Committee** deals with personnel matters at Deutsche Telekom, in particular the Company's staff structure and human resources development and planning. In particular, the Staff Committee discussed matters relating to headcount levels and staffing requirement planning for the purpose of preparing Supervisory Board resolutions on budgets and medium-term planning. Members: Lothar Schröder (Chairman), Dr. Hubertus von Grünberg (until July 18, 2011), Ulrich Hocker (since July 19, 2011), Prof. Dr. Ulrich Lehner, Waltraud Litzenberger.

The **Nomination Committee** is responsible for proposing to the Supervisory Board suitable candidates for the latter to subsequently recommend to the shareholders' meeting for election. In accordance with the recommendation outlined in the German Corporate Governance Code, this committee consists exclusively of shareholder representatives. Members: Prof. Dr. Ulrich Lehner, Jörg Asmussen (until December 14, 2011), Dr. Hans Bernhard Beus (since December 15, 2011).

The responsibilities of the **Mediation Committee,** formed pursuant to § 27 (3) of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG), are determined by law. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Hubertus von Grünberg, Waltraud Litzenberger, Lothar Schröder.

A **Technology and Innovation Committee** was set up as of July 19, 2011 to closely monitor and promote future innovation and technological developments at infrastructure and product level and to support the Board of Management in tapping new growth areas. Members: Dr. Hubertus von Grünberg (Chairman), Hans-Jürgen Kallmeier, Prof. Dr. Ulrich Lehner, Lothar Schröder.

A **special committee** was also established in January 2012 to deal with U.S. business. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Wulf H. Bernotat, Monika Brandl, Lothar Holzwarth, Prof. h. c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelmann, Lothar Schröder.

The committees' chairpersons regularly informed the Supervisory Board at its meetings of the content and results of committee meetings.

Meetings of the Supervisory Board.

In the 2011 financial year, the Supervisory Board held four regular meetings and six extraordinary meetings. The Supervisory Board also met for an in-depth conference with the Board of Management to discuss in particular the development of the Greek OTE group. The General Committee of the Supervisory Board met ten times during the reporting year (including one joint meeting with the Finance Committee). The Audit Committee held five meetings, the Finance Committee met twice (including one joint meeting with the General Committee) in the 2011 financial year. The Staff Committee of the Supervisory Board held three meetings, the Nomination Committee met twice, and the Technology and Innovation Committee and the Mediation Committee each met once. With regard to the frequency of the Board members' participation in Supervisory Board meetings in the 2011 financial year, there were no events that would have to be reported pursuant to the recommendations of the German Corporate Governance Code.

Conflicts of interest.

Ulrich Hocker is a member of the Supervisory Board of Deutsche Telekom AG and is also President of Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW). DSW represents and supports the interests of investors vis-à-vis Deutsche Telekom AG in various matters. To ensure from the outset that no conflict of interest could arise in this respect, Mr. Hocker declared before the Supervisory Board that, as a member of the Supervisory Board, he would decline to receive reports or information, vote on resolutions, and attend Supervisory Board and committee meetings that dealt with matters in which DSW was representing or supporting interests against Deutsche Telekom AG. Mr. Jörg Asmussen was State Secretary at the Federal Ministry of Finance and a member of the Supervisory Board of Deutsche Telekom AG until December 14, 2011. Dr. Hans Bernhard Beus has been State Secretary at the Federal Ministry of Finance and a member of the Supervisory Board of Deutsche Telekom AG since

December 15, 2011. Dr. Ulrich Schröder is a member of the Supervisory Board of Deutsche Telekom AG and is also Chairman of the Board of Managing Directors at Kreditanstalt für Wiederaufbau (KfW). The Supervisory Board is aware that Deutsche Telekom AG is involved in various legal disputes in which the Federal Republic of Germany is the opposing party. KfW is also the opposing party in ongoing recourse proceedings with Deutsche Telekom AG (compensation claim relating to the third public offering). No conflict of interests has actually arisen with any of the aforementioned members of the Supervisory Board. Should a conflict of interests arise, Mr. Hocker, Dr. Beus and Dr. Schröder would discuss individually with the Chairman of the Supervisory Board how to handle the respective conflict.

Corporate governance.

The Supervisory Board and Board of Management are aware that good corporate governance in the interests of the Company's shareholders and capital markets is essential for corporate success. The provisions of the German Corporate Governance Code are hence reflected in the Company's statutes. The Board of Management and the Supervisory Board last issued their declaration of conformity with the Corporate Governance Code in December 2011. **The Company's corporate governance policy is also presented in greater detail in a separate section of the Annual Report (pages 40 – 45).**

Changes in the composition of the Board of Management.

In its resolution of February 22, 2012 the Supervisory Board appointed Dr. Thomas Kremer as Member of the Board of Management responsible for the Data Privacy, Legal Affairs and Compliance department. He succeeds Dr. Balz effective June 1, 2012.

On February 23, 2011, the Supervisory Board of Deutsche Telekom AG approved Guido Kerkhoff's request to be released from his duties by mutual agreement with effect from April 1, 2011. Niek Jan van Damme, Board member in charge of Germany assumed temporary responsibility for the Europe Board department.

On July 4, 2011, the Supervisory Board appointed Claudia Nemat as the Board member responsible for Europe with effect from October 1, 2011 and Prof. Marion Schick as the Board member responsible for Human Resources and Labor Director with effect from May 3, 2012.

On December 15, 2011, the Supervisory Board unanimously approved Mr. Kozel's request to relieve him of his duties as a member of the Board of Management effective January 1, 2012. The "Technology and Innovation" unit that had been under Mr. Kozel's responsibility up to that point was dissolved effective January 1, 2012. The Chairman of the Board of Management is now in charge of "Products & Innovation." The "IT" unit was assigned to the T-Systems Board department. The Europe Board department took over responsibility for the strategic management of "Technology" and the management of the procurement joint venture with France Télécom.

Changes in the composition of the Supervisory Board.

Shareholder representatives: At the shareholders' meeting on May 12, 2011, Dr. Hubertus von Grünberg and Dr. h. c. Bernhard Walter, members of the Supervisory Board holding office, were again elected to the Supervisory Board for the period up to the end of the shareholders' meeting that will approve the actions of the Supervisory Board for the 2015 financial year.

Jörg Asmussen resigned from the Supervisory Board effective December 14, 2011. Dr. Hans Bernhard Beus has been appointed as a shareholder representative on the Supervisory Board by the relevant district court effective December 15, 2011 until the end of the 2012 shareholders' meeting.

Employee representatives: No changes took place in the 2011 financial year.

The Supervisory Board would like to thank the former members of both Boards for their valuable service.

Review of annual financial statements of the parent company and consolidated financial statements for the 2011 financial year.

The Board of Management submitted the annual financial statements and the management report, which was combined with the Group management report, the consolidated financial statements, and the Group management report of Deutsche Telekom AG, which was combined with the management report, together with its proposal for the appropriation of net income, to the Supervisory Board in good time.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, which was appointed as auditor of the single-entity financial statements and auditor of the consolidated financial statements ("external auditor") for the 2011 financial year by the shareholders' meeting on the recommendation of the Audit Committee and proposed for appointment by the entire Supervisory Board, audited the annual financial statements as of December 31, 2011, which were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB), and the management report, which was combined with the Group management report, as well as the consolidated financial statements as of December 31, 2011, which were prepared in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB, and the Group management report, which was combined with the management report, and issued an unqualified audit opinion for each document. The audit of the consolidated financial statements also included a request to assess their overall compliance with IFRS.

Before the Audit Committee passed a resolution on its recommendation to the Supervisory Board for the proposal for election to be submitted to the shareholders' meeting, the external auditor confirmed that there are no business, financial, personal or other relationships between itself, its executive bodies and audit managers on the one hand and the Company and its executive body members on the other, that may cast doubt on their independence. The auditor also states to what extent other services were rendered for the Company in the previous financial year, in particular consulting services, and to what extent such services have been contracted for the following year. On this basis, the Audit Committee verified and confirmed the external auditor's requisite independence. It informed the Supervisory Board of the outcome of this review before the Supervisory Board prepared its resolution to propose to the shareholders' meeting to appoint said external auditor. **For details on the content of the agreement with the auditor, please refer to the corporate governance report on pages 40 – 45 of the Annual Report.**

The auditor has informed the Audit Committee and the Supervisory Board that there are no circumstances that may give rise to doubt the auditor's impartiality. The auditor also reported on any services performed in addition to auditing services.

The external auditor submitted its reports on the nature and extent as well as the result of its audits (audit report) to the Supervisory Board. The documentation on the aforementioned financial statements, the external auditor's audit report, and the Board of Management's proposal for the appropriation of net income were made available to the members of the Supervisory Board in good time.

The Supervisory Board conducted its own review of the documents submitted by the Board of Management and the external auditor's audit reports.

Prior to the review and resolution by the Supervisory Board, the Audit Committee conducted a thorough review of the aforementioned documents. The annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income were explained in detail to the members of the Audit Committee at its meeting on February 21, 2012. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditors, who also attended the meeting, explained their audits, in particular the key audit areas defined in agreement with the Audit Committee and the Supervisory Board, the main results of their audit, and their audit report. The external auditor did not identify any material weaknesses in the internal control system, the risk management system, or the accounting process. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audits themselves, with the external auditors. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, it satisfied itself that the audit report, and the audit conducted by the external auditor, met the legal requirements. The Audit Committee agrees with the external auditor that there are no material weaknesses, in particular with regard to the accounting process, in the internal control or risk management systems. The Audit Committee has recommended to the Supervisory Board to approve the results of the audit conducted by the external auditor and, since it had no objections to the documents submitted by the Board of Management, to approve the annual financial statements and the consolidated financial statements, as well as the combined management report and Group management report, and to support the Board of Management's proposal for the appropriation of net income.

The Supervisory Board performed the final review of the annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income on February 22, 2012, taking into account the report and recommendations of the Audit Committee and the external auditor's audit report. The members of the Board of Management attended this meeting, explained the documents they had submitted, and answered the questions from the Supervisory Board. The external auditor also attended this meeting, reported on its audits and its main audit findings, explained its audit report, and answered questions from the Supervisory Board, in particular relating to the nature and extent of the audits and the audit findings. Based on this and the report presented by the Audit Committee, the Supervisory Board satisfied itself that the audit and the audit report were compliant. The Supervisory Board followed the Audit Committee's recommendation and approved the result of the external auditor's audit.

Based on the final outcome of the Supervisory Board's own review of the annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income, no objections need be raised. The same applies to the Corporate Governance Statement even insofar as it is not to be audited by the external auditor. The Supervisory Board followed the Audit Committee's recommendation and approved the annual financial statements and the consolidated financial statements. In particular, the Supervisory Board approved the transfer of EUR 0.0 in net income from the single-entity financial statements of Deutsche Telekom AG to other retained earnings in accordance with § 58 (2) AktG in conjunction with § 19 (3) of the Articles of Incorporation. The approval of the Supervisory Board constitutes the formal approval of the annual financial statements. The Supervisory Board's assessment of the position of the Company and the Group is the same as that which the Board of Management presented in its combined management report and Group management report. It followed the Audit Committee's recommendation and approved these documents.

When the Board of Management and the Supervisory Board approved the Company's medium-term financial planning for the next three years on December 15, 2011, the Supervisory Board conducted an in-depth examination of the medium-term financial and investment plans, discussing in particular the development of earnings, free cash flow, and balance sheet ratios. The Board of Management's proposal concerning the appropriation of net income was examined by the Audit Committee on February 21, 2012 and by the Supervisory Board on February 22, 2012. The external auditor was present at both meetings. The Supervisory Board followed the Audit Committee's recommendation to approve and support the Board of Management's proposal to pay out shareholder remuneration of around EUR 3.0 billion and to carry forward around EUR 1.6 billion to unappropriated net income.

Review of the dependent company report.

The Board of Management presented its dependent company report for the 2011 financial year to the Supervisory Board in good time.

The external auditor audited the dependent company report and issued the following audit opinion:
"Based on the results of our statutory audit and our judgment we confirm that
1. the actual information included in the report is correct;
2. the Company's compensation with respect to the legal transactions listed in the report was not inappropriately high."

The external auditor submitted the audit report to the Supervisory Board. The dependent company report and the associated audit report were made available to all members of the Supervisory Board in good time.

The Supervisory Board reviewed the dependent company report of the Board of Management and the audit report of the external auditor.

Prior to the review and resolution by the Supervisory Board, the Audit Committee conducted a thorough review of the aforementioned documents. At its meeting on February 21, 2012, the Audit Committee asked the members of the Board of Management to explain the details of the dependent company report. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditors, who also attended the meeting, reported on their audit, in particular their key audit areas and the significant results of their audit, and explained their audit report. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audit itself, with the external auditors. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, it satisfied itself that the audit report, and the audit conducted by the external auditors, met the legal requirements. The Audit Committee recommended to the Supervisory Board to approve the results presented by the external auditors, as the committee sees no grounds for objections to the Board of Management's declaration on the dependent company report.

The Supervisory Board performed the final review at its meeting on February 22, 2012, taking into account the external auditor's audit report. The members of the Board of Management also attended this meeting, explained the dependent company report, and answered questions from the Supervisory Board. The external auditors were also present and reported on their audit of the dependent company report and their main audit findings, explained their audit report, and answered questions from the Supervisory Board, particularly relating to the nature and extent of the audit of the dependent company report and the audit findings. Based on this and the report presented by the Audit Committee, the Supervisory Board satisfied itself that the audit of the dependent company report and the audit report were compliant. In particular, it satisfied itself that the audit report, and the audit conducted by the external auditor, met the legal requirements. The Supervisory Board examined the dependent company report in particular for completeness and accuracy. In doing so, it also satisfied itself that the group of dependent companies had been defined with due care and that the necessary systems had been put in place for recording legal transactions and measures subject to disclosure. The review revealed no reason to raise objections to the dependent company report. The Supervisory Board followed the Audit Committee's recommendation and approved the result of the external auditor's audit of the dependent company report. Based on the final result of the Supervisory Board's own review of the dependent company report, the Supervisory Board has no objections to the Board of Management's declaration on the dependent company report.

The Supervisory Board would like to thank the members of the Board of Management and all of Deutsche Telekom's employees for their commitment and dedication in the 2011 financial year.

Bonn, February 22, 2012
The Supervisory Board

Prof. Dr. Ulrich Lehner
Chairman

Corporate governance report.

Sound, systematic corporate governance is particularly important for an international group such as Deutsche Telekom with its numerous subsidiaries and associated companies. The Company complies with national provisions such as the recommendations of the Government Commission for a German Corporate Governance Code, as well as with international standards. The Supervisory Board and the Board of Management are convinced that sound corporate governance, taking company and industry-specific issues into account, is an important building block for the future success of Deutsche Telekom. Accordingly, responsibility for compliance with the principles of sound corporate governance is vested in senior management.

In the 2011 financial year, the Board of Management and Supervisory Board once again carefully examined the corporate governance of Deutsche Telekom AG and the Deutsche Telekom Group as well as the contents of the Corporate Governance Code. During the reporting period just ended, Deutsche Telekom AG again fulfilled all of the Code's recommendations. The Supervisory Board and Board of Management of Deutsche Telekom AG therefore released an unqualified Declaration of Conformity with the German Corporate Governance Code on December 30, 2011:

Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG).

- The Supervisory Board and Board of Management of Deutsche Telekom AG hereby declare that, in the period since submission of the most recent declaration of conformity pursuant to § 161 AktG on December 30, 2010, Deutsche Telekom AG has complied and complies with the recommendations of the Government Commission for a German Corporate Governance Code announced by the Federal Ministry of Justice on July 2, 2010 in the official section of the electronic Federal Gazette (Bundesanzeiger), without exception.

The Declaration of Conformity can be found on the Deutsche Telekom website: www.telekom.com/declaration-of-conformity. This website also provides access to the superseded Declarations of Conformity from previous years.

Cooperation between the Supervisory Board and the Board of Management. The Supervisory Board and the Board of Management work closely together for the good of the Company and maintain regular contact. The Supervisory Board of Deutsche Telekom AG holds four regular meetings a year. In 2011 there were also six extraordinary meetings and one in-depth conference on the strategic alignment of the Company. The Board of Management keeps the Supervisory Board fully and regularly informed in good time, in particular of all relevant business developments, plans, corporate strategy, potential risks, risk management, compliance, as well as of any deviations from original business plans. The Board of Management regularly submits written and oral reports. The reporting obligations of the Board of Management have been specified by the Supervisory Board and go beyond statutory requirements. The activities of the Board of Management and the Supervisory Board are specified in separate Rules of Procedure. Those that govern the Board of Management provide guidance on its schedule of responsibilities and the majorities required for resolutions, among other issues. The Chairmen of the two Boards exchange information regularly. **For details about cooperation between the Board of Management and Supervisory Board, please refer to the Supervisory Board's report on pages 32 – 39 of the Annual Report.**

Composition of the Board of Management. In accordance with the Board of Management's schedule of responsibilities, there are seven Board departments: the department of the Chairman of the Board of Management; Finance; Human Resources; Data Privacy, Legal Affairs and Compliance; T-Systems; Germany; and Europe and Technology. The Technology and Innovation Board department was dissolved effective January 1, 2012. Innovation has since been directly managed by the Chairman of the Board of Management, and responsibility for Technology has been assigned to the Europe department. Each Board of Management member is authorized to manage the spheres of responsibility allocated to him. Certain matters are subject to approval by the full Board of Management. Furthermore, every Board member can submit matters to the full Board of Management for decision. As a rule, members of the Board of Management should not be older than 62 years of age (standard age limit).

Composition of the Supervisory Board. The Supervisory Board of Deutsche Telekom AG consists of twenty members, ten representing the shareholders and ten representing the employees. The Supervisory Board members representing the shareholders are elected by the shareholders' meeting by simple majority. As in previous years, elections to the Supervisory Board were held for each individual member at the last shareholders' meeting on May 12, 2011. The terms of office of the individual Supervisory Board members representing the shareholders end on different dates. This ensures continuity in terms of the Supervisory Board's composition. The Supervisory Board members representing employees were most recently elected by the employees at the delegates' assembly on December 4, 2008 according to the provisions of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG).

For details about changes to the composition of the Supervisory Board during the reporting period, please refer to the Supervisory Board's report to the shareholders' meeting on pages 32 – 39 of the Annual Report. The Supervisory Board is convinced that – in accordance with a recommendation by the German Corporate Governance Code – it has a sufficient number of independent members to provide impartial advice to and to monitor the Board of Management.

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

- The Supervisory Board hereby sets itself the goal, while taking into account the Company's specific situation, to take into consideration in the recommendations it makes to the competent election bodies concerning future appointments to the Supervisory Board not only the requisite expertise of a candidate, but also the aspect of diversity.
- The Supervisory Board has to be composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly complete its tasks.
- The Supervisory Board supports an appropriate degree of female representation on the Supervisory Board. It aims to increase the proportion of women on the Supervisory Board to 30 percent, the Company's intended share of women in management positions, by the end of 2015. Women currently make up 20 percent of the Supervisory Board.
- In view of the Company's international focus, candidates with an international background should be given appropriate consideration in future appointments to the Supervisory Board.
- Conflicts of interest are to be avoided in appointments to the Supervisory Board.
- Supervisory Board members should not be older than 67 at the time of their appointment (standard age limit).

Regarding the realization of the target: A woman will be proposed for election to the Supervisory Board at the 2012 shareholders' meeting. If she is elected, the share of women on the Supervisory Board would increase from 20 percent to 25 percent. The Supervisory Board is composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly complete its tasks. The members of the Supervisory Board represent various different professions and some of them have an international background.

Tasks assigned to the Supervisory Board. The Supervisory Board appoints the members of the Board of Management, advises the Board of Management on issues concerning the governance of the Company and supervises and reviews its activities. The Supervisory Board is directly involved in all decisions of strategic importance to the Company. The work of the Supervisory Board is specified in the Rules of Procedure. To clarify the reporting requirements on the part of the Board of Management, the Supervisory Board has defined a catalog of transactions subject to approval. This catalog forms an integral part of the Rules of Procedure for the Supervisory Board and the Board of Management, respectively. The Supervisory Board assesses the efficiency of its work on a regularly basis. The last self-assessment was carried out in 2011 based on a comprehensive questionnaire and intense discussion within the Supervisory Board. The Audit Committee most recently underwent an external efficiency audit in 2010, with excellent results.

In order to perform its tasks more effectively, the Supervisory Board currently has seven standing committees in place. The General Committee deals with personnel matters of the Board of Management and prepares the meetings for the Supervisory Board. The Staff Committee deals with personnel questions not connected with the Board of Management. The Finance Committee deals with complex financial issues and with budgets. The Audit Committee performs the tasks of an audit committee as required by law and in accordance with the German Corporate Governance Code. Amongst other things, it prepares a recommendation for the Supervisory Board's resolution on the annual financial statements, monitors accounting activities and supervises the effectiveness of the internal control system, the risk management system, and the internal auditing system. In July 2011 a Technology and Innovation Committee was set up to closely monitor and promote future innovation and technological developments at infrastructure and product level and to suport the Board of Management in tapping new growth areas. Furthermore, the Supervisory Board has formed a Nomination Committee, which consists exclusively of shareholder representatives. The Nomination Committee is responsible for proposing to the Supervisory Board suitable candidates for the latter to subsequently recommend to the shareholders' meeting for election. Finally, the Mediation Committee, which was formed in accordance with § 27 (3) of the Codetermination Act. A non-permanent special committee was established in January 2012 to deal with U.S. business. For details about the composition, tasks and working methods of the committees, please refer to the Supervisory Board's report to the shareholders' meeting on pages 32 – 39 of the Annual Report.

The respective committee chairmen report to the Supervisory Board on a regular basis on the work of the committees. The Chairman of the Audit Committee, Dr. h.c. Bernhard Walter, is particularly knowledgeable and experienced in the fields of accounting, auditing and internal control procedures. Dr. Walter has never served on the Board of Management of the Company.

To the extent permitted by law, the Supervisory Board makes use of modern communication media to expedite its work in the interests of the Company.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and presides over its meetings. Over and above his organizational duties in the Supervisory Board, the Chairman of the Supervisory Board maintains regular contact with the Chairman of the Board of Management and with the Board of Management, in order to stay informed about the Company's strategy, business developments, risk management policy, and management measures, and to discuss these with the Board of Management. In this context, the Chairman of the Board of Management advises the Chairman of the Supervisory Board of all events that are significant to the situation, development, and governance of the Company. **For further details of the members of the Supervisory Board and any seats they hold on the supervisory boards of other companies, please refer to pages 254 – 255 of the Annual Report.**

Avoiding conflicts of interest. Board of Management members and Supervisory Board members are obliged to disclose immediately any conflicts of interest to the Supervisory Board. Any functions assumed by members of the Board of Management that are not covered by the Board of Management mandate are subject to approval by the General Committee of the Supervisory Board.

Risk and opportunity management. The management of opportunities and risks arising in connection with the Company's business activities is of fundamental importance to the Board of Management and the Supervisory Board for professional corporate governance. The Board of Management receives regular reports from the Risk Management department of the Company concerning current risks and their development. In turn, it reports to the Supervisory Board on the risk exposure and the risk management system. The risk management system in place at Deutsche Telekom is evaluated by the external auditors and Internal Audit, and is constantly being expanded and improved. The Audit Committee deals with risk management, which includes monitoring the effectiveness of the internal risk management system. The system is designed to manage a variety of risks, including financial risks and risks to the Company's reputation. **For more information, please refer to the section entitled "Risk and opportunity management" on pages 131 – 145 of the Annual Report.**

Compliance. Compliance involves the observance of legal requirements and internal Group rules. Deutsche Telekom has a Group-wide compliance organization that is continuously being improved (**for details, please refer to the 2010 Corporate Responsibility Report under www.cr-bericht.telekom.com).** There is also a Compliance Committee which supports the Board of Management in further developing the framework for an effective compliance management system. The members of the Compliance Committee are experienced managers in the areas of compliance, legal affairs, data privacy, corporate auditing, and human resources. The Chief Compliance Officer, appointed by the Board of Management, is the chairwoman of the Compliance Committee. She reports to the Board of Management as well as directly to the Supervisory Board of Deutsche Telekom AG and its Audit Committee. A compliance officer has been appointed for each of the strategic business areas. Depending on the size and risk situation of the individual business units, additional compliance officers/ contacts are being appointed. The decision to pool all compliance activities in the Board of Management department for Data Privacy, Legal Affairs and Compliance reflects the continued significance of compliance. The appropriateness and effectiveness of Deutsche Telekom's compliance organization was confirmed by an external auditor in 2010 (**www.telekom.com/konzern/konzernprofil/compliance/97054).**

Deutsche Telekom has implemented a compliance program including comprehensive measurs. For detailed information about the compliance program, please refer to Deutsche Telekom's website (www.telekom.com/compliance). The compliance program also includes the Code of Conduct, the Code of Ethics and various policies. The Code of Conduct defines how employees and management should display value-based and legally compliant conduct in their daily business activities. The Code of Ethics addresses the members of the Board of Management of Deutsche Telekom AG and persons within the Group who carry special responsibility for financial reporting. It obliges these individuals to comply with the principles of honesty, integrity, transparency and ethical conduct. The Code of Conduct and the Code of Ethics are published on Deutsche Telekom's website (**www.telekom.com/corporate-governance**). In addition, a number of Group policies that are relevant for compliance were revised in 2011. These include the Anti-Corruption Policy, the Benefits Policy and the Event Policy, for example.

Internal controls over financial reporting. Deutsche Telekom has implemented a process to systematically assess the effectiveness of its internal controls over financial reporting. Evidence of its effectiveness throughout the Group has again been provided for the 2011 financial year. The Audit Committee assumes the task of monitoring the accounting and financial reporting processes on behalf of the Supervisory Board. The system of internal controls over financial reporting is updated on an ongoing basis and monitored separately by Internal Audit and external auditors.

The Audit Committee also monitors the effectiveness of the internal control system, which goes beyond financial reporting and therefore fulfills the requirements of the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG). For a description of the main features of the accounting-related internal control system, please refer to the "Group organization" section in the Group management report on pages 60 – 65 of the Annual Report.

Accounting and audit of financial statements. An agreement has been reached with the external auditor that the Chairman of the Supervisory Board/the Audit Committee shall be advised immediately of any issues uncovered during the audit that might give rise to statements of exclusion or reservation in the auditors' report, unless these issues can be resolved forthwith. Moreover it has been agreed that the auditor shall immediately report any findings and issues which emerge during the audit and which have a direct bearing upon the tasks of the Supervisory Board. According to this agreement, the external auditor undertakes to inform the Supervisory Board or make a note in the audit report of any facts discovered during the audit which might indicate a discrepancy in the Declaration of Conformity with the German Corporate Governance Code submitted by the Board of Management and Supervisory Board. The Audit Committee assesses the independence of the external auditor.

Report on the compensation of the Board of Management. The compensation of each member of the Board of Management is reported in the notes to the consolidated financial statements, broken down in accordance with statutory requirements into fixed and performance-related components and long-term incentives. For details, please refer to pages 241 – 248 of the Annual Report under "Compensation of the Board of Management and the Supervisory Board." These disclosures in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report. A summary of the structure and main features of Board of Management compensation is given below. Deutsche Telekom AG's shareholders' meeting on May 3, 2010 approved a new Board of Management compensation system in line with the German Act on the Appropriateness of Management Board Compensation (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG). The Supervisory Board subsequently began to switch the existing Board of Management service contracts to the new compensation system. Effective December 31, 2011 six Board of Management members' contracts had been transferred to the new system, while two members exercised their right to remain with the old system.

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

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

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

Under the new system, Board members are obliged to invest one third of Variable I, which is set each year by the Supervisory Board, in Deutsche Telekom AG shares, and to hold these shares for at least four years. After four years, Deutsche Telekom AG will match the number of shares by granting Board members who remain with the Company one free share for every share purchased and held under this scheme (matching shares).

Under the old system, the **long-term incentives containing risk elements** are based on the Mid-Term Incentive Plan, or MTIP. The Board members also have entitlements from stock option plans (see below for details of the 2001 Stock Option Plan). Deutsche Telekom AG's **MTIP** is a Group-wide long-term compensation instrument for senior executives. The members of the Board of Management have participated in it since the 2004 financial year. The plan has a term of three years and will be issued annually on a rolling basis. It consists of two share-based, additive and equally weighted performance parameters. For the 2011 financial year, as for the years before, one absolute and one relative plan target have been set. The absolute plan target is related to the increase in value of the Deutsche Telekom AG share. The relative plan target requires the total return of the Deutsche Telekom AG share to outperform the Dow Jones Euro STOXX® Total Return Index. The tranche of the 2009 MTIP achieved neither the absolute nor the relative share price development target. This means no award amount is paid out for the 2009 tranche. **For details, please refer to the notes to the consolidated financial statements on pages 226 – 227 of the Annual Report.**

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

The **2001 Stock Option Plan** was closed for the Board of Management in 2004. Options granted to current members of the Board of Management from the 2002 tranche of the 2001 Stock Option Plan can still be exercised, provided the necessary conditions are met. The options from the 2001 tranche of the 2001 Stock Option Plan were forfeited in the 2011 financial year, since the end of their term had been reached. **For details, please refer to the notes to the consolidated financial statements on pages 228 – 229 of the Annual Report.** These disclosures in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report.

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

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

As a rule, the Board members' contracts stipulate a clause prohibiting them from joining a competitor after their departure.

The members of the Board of Management are in principle entitled to a **company pension.** For members who joined the Board of Management before 2009 the amount depends on their final salary, which means that Board of Management members receive company pension benefits based on a fixed percentage (between 5 and 6 percent) of their last fixed annual salary for each year of service rendered prior to their date of retirement. The maximum pension entitlement, attainable after ten years of Board of Management membership, is 50 (or 60) percent of the last fixed annual salary. The rights to benefits are generally vested in accordance with statutory provisions (or contractually vested immediately, in specific cases). Benefits are paid in the form of a life-long old-age pension, an early-retirement pension, disability pension, and widow and orphans' pension. **All other required details can be found in the notes to the consolidated financial statements on pages 241 – 248 of the Annual Report under "Compensation of the Board of Management and the Supervisory Board."** These disclosures in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report.

Board of Management members who joined the Board in 2009 or later participate in a defined contribution plan with a one-time capital payment upon retirement. A contribution is paid into the Board member's pension account for each year of service at an interest rate corresponding to market levels. Annual additions to the pension account have no effect on cash or cash equivalents. The cash outflow is only effective upon the Board member's retirement. As a rule, the date of retirement is the beneficiary's 62nd birthday. The amount to be provided annually is individualized and decoupled from other remuneration components. The exact definition of the contribution is based on a comparison with peer companies which are suitable for benchmarking and also offer defined contribution plans.

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

For details of the compensation system and a specification of the long-term incentives containing risk elements, please refer to the notes to the consolidated financial statements, on pages 241 – 248 of this Annual Report under "Compensation of the Board of Management and the Supervisory Board" or to the company website (www.telekom.com) under: www.telekom.com/investor-relations/corporate-governance/incentive-plans/64128. These disclosures in the notes to the consolidated financial statements are an integral part of this Corporate Governance Report.

Report on the compensation of the Supervisory Board.

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

The compensation of each member of the Supervisory Board is reported in the notes to the consolidated financial statements, broken down in accordance with statutory requirements into its individual components. For details, please refer to pages 241 – 248 of the Annual Report under "Compensation of the Board of Management and the Supervisory Board." These disclosures in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report.

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

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

Total direct or indirect holdings of shares in the Company or associated financial instruments by members of the Board of Management and the Supervisory Board do not exceed 1 percent of the shares issued by the Company.

Securities-based incentive systems.

Specific details of the securities-based incentive systems of the Company are contained in the notes to the consolidated financial statements on pages 226 – 229 under "Share matching plan/Mid-term and long-term incentive plans (MTIP, LTIP)/Phantom share plan/Stock option plans" and on pages 241 – 248 under "Compensation of the Board of Management and the Supervisory Board" of the Annual Report. These disclosures in the notes to the consolidated financial statements are also an integral part of this Corporate Governance Report.

Bonn, February 22, 2012
The Supervisory Board and the Board of Management

The T-Share.

// Political stock exchanges cause steady decline in markets //
Deutsche Telekom demonstrates relative strength in context of turbulent markets //

T-Share information.

		2011	2010
Xetra closing prices	**€**		
Share price on the last trading day		8.87	9.66
Year high		11.32	10.60
Year low		7.95	8.55
Trading volume			
German exchanges	billions of shares	4.7	4.7
Market capitalization on the last trading day	**billions of €**	**38.3**	**41.7**
Weighting of the T-Share in major stock indexes on the last trading day			
DAX 30	%	5.1	4.7
Dow Jones Euro STOXX 50®	%	2.0	1.1
T-Share - key figures			
Earnings per share (basic and diluted)	€	0.13	0.39
Proposed dividend	€	0.70	0.70
Number of shares issued	millions, at year-end	4 321.32	4 321.32

Capital markets environment.

2011 was a year of crisis for international stock exchanges. The intensification of the sovereign debt crisis in Europe and the United States, the refinancing of Greece and other countries on the EU periphery, the natural and nuclear disasters in Japan, and the uncertain health of international banks all resulted in what amounted to a crash in installments.

Although markets managed to recover in the first half of the year, following the declines after the earthquake, tsunami and nuclear disaster in Japan, a dramatic slide commenced in late July.

While the euro crisis in Europe continued to intensify (with widening spreads for Spanish and Italian government bonds), Standard & Poor's downgraded the U.S. to AA+ for the first time in the country's history, although its impending insolvency was averted at the last minute through a massive increase in the national debt limit.

Disappointing leading economic indicators signaling a global economic slowdown also caused a further deterioration in the capital market environment.

Development of international indexes.

The DAX declined by 15.5 percent year-on-year, closing the year at 5,898 points. It reached an annual low of 5,072 points in September.

The Dow Jones Euro STOXX 50® suffered similar losses, ending the year at minus 15.6 percent on a total return basis (share price performance plus reinvested dividend, i.e., similar to the DAX).

Japan's Nikkei posted a loss of 19 percent, marking its lowest closing in 29 years. In addition to the European debt crisis, the Japanese market was also burdened by the aftermath of the earthquake on March 11, the major flooding in Thailand, and significant appreciation of the yen.

Only Wall Street managed to escape the downward pressure, with the Dow Jones Industrial Index ending the year at 12,217 points, a gain of 5.5 percent year-on-year. The S&P 500 was nearly unchanged.

Overall, Wall Street performed impressively in the second half of 2011, although fears of a double-dip recession and the worryingly and persistently high unemployment figures resulted in periodic setbacks over the course of the year.

T-Share performance.

The T-Share largely managed to resist the drastic downward trend of the DAX, ending the year at a closing price of EUR 8.87. On a total return basis (share price performance plus reinvested dividend, i.e., similar to the DAX), this corresponded to a decrease of 2.6 percent.

The T-Share trended sharply upwards in the first six months of 2011 and posted a total rate of return including dividend of 18.8 percent. As such, the stock was able to consolidate and expand on the strong gains from the first quarter, especially after the announcement on March 20, 2011 of the agreement to sell our U.S. mobile operations to AT&T, reaching a yearly high of EUR 11.32 on May 12.

The T-Share finished the half-year well ahead of its competitors, although the sector itself faced pressure in the second quarter. Profit warnings issued by several competitors created uncertainty and prompted a slump in individual securities in the sector, attributed largely to price competition and regulatory risks.

As markets started to fall from the end of July, the T-Share forfeited its significant gains in the further course of the year. Moreover, the U.S. Department of Justice (DOJ) filed suit to block the sale of T-Mobile USA to AT&T on August 31 on antitrust grounds. Faced with the comprehensive opposition from the DOJ as well as the Federal Communications Commission (FCC) to the merger, AT&T and Deutsche Telekom ultimately decided to dissolve their deal to sell T-Mobile USA on December, 20. However, pressure on the T-Share was mitigated due to the record break-up fee to be paid by AT&T, which includes a cash payment of USD 3 billion received in 2011.

The share reached its yearly low of EUR 7.95 on September 12, as renewed speculations of Greek government default placed enormous pressure on the entire market.

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

Members of the Deutsche Telekom AG Board of Management and Supervisory Board bought around 125,000 Deutsche Telekom shares in 2011. Total direct or indirect holdings of shares in the Company or associated financial instruments by members of the Board of Management and the Supervisory Board do not exceed 1 percent of the shares issued by the Company.

Dividend.

The Board of Management and Supervisory Board of Deutsche Telekom AG propose to this year's shareholders' meeting, to be held on May 24, 2012, the distribution of a dividend of EUR 0.70 per share.

Shareholder structure.

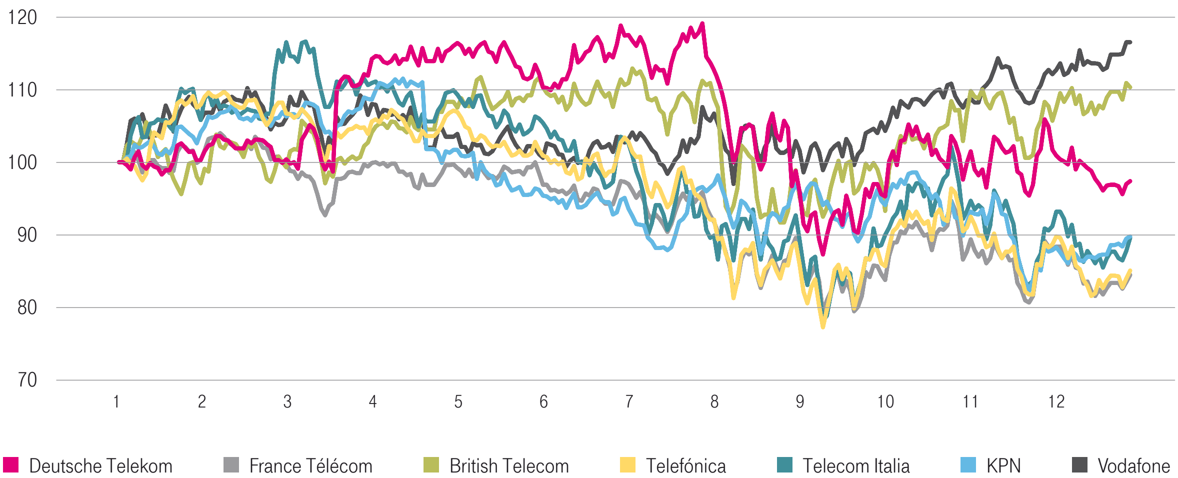
The Federal Republic's shareholding including that of KfW (Kreditanstalt für Wiederaufbau) is now approximately 32 percent. The proportion of institutional investors decreased to 53 percent of share capital, while the share of retail investors increased to around 15 percent. As a result, the percentage of shares in free float remains at 68 percent.

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

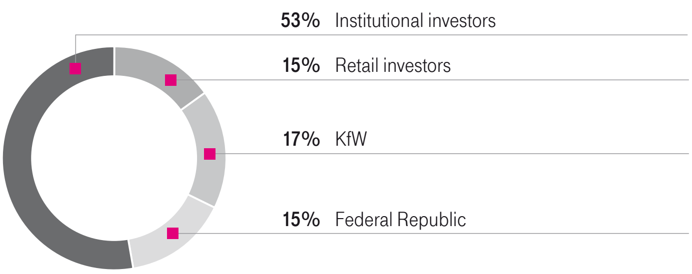
January 1 to December 31, 2011

T-Share as compared to other telecommunications companies.

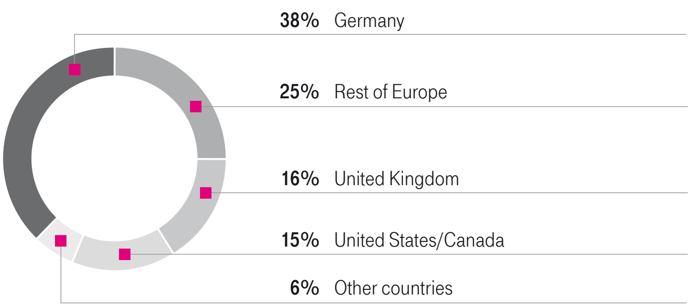
January 1 to December 31, 2011



Shareholder structure.
As of December 31, 2011



Geographical distribution of free float.
As of December 31, 2011



Investor relations.

In the 2011 financial year, Deutsche Telekom continued its intensive dialog with institutional investors, retail investors and financial analysts. In individual and group discussions during its roadshows in Europe and North America, top management presented the Group strategy and the Company's financial position along with annual and quarterly results.

Direct contact with the capital markets was also maintained on the occasion of an investor meeting in New York and several international investors' conferences held at various locations including Frankfurt, Barcelona, London, Paris, and New York. The analysts were presented with the annual and quarterly figures during conference calls.

Comprehensive online services were again available to Deutsche Telekom's shareholders in the 2011 financial year. Shareholders can continue to use the option of receiving documents relating to the shareholders' meeting by e-mail, for instance. In addition, our Internet Dialog also facilitates the ongoing expansion of electronic communication with shareholders. The personal profiles the shareholders can set up themselves allow them to order tickets to the shareholders' meeting for themselves or for a proxy. If shareholders do not wish to attend in person, they can change voting instructions issued to proxies until shortly before voting begins. For the third year running, the carbon footprint of the shareholders' meeting is being offset fully.

In addition, the "direkt" newsletter (available in German only) reports on the most recent quarterly results and the annual financial statements of the Group. It also covers significant developments and events as well as the Group strategy, and contains special offers for shareholders. The newsletter is available to download from the IR website and is sent to each shareholder via e-mail upon request. Last year, Deutsche Telekom AG shareholders and other persons interested in the T-Share made intensive use of the services for retail investors. Our team fielded more than 20,000 inquiries in the 2011 financial year and was the first company in the telecommunications sector to establish its own investor relations feed at Twitter. We greatly improved usability of our website with the introduction of a new, more clearly arranged page structure.

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

In a survey of more than 10,000 investors and analysts, conducted as part of the annual Thomson Reuters Extel Survey on various aspects of the investor relations activities of all important listed companies in Europe, Deutsche Telekom won the Extel 2011 Pan-European Award in several categories. The Thomson Reuters Extel Survey is one of the most established surveys of its kind. In its overall rating of investor relations activities, Deutsche Telekom was rated in first place in the European telecommunications sector. The following individuals also won awards: René Obermann was voted best CEO in Europe and Germany, Tim Höttges won first place among CFOs in Germany, and Stephan Eger defended his top spot as best IR manager in the European telecommunications sector. Deutsche Telekom also achieved top rankings in the overall and individual assessments in the comparable Institutional Investor Survey. These awards are a sign of the high esteem of investors and analysts for Deutsche Telekom's investor relations activities.

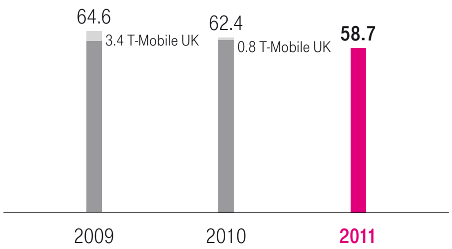
Management report

We are a pioneering force in Germany when it comes to intelligent networks for the energy, healthcare, and transport sectors – areas where we are working on some of the most important infrastructure projects of our time.

51 Combined management report

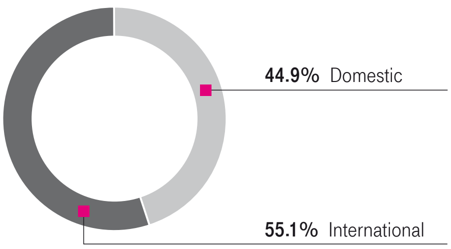
Overview of the 2011 financial year.

Net revenue. (billions of €)



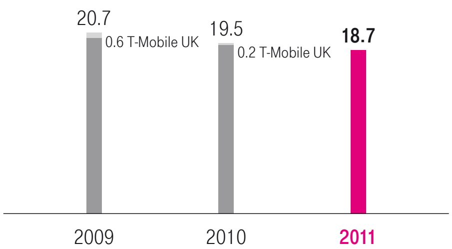
- Excluding T-Mobile UK and negative exchange rate effects, net revenue decreased year-on-year by EUR 2.2 billion or 3.6 percent. Adjusted for these effects, net revenue decreased by 6.0 percent to EUR 58.7 billion.
- Regulation-induced revenue decreased (particularly in Germany and Europe) by around EUR 0.6 billion.
- Operations were positively impacted by the development of mobile data revenue, smartphone revenue, and TV services, and the increase in revenue from Systems Solutions as a result of new deals.
- Negative impacts on operations included declining revenues from voice telephony, the difficult overall economic situation in some countries, and price cuts in response to intense competitive pressure.

Proportion of net revenue generated internationally. (%)



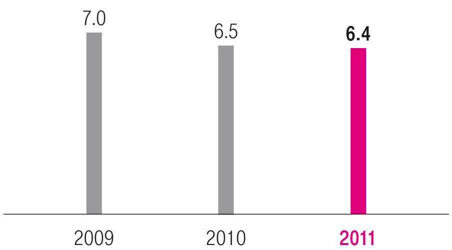
- The proportion of net revenue generated internationally decreased slightly to 55.1 percent, compared with 56.3 percent in the prior year.
- Domestic net revenue amounted to EUR 26.4 billion, EUR 0.9 billion lower than in the prior year. International net revenue decreased by 8.1 percent or EUR 2.9 billion year-on-year.
- The decline in international net revenue is primarily attributable to the establishment of the new joint venture Everything Everywhere in the United Kingdom. T-Mobile UK has no longer been fully consolidated since April 1, 2010.

Adjusted EBITDA. (billions of €)



- We generated adjusted EBITDA of EUR 18.7 billion, achieving the target we originally communicated for the year.
- Impacts from negative exchange rate effects of EUR 0.2 billion, fixed-network lines lost to competitors, price changes imposed by regulation, and newly imposed or raised special taxes on telecommunications services.
- Cost management and the Save for Service program only partly offset these effects.

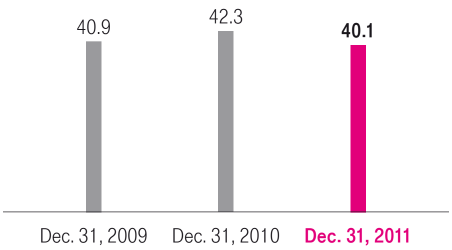
Free cash flow (before dividend payments, spectrum investment, PTC transaction and break-up fee from AT&T). (billions of €)



- Free cash flow amounted to EUR 6.4 billion. Adjusted for the negative exchange rate effects of EUR 0.1 billion, EBITDA was in line with our guidance of cash flow to remain stable or increase slightly year-on-year at EUR 6.5 billion.

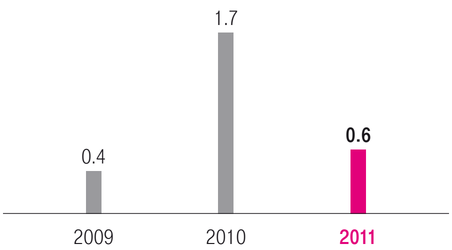
For a more detailed explanation, please refer to the section "Development of business in the Group," page 76 et seq.

Net debt. (billions of €)



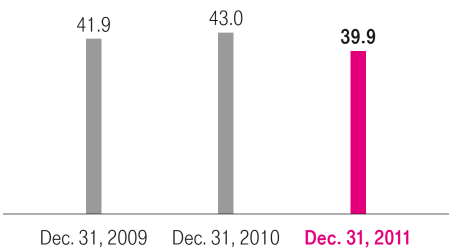
- Net debt decreased by 5.1 percent compared with the end of 2010 to EUR 40.1 billion.
- We were able to reduce net debt by over EUR 2 billion, despite negative exchange rate effects (primarily from the U.S. dollar) amounting to EUR 0.6 billion, the acquisition of the remaining shares in PTC (PTC transaction) for EUR 1.4 billion, and the purchase of another 10 percent of the shares in OTE for EUR 0.4 billion.
- Free cash flow (EUR 6.4 billion) and the break-up fee (EUR 2.3 billion) received from AT&T had a positive effect.

Net profit. (billions of €)



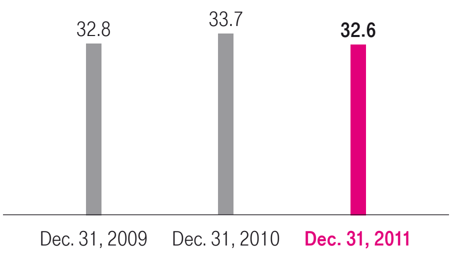
- Net profit decreased by EUR 1.1 billion to EUR 0.6 billion.
- Adjusted net profit decreased from EUR 3.4 billion to EUR 2.9 billion, a year-on-year decline of EUR 0.5 billion.
- Positive effects included the compensation received from AT&T (break-up fee of EUR 2.3 billion, right to the transfer of spectrum licenses worth EUR 0.9 billion).
- Negative effects included impairment losses on goodwill amounting to EUR 3.1 billion recognized in the reporting year and an increase in income tax expense by EUR 1.4 billion.

Shareholders' equity. (billions of €)



- Shareholders' equity decreased by EUR 3.1 billion compared with the end of 2010.
- Positive effects from net profit of EUR 0.6 billion.
- Negative effects primarily from dividend payments (including non-controlling interests) of EUR 3.5 billion.

Equity ratio. (%)



- Despite the decrease in shareholders' equity, the equity ratio remained at the upper end of our target range of between 25 and 35 percent.

For further explanations, please refer to the section "Management of the Group," pages 69 – 70.

Comparison of expectations and actual development at Group level.

Adjusted EBITDA	
2011 guidance	**2011 delivery**
– Around **€ 19.1 billion**	– Negative exchange rate effects: € 0.2 billion
– Assuming constant exchange rates and a comparable consolidation structure	**€ 18.7 billion**

Free cash flow	
2011 guidance	**2011 delivery**
– Stable or slight increase to around **€ 6.5 billion**	– Negative exchange rate effects: € 0.1 billion
– Assuming constant exchange rates and a comparable consolidation structure	**€ 6.4 billion**

Capital expenditure (before spectrum) totaled EUR 8.3 billion in 2011 and in all countries mainly related to further rolling out broadband and expanding capacities in existing networks. Investments in our core market in Germany remained at a constantly high level. In mobile communications, we made initial investments in LTE, increased 3G network coverage, and upgraded capacity to meet increasing demand for data transfer volumes. Cooperative ventures with other network operators in the mobile communications segment enabled us to reduce the planned capex volume in Europe in certain areas. 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. The focus of capital expenditure in the United States was on expanding the HSPA plus network – the next step up from UMTS. DSL, VDSL, IPTV and commencement of the FTTH roll-out took center stage in the fixed-network area. We also continued to upgrade the existing telephone network to a next-generation technology, such as the IP-based voice network. At T-Systems, investments mainly focused on customer orders and the expansion of new multipurpose platforms (e.g., for cloud services and De-Mail). The introduction of a stringent capital expenditure management process helped us make additional savings.

Comparison of actual development and expectations of our stakeholders.

The following measures and achieved targets serve to ensure that the different expectations which the four groups of stakeholders (shareholders, providers of debt capital, employees, and the "entrepreneurs within the enterprise") have of the Group are fulfilled.

Shareholders

	2011 guidance	2011 delivery
Shareholder remuneration policy [a]	– Total annual remuneration volume of **€ 3.4 billion** – Of which minimum annual dividend of **€ 0.70 per share**	– Proposed dividend for 2011 of **€ 0.70 per share** (€ 3.0 billion)

Providers of debt capital

	2011 guidance	2011 delivery
Rating	A–/BBB+	BBB+
Relative debt	2 to 2.5 x	2.1 x
Equity ratio	25 to 35%	32.6%
Gearing	0.8 to 1.2	1.0
Liquidity reserve	covers maturities of the next 24 months	covers maturities > 24 months

ROCE
Return on capital employed

Ambition level for 2012
Improvement of around 150 basis points

ROCE level [b]
2011: 3.8% (2010: 3.5%; 2009: 3.9%)

Staff restructuring and staff reduction	Expenses arising from staff restructuring in 2011: € 1.2 billion ROCE impact: ≈ –0.7 percentage points

Investment before spectrum	€ 8.3 billion
Investment in spectrum [c]	€ 0.1 billion

Employees

"Entrepreneurs within the enterprise"

[a] Please refer to footnote 2, page 155.
[b] ROCE 2010: 3.9% (excluding expenses arising from the PTC transaction and effects from the deconsolidation of T-Mobile UK).
[c] Additionally, we received a right to the transfer of Advanced Wireless Service (AWS) spectrum licenses worth EUR 0.9 billion as part of the compensation from AT&T.

Highlights in the 2011 financial year.

Developments at management level.

On February 23, 2011, the Supervisory Board of Deutsche Telekom AG complied with Guido Kerkhoff's request to be released from his duties as Member of the Board of Management responsible for Europe as of April 1, 2011. Board member Niek Jan van Damme assumed responsibility for this Board of Management department in an acting capacity with effect from April 1, 2011.

At its meeting on July 4, 2011, the Supervisory Board of Deutsche Telekom AG appointed two new members to the Board of Management: Claudia Nemat as the Board member responsible for Europe with effect from October 1, 2011 and Prof. Marion Schick as the Board member responsible for Human Resources and Labor Director with effect from May 3, 2012.

Furthermore, on December 15, 2011, the Supervisory Board extended the contract of Reinhard Clemens – Member of the Board of Management responsible for T-Systems – by five years. At the same time, the Supervisory Board received a request from Edward R. Kozel to be released from his duties as Board member with effect from January 1, 2012. No new member will be appointed to the Technology and Innovation Board department. René Obermann will take charge of Products and Innovation in addition to his other responsibilities. Claudia Nemat will additionally be responsible for Technology. Reinhard Clemens will take all-embracing responsibility for Deutsche Telekom's IT.

Sale of T-Mobile USA to AT&T.

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 in AT&T common stock.

The transaction was subject to approval by the U.S. Department of Justice (DOJ) and the U.S. regulatory authority, the Federal Communications Commission (FCC). After the DOJ had filed suit to block the transaction at the U.S. District Court in Washington, District of Columbia, in August 2011 and the U.S. authorities took a clear stance against the deal, AT&T Inc. and Deutsche Telekom terminated the agreement for the sale of T-Mobile USA to AT&T on December 19, 2011.

Following this 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 effective December 20, 2011.

As a result of the termination, AT&T compensated Deutsche Telekom in line with the provisions of the purchase agreement between the two companies on March 20, 2011. 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 of Advanced Wireless Service (AWS) spectrum licenses worth EUR 0.9 billion (USD 1.2 billion).
- 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 the section "Development of business in the Group," page 76 et seq., and the disclosures in the notes to the consolidated financial statements, page 165 et seq.

Corporate transactions.

Deutsche Telekom acquires another 10 percent in OTE. On June 6, 2011, we were informed that the Hellenic Republic, within the framework of the provisions of the Share Purchase Agreement dated May 2008, had made use of its right to sell another 10 percent of the shares in the Greek telecommunications company OTE to us. The purchase price for the around 49 million OTE shares was EUR 0.4 billion. Following the transfer of shares as of July 11, 2011, the Hellenic Republic holds – directly and indirectly – around 10 percent of the shares and we now hold around 40 percent of the shares in OTE.

Deutsche Telekom and France Télécom-Orange procurement joint venture BUYIN commences operations. On October 7, 2011, we announced the launch of our procurement cooperation BUYIN together with France Télécom-Orange. We have pooled our procurement activities in the following areas in a 50/50 joint venture: terminal devices, mobile communications networks, 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. Deutsche Telekom will generate future cost savings from this joint venture.

PTC rolls out T-Mobile brand. Polska Telefonia Cyfrowa S.A. (PTC) successfully launched the "T-Mobile" brand on the Polish market in June 2011. Since then, PTC has been operating under the name T-Mobile and using the "T" as its corporate logo in line with the Company's overall brand strategy.

Deutsche Telekom steps up its long-term commitment in Bratislava. Deutsche Telekom Shared Services s.r.o. in Bratislava, Slovakia, will gradually take over the financial and accounting services for all our European subsidiaries. To this end, certain processes will be pooled in Bratislava over the next few years. This step is intended to create more than 500 additional jobs in Bratislava by the end of 2015.

OTE S.A. sells its 20-percent share to Telekom Srbija a.d. OTE S.A. signed a share purchase agreement with Telekom Srbija to sell its entire stake of 20 percent in Telekom Srbija back to the company. The value of the transaction amounts to EUR 380 million. In addition, OTE will receive a minimum dividend of EUR 17 million for the 2011 financial year. For further information, please refer to the section "Significant events after the reporting period," page 147.

For information about the **partnership** concluded during the reporting year, please refer to the events described in this section, page 58.

Litigation.

Federal Court of Justice ruling in favor of Deutsche Telekom. In a U.S. class action, shareholders accused Deutsche Telekom of providing false information in the prospectus for the third public offering in 2000 and of not providing sufficient information. This resulted in a settlement (without acknowledgement of any guilt or misconduct) under which shareholders in the United States received around USD 120 million (part of which was borne by insurance companies). We demanded repayment of the settlement amount plus costs from the Federal Republic of Germany and KfW Bankengruppe. The Federal Court of Justice ruled in our favor on most points and sent 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.

U.S. authorities and Bonn public prosecutor's office close investigation into contracts in the F.Y.R.O. Macedonia and Montenegro. Magyar Telekom and Deutsche Telekom reached an agreement with the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) on December 29, 2011 to drop investigations into alleged breaches of the U.S. Foreign Corrupt Practices Act (FCPA) in relation to incidents prior to 2006. Deutsche Telekom signed an agreement with the SEC, without acknowledging or denying the allegations levied by the SEC, accepting a court ruling permanently obliging Deutsche Telekom not to violate the accounting and control requirements of the FCPA. Deutsche Telekom also reached an out-of-court settlement with the DOJ in the form of what is known as a non-prosecution agreement. Magyar Telekom reached separate agreements with the SEC and the DOJ, the details of which are included in its own reporting. As part of the agreement, Deutsche Telekom made a payment totaling USD 4.36 million (EUR 3.5 million) to the U.S. authorities in early 2012, while Magyar Telekom paid USD 90.8 million (EUR 69.7 million). The Bonn public prosecutor's office dropped its investigation into the matter.

Settlement of ADSL patent litigation. CIF Licensing LLC had initiated proceedings against Deutsche Telekom for the alleged infringement of four patents. After two of the patents alleged to have been infringed had been declared invalid by the Federal Patent Court, a settlement was agreed between the parties in October 2011. The settlement brings to an end all related lawsuits between the two parties and grants Deutsche Telekom free licenses to the disputed patents.

For further information, please refer to the section "Risk and opportunity management," page 131 et seq.

Regulatory decisions.

Regulatory decisions in 2011. For details on this topic, please refer to the section "The economic environment," page 71 et seq. Further developments in the area of regulation which we are not yet able to assess are discussed in the section "Risk and opportunity management," page 131 et seq.

Investments in networks and new spectrum.

Deutsche Telekom launches high-speed Internet in rural areas. Our new wireless "Call & Surf Comfort via Funk" product range has been available exclusively in areas without DSL since April 5, 2011, thereby closing more coverage gaps in rural areas. Seven regional states have already stated that the license conditions for LTE 800 have been met, which means there are no more gaps in these areas. At the same time, we continue to roll out the DSL network. More than 1,100 cooperation agreements to support broadband expansion in rural areas were signed with municipalities in the past year.

LTE network roll-out. We have reached an important milestone in our LTE activities: Since July 1, 2011, customers have been able to surf the mobile Internet at up to 100 Mbit/s with Germany's first LTE high-speed network in Cologne using the Web'n' Walk Connect XXL plan, meaning we succeeded in putting the first LTE high-speed network in a German city into operation just twelve months after the license auction. After Cologne, we will provide more than 100 other cities throughout Germany with next-generation mobile communications. Our subsidiary in Austria has also linked up four cities to the state-of-the-art LTE network: Innsbruck, Vienna, Graz, and Linz.

3G network build-out with HSPA plus technology in Europe. We are also significantly expanding our range of mobile broadband systems in our Europe operating segment. For example, in 2011 we built out the 3G network with fast HSPA plus technology in the Czech Republic and Slovakia. Having undertaken large-scale network modernization in May 2011, we are now also able to offer our Hungarian customers a fast HSPA plus solution. In Poland, we started commercial operation of HSPA plus in Warsaw at the beginning of 2011 and had covered the entire 3G network of our subsidiary by the end of the year. In Germany, the UMTS base stations were connected via optical fiber and they now operate at speeds of up to 42.2 Mbit/s.

Fiber to the Home (FTTH). We are also driving the roll-out of fiber-optic cables, which has already been launched in twelve cities. We will be able to offer our customers speeds of up to 200 Mbit/s from mid-2012.

Successful participation in license auctions in Europe. In Greece, we purchased spectrum in the 0.9 GHz and 1.8 GHz frequency ranges for around 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 around EUR 48 million to extend the mobile communications licenses by another ten years.

T-Mobile USA 4G network speed acceleration. T-Mobile USA operates the largest 4G network in the United States, reaching more than 200 million people nationwide. T-Mobile USA is also doubling the speed of its 4G network to achieve a theoretical download speed of 42 Mbit/s (HSPA plus 42) in 2011. Over 184 million people in more than 175 markets across the country now have access to T-Mobile USA's HSPA plus 42 network, among the fastest 4G speeds available, as well as increased network capacity and reliability.

New products/Connected life and work.

Our TV service Entertain has also been available by satellite since September 1, 2011. The new service transmits digital TV and radio signals via satellite. Various interactive features including the online video store, electronic program guide, and program manager enable users to remotely program their hard disk recorders via the Internet. Thanks to this service, around 75 percent of all households in Germany can now access our TV channels via satellite.

Deutsche Telekom presents PagePlace online kiosk at CeBIT 2011. PagePlace is a digital kiosk and online library for newspapers, magazines and books. It allows our customers to purchase content and pay for it securely and easily at any time, including on the move. PagePlace can be accessed from a range of terminal devices such as PCs, iPads and iPhones.

Cloud service for utilities. We are supplementing our cloud computing services with the SAP for Utilities solution. The housing sector, energy providers, and meter operators can now lease hardware and software for all processes at a fixed monthly price per meter. This makes us the first provider to offer this comprehensive range of services, from reading consumption data through to billing, from a single source.

Deutsche Telekom offers products for the housing sector. Together with our cooperation partners we have developed a new service for the housing sector that includes three modules: submetering services for heating, water and electricity, heating thermostat control via the Internet, and a special app for tablet PCs. The application allows property managers to complete the inspection report on their mobile devices when handing over a flat to forward it directly to the database.

Partnerships.

For more information on our **cooperation with France Télécom-Orange** (procurement joint venture BUYIN) and the **UMTS roaming agreement with AT&T** for voice and data traffic within the United States, please refer to the aforementioned highlights in this section, page 55.

Network partnership agreements signed in Europe. In February 2011, our Czech subsidiary T-Mobile CZ 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. Also, in July 2011 our Polish subsidiary PTC and PTK Centertel signed an agreement for the shared use of their radio access networks (RANs) and established the NetWorks! joint venture for this purpose, 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 our Austrian subsidiary 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.

Strategic partnership with Deutsche Annington. During the reporting year, we entered into a strategic partnership with the real estate group Deutsche Annington. The aim is to equip more than 170,000 of the group's apartments with basic TV services and to connect them to our fiber-optic network step by step.

"mpass" mobile payments. More and more customers are taking advantage of convenient and secure payment from mobile phones – using mobile or fixed-network Internet access. Together with Telefónica Germany and Vodafone, we are pushing ahead with our joint activities in mobile payment solutions. We plan to transfer our "mpass" payment service to a joint venture and have already signed a letter of intent to this effect. The new entity will manage sales and marketing activities and promote new products.

Employees.

2011 collective bargaining successfully concluded after arbitration. 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 percent as of April 1, 2011. The collective agreement remained in force until the end of January 2012.

Early retirement arrangements for 2011 resolved. We had offered our civil servants a limited early retirement program running until the end of 2011. The resulting expense amounts to EUR 0.7 billion; payment will be spread over the next six to seven years.

OTE reaches an agreement with unions. OTE and the unions have agreed the framework of a three-year collective labor agreement. The basic terms include the following: ensuring employment for OTE's personnel (the company will not introduce work rotation and stop pronouncing dismissals on financial or operational grounds for the duration of the collective labor agreement), reduction in personnel costs (salary grades will be reduced by approximately 11 percent for a period of three years before reverting to current levels in January 1, 2015), reduction in weekly working hours (full working time will be adjusted to 35 hours per week and increase to the current 40 hours per week from January 1, 2015).

Awards.

"connect": Deutsche Telekom wins awards for its products. We were voted "Mobile Network Operator of the Year" for the twelfth time running by readers of the trade magazine "connect." They chose our Entertain TV package as the favorite in the IPTV category with an absolute majority and a large lead. Our DeutschlandLAN service for business customers was a success in the category of virtual PABXs.

CHIP Online: Deutsche Telekom's network is the no. 1 choice. Our mobile communications network is the number one choice for telephony and mobile Internet and is well prepared to cope with the growing number of smartphones and tablets. For the second time in a row, it won the award for best network of the year in the CHIP Online portal's national network test.

Fastest mobile broadband network in Hungary and best network in the Czech Republic. Based on measuring results published in Hungary as part of an annual data delivery by all Hungarian mobile communications companies to the National Media and Communication Authority (NMHH), T-Mobile has the fastest mobile broadband network in Hungary. In addition, the engineering services provider P3 Communications tested the 2G and 3G networks in many European countries; they found that T–Mobile CZ is the leading provider of voice and data services.

T-Systems wins 2011 SAP Quality Award. IT-based customer relationship management (CRM) platforms are becoming increasingly important as corporate applications. T-Systems took gold in the 2011 SAP Quality Award with its new SAP-based internal CRM platform. It also won the Germany-wide award for successful SAP projects in the "New Business Application" category. The T-Systems CRM solution convinced the judges with its clear structure and quality standards in particular.

T-Systems receives Microsoft award. T-Systems took the Microsoft "Partner of the Year 2011" award in Germany for its cloud solution. The award-winning solution enables users to manage their household energy consumption over the Internet or via cell phone.

T-Systems signs new contracts.

T-Systems again concluded a number of large-scale international contracts and contract amendments in the financial year just ended, some of which are outlined here:

- T-Systems Switzerland is upgrading the ICT infrastructure of the trading company **Valora** and centralizing its European data centers.
- In the future, the automotive supplier **Magna** will purchase its applications from the T-Systems Cloud, which enables it to add or cancel IT resources at all its locations worldwide at short notice as required.
- The oil and gas company **TOTAL** has commissioned T-Systems to set up and operate its satellite communications. T-Systems will be responsible for the infrastructure consisting of satellite receivers and transmitters including antennas.
- For the construction equipment manufacturer **Komatsu,** T-Systems is building an information and management system in South Africa.
- The Spanish postal service **Correos** has commissioned T-Systems to provide SAP services from the cloud with the aim of harmonizing and consolidating Correos' corporate systems.
- Manufacturer of franking machines and folder inserters **Neopost** has commissioned T-Systems to operate its global high-speed network, thereby standardizing its previously heterogeneous networks so it can receive both infrastructure and services centrally from a single source.

Group organization.

For more information on our Group strategy, please refer to the corresponding section, page 66 et seq.

Business activities and organization.

Business activities: Leading service provider in telecommunications and information technology.

We are one of the world's leading service providers in the telecommunications and information technology industry and offer our millions of customers all kinds of products and services for connected life and work. We have an international focus and are represented in around 50 countries. In the 2011 financial year, we generated over half of our revenue, EUR 32.3 billion, outside of our home market in Germany. Overall, we employ 235,132 people (December 31, 2011).

Our activities are guided by key trends in technology and society, which we play a pivotal role in shaping. One such trend is digital technology, which is increasingly prevalent in many areas of life. Products and services are becoming more personalized, people are more mobile than ever before, and globalization is advancing, too. There is growing convergence among the various technologies. This is why we are building an integrated portfolio of products with which customers can access personalized data such as music, videos or address books from any terminal device. Through fixed-network and mobile communications, we offer network access as well as communication and value-added services with ever-expanding bandwidths. Our innovative products and services enable people to stay in touch.

Not only do our customers in Germany receive tailor-made products and services, they also get the best network quality – all from a single source. The "T" is our Group brand and will also be an integral part of the brand identity of our foreign shareholdings in the future.

In addition to our core business (traditional fixed-network and mobile access), we are tapping new growth areas with investments in intelligent networks and our portfolio of IT, Internet and network services. We are systematically implementing our Fix – Transform – Innovate strategy in five strategic action areas. Our aim is to drive up revenues in growth areas.

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

The mobile communications business offers mobile voice and data services to consumers and business customers. When marketing these services, we also sell mobile handsets and other hardware. In addition, we also sell mobile communications 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 active in the field of network-centric ICT solutions where it offers combined IT and telecommunications services. T-Systems supplies complete solutions for companies with global operations. In addition, it focuses on services such as cloud computing and IT solutions for sectors that are undergoing major changes like energy, healthcare, and the connected car.

Organization: Four operating segments.

Our financial reporting conforms with the Group strategy and is based on the following organizational structure. The Group is broken down into four operating segments; their business activities are assigned as follows: in three segments by region and in one segment by customer and/or product.

Organizational structure.

Deutsche Telekom Group

Group Headquarters & Shared Services

Germany	Europe	United States	Systems Solutions
Fixed network and mobile communications	Fixed network and mobile communications	Mobile communications	T-Systems

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 comprises 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. In addition, it also offers ICT solutions to business customers in the different national companies. The Europe operating segment also includes the International Carrier Sales and Solutions 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.

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

Group Headquarters & Shared Services comprises all Group units that cannot be allocated directly to one of the operating segments. Group Headquarters is responsible for strategic and cross-segment management functions. The Shared Services unit, which provides services primarily in Germany, is responsible for all other operating functions not directly related to the operating segments' core business activities. In addition to typical services such as financial accounting, personnel service, and operational procurement, Shared Services also includes Vivento, which is responsible for providing employees with new employment opportunities as part of the workforce restructuring program, Real Estate Services, and DeTeFleetServices GmbH, a full-service provider of fleet management and mobility services. Group Headquarters & Shared Services also includes the Technology and Innovation Board department (until December 31, 2011).

Legal structure of the Deutsche Telekom Group.

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

Information on the share capital in accordance with § 289 (4) No. 1 of the German Commercial Code (Handelsgesetzbuch – HGB) can be found in Note 15 "Shareholders' equity" in the notes to the consolidated financial statements, pages 204 – 205.

Shareholders' equity.

Each share entitles the holder to one vote. These voting rights are nevertheless restricted in relation to treasury shares (around 2 million as of December 31, 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.

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.

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

The shareholders' meeting on April 30, 2009 authorized the Board of Management to increase the 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 one or several partial amounts. Shareholders' subscription rights are disapplied. The new shares may only be issued to grant shares to employees of Deutsche Telekom AG and of lower-tier companies (employee shares). The new shares can also be issued to a bank or some other company meeting the requirements of § 186 (5) sentence 1 AktG that assumes the obligation to use these shares for the sole purpose of granting employee shares. Where permitted by law, the employee shares may also be issued in such a way that the contribution to be paid in return is taken from the part of the income after income taxes that the Board of Management and the Supervisory Board may transfer to other retained earnings in accordance with § 58 (2) AktG. The shares to be issued as employee shares can also be acquired in the form of a securities loan from a bank or some other company meeting the requirements of § 186 (5) sentence 1 AktG and the new shares used to repay this securities loan. The Board of Management is authorized, subject to the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares **(2009/II authorized capital).**

The share capital has been contingently increased by up to EUR 31,813,089.28 as of December 31, 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 subscription rights to shares from stock options granted in the period until December 31, 2003 to members of the Board of Management of the Company, to members of second-tier management, and to other executives, managers, and specialists of the Company and to members of the boards of management, members of management, and other executives, managers, and specialists at lower-tier Group companies in Germany and other countries, on the basis of the authorization for a 2001 Stock Option Plan granted by resolution of the shareholders' meeting on May 29, 2001. It will be implemented only to the extent that the holders of stock options exercise these options.

The share capital was contingently increased by up to 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 shall participate in profits starting at the beginning of the financial year in which they are issued as the result of the exercise of any option or conversion rights or the fulfillment of any option or conversion obligations. The Supervisory Board is authorized to amend § 5 (5) of the Articles of Incorporation in accordance with the particular usage of the contingent capital and after the expiry of all the option or conversion periods.

Main agreements including a change of control clause.

The main agreements entered into by Deutsche Telekom AG, which include a clause in the event of a change of control, principally relate to bilateral credit lines and several loan agreements. In the event of a change of control, the individual lenders have the right to terminate the credit line and, if necessary, serve notice or demand repayment of the loans. A change of control 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 S.A.) have a call option in the event that the ownership structure of Deutsche Telekom AG changes such that over 50 percent of its share capital or voting rights are held by a new shareholder and this change was not approved by the other members of the consortium.

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

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

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 respective other party can terminate the master agreement with immediate effect.

Changes in the consolidated group.

In addition to Deutsche Telekom AG, 64 German and 174 foreign subsidiaries are fully consolidated in Deutsche Telekom's consolidated financial statements (December 31, 2010: 64 and 177). 10 associates (December 31, 2010: 13) and 7 joint ventures (December 31, 2010: 5) are also included using the equity method. **The principal subsidiaries of Deutsche Telekom AG are listed in the notes to the consolidated financial statements in the section "Summary of accounting policies" under "Principal subsidiaries," page 184.**

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

Other transactions: Procurement joint venture BUYIN. **For details of our procurement joint venture BUYIN, please refer to the section "Highlights in the 2011 financial year," page 55 et seq.**

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.

As of December 31, 2011, Board of Management responsibilities were distributed across eight Board departments. Five of these are the central management areas:

- Chairman of the Board of Management

and the Board departments

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

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

- Germany
- Europe
- T-Systems

Changes in the composition of the Board of Management. On February 23, 2011, the Supervisory Board of Deutsche Telekom AG complied with Guido Kerkhoff's request to be released from his duties as Board member responsible for Europe effective April 1, 2011. Board of Management member Niek Jan van Damme assumed responsibility for the Europe Board of Management department in an acting capacity with effect from April 1, 2011.

At its meeting on July 4, 2011, the Supervisory Board appointed Claudia Nemat as the Board member responsible for Europe with effect from October 1, 2011 and also appointed Prof. Marion Schick as the Board 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 member responsible for Technology and Innovation with effect from January 1, 2012. No successor shall be appointed. The CEO, René Obermann, will take charge of Products and Innovation while IT will be assigned to the T-Systems Board department, and strategic management for Technology to the Europe Board department.

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

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

Composition of the Board of Management as of December 31, 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

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 – VorstAG) that has been in effect since August 5, 2009. The shareholders' meeting of Deutsche Telekom AG on May 3, 2010 approved this new system. Pursuant to the VorstAG explanatory memorandum (document 16/13433), the contracts of the Board of Management members that were in existence before the Act entered into force enjoy vested rights protection. These Board of Management members nevertheless have the option of voluntarily changing over to the new compensation system. **For more information on the compensation of the Board of Management and the disclosures required by § 314 HGB, German Accounting Standard No. 17 (GAS 17), and the German Corporate Governance Code, please refer to Note 39 "Compensation of the Board of Management and the Supervisory Board" in the notes to the consolidated financial statements, page 241 et seq.**

The compensation of Board of Management members comprises 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.

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.

Group strategy.

// We have been successfully implementing our Fix – Transform – Innovate strategy since 2010 //

Fix – Transform – Innovate.

Deutsche Telekom is one of the world's leading service companies in the telecommunications and information technology industry. We want to secure this strong position in the long term. We realize, however, that the market environment will remain challenging. After all, ours is an industry that sees permanent, dynamic change and is influenced by global trends. All relevant areas are affected: the fixed network, mobile communications, and the Internet.

Infrastructure is and will remain the basis of our business. We expect people to need faster and faster networks on our way toward the gigabit society. If we are to be efficient and successful on the way, two factors are of crucial importance: next-generation networks and standardized IT. Furthermore, it is vital to make the most of any growth potential. In our opinion, the mobile Internet and Internet services, for example, provide huge growth opportunities because customers expect secure and universal access to all services, from all devices. We also expect cloud computing and dynamic computing to hold considerable potential in the business customer segment. Furthermore, intelligent networks will support the upcoming changes in industries such as energy, healthcare, and transportation/automotive. We still firmly believe that a profitable business is only possible through a strong national competitive position.

We are standing up to these challenges with the Fix – Transform – Innovate strategy we presented in March 2010. With this strategy we aim to realize our vision of becoming 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 our strategic approach is to systematically 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 our corporate actions, including for instance on the issues of sustainability and human resources.

We are gradually implementing our Fix – Transform – Innovate strategy in five strategic action areas (see the illustration below). These are:

Improve the performance of mobile-centric assets.

In all countries where we primarily provide mobile communications services, we are planning to enhance our performance. To this end, we invest in next-generation technologies, develop innovative services, and expand our portfolio of mobile devices. In the United Kingdom, for instance, in 2010 our joint venture Everything Everywhere got off to a good start as the market leader, measured in terms of the combined customer base. In Poland we reached a crucial milestone in further strengthening our subsidiary Polska Telefonia Cyfrowa (PTC) as we clarified the ownership of this national company. In mid-2011, PTC rebranded Era to T-Mobile.

Our agreement for the sale of T-Mobile USA to AT&T Inc. was terminated in December 2011 in response to the opposition shown by the U.S. authorities. AT&T subsequently paid Deutsche Telekom the agreed break-up fee of USD 3 billion and will make the agreed 3G roaming services and spectrum licenses available in the near future. Deutsche Telekom will continue to report T-Mobile USA as a continuing operation and is in the process of building a strategy for the coming years.

Group strategy.

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

Leverage One Company in integrated assets.

We are continuing to integrate fixed-network and mobile communications – an approach that originates in the One Company project. On the back of the successfully completed integration in Germany and several European markets, we can generate additional revenues, further improve our customer service and leverage synergies. EBITDA margins in the integrated markets are still at a high level despite the continued challenging economic situation in some countries.

Our innovative services and rate plans set us apart from the competition. For instance, via the TelekomCloud our customers already have access to products such as Media Center, an online storage facility, that give them 24/7 access to their music, photos, and other media content, whether on their PCs, TVs 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 the following:

- Expanding our fiber-optic networks and enhancing our mobile communications networks by pushing HSPA plus and LTE
- Systematically implementing the all-IP concept
- Increasing the speed and flexibility of the IT factory
- Systematically expanding key enabling skills

That is why 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; more than 16,500 UMTS stations have meanwhile gone live. In many other countries, we are also continuing to upgrade our UMTS network with high-speed HSPA plus technology. On top of this, we have started to roll out the LTE network in several countries; in Germany, for example, we have fitted out some 1,100 stations overall with LTE technology since 2010. In addition to our own network expansion activities we also cooperate with other telecommunications providers on improving our network. This approach has already proven successful in, e.g., the Czech Republic, where our subsidiary T-Mobile CZ has signed an agreement with Telefónica O_2 CZ on 3G network sharing.

We are also expanding our networks on the fixed-network side. Our billion-euro investments ensure that more and more households will be covered by fast broadband lines. Put into figures: We have marketed 12.3 million broadband lines in Germany, which makes us market leader. On top of this, more than 600,000 customers have opted for a VDSL line from Deutsche Telekom.

Connected life across all screens.

We want to provide innovative, non-device-specific and convergent services. In our view, the greatest opportunities for growth lie in making data services mobile, particularly on the mobile Internet. In this area we are developing and marketing our own key solutions, such as innovative communication services centered around the personalized, network-based address book that we have successfully launched in six countries (e.g., MyPhonebook in Germany). Needless to say, we also place great importance on ensuring that our customers have attractive handsets. And we have been successful there, since 62 percent of all handsets sold in Germany in 2011 were smartphones.

We also want to be a pioneer for digital content, by linking and distributing personalized media content. We have made a number of acquisitions (e.g., ClickandBuy and STRATO), all of which are smart additions to our balanced portfolio in the high-growth Internet business.

Our prominent position in the European TV market is yet another success factor. During the reporting year, the number of Entertain customers in Germany increased to 1.6 million (up 34 percent year-on-year), of which more than 100,000 use our new Entertain Sat product. Our TV customer base in Southern and Eastern Europe has increased to 2.6 million.

Connected work with unique ICT solutions.

Through T-Systems, we provide customized ICT solutions for business customers. Internally, we draw on the services of T-Systems for the ongoing standardization of our IT solutions. We are also continuing to restructure T-Systems with the aim of increasing revenue and raising profitability to industry level.

We have developed intelligent, innovative offerings centering around secure cloud services that our business customers have welcomed with open arms. 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. To this end, we have created three new business areas for developing intelligent network solutions: energy, healthcare, and the connected car. These also got off to a good start. In the energy business area we have signed a deal 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, flexible, and future-proof infotainment concept for vehicles.

Growth areas of Deutsche Telekom.

Advances in our strategic action areas are having a positive and direct effect on our principal growth areas: mobile Internet, the connected home, Internet services, T-Systems, and intelligent network solutions.

Our overall objective is to almost double revenue in these growth areas, from EUR 15 billion in 2009 to around EUR 29 billion in 2015.

- **Mobile Internet** is our largest growth area; it includes all revenue that we generate with mobile data services. Our aim is to achieve revenue of around EUR 10 billion by 2015.

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

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

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

- The **intelligent network solutions** growth area comprises business in sectors that are undergoing major changes. Our aim is to generate around EUR 1 billion in revenue by 2015. To this end, we have set up three new business areas that are developing and marketing innovative solutions.

Growth areas of Deutsche Telekom.

Revenue in billions of €	2011	Ambition level for 2015
Mobile Internet	5.2	≈ 10
Connected home	6.3	≈ 7
Internet services	0.9	2 to 3
T-Systems (external revenue) *	6.5	≈ 8
Intelligent network solutions (energy, healthcare, connected car)	0.1	≈ 1

* Excluding revenue from intelligent network solutions.

Management of the Group.

// Three-year finance strategy // Group-wide value management //

We are clearly committed to the concept of value-oriented corporate governance. In order to govern our Group successfully and sustainably, we must bear in mind the expectations of all four stakeholder groups at all times.

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

Finance strategy.

We want to strike a balance between the contrasting expectations of these stakeholder groups so that sufficient funding is available for an attractive dividend, debt repayment, socially responsible staff restructuring, and new investment. The following overview of our finance strategy describes our aims with regard to the stakeholder groups:

Value management and performance management system.

In order to set and achieve our strategic goals more effectively, we are pursuing a Group-wide value management approach. Ultimately, specific performance indicators are required to measure success. The basis for this is a reliable and understandable performance management system. The following table provides an overview of our key performance indicators (KPIs):

Key performance indicators.

		2011	2010	2009	2008	2007
ROCE	%	3.8	3.5[a]	3.9	–	–
Net revenue	billions of €	58.7	62.4	64.6	61.7	62.5
Adjusted EBITDA	billions of €	18.7	19.5	20.7	19.5	19.3
EBITDA	billions of €	20.0	17.3	19.9	18.0	16.9
EBIT	billions of €	5.6	5.5	6.0	7.0	5.3
Free cash flow[b]	billions of €	6.4	6.5	7.0	7.0	6.6
Gearing		1.0	1.0	1.0	0.9	0.8
Relative debt		2.1	2.2	2.0	2.0	1.9

[a] ROCE 2010: 3.9% (excluding expenses arising from the PTC transaction and effects from the deconsolidation of T-Mobile UK).
[b] Free cash flow before dividend payments, spectrum investment, PTC transaction and break-up fee from AT&T.

Our three-year finance strategy for 2010 through 2012.

Shareholders

Shareholder remuneration policy *
– Annual remuneration totaling **€ 3.4 billion**
– Minimum dividend of **€ 0.70 per share**
– Share buy-backs totaling up to **€ 1.2 billion** over 3 years

Providers of debt capital

Rating	A–/BBB+
Relative debt	2 to 2.5 x
Equity ratio	25 to 35%
Gearing	0.8 to1.2
Liquidity reserve	covers maturities of the next 24 months

ROCE
Return on capital employed
Ambition level: Improvement of around 150 basis points

Sustained employee orientation
– Securing jobs
– Prospects of further qualification and promotion
– Satisfaction at work
– Socially responsible staff restructuring

Employees

Capital expenditure
around € 9 billion p.a.
(before spectrum investment, if any)

"Entrepreneurs within the enterprise"

* Please refer to footnote 2, page 155.

The development of these key performance indicators is illustrated in the table "Key performance indicators," page 69. Further details are also provided in the section "Development of business in the Group," page 76 et seq.

Profitability.

In order to underline the importance of the successful long-term development of our Group, we have incorporated sustainable growth in the value of our enterprise into our medium-term aims and implemented it as a separate KPI for the entire Group. **ROCE (return on capital employed)** has been our central KPI at Group and segment level since 2009. ROCE is calculated using the ratio of profit from operations after depreciation, amortization and impairment losses plus imputed taxes (i.e., net operating profit after taxes, or NOPAT) to the average value of the assets tied up for this purpose in the course of the year (i.e., net operating assets, or NOA).

ROCE helps us to embed our aim of sustainably increasing the value of our Group across all operational activities. Additional value accrues when the return on capital employed exceeds the cost of capital. Our goal, therefore, is to achieve or exceed the return targets imposed on us by providers of debt capital and equity on the basis of capital market requirements. We measure return targets using the weighted average cost of capital (WACC). In the 2011 financial year, we generated ROCE of 3.8 percent.

We believe that ROCE best reflects the expectations of the four aforementioned groups of stakeholders. The indicator measures how efficiently we generate revenues with the capital employed. ROCE is especially informative when taking a long-term view, because it takes into account both the immense value of our tied-up assets due to our capital-intensive infrastructure, and their utilization. This reveals the crucial advantage of this KPI. It does not focus on the absolute amount of the earnings generated, but rather on how much earnings the capital employed generates. ROCE gives us a holistic perspective from which we can consider our investments with fresh insight.

For operational management, we additionally use the KPIs described in the following.

Earnings performance.

The development of our **revenue** is an essential indicator of the Company's success.

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

Financial flexibility.

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. This indicator is the main yardstick for providers of debt capital and equity; it measures the potential for further developing our Company, e.g., for generating organic growth and the ability to pay dividends and repay debt.

Our central free cash flow management is aimed at further improving working capital. Free cash flow is responsible for transparency, steering, forecasts, and performance measurement in relation to the Group's free cash flow and especially in relation to working capital. In 2010, we set up CORE (Cash Optimization for ROCE Enhancement), a project to improve working capital on a long-term basis. In the 2011 financial year, the focus was on implementing the Group-wide payment policy adopted in 2010 for improved payables management in Germany. We also continued to optimize inventories throughout the Group and on receivables management, especially in our Europe and Systems Solutions operating segments. In the next few years, we want to continue on this path, focusing on the international roll-out of the payment policy, receivables management at T-Mobile USA, and the OTE group's working capital management.

Financial stability.

In addition to a solid rating, gearing and relative debt are vital when it comes to fulfilling the requirements of debt capital providers and ensuring financial stability. The "relative debt" indicator expresses net debt in relation to adjusted EBITDA, while "gearing" is the ratio of net debt to equity.

The economic environment.

// Positive global economic development only in the first half of 2011 // Regulation tightening throughout Europe //

Global economic development.

As forecast, the global economy began the year 2011 with a continued positive growth trend. This dynamism cooled off significantly in the second half of the year, however. With an increasingly dire sovereign debt crisis in Europe and the U.S., financial market volatility increased significantly. Business and consumer confidence gradually worsened as a result of the crisis. In particular, the eurozone crisis cast a significant pall on economic activity. A new aid package for Greece and ongoing discussion about the country's future path, the design of the euro safety net and, last but not least, the significant downgrading of the creditworthiness of countries like Portugal, Ireland, Spain and ultimately Italy, the third-largest economy in the eurozone, caused a high level of uncertainty in financial markets. Moreover, the first ever downgrade of U.S. sovereign debt caused further unrest. There is still no long-term solution to the sovereign debt crisis.

The German economy maintained its strength throughout 2011, thanks to its excellent relative competitiveness and robust exports. Growth in the U.S. slowed increasingly towards the end of the year, accompanied by uncharacteristically high unemployment. The economies in our Europe operating segment again showed uneven growth in 2011. Poland and Austria enjoyed robust growth, while the Czech Republic, the Netherlands and Slovakia only grew moderately. In Romania, Croatia and most recently Hungary, the overall economic situation has deteriorated sharply despite initial positive trends. Greece remains in the grip of a severe recession.

The GDP growth rate trends in our most important markets for 2011 are listed below.

GDP growth rates.

	Q1 2011 compared with Q1 2010 %	Q2 2011 compared with Q2 2010 %	Q3 2011 compared with Q3 2010 %	Q4 2011 compared with Q4 2010 %	Estimate for full year 2011 %
Germany	4.6	2.9	2.6	2.1	3.0
United States	2.2	1.6	1.5	1.6	1.7
Greece	(5.5)	(7.2)	(6.7)	(5.4)	(6.2)
Poland	4.5	4.6	4.2	3.9	4.3
Hungary	1.9	1.7	1.5	1.3	1.6
Czech Republic	2.8	2.2	1.3	0.7	1.6
Croatia	(0.8)	0.8	0.6	0.4	0.3
Netherlands	2.3	1.8	1.3	0.5	1.5
Slovakia	3.4	3.5	2.9	2.1	3.0
Austria	4.4	4.1	2.9	1.8	3.2
United Kingdom	1.7	0.6	0.5	0.7	0.8

Source: Oxford Economics, as of January 2012.

Telecommunications market.

In the telecommunications market, we continued to face tougher competition and stricter regulatory measures during the reporting year, which resulted in additional price declines. Mobile termination rates in Europe decreased significantly as a result of regulation, for example.

The initial upswing in the global economy and the slight increase in consumer demand in most of our core markets were able to support the business environment only to a limited extent, however, and were not a major source of impetus. In countries where purchasing power dropped, a negative, decelerating impact continues to be visible in the telecommunications market. 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.

More and more households throughout Europe are giving up their fixed-network lines. In early 2011, 27 percent of households had only a mobile line. This figure was just 24 percent four years previously (source: Eurostat). Figures in Central and Eastern European countries are especially high. One reason for this is the comparatively poor condition of the fixed network, compared to Western Europe. In Germany, in contrast, customers have largely remained faithful to the fixed network: just 12 percent of households exclusively use mobile phones (an increase of just 1 percentage point since 2007).

Germany.

Total revenue from telecommunications services has been declining since 2005, due primarily to tough competition and regulatory price reductions. Revenue from telecommunications services (mobile and fixed network) in Germany decreased by EUR 0.5 billion in 2011 to around EUR 60.3 billion. The main reason for the EUR 0.3 billion decline in mobile communications revenues was the 50 percent cut in termination rates. Revenue from 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 percent compared to the previous year. Prices for fixed-network and Internet services declined by 2.4 percent, while prices for mobile voice and data connections were down 3.5 percent.

With around 38 million lines, the fixed-network market in Germany remained nearly stable in 2011. We were able to significantly reduce the speed with which customers are abandoning fixed-network services. The use of lower-priced connections (e.g., call-by-call) continues to decline, a result of increasing use of full packages from other suppliers and our own flat rates. Our competitors are increasingly implementing their own infrastructures and business models, which has a growing impact on competition in the wholesale market. We expect consolidation to continue in the years to come, for instance in the cable market, as well as new partnerships among competitors.

The number of broadband connections continues to grow overall. 1.2 million new connections were added in the past year, 400,000 via telecommunications providers and 800,000 via cable operators, resulting 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, particularly fiber-optics. We project a total of around 27.1 million fixed-network broadband connections in Germany by the end of 2011 – an increase by some 5 percent compared to 2010.

Service revenues in the German mobile telephony market remained nearly stable compared to the previous year, 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 through complete packages. Moreover, we are also seeing growth in new services and apps, iMessage, MobileTV, etc.

Nearly one in three Internet users in Germany accesses the Internet using a mobile device to read e-mail and other messages on a mobile phone or uses a smartphone to post Facebook updates or send tweets, for example. Mobile access to online communities and location-based services is growing rapidly. One in three Internet users uses a smartphone, a tablet PC or an iPad to shop online, for example. 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 last year alone. Broadband connections with speeds of at least 1 Mbit/s are now available to nearly 99 percent of households in Germany. The remaining coverage gaps are provided with fast 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 percent 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. The result will be a comprehensive, powerful gigabit broadband network, in which information and data will be carried securely, reliably and at high speed. While we are initially deploying the 800 MHz frequency band to supply broadband LTE efficiently 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 speeds. At the same time, we have equipped our nationwide mobile network with the powerful HSPA plus technology and can now offer our customers in Germany transmission speeds of up to 42 Mbit/s.

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 on our business. In particular the cuts in termination rates, some of which were quite severe, presented the companies with considerable challenges. Falling prices, the result of regulatory intervention, major competitive pressure, and in some cases weak purchasing power, caused telecommunications markets in almost three quarters of the countries in this operating segment to either contract or stagnate.

The markets in the Czech Republic, Albania, and Romania all experienced a contraction. The situation was particularly severe in Greece, where telecommunications revenues dropped around 8 percent year-on-year. The debt crisis and the government's strict austerity program translated into lower consumption and in turn, less spending on telecommunications. Poland was a positive exception, with total market growth of 3 percent. In contrast, markets in Austria and the Netherlands remained steady or enjoyed slight growth.

In the fixed-network area, trends from the previous year continued. Thanks to significant growth in broadband business, we were able to compensate some of the decline in revenue from voice telephony. Broadband coverage varies from country to country. Faced with ever-increasing demand for greater bandwidths, cable network operators are investing in upgrading their broadband networks in addition to telecommunications providers, increasing competition even more. The future technology of fiber optics plays a crucial role in upgrading our broadband networks. We are investing in the construction of a pure-fiber network in the countries in our Europe operating 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 driving ahead with the new mobile communications standard LTE. In Austria, for example, LTE was implemented successfully back in December 2010. The demand for ever-faster data transmission rates also requires further measures in the area of mobile communications frequencies: Some countries held auctions, which we participated in successfully, 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 so-called triple-play and even quadruple-play offers. Moreover, many services are converging. In addition to a TV set or home computer, TV shows can now be watched on smartphones as well. TV accounts for a large proportion of the business in the markets in the Europe operating segment, too. Our TV services are available via IPTV, cable, and in some countries also via satellite, so the majority of our customers can access them via a variety of channels.

United States.

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 between 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 operators. The two largest operators, AT&T Wireless and Verizon Wireless, achieved strong revenue growth and healthy margins in 2011. This was driven by strong growth in smartphone adoption and rising postpaid ARPUs. Due to advantages through 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 with its exclusive distribution rights for the Apple iPhone, which expired in 2011. Verizon and Sprint became additional distribution partners of the Apple iPhone, gaining a competitive advantage as well. Verizon and AT&T were able to increase their net customer gain disproportionately during the reporting year; together with increased competitive pressure from low-cost regional full-service providers, this 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 percent at September 30, 2010 to 10.6 percent at September 30, 2011.

A major theme for the industry in the United States is the roll-out of 4G networks. Verizon Wireless has started to roll out the 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. 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 began rolling out LTE in 2011. By the end of the year, coverage had risen to 74 million. 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 for 2012.

Systems Solutions.

The rebound of the global economy in 2010 and early 2011 had a positive impact on the market for IT services. At the same time, uncertainties arose from the natural disaster in Japan, the sovereign debt crisis in the eurozone and a weakening U.S. economy. These developments resulted in continuing cost pressure, delayed investment decisions 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 segments were impacted in very different ways by these market trends:

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

- IT services: After the crisis years, the market for IT services grew slightly once again during the reporting year.

- 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 over the Internet.

- IT project business: This business area declined sharply in 2009, followed by mild growth in 2010. It picked up speed significantly during the reporting year. 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.

Regulatory influence on Deutsche Telekom's business.

Our business activities are largely subject to national and European regulation, including extensive powers to intervene in our product design and pricing. In 2011, our fixed-network and mobile businesses were again both subject to regulatory intervention, which depressed revenue in both of these areas.

Regulation mainly came to bear in the following areas:

- Legislative changes in Germany (such as the amendment of the Telecommunications Act) and at the EU level (regulations, directives, and other binding legislation)

- Regulation of charges

- Regulation of future wholesale broadband services and investments in new networks and infrastructure (NGN, NGA)

Legislative changes in Germany (such as the amendment of the Telecommunications Act) and at the EU level (regulations, directives, and other binding legislation).

Amended EU directives require the revision of national telecommunications laws, which form the primary legal framework for regulation. The German national parliament, the Bundestag, passed the amendment to the Telecommunications Act (TKG) on October 27, 2011. The Bundesrat, the chamber representing the federal states, still needs to ratify the law before it takes effect. The amended TKG is intended to define better incentives for investments in new infrastructure; it also contains additional consumer protection requirements. National telecommunications laws are also being adjusted to reflect the EU directives in other EU member states where our subsidiaries are active.

The European Commission's proposed new roaming regulation of July 6, 2011 aims to tighten up and extend existing price regulation. In addition, the Commission 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; consumers will then be able to conclude a second 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. They represent a disproportionate level of regulation – particularly in light of the growing competition for data roaming services.

Regulation of charges.

On June 17, 2011, the Federal Network Agency announced its final decision setting the monthly rental charges for the ULL for the period from April 1, 2011 through June 30, 2013. The approved rate for the most important ULL option is EUR 10.08/month (previously EUR 10.20/month). This constitutes a reduction of 1.18 percent. The charge for the cable branch box ULL was also reduced by 0.55 percent to EUR 7.17/month, compared to the previous charge of EUR 7.21/month.

The Federal Network Agency re-approved the one-time ULL rates for the period April 2002 through June 2003 in its decision dated January 20, 2011. The rates were cut compared with the decision in 2002 – by 3 to 8 percent for the most important provisioning and take-over options and by 11 to 15 percent for termination options. The rates decision applied only for plaintiffs who prevailed in the court case. This is because under the Telecommunications Act in its 2002 form, the rates only applied to individual agreements.

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 of approximately 17 percent at peak times (from 0.54 eurocents/min to 0.45 eurocents/min) and of approximately 16 percent at off-peak times (from 0.38 eurocents/min to 0.32 eurocents/min). The approved rates came into effect on July 1, 2011 and are valid until November 30, 2012.

In Romania the prices for shared access to copper local loops were reduced in July as a last step in the imposed glide path to EUR 1.11/month. The monthly tariffs for full ULL access remained unchanged at EUR 6.02/month.

In Croatia the Post and Electronic Communications Agency (HAKOM) reduced the monthly fee for the unbundled local loop by some 16 percent as well as the provisioning time for ULL. Moreover, HAKOM obliged Hrvatski Telekom (HT) and its subsidiary Iskon Internet to introduce wholesale line rental, naked DSL and naked bitstream access.

On February 24, 2011, the Federal Network Agency approved the new charges for mobile termination rates (MTR) to be applied retroactively by Telekom Deutschland with effect from December 1, 2010. This involved cutting Vodafone's and Telekom Deutschland GmbH's previously asymmetric rates by around 50 percent, making them de facto symmetrical. The rates decision by the Federal Network Agency was the subject of EU-wide consultations. These rates will expire on November 30, 2012.

The regulatory authorities in Hungary, the Czech Republic, and Poland also ordered a cut in mobile termination rates in 2011.

In the Netherlands the Highest Appeal Court partially annulled OPTA's decision on the mobile and fixed termination rates on August 31, 2011. As for mobile termination rates, the cost oriented tariff level ends at 2.4 eurocents instead of 1.2 eurocents as of September 1, 2012.

Net neutrality: An amendment to the Telecommunications Act was submitted and adopted by the politicians regarding net neutrality. As a result of this amendment, operators are no longer allowed to differentiate tariffs on basis of type of usage.

Regulation of future wholesale broadband services and investments in new networks and infrastructure (NGN, NGA).

At the end of March 2011, the Federal Network Agency issued a regulatory order on unbundled local loop lines (ULLs), confirming the existing obligations for unbundled access to ULLs in principle. 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 (re)imposed 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 regulation to include new fiber-optic ULLs, though rates are subject to ex-post control. Under this regime rates have to be approved by the Agency prior to market launch.

On September 14, 2011 and September 28, 2011, the Federal Network Agency gave notice that the requirements to deploy LTE associated with our license had been fulfilled in the following states: Baden-Württemberg, Bavaria, Hesse, North Rhine-Westphalia, Rhineland-Palatinate, and Saarland. Since then, the allocated 800 MHz frequency spectrum has also been available for use outside of rural regions.

Greece. The Greek National Regulatory Authority EETT on March 22, 2011 imposed temporary orders on OTE, requesting the company to refrain from providing next-generation network access (FTTC/VDSL2) retail services for six months and to provide wholesale services based on a cost model. On December 1, 2011 the NRA (EETT) approved the cost model for VDSL, including the obligation that OTE should abstain from offering retail broadband access services for six months.

Development of business in the Group.

// Company targets achieved // Adjusted EBITDA of EUR 18.7 billion // Free cash flow of EUR 6.4 billion //

Statement of the Board of Management on business development in 2011.

Bonn, February 6, 2012

We had a successful 2011 financial year, in spite of facing saturated markets, growing competitive pressure, intensifying regulatory intervention and the resulting continued price erosion. Nonetheless, we succeeded in meeting our targets with adjusted EBITDA of EUR 18.7 billion and a free cash flow of EUR 6.4 billion (before dividend payments, spectrum investment, the PTC transaction and the break-up fee from AT&T). In addition, we maintain our shareholder remuneration strategy and propose to the shareholders' meeting a dividend of EUR 0.70 per share.

Despite an unfavorable U.S. dollar exchange rate, the acquisition of the remaining shares in PTC, and the purchase of a further 10 percent in OTE, net debt was reduced by a considerable EUR 2.1 billion to EUR 40.1 billion. Impairment losses of EUR 3.1 billion were recognized on goodwill, yet at 32.6 percent our equity ratio remains at the upper end of our communicated target range of 25 to 35 percent.

To ensure the continued viability of our Company, we made investments (before spectrum) in the amount of EUR 8.3 billion, concentrating on a 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.

Under the agreement with AT&T on the sale of T-Mobile USA, the Company would have stood to receive around USD 39 billion in proceeds. However, the U.S. authorities raised objections to the transaction and the agreement with AT&T was terminated. The Company nevertheless benefited from the deal: Under the terms of the agreement, we received a break-up fee in the amount of USD 3 billion (EUR 2.3 billion) as well as a right to the transfer of spectrum licenses worth USD 1.2 billion (EUR 0.9 billion). We also agreed on UMTS roaming services within the United States for more than seven years.

For 2012 we remain committed to Fix – Transform – Innovate, our successful Group strategy.

Effects from the termination of the agreement to sell T-Mobile USA to AT&T.

Following the termination of the agreement on the sale of T-Mobile USA, AT&T made the agreed compensation. On the one hand, a break-up fee of EUR 2.3 billion (USD 3 billion) was paid before the end of the year 2011. The expense resulting from a cash flow hedge to compensate for exchange rate fluctuations will not impact on cash flow before 2012. In addition, we received a right to the transfer of spectrum licenses worth EUR 0.9 billion (USD 1.2 billion). This resulted in a total income tax expense of EUR 0.9 billion in the reporting year. Following impairment testing, impairment losses of EUR 2.3 billion were recognized on the goodwill of the United States cash-generating unit.

For further information, please refer to the section "Business combinations and other transactions" in the notes to the consolidated financial statements, pages 182 – 183.

Effect of changes in the composition of the Group in the prior year.

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

The following table shows the impact that Everything Everywhere has on the composition of the Group and, in turn, on our key performance indicators. To this end, we have eliminated the share in T-Mobile UK's profit/loss attributable to Deutsche Telekom from 2010 pro rata temporis, and from the full 2009 financial year to facilitate comparison.

	Excluding T-Mobile UK			Including T-Mobile UK		
	2011 millions of €	2010 millions of €	2009 millions of €	2011 millions of €	2010 millions of €	2009 millions of €
Net revenue	58,653	61,663	61,353	58,653	62,421	64,602
EBITDA (adjusted for special factors)	18,685	19,300	20,057	18,685	19,473	20,668
Net profit (loss)	557	1,775	2,109	557	1,695	353
Net profit (loss) (adjusted for special factors)	2,851	3,439	3,333	2,851	3,364	3,390
Free cash flow (before dividend payments, spectrum investment, PTC transaction and break-up fee from AT&T)	6,421	6,536	6,684	6,421	6,543	6,969
Cash capex	(8,406)	(9,790)	(8,926)	(8,406)	(9,851)	(9,202)

Results of operations of the Group.

Net revenue.

In the 2011 financial year, we generated net revenue of EUR 58.7 billion, a decrease of EUR 3.8 billion or 6.0 percent compared with the prior year. Excluding T-Mobile UK and negative exchange rate effects, in particular from the translation of U.S. dollars into euros, net revenue decreased year-on-year by EUR 2.2 billion or 3.6 percent. Price cuts imposed by the regulatory authorities had a negative effect on net revenue of EUR 0.6 billion.

The Systems Solutions operating segment increased its revenue, whereas all others recorded decreases. Revenue in the operating segments developed as follows:

In our **Germany** segment, sustained demand for broadband products in the fixed network and in mobile communications has driven revenue in these areas. However, this positive trend was not enough to compensate for the negative revenue effects in other areas. Total revenue decreased by 4.4 percent year-on-year to EUR 24.0 billion, due in particular to the downward trend in voice telephony. Adjusted for the price effects of regulatory decisions and the discontinuation of trade with mobile prepaid cards of other carriers, which was stopped as part of the measures for value-driven growth, we reduced the year-on-year decline in our revenue to 2.8 percent.

Our **Europe** operating segments recorded revenue growth in the fixed network-business in the area of broadband/TV. In addition, strong mobile data revenue growth had a positive impact. These effects only partially offset the revenue decrease of EUR 1.7 billion or 10.2 percent. EUR 0.8 billion of the decrease was attributable to the pro rata temporis inclusion of T-Mobile UK in 2010. Excluding the aforementioned effect and adjusted for the slightly negative exchange rate effects, revenue decreased by only 5.4 percent. This decline was primarily caused by the price erosion in almost all European countries. Price reductions were firstly the result of lower mobile termination rates imposed by regulation, and secondly highly intense competition had a negative impact on revenue. The difficult macroeconomic situation in the countries of Southern and Eastern Europe in particular had a considerable impact on total revenue.

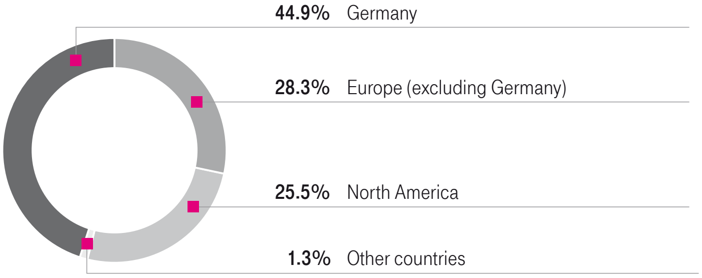
On a U.S. dollar basis, our **United States** operating segment recorded a year-on-year revenue decrease of 3.3 percent. In addition, exchange rate effects from the translation of U.S. dollars had a negative impact. On a euro basis, we generated revenue of EUR 14.8 billion, 7.9 percent below the prior-year level. This decrease was mainly due to fewer T-Mobile USA branded customers, which was reflected in lower service revenues. The decrease in service revenues was partially offset by continued strong growth in data revenue from customers using smartphones with mobile broadband data plans. Additionally, T-Mobile USA's total revenue for 2011 was impacted by lower equipment revenue from decreased volumes only partially offset by positive effects from the launch of T-Mobile USA's handset protection insurance program.

Revenue in our **Systems Solutions** operating segment increased by 2.1 percent year-on-year in 2011. This increase is partly attributable to deals secured with E.ON and Deutsche Post DHL in the prior year as well as contracts signed with companies such as Everything Everywhere, Magna and TOTAL in 2011. The new deals offset the general negative price trend in IT and communications.

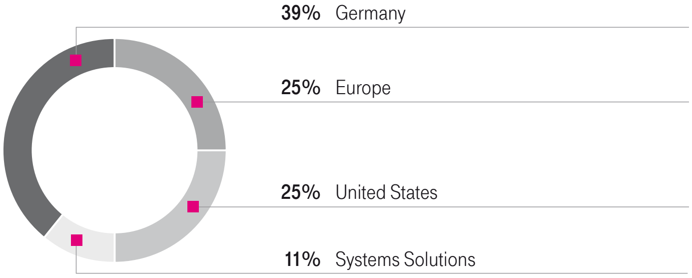
Contribution of the operating segments to net revenue.

	2011 millions of €	2010 millions of €	Change millions of €	Change %	2009 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)

Breakdown of revenue by regions.



Contribution of the operating segments to net revenue.



At 38.6 percent, the **Germany** operating segment provided the largest contribution to the net revenue of the Group in the 2011 financial year, up 0.9 percentage points against the prior year. The contribution of the **Systems Solutions** operating segment to net revenue also increased by 0.9 percentage points. 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, for the aforementioned reasons. The proportion of net revenue generated internationally decreased from 56.3 percent to 55.1 percent. Both domestic and international net revenue decreased.

EBITDA.

Compared with the prior year, EBITDA increased by 15.6 percent to EUR 20.0 billion. EBITDA for 2011 includes positive special factors totaling EUR 1.3 billion, whereas in the prior year, EBITDA was affected by negative special factors of EUR 2.2 billion. In addition to a decline in operations, EBITDA was impacted by the aforementioned non-recurrence of the contribution of T-Mobile UK of EUR 0.2 billion. Exchange rate effects, especially from the currency translation of U.S. dollars into euros, had an adverse effect on EBITDA of EUR 0.2 billion.

Marketing expenses.

In the 2011 financial year, marketing expenses amounted to EUR 2.1 billion and were thus on a par with the prior-year level. They comprise costs for market research, market analysis, target market studies, determining marketing strategies, designing the marketing mix, carrying out and managing marketing initiatives. They also cover costs from customer retention programs, market planning and segmentation, as well as product forecasts.

At Deutsche Telekom, marketing communication mainly takes the form of product and brand campaigns, such as Entertain, TelekomCloud, Million Moments, Million Voices, Werde Chef Deines Lebens (Take charge of your life), or LIGA total!.

Special factors.

Special factors have an impact on the presentation of operations, making it more difficult to compare performance indicators with corresponding figures for prior periods. We adjust our figures for the purpose of transparency. In addition, statements about the future development of earnings are only possible to a limited extent unless special factors are eliminated. The adjusted values below are calculated on the basis of the unadjusted performance indicators.

Of key importance was the aforementioned break-up fee received from AT&T (EUR 3.0 billion). At EUR 1.3 billion, expenses incurred in connection with staff-related measures and non-staff-related restructuring expenses remained at the prior-year level. Settlements agreed to conclude investigations by the U.S. authorities in the F.Y.R.O. Macedonia and Montenegro accounted for an expense of EUR 0.1 billion. In the prior year, apart from the aforementioned issues, special factors were impacted by expenses of EUR 0.4 billion in connection with the deconsolidation of T-Mobile UK, and also of EUR 0.4 billion in connection with the PTC transaction. In 2011, following impairment testing, we recognized impairment losses on goodwill of EUR 3.1 billion (2010: EUR 0.5 billion).

The table on page 80 presents a reconciliation of EBITDA, EBIT and net profit/loss to the respective figures adjusted for special factors.

Consolidated income statement and effects of special factors.

	EBITDA 2011 millions of €	EBIT 2011 millions of €	EBITDA 2010 millions of €	EBIT 2010 millions of €	EBITDA 2009 millions of €	EBIT 2009 millions of €
EBITDA/EBIT	**20,022**	**5,586**	**17,313**	**5,505**	**19,906**	**6,012**
Germany	**(707)**	**(707)**	**(509)**	**(509)**	**(349)**	**(356)**
Staff-related measures	(604)	(604)	(401)	(401)	(300)	(300)
Non-staff-related restructuring	(4)	(4)	(11)	(11)	(31)	(31)
Effects of deconsolidations, disposals and acquisitions	0	0	0	0	10	10
Other	(99)	(99)	(97)	(97)	(28)	(35)
Europe	**(246)**	**(1,286)**	**(606)**	**(1,297)**	**(93)**	**(2,443)**
Staff-related measures	(132)	(132)	(209)	(209)	(36)	(36)
Non-staff-related restructuring	0	0	(5)	(5)	(26)	(26)
Effects of deconsolidations, disposals and acquisitions	0	0	(355)	(355)	0	0
Impairment losses	–	(1,040)	–	(680)	–	(2,345)
Other	(114)	(114)	(37)	(48)	(31)	(36)
United States	**(134)**	**(2,431)**	**0**	**0**	**0**	**0**
Staff-related measures	(116)	(116)	0	0	0	0
Impairment losses	–	(2,297)	–	0	–	0
Other	(18)	(18)	0	0	0	0
Systems Solutions	**(275)**	**(295)**	**(281)**	**(289)**	**(213)**	**(240)**
Staff-related measures	(81)	(81)	(113)	(113)	(68)	(68)
Non-staff-related restructuring	(163)	(175)	(170)	(178)	(152)	(179)
Effects of deconsolidations, disposals and acquisitions	0	0	0	0	7	7
Other	(31)	(39)	2	2	0	0
Group Headquarters & Shared Services	**2,698**	**2,698**	**(769)**	**(769)**	**(101)**	**(101)**
Staff-related measures	(224)	(224)	(281)	(281)	(109)	(109)
Non-staff-related restructuring	(22)	(22)	(100)	(100)	0	0
Effects of deconsolidations, disposals and acquisitions	(56)	(56)	(385)	(385)	24	24
Compensation from AT&T	3,000	3,000	–	–	–	–
Other	0	0	(3)	(3)	(16)	(16)
Group reconciliation	**1**	**1**	**5**	**5**	**(6)**	**(6)**
Staff-related measures	0	0	0	0	(16)	(16)
Non-staff-related restructuring	0	0	1	1	10	10
Effects of deconsolidations, disposals and acquisitions	0	0	4	4	0	0
Other	1	1	0	0	0	0
Total special factors	**1,337**	**(2,020)**	**(2,160)**	**(2,859)**	**(762)**	**(3,146)**
EBITDA/EBIT (adjusted for special factors)	**18,685**	**7,606**	**19,473**	**8,364**	**20,668**	**9,158**
Profit (loss) from financial activities (adjusted for special factors)		(2,613)		(2,724)		(3,125)
Profit before income taxes (adjusted for special factors)		**4,993**		**5,640**		**6,033**
Income taxes (adjusted for special factors)		(1,708)		(1,898)		(2,102)
Profit (loss) (adjusted for special factors)		**3,285**		**3,742**		**3,931**
Profit (loss) (adjusted for special factors) attributable to:		**3,285**		**3,742**		**3,931**
Owners of the parent (net profit/loss) (adjusted for special factors)		2,851		3,364		3,390
Non-controlling interests (adjusted for special factors)		434		378		541

Adjusted EBITDA.

Our EBITDA adjusted for special factors amounted to EUR 18.7 billion compared with EUR 19.5 billion in the prior year. EBITDA was impacted by negative exchange rate effects of EUR 0.2 billion as well as the aforementioned non-recurrence of the contribution of T-Mobile UK of EUR 0.2 billion, which had been deconsolidated in the prior year. Adjusted for these effects, EBITDA decreased by EUR 0.4 billion or 2.1 percent year-on-year.

The **Germany** operating segment generated adjusted EBITDA on a par with the prior-year level of EUR 9.6 billion, despite a decline in revenue. A key contribution came from our effective cost management measures as part of Save for Service. Various technology and sales initiatives and the improvement of support processes further reduced operational costs. In addition, the discontinuation of certain operations as part of our strategy of value-driven growth also contributed to lowering the cost base. The adjusted EBITDA margin reached 39.9 percent, up 1.6 percentage points compared with the prior year.

Our **Europe** operating segment generated adjusted EBITDA of EUR 5.2 billion in 2011, a year-on-year reduction of 8.8 percent. Like the revenue trend, EBITDA was also affected by the contribution of EUR 0.2 billion in the prior year from T-Mobile UK consolidated until April 1, 2010. In addition, the real estate tax introduced by the Greek government in 2011 had a negative impact on adjusted EBITDA in the segment. The slightly negative net exchange rate effects against the euro were primarily attributable to the Polish zloty and the Croatian kuna. Excluding the aforementioned effects, adjusted EBITDA declined by 5.6 percent. By systematically reducing overhead costs, mainly in Greece and Hungary, we partially offset the negative effects in the Europe operating segment resulting from the year-on-year revenue decline.

In U.S. dollars, our **United States** operating segment reported a 3.1-percent decrease in adjusted EBITDA, primarily due to the aforementioned decline in revenues. Operating expenses decreased by 2.2 percent year-on-year, primarily as a result of lower volume-driven handset and commission costs as well as cost savings achieved. This decline in costs was offset in part by higher expenses related to the build-out of the 4G-HSPA plus network and higher marketing expenses. Negative exchange rate effects also had an adverse effect on adjusted EBITDA; on a euro basis, it decreased by EUR 0.3 billion or 7.8 percent compared with the prior year.

In the reporting year, the **Systems Solutions** operating segment generated adjusted EBITDA of EUR 0.9 billion. Despite an increase in revenue, adjusted EBITDA declined 8.0 percent. 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 growth areas, such as intelligent networks, energy, healthcare and connected cars. In addition, EBITDA was negatively affected by measures to improve competitiveness. Savings generated by our comprehensive restructuring and efficiency enhancement program Save for Service did not offset the rise in costs.

Besides these developments in our operating segments, adjusted EBITDA at **Group Headquarters & Shared Services** improved by EUR 0.1 billion compared with the prior year, mainly due to earnings in connection with the procurement joint venture BUYIN established in the reporting year by Deutsche Telekom and France Télécom-Orange, and lower personnel costs at Vivento.

Contribution of the operating segments to adjusted Group EBITDA.

	2011 millions of €	Proportion of adjusted Group EBITDA %	2010 millions of €	Proportion of adjusted Group EBITDA %	Change millions of €	Change %	2009 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)

For further information on the development of earnings, please refer to the disclosures under "Notes to the consolidated income statement" in the notes to the consolidated financial statements, page 206 et seq.

EBIT.

EBIT increased slightly in the reporting year by EUR 0.1 billion to EUR 5.6 billion. The aforementioned effects, which had a positive impact on EBIT overall, were partially offset by a EUR 2.6 billion increase in depreciation, amortization and impairment losses compared with the prior year. Goodwill impairment losses of EUR 3.1 billion were recognized in the reporting year. EUR 2.3 billion of this relates to our United States operating segment and EUR 0.8 billion to our Europe operating segment. In addition, impairment losses on property, plant and equipment of EUR 0.2 billion were recognized in the Europe operating segment. In the prior year, impairment losses on goodwill and property, plant and equipment totaled EUR 0.7 billion. Amortization and depreciation remained at the prior-year level. For further details, please refer to Note 5 "Intangible assets" in the notes to the consolidated financial statemens, page 188 et seq.

Profit/loss before income taxes.

Profit before income taxes in the reporting period increased EUR 0.3 billion year-on-year to EUR 3.0 billion. Reasons for this increase included the aforementioned effects, as well as a EUR 0.2 billion decrease in the Group's loss from financial activities. The decrease in loss from financial activities was primarily attributable to a EUR 0.2 billion improvement in finance costs, which mainly resulted from a lower interest expense from bonds and securitized liabilities.

Net profit.

In the 2011 financial year, we generated net profit of EUR 0.6 billion compared with EUR 1.7 billion in the prior year. Aside from the aforementioned effects, the main contributing factor was an increase in income tax expense of EUR 1.4 billion year-on-year. Income tax expense more than doubled although profit before income taxes only increased slightly in the reporting period, mainly due to compensation paid by AT&T, which increased profit before income taxes and 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 to a similar extent in the prior year, had no tax effect. Furthermore, in the United States and Austria, write-downs totaling EUR 0.3 billion were recognized on deferred taxes on local loss carryforwards.

Save for Service program.

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

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

Thanks to the extremely systematic and successful implementation of the program, we already achieved this target in 2011 – a year earlier than originally planned. The main levers for savings in 2011 included the following:

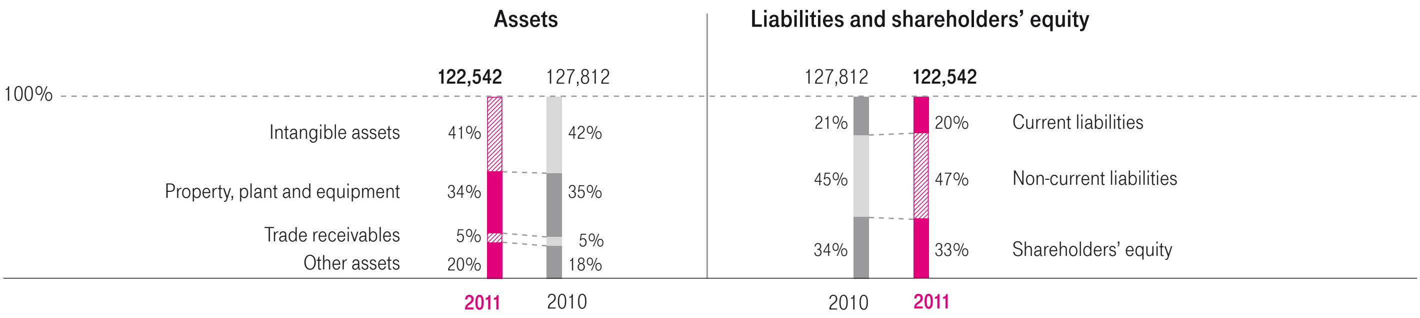
- Increased efficiency of service and sales processes and production
- Reduction in the number of customer complaints
- Improved terms and conditions of procurement
- Standardization of the product portfolio
- Expansion of shared services, e.g., in Finance

Financial position of the Group.

Consolidated statement of financial position.

	Dec. 31, 2011 millions of €	Change millions of €	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €	Dec. 31, 2008 millions of €	Dec. 31, 2007 millions of €
Assets						
Current assets	**15,865**	**622**	**15,243**	**23,012**	**15,431**	**15,845**
Cash and cash equivalents	3,749	941	2,808	5,022	3,026	2,200
Trade and other receivables	6,557	(332)	6,889	6,757	7,393	7,696
Non-current assets and disposal groups held for sale	436	385	51	6,527	434	1,103
Other current assets	5,123	(372)	5,495	4,706	4,578	4,846
Non-current assets	**106,677**	**(5,892)**	**112,569**	**104,762**	**107,709**	**104,828**
Intangible assets	50,097	(3,710)	53,807	51,705	53,927	54,404
Property, plant and equipment	41,927	(2,371)	44,298	45,468	41,559	42,531
Investments accounted for using the equity method	6,873	(369)	7,242	147	3,557	118
Other non-current assets	7,780	558	7,222	7,442	8,666	7,775
Total assets	**122,542**	**(5,270)**	**127,812**	**127,774**	**123,140**	**120,673**
Liabilities and shareholders' equity						
Current liabilities	**24,338**	**(2,114)**	**26,452**	**24,794**	**24,242**	**22,504**
Financial liabilities	10,219	(1,470)	11,689	9,391	9,584	8,364
Trade and other payables	6,436	(314)	6,750	6,304	7,073	6,823
Current provisions	3,217	24	3,193	3,369	3,437	3,365
Liabilities directly associated with non-current assets and disposal groups held for sale	–	–	–	1,423	95	182
Other current liabilities	4,466	(354)	4,820	4,307	4,053	3,770
Non-current liabilities	**58,263**	**(69)**	**58,332**	**61,043**	**55,786**	**52,924**
Financial liabilities	38,099	(758)	38,857	41,800	37,010	34,542
Non-current provisions	7,784	(217)	8,001	8,340	8,461	9,019
Other non-current liabilities	12,380	906	11,474	10,903	10,315	9,363
Shareholders' equity	**39,941**	**(3,087)**	**43,028**	**41,937**	**43,112**	**45,245**
Total liabilities and shareholders' equity	**122,542**	**(5,270)**	**127,812**	**127,774**	**123,140**	**120,673**

Structure of the statement of financial position. (millions of €)

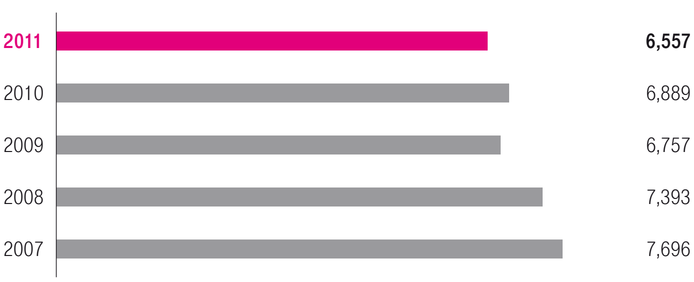


Our **total assets** decreased by EUR 5.3 billion compared with December 31, 2010. Current assets increased by EUR 0.6 billion, while non-current assets decreased by EUR 5.9 billion. Current liabilities decreased by EUR 2.1 billion and non-current liabilities by EUR 0.1 billion.

The most important changes in the statement of financial position as of December 31, 2011 compared with December 31, 2010 are explained in more detail in the following:

Cash and cash equivalents increased by EUR 0.9 billion year-on-year. For detailed information on this change, please refer to the consolidated statement of cash flows, page 164, and Note 31 "Notes to the consolidated statement of cash flows," pages 216 – 217.

Trade and other receivables. (millions of €)

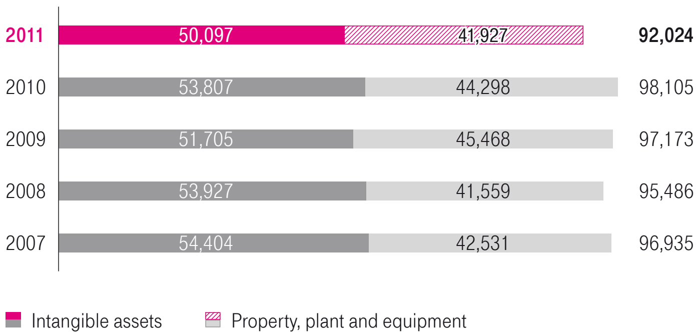


Trade and other receivables decreased in line with the revenue trend. The year-on-year decline of 4.8 percent was mainly due to the difficult macroeconomic situation in Europe.

The net carrying amounts of the **non-current assets and disposal groups held for sale** increased by EUR 0.4 billion due to the shares in Telekom Srbija, which are classified as held for sale and included in this item.

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.

Intangible assets and property, plant and equipment. (millions of €)

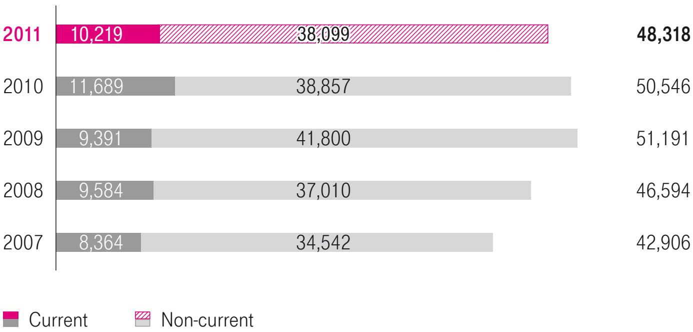


The decline in **intangible assets and property, plant and equipment** of EUR 6.1 billion as of December 31, 2011 was due to depreciation and amortization of EUR 11.0 billion as well as to total impairment losses of EUR 3.4 billion, mainly in the United States and Europe operating segments. These effects were contrasted by additions of EUR 8.6 billion. Of the additions to assets, 61 percent related to investments intended to increase operating capacities. Apart from investments in new products and technologies, these 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 mainly decreased 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 disclosure of the right to the transfer of spectrum licenses worth EUR 0.9 billion. The license package is part of the compensation from AT&T.

Financial liabilities. (millions of €)



Our **financial liabilities** decreased by EUR 2.2 billion compared with the prior year. 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.

The 4.7 percent decline in **trade and other payables** to EUR 6.4 billion resulted in part from a year-on-year decrease in investments.

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 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.

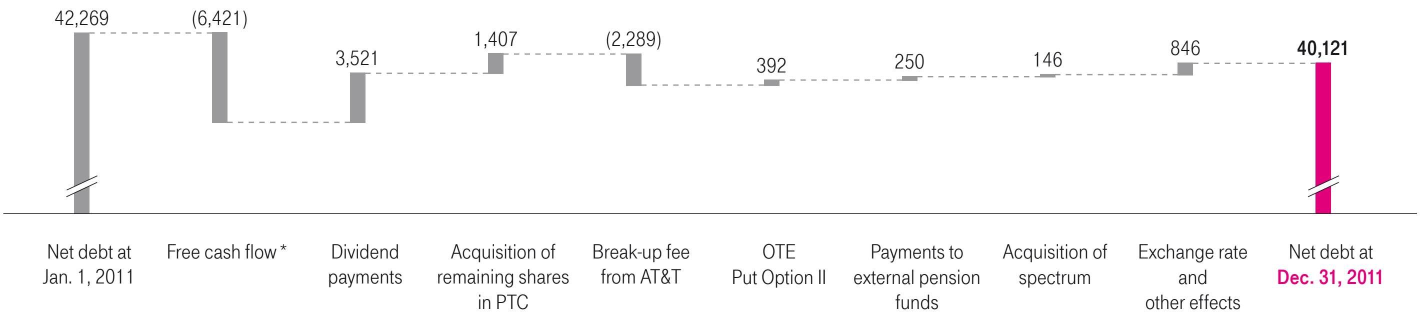
Financial liabilities – Terms to maturity.

	Dec. 31, 2011			
	Total millions of €	Due within 1 year millions of €	Due > 1 year ≤ 5 years millions of €	Due > 5 years millions of €
Bonds and other securitized liabilities				
Non-convertible bonds	20,649	1,997	9,279	9,373
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**

Net debt.

	Dec. 31, 2011 millions of €	Change millions of €	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €	Dec. 31, 2008 millions of €	Dec. 31, 2007 millions of €
Financial liabilities (current)	10,219	(1,470)	11,689	9,391	9,584	8,364
Financial liabilities (non-current)	38,099	(758)	38,857	41,800	37,010	34,542
Financial liabilities	**48,318**	**(2,228)**	**50,546**	**51,191**	**46,594**	**42,906**
Accrued interest	(966)	229	(1,195)	(1,175)	(988)	(767)
Liabilities from corporate transactions	–	1,566	(1,566)	(1,455)	(1,641)	(850)
Other	(615)	(148)	(467)	(444)	(518)	(427)
Gross debt	**46,737**	**(581)**	**47,318**	**48,117**	**43,447**	**40,862**
Cash and cash equivalents	3,749	941	2,808	5,022	3,026	2,200
Available-for-sale/held-for-trading financial assets	402	327	75	162	101	75
Derivative financial assets	1,533	698	835	1,048	1,598	433
Other financial assets	932	(399)	1,331	974	564	918
Net debt	**40,121**	**(2,148)**	**42,269**	**40,911**	**38,158**	**37,236**

Changes in net debt. (millions of €)



* Before dividend payments, spectrum investment, PTC transaction and break-up fee from AT&T.

Net debt decreased by EUR 2.1 billion year-on-year to EUR 40.1 billion. Dividend payments of EUR 3.5 billion, the acquisition of the remaining shares in PTC (EUR 1.4 billion) and of an additional 10 percent of the shares in OTE (EUR 0.4 billion), payments to external pension funds (EUR 0.3 billion), and exchange rate and other effects totaling EUR 0.8 billion increased net debt. Our free cash flow of EUR 6.4 billion and the break-up fee from AT&T of EUR 2.3 billion had a reducing effect on the development of net debt.

Off-balance-sheet assets and financial instruments. In addition to the assets recognized in the statement of financial position, we use off-balance-sheet assets. This primarily relates to leased property. **For further information, please refer to Note 34 "Disclosures on leases" in the notes to the consolidated financial statements, page 224 et seq.**

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 (December 31, 2010: EUR 1.1 billion).

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

The rating of Deutsche Telekom AG.

	Standard & Poor's	Moody's	Fitch
Long-term rating			
Dec. 31, 2007	A –	A3	A –
Dec. 31, 2008	BBB+	Baa1	A –
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**

Financial flexibility.

Dec. 31		2011	2010	2009	2008	2007
Relative debt $\frac{\text{Net debt}}{\text{EBITDA (adjusted for special factors)}}$		2.1	2.2	2.0	2.0	1.9
Equity ratio	%	32.6	33.7	32.8	35.0	37.5
Gearing $\frac{\text{Net debt}}{\text{Shareholders' equity}}$		1.0	1.0	1.0	0.9	0.8

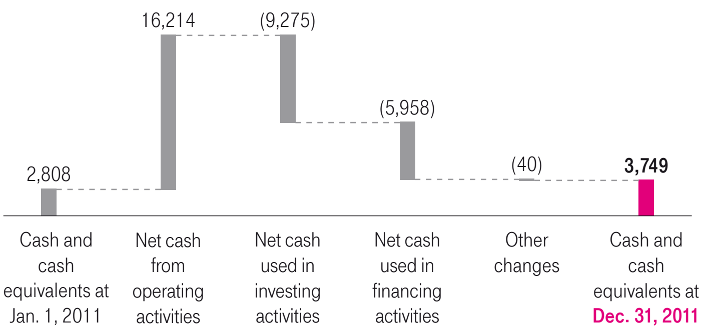
To ensure our financial flexibility, we essentially use two KPIs: gearing and relative debt. One component of the KPIs is net debt, which the Group uses as an important indicator for investors, analysts, and rating agencies.

For further explanations of the consolidated statement of cash flows, please refer to the notes to the consolidated financial statements, pages 216 – 217.

Condensed consolidated statement of cash flows.

	2011 millions of €	2010 millions of €	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	–	–
Net cash from operating activities (before PTC transaction and break-up fee from AT&T)	**14,325**	**14,731**	**15,795**
Cash outflow for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment **(cash capex)**	(8,260)	(8,532)	(9,202)
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	356	344	376
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**

Changes in cash and cash equivalents. (millions of €)



Free cash flow. Free cash flow of the Group amounted to EUR 6.4 billion, EUR 0.1 billion less than in the prior year.

Net cash from operating activities in the 2011 financial year increased by EUR 1.5 billion to EUR 16.2 billion. This increase is attributable to the break-up fee of EUR 2.3 billion received from AT&T, 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.

Apart from decreases in cash inflows from operations, this was mainly offset by the cash outflow of EUR 0.4 billion for the PTC transaction. There were no cash inflows in the reporting year comparable with the prior-year cash inflow of EUR 0.3 billion from the canceling of interest-rate swaps.

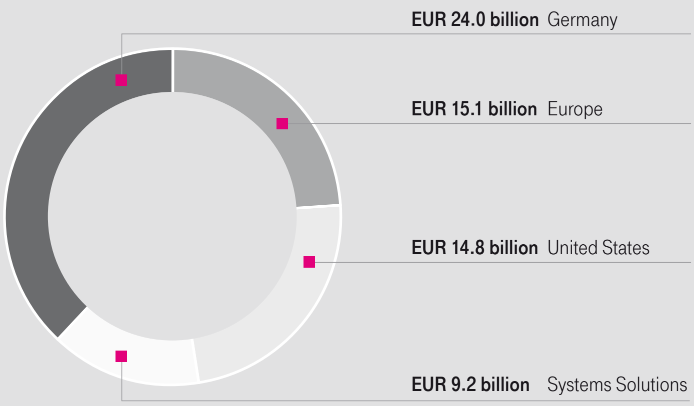
Net cash used in investing activities. Net cash used in investing activities totaled EUR 9.3 billion as compared with EUR 10.7 billion in the previous year. This development was primarily due to the following effects from 2010: our acquisition of LTE licenses (EUR 1.3 billion), a bond issued by the Everything Everywhere joint venture (EUR 0.8 billion), and the derecognition and related changes to cash and cash equivalents in connection with the deconsolidation of the T-Mobile UK fund (EUR 0.4 billion). 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. Investment activity was also restrained in our United States and Systems Solutions operating segments compared with the prior year. Our Germany operating segment invested more in new network infrastructure than in the prior year.

Our cash outflows for the acquisition of companies increased to EUR 1.2 billion in the reporting year: We paid EUR 0.8 billion for the PTC transaction and EUR 0.4 billion for the acquisition of another 10 percent of the shares in OTE. In the prior year, this figure 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.

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. In addition, EUR 0.4 billion was paid in the prior year for the purchase of Deutsche Telekom shares. This was contrasted by EUR 0.6 billion higher net repayments of current financial liabilities.

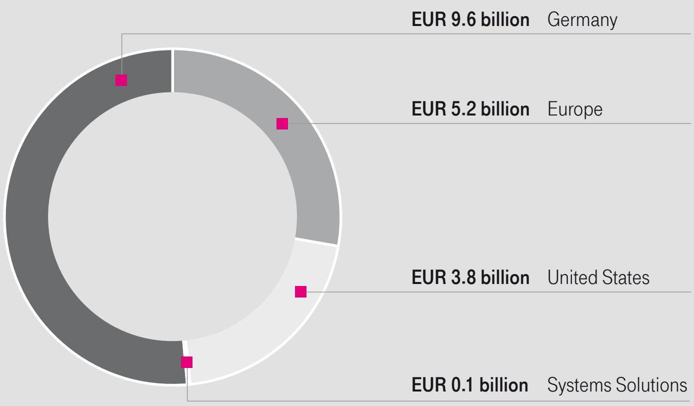
Development of business in the operating segments.

Share of operating segments in net revenue of the Group.



Share of Group Headquarters & Shared Services of EUR 2.1 billion and reconciliation of EUR –6.7 billion.

Share of operating segments in adjusted EBITDA.



Share of Group Headquarters & Shared Services of EUR –0.7 billion and reconciliation of EUR –0.1 billion.

Germany.

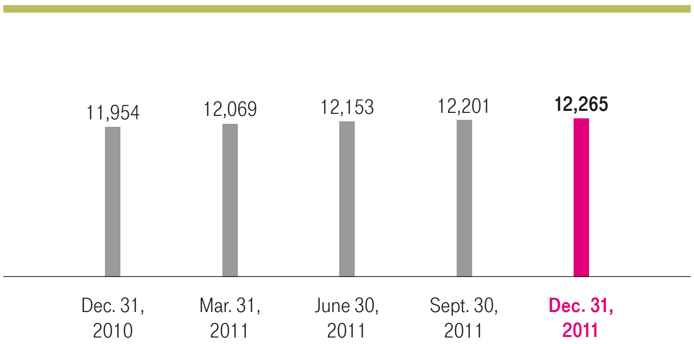
Customer development.

Fixed-network lines. ('000)

TV customers.* ('000)

* Customers connected including Entertain Sat.

Retail broadband lines. ('000)



Mobile customers.* ('000)

* Deregistration of inactive prepaid cards: 8.3 million in FY 2010. 4.0 million in FY 2011, of which 1.0 million in Q1 2011, 1.1 million in Q2 2011, 1.0 million in Q3 2011, and 0.9 million in Q4 2011. Since April 1, 2010, Telekom Deutschland GmbH has automatically terminated prepaid cards that have not been topped up for two years and have been inactive for three months.

New revenue reporting by customer groups.

As part of the One Company initiative, we have aligned our business structure even more closely with the needs of customers. Since the beginning of 2011, we have therefore broken down our revenue reporting according to customer groups: Consumers, Business Customers, Wholesale (upstream services provided to our competitors), Digital Services, and Value-Added Services. We have adjusted the prior-year figures accordingly for better comparability.

Consumers. The Consumers area encompasses our mobile voice and data services as well as the sale of the related mobile terminal equipment. It also covers our traditional fixed-network services such as voice telephony, Internet and TV products, including their respective add-on options, as well as revenue from the sale and lease of fixed-network terminal equipment. Our Internet service provider STRATO and the sales channel congstar, our second brand for broadband applications and mobile communications, are also part of the Consumers division.

Business Customers. The Business Customers area offers fixed-network and mobile communications services for VSEs (very small enterprises) and small and medium-sized corporations. The Sales unit addresses customers according to their respective needs, and divides them into groups. Apart from sales and support for standard and custom telecommunications products in fixed and mobile, the portfolio also includes a wide range of IT products, services and integrated system solutions.

Wholesale. The Wholesale area provides network operators and Internet service providers with upstream services – including in particular unbundled local loop lines, bundled and unbundled wholesale lines, and standard telecommunications services such as lines and transmission paths. It also provides and purchases interconnection services and handles intra-Group wholesale services and other requirements of Systems Solutions and other domestic Group units.

Digital Services. The Digital Services area covers the Internet business segments of Media (e.g., Musicload, Gamesload), Online Advertising (portal business, e.g., t-online.de), eCommerce & Search (e.g., Scout24 and DeTeMedien), and Payment (ClickandBuy).

Value-Added Services. The Value-Added Services area is mainly involved in providing premium rate call numbers, audio conferences, digital billboards, and upstream services for call centers.

	Dec. 31, 2011 millions	Dec. 31, 2010 millions	Change millions	Change %	Dec. 31, 2009 millions
Total					
Fixed-network lines	23.4	24.7	(1.3)	(5.3)	26.2
Retail broadband lines [a]	12.3	12.0	0.3	2.5	11.5
TV	1.6	1.2	0.4	33.3	0.8
Mobile customers	35.4	34.7	0.7	2.0	39.1
Contract customers [a]	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 [b]					
Fixed-network lines	18.8	19.9	(1.1)	(5.5)	21.4
Retail broadband lines [a]	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 [a]	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 [b]					
Fixed-network lines	3.5	3.6	(0.1)	(2.8)	3.6
Retail broadband lines [a]	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 [a]	5.3	5.1	0.2	3.9	4.7
Prepay customers (M2M) [c]	0.7	0.5	0.2	40.0	0.6

[a] Stationary wireless solutions have been reported under mobile contract customers since October 1, 2011.
[b] In connection with the One Company initiative, we have aligned our business structure even more closely with the needs of customers. This is why we have been classifying our customer base according to consumer and business use since the first quarter of 2011. Prior-year figures have been adjusted accordingly.
[c] M2M: machine-to-machine.

Total.

In our Germany operating segment, we bundle all kinds of voice, data and related services from the worlds of mobile, broadband, TV, and fixed-network telephony. The challenges we face include regulatory interventions, increasing market saturation, and rising competition from well-positioned competitors. Under the circumstances, our German business held its own in the market by continuing to focus on high-value business. As of December 31, 2011, 47,000 customers had 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 TV.

At the reporting date of December 31, 2011, some 23.4 million customers had a fixed-network line provided by Deutsche Telekom. Since 2008, customer losses in the field of traditional fixed-network telephony have been decreasing steadily. In the reporting year, we recorded 1.3 million line losses, spread evenly over the 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.

Our share of the German broadband market stood at over 45 percent in 2011. The number of broadband lines increased by 0.3 million to 12.3 million in the reporting year. Of these customers, 0.6 million have VDSL lines and can surf 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. 111,000 of them were using Entertain via Sat, which has been available since September 1, 2011 and is aimed at all households that could not previously receive Entertain. It offers an entry into digital television for everyone who will be affected by the switching off of the analog signal from April 2012.

Mobile communications.

Mobile telephony and data services.

In relation to the overall market, we continued to be mobile market leader in terms of service revenues in Germany in the 2011. The number of mobile customers increased by 0.7 million year-on-year to 35.4 million. 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 card quotas to resellers and the positive development in the field of business customers. Growth in the reselling business in 2011 resulted mainly from cards sold to foreigners living in Germany, most of whose calls are placed to their home countries. The decision to deregister inactive prepaid cards caused a decline in the number of these cards in the consumer business in both 2010 and 2011.

Consumers.

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

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 especially well. Newly introduced special packages (e.g., Special Call & Surf Mobil) have also been well received by contract customers. The sale of SIM card quotas to resellers also proved positive in 2011.

Business Customers.

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).

The trend in Internet usage is toward high bandwidths with all-round service. Accordingly, we recorded an upward growth trend in our CompanyConnect fixed Internet connections. With more performance and higher-value services, these products make a key contribution to retaining our customers and winning new ones.

In the field of data communications, we significantly increased the number of networks and connections, especially with Internet-based data networks (IP VPNs) and local networks.

In addition, we also 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 the prior year.

Wholesale.

The number of our unbundled local loop lines (ULLs) increased by 1.1 percent year-on-year in 2011 and now stands at 9.6 million. Network infrastructure providers require this wholesale service for their customer access. The number of our bundled wholesale lines declined by 0.3 million in the reporting year to 0.7 million. We expect this trend to continue for the next few years, due in particular to the fact that our competitors are switching from bundled to unbundled wholesale products in order to optimize their service to their own end-customers. Hence we recorded an increase of 0.2 million in unbundled products, to 1.2 million.

Development of operations.

		2011 millions of €	2010 millions of €	Change millions of €	Change %	2009 millions of €
Total revenue *		24,031	25,145	(1,114)	(4.4)	25,423
Consumers		12,584	13,109	(525)	(4.0)	13,446
Business Customers		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
EBIT margin	%	18.5	19.6			19.9
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		(707)	(509)	(198)	(38.9)	(349)
EBITDA (adjusted for special factors)		9,599	9,618	(19)	(0.2)	9,607
EBITDA margin (adjusted for special factors)	%	39.9	38.3			37.7
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

* In connection with the One Company initiative, we have aligned our business structure even more closely with the needs of customers. Since the first quarter of 2011 we have reported revenue for the consolidated customer segments in our Germany operating segment. The prior-year figures have been adjusted for better comparability.

Total revenue.

Continued demand for broadband products in the fixed network and in mobile has driven revenues in these fields. In mobile communications, data revenues rose thanks to smartphone sales. Revenue growth in the fixed network was a result of the successful marketing of Entertain. However, these positive developments were not able to offset the negative effects on revenue. Total revenue amounted to EUR 24.0 billion in 2011, a decrease of 4.4 percent compared with the prior year. This primarily reflects the downward trend in voice telephony, both in mobile business (due to the cut in termination rates) and fixed-network business. Added to this were price effects resulting from regulatory decisions – for instance the reduction in termination rates from December 2010 and the decrease in interconnection prices in July 2011. Furthermore, we discontinued the business with prepaid cards of other mobile carriers as part of our value-driven growth initiative. Adjusted for these effects, the year-on-year decline in revenue is only 2.8 percent.

Revenue from our **Consumers** business fell by 4.0 percent to EUR 12.6 billion. The main reasons for this decrease were the continuing losses of fixed-network lines and the reduction of termination rates in mobile communications. The decrease was partially offset by growth in TV (up 34.5 percent) and mobile data revenues (up 39.5 percent).

In the **Business Customers** area, total revenue decreased by 0.8 percent to EUR 5.6 billion in 2011 due to the reduction in termination rates. Growth in mobile data and broadband revenue almost entirely offset the decline in revenue from traditional fixed-network voice telephony.

The decline in **Wholesale** revenue – down 7.6 percent to a total of EUR 4.2 billion – was primarily attributable to the following factors: regulatory price cuts for digital leased lines, unbundled local loop lines and interconnection calls (from July 1, 2011) and the declining use of interconnection calls. This was contrasted by a positive trend in the volume of unbundled wholesale lines, which partially offset the decline.

In the area of **Digital Services** revenue decreased by 13.5 percent year-on-year to EUR 0.7 billion in 2011. While our core business remained stable in the reporting year, especially due to revenue growth in the Scout24 group and the online advertising business, at the beginning of 2011 a clear distinction was drawn between areas to focus on in the longer term, and areas that will no longer be pursued as part of our growth strategy. Accordingly, we discontinued the business with prepaid mobile cards of other carriers, which played a significant part in the decrease of revenue in this area.

Declining revenues from **Value-Added Services** resulted from a weaker use of premium rate call numbers such as directory inquiry services and of public telephones.

EBITDA, adjusted EBITDA.

Despite a decline in revenue of around EUR 1.1 billion we succeeded in keeping EBITDA adjusted for special factors at virtually the same level at EUR 9.6 billion, while simultaneously increasing our EBITDA margin. This is thanks to our focus on value-driven business development – an approach being systematically pursued in our Germany operating segment. Adjusted EBITDA as a percentage of total revenue – the adjusted EBITDA margin – reached 39.9 percent, an increase of 1.6 percentage points compared with the prior year.

These positive results were largely attributable to more effective cost management under our Save for Service program. We reduced our operating costs further with a range of measures in the fields of technology and sales, and by streamlining our support processes. In addition, the discontinuation of operations as part of the measures for value-driven growth also had a positive effect.

EBITDA was adversely affected primarily by early retirement expenses, which we recognized as a special factor.

EBIT.

Profit from operations for our Germany operating segment amounted to EUR 4.4 billion, down EUR 0.5 billion year-on-year. The decrease was primarily attributable to higher depreciation, amortization and impairment losses as well as early retirement expenses included under special factors. Increased depreciation, amortization and impairment losses mainly related to intangible assets, due in part to the capitalization of LTE licenses in the prior year.

Cash capex.

The decrease in our cash capex year-on-year was due to the cash outflow for the acquisition of LTE licenses (spectrum) in the prior year. Adjusted for this cash outflow, in 2011 our cash capex was around EUR 0.2 billion higher than in 2010. In 2011, we primarily invested in network infrastructure for the next-generation Gigabit society, in connecting base stations with high bit rates, and in the transmission network to support the new mobile communications cells.

Employees.

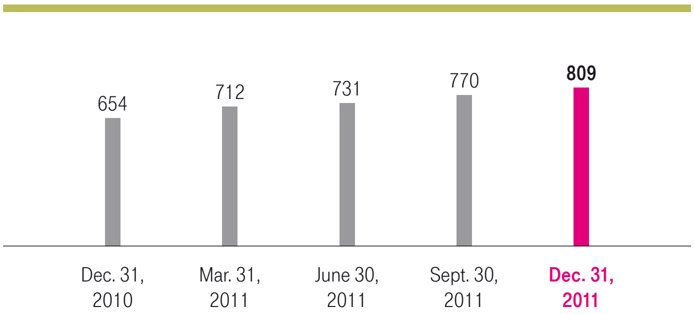
Our Germany operating segment employed 76,028 people on average in the reporting year. The decline in headcount compared with 2010 is mainly attributable to our socially responsible staff-related measures and to staffing changes within the Group. It was partially offset by new hires, especially of junior staff.

Europe.

Customer development.

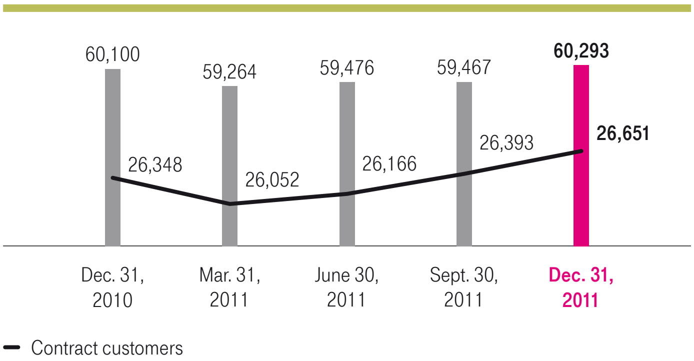
Fixed-network lines. ('000)

IPTV customers. ('000)



Retail broadband lines. ('000)

Mobile customers. ('000)



		Dec. 31, 2011 millions	Dec. 31, 2010 millions	Change millions	Change %	Dec. 31, 2009 millions
Europe, total [a, b]	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 (ULLs)	1.8	1.5	0.3	20.0	1.1
	Mobile customers	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 [b]	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 [c]	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

[a] For better comparability, the customers of T-Mobile UK, who were transferred to the Everything Everywhere joint venture as of April 1, 2010 following the merger of T-Mobile UK and Orange UK, were subtracted from all historical customer figures.
[b] With effect from January 1, 2011, the business customer base was reclassified and divided between the Europe and Systems Solutions operating segments. As part of this process, the mobile and fixed-network lines of corporate customers in Hungary were reassigned to T-Systems.
[c] Other: national companies of Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro.

Total.

In the countries in the Europe operating segment where we offer mobile and fixed-network communications, we bundle all kinds of mobile communications, broadband and fixed-network services. This approach has led to an increase in broadband lines. In addition, in the last three quarters of 2011 we succeeded in stabilizing the decline in fixed-network lines at less than 2 percent over the respective prior quarters. In mobile communications, encouraging growth in contract customers led to a slight increase in the overall customer base over the prior year.

We were unable to further expand our broadband customer base in Greece as planned, because the Greek regulatory authority obstructed the introduction of our proposed competitive broadband calling plans. Overall, we faced major challenges from intense competition on our increasingly saturated markets. The reclassification of our business customer base, dividing it between the Europe and Systems Solutions operating segments as of January 1, 2011, whereby we reassigned the mobile and fixed-network lines of our corporate customers in Hungary to T-Systems, also reduced the customer base.

Fixed network.

Telephony, Internet, and TV.

In line with our strategic orientation, we focus on fast and efficient telecommunication networks. For this reason, we are consistently expanding our broadband network. This approach proved successful in the reporting year, with a year-on-year increase in the number of marketed retail broadband lines of 4.5 percent to 4.6 million. 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 absolute 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 percent compared to the end of 2010. The main drivers of absolute growth in this regard were Hungary and Croatia.

Around 10.6 million customers in our Europe operating segment used a fixed-network line as of December 31, 2011, a year-on-year decrease of 6.2 percent. This development is largely attributable to line losses in Greece, Hungary and Romania, which together accounted for some 90 percent 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. In Hungary, the number of fixed-network lines decreased, partly as a result of the aforementioned reclassification of the business customer base.

Mobile communications.

Mobile telephony and data services.

The total number of mobile customers in our Europe operating segment at the end of 2011 was 60.3 million, a slight year-on-year increase of 0.3 percent that was attributable to the contract customer segment. Our contract customer base rose 1.1 percent year-on-year to around 26.7 million. Encouraging growth especially in the Netherlands, Austria, Bulgaria, and the Czech Republic allowed us to compensate for the decline in customers resulting from the reclassification in Hungary. Overall contract customers as a proportion of the total number of customers in the Europe operating segment increased slightly to 44 percent 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 devices marketed in our Europe operating segment increased yet again.

Our prepay customer base in the reporting year was impacted both positively and negatively by two adjustments to our reporting logic. In Poland, from September 2011 onwards the number of prepay customers increased by around 1.0 million owing to a change in our deactivation policy in response to a general change in deactivation policies across the industry. In Croatia, the number of prepay customers decreased by around 0.5 million customers as of December 31, 2011, because the reporting logic was switched to the definition stipulated by the local regulatory authority. The number of prepay customers also declined in Romania, because inactive customers were deregistered and because of the difficult economic situation. We concluded deregistration of inactive cards in Greece in the first quarter of 2011; since then, the prepay customer base has been continuously recovering. Nevertheless, there was still a slight overall decline in the prepay customer base at the end of 2011 compared with the prior year.

Development of operations.

		2011 millions of €	2010 millions of €	Change millions of €	Change %	2009 millions of €
Total revenue		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.a.	3,390
Of which: Other *		1,827	1,937	(110)	(5.7)	1,885
Profit from operations **(EBIT)**		780	985	(205)	(20.8)	140
EBIT margin	%	5.2	5.8			0.7
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		(246)	(606)	360	59.4	(93)
EBITDA (adjusted for special factors)		5,241	5,748	(507)	(8.8)	6,390
Of which: Greece		1,300	1,433	(133)	(9.3)	1,447
Of which: Romania		274	281	(7)	(2.5)	293
Of which: Hungary		542	567	(25)	(4.4)	675
Of which: Poland		629	691	(62)	(9.0)	616
Of which: Czech Republic		509	551	(42)	(7.6)	614
Of which: Croatia		508	507	1	0.2	525
Of which: Netherlands		505	461	44	9.5	430
Of which: Slovakia		388	403	(15)	(3.7)	439
Of which: Austria		253	283	(30)	(10.6)	283
Of which: United Kingdom		–	167	(167)	n.a.	611
Of which: Other *		339	426	(87)	(20.4)	446
EBITDA margin (adjusted for special factors)	%	34.6	34.1			32.6
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

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

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

Total revenue.

Our Europe operating segment generated total revenue of EUR 15.1 billion in the reporting year, down by around 10.2 percent year-on-year. Almost half of this decline was attributable to the deconsolidation of T-Mobile UK effective April 1, 2010. The exchange rates against the euro had a slightly negative impact, driven by the Polish zloty, the Croatian kuna, and the Hungarian forint. By contrast, the performance of the Czech koruna against the euro had a positive impact on our revenue. Adjusted for these factors, segment revenue was down just 5.4 percent.

This decline was mainly caused by the erosion of prices in almost all European countries. As a result of regulation, we had to decrease mobile termination rates, which led to substantial revenue losses in the Netherlands, the Czech Republic and Austria in particular; intense competition also adversely affected our revenue. Furthermore, the difficult economic situation, especially in Southern and Eastern European countries, had a negative impact. The OTE group was hit especially hard, accounting for approximately half of the adjusted revenue decline.

The negative effects were in part offset by revenue growth in broadband/TV in the fixed-network business, as well as by mobile data revenue, which increased by around 15 percent year-on-year. Almost all the countries in our Europe operating segment contributed to this growth, especially the Netherlands, Greece and Poland.

EBITDA, adjusted EBITDA.

Our Europe operating segment generated adjusted EBITDA of EUR 5.2 billion in 2011, a year-on-year decrease of 8.8 percent. Over one third of this decrease is 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. Excluding the aforementioned effects, adjusted EBITDA declined by 5.6 percent.

The decline in adjusted EBITDA is primarily attributable to the lower year-on-year revenue. We partially offset this negative trend by systematically reducing overhead costs, particularly in Greece and Hungary. Nonetheless, one-time effects, for example in Poland and the Netherlands, made a positive contribution to EBITDA in the reporting year.

Development of operations in selected countries.

Greece. Our revenue in Greece totaled EUR 3.5 billion in 2011, a year-on-year decrease of 8.5 percent, with fixed-network and mobile business being affected in equal measure. Declining fixed-network revenue was primarily attributable to line losses; these losses were partially offset by growth in wholesale revenue. With regulation of fixed-network business in Greece continuing to be very strict, we were unable to make planned broadband acquisitions and thus failed to generate the associated revenue. 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 was partially offset by substantial increases in data revenue.

Adjusted EBITDA decreased to EUR 1.3 billion in Greece during the reporting year, a year-on-year decline of 9.3 percent. This decrease was due to lower revenues on the one hand and to decisions by public authorities on the other. 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, most tangible in lower personnel costs, partially offset the decline in adjusted EBITDA.

Hungary. In Hungary, we generated revenue of EUR 1.4 billion in the 2011 financial year, a year-on-year decrease of 5.2 percent. Around 72 percent of this decrease can be attributed to two factors: the reclassification of business customers to T-Systems, which alone accounted for a decrease of some EUR 38 million in revenue, and the negative exchange rate performance of the Hungarian forint against the euro. Adjusted for these two factors, the decline in revenue is just 1.5 percent. 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. Revenue from voice telephony and text messaging also declined as a result of competition-induced price cuts and decreased use of voice telephony per customer. Slightly higher revenue from the sale of terminal devices had an offsetting effect.

Adjusted EBITDA amounted to EUR 542 million in the reporting year, representing a year-on-year decrease of 4.4 percent. As with revenue, 73 percent of this decrease was due to the reclassification of business customers and the unfavorable exchange rate performance of the Hungarian forint against the euro. Adjusted for these two factors, EBITDA decreased by just 1.2 percent. Savings in overheads largely offset the negative effects of the decline in revenue from operations.

Poland. Our revenue in Poland decreased year-on-year by 5.4 percent to EUR 1.7 billion. If the negative exchange rate performance of the Polish zloty against the euro is taken into account, the decline in revenue is just 2.6 percent. This is mainly attributable to a decline in service revenues resulting from intense competition. Significantly higher data revenues had an offsetting effect. We could increase revenue from the sale of terminal devices by successfully marketing smartphones, which had a positive impact on total revenue.

Adjusted EBITDA amounted to EUR 629 million, down 9.0 percent year-on-year. Adjusted for negative exchange rate effects, the decrease is 6.0 percent. This decline was primarily attributable to sales and customer service costs for rebranding Era to T-Mobile in June 2011. Optimizing the way we address high-value contract customers had a positive effect on EBITDA. Positive one-time effects also partially offset the negative effects of revenue decreases and rebranding costs.

Netherlands. Revenue in the Netherlands totaled around EUR 1.7 billion in the 2011 financial year, a year-on-year decrease of just 1.1 percent. The main adverse effect on revenue resulted from multiple cuts in termination rates by the Dutch regulatory authority, which resulted in lower service revenues. This effect was partially offset by a significant increase in our data revenues and by higher proceeds from device sales, the latter thanks to a high demand for smartphones. The decline in revenue was also offset by a one-time effect in the final quarter of 2011. The development of fixed-network business was more or less stable compared to the prior year.

Adjusted EBITDA in the Netherlands increased by 9.5 percent year-on-year to EUR 505 million. Adjusted for the aforementioned one-time effect in revenue, it remained stable at the prior-year level. Savings in customer acquisition and overhead costs offset the negative revenue effects from regulation.

EBIT.

EBIT in our Europe operating segment totaled EUR 0.8 billion in the reporting year, a year-on-year decrease of 20.8 percent. This was due to the decrease in EBITDA and the higher overall depreciation, amortization and impairment losses at segment level. Impairment losses on goodwill and property, plant and equipment totaled EUR 1.0 billion at the end of 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), Greece (mobile), Bulgaria, Macedonia, and Romania (fixed), while impairment losses on property, plant and equipment were recognized in Romania (fixed).

Cash capex.

In the 2011 financial year, our Europe operating segment reported cash capex of EUR 1.9 billion, a year-on-year decline of 7.1 percent. Over 40 percent of this decrease was 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, for extending existing and/or obtaining new mobile communications licenses in Slovakia, Albania, and Greece.

Employees.

Average headcount in our Europe operating segment in 2011 was 60,105 – a year-on-year reduction of 8.1 percent. Romania and Greece were the biggest contributors to this decrease with their downsizing programs. Efficiency enhancement measures for downsizing were also implemented in the other countries, although on a smaller scale. The deconsolidation of T-Mobile UK also contributed to the year-on-year reduction in headcount.

United States.

Customer development.

Contract customers. ('000)

Prepay customers. ('000)

	Dec. 31, 2011 millions	Dec. 31, 2010 millions	Change millions	Change %	Dec. 31, 2009 millions
United States					
Mobile customers	33.2	33.7	(0.5)	(1.5)	33.8

As of December 31, 2011, the United States operating segment (T-Mobile USA) served 33.2 million end customers, a net decrease in customers of 549,000 for 2011 compared to a net decrease of 56,000 for 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. In 2011, contract customer losses were impacted by a decline in postpay customer gross additions, partially offset by customer growth in partner branded services and mobile broadband. Contract customer additions decreased in part from the implementation of strengthened credit standards as an aspect of T-Mobile USA's focus on improving the overall quality of its contract customer base. Additionally, increased competitive intensity including the launch of the iPhone 4S by three competitors in the fourth quarter of 2011 and increased churn impacted contract customer losses. Connected devices contributed net customer additions in 2011 and totaled 2.4 million at December 31, 2011, but the additions were 195,000 less than 2010 due to increased churn. In 2011, T-Mobile USA had 1.1 million net prepaid customer additions compared to 262,000 net prepaid customer additions 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 2010, as total MVNO customers increased to 3.6 million at December 31, 2011 from 2.8 million at December 31, 2010.

T-Mobile USA's blended churn increased to 3.6 percent per month in 2011, compared to 3.4 percent per month in 2010 driven by higher churn from branded contract customers (total customers excluding MVNO and connected device customers) resulting from competitive intensity, including competition from the iPhone (which has not been offered by T-Mobile USA) and connected devices, partially offset by improvement in branded prepaid churn.

Development of operations.

	2011 millions of €	2010 millions of €	Change millions of €	Change %	2009 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.a.	2,233
EBIT margin %	(4.8)	13.0			14.4
Depreciation, amortization and impairment losses	(4,407)	(2,064)	(2,343)	n.a.	(2,028)
EBITDA	3,697	4,156	(459)	(11.0)	4,261
Special factors affecting EBITDA	(134)	–	(134)	n.a.	–
EBITDA (adjusted for special factors)	3,831	4,156	(325)	(7.8)	4,261
EBITDA margin (adjusted for special factors) %	25.9	25.8			27.5
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

Total revenue.

In 2011, despite a challenging market situation including impacts from the formerly proposed deal with AT&T and increased competitive intensity, total revenues in U.S. dollars only declined by 3.3 percent year-on-year for the United States operating segment (T-Mobile USA). Total revenues of EUR 14.8 billion in 2011 decreased by 7.9 percent compared to EUR 16.1 billion in 2010, due largely to fluctuations in the currency exchange rate. T-Mobile USA total revenues declined due primarily to the decrease in T-Mobile USA branded customers (total customers excluding MVNO and connected devices) resulting in service revenue declines. Service revenues declined due to lower subscription revenue partially offset by strong growth in data revenues from customers using smartphones with mobile broadband data plans. In U.S. dollars, data revenues increased by 16.2 percent in 2011 compared to 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 percent compared to the 8.2 million at the end of 2010. Additionally, T-Mobile USA's 2011 total revenues were impacted by lower equipment revenues from decreased volumes partially offset by revenues from the handset protection insurance program that was launched in the fourth quarter of 2010.

EBITDA, adjusted EBITDA.

The adjusted EBITDA margin was consistent year-on-year despite decreased revenues as described before. In U.S. dollars, adjusted EBITDA fell by 3.1 percent primarily due to the decrease in revenues as discussed above. Adjusted EBITDA decreased year-on-year in 2011 by 7.8 percent to EUR 3.8 billion compared to EUR 4.2 billion in 2010. 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 percent year-on-year 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 America's largest 4G network 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.

EBIT.

EBIT (profit from operations) declined by EUR 2.8 billion to a loss of EUR 710 million, primarily from 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 reflects the impacts from continued contract customer losses and pricing pressures for new and retained customers in the increasingly saturated U.S. market. For more information regarding the annual impairment assessment, please refer to Note 5 "Intangible assets" in the notes to the consolidated financial statements, page 188 et seq.

Cash capex.

Cash capex decreased 7.4 percent year-on-year to EUR 2.0 billion in 2011 compared to EUR 2.1 billion in 2010. In U.S. dollars, cash capex remained consistent year-on-year 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. T-Mobile USA operates America's largest 4G network with HSPA plus service reaching customers nationwide. Additionally with HSPA plus 42, more than 184 million Americans now have 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.

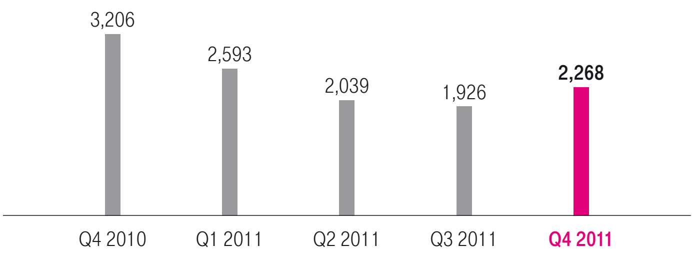
Employees.

The average number of employees decreased year-on-year in 2011 by 8.7 percent compared to 2010. This decrease was due in part to fewer customer support employees driven by lower customer care call volumes and a decrease in the number of retail employees due to the implementation of labor efficiency and store rationalization programs.

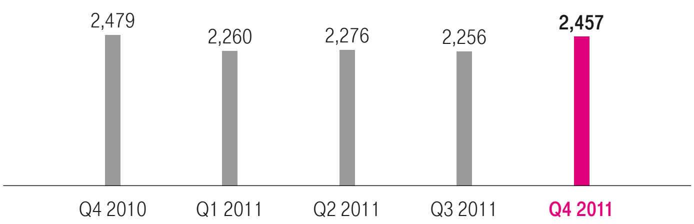
Systems Solutions.

Selected KPIs.

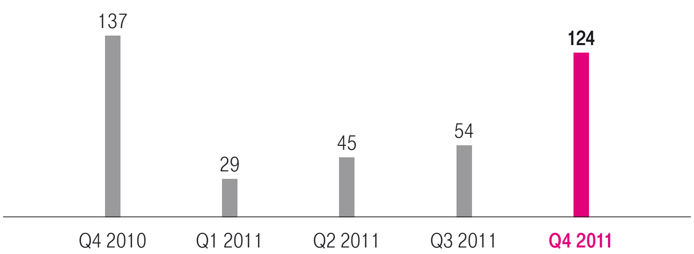
Order entry. (millions of €)



Revenue. (millions of €)



Adjusted EBIT. (millions of €)



		Dec. 31, 2011	Dec. 31, 2010	Change	Change %	Dec. 31, 2009
Order entry	**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

Development of business.

Developments in our operating segment Systems Solutions were encouraging in 2011, with an increase in both national and international revenue. The segment brokered a number of major deals in 2010 and 2011, including with E.ON, Everything Everywhere, and Daimler, as well as several smaller contracts concerning cloud computing, a growing business.

In the 2011 financial year T-Systems again signed a number of new, strategically significant agreements in the ICT corporate customer market. Both the aforementioned major deals and many of the contracts signed in the growth area of cloud computing cover dynamic services that allow customers to obtain bandwidth, computing capacity, and storage services as needed, pay only for what they use, and share the infrastructure. Furthermore, companies also increasingly used software that runs via a secure Internet connection (private cloud) to manage their business processes.

T-Systems significantly expanded these dynamic resources in 2011. The fact that orders nevertheless declined by 4.9 percent year-on-year was primarily due to strong competition in the ICT market.

The number of servers managed and serviced remained at the prior-year level in the reporting period, 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 percent, mainly due to new orders, such as the extensive outsourcing agreement with Everything Everywhere. Systems Integration also continued to perform well, with T-Systems billing substantially more hours than in the prior year and increasing the utilization rate once again.

Development of operations.

		2011 millions of €	2010 millions of €	Change millions of €	Change %	2009 millions of €
Total revenue		9,249	9,057	192	2.1	8,798
Profit (loss) from operations **(EBIT)**		(43)	44	(87)	n.a.	(11)
Special factors affecting EBIT		(295)	(289)	(6)	(2.1)	(240)
EBIT (adjusted for special factors)		252	333	(81)	(24.3)	229
EBIT margin (adjusted for special factors)	%	2.7	3.7			2.6
Depreciation, amortization and impairment losses		(640)	(623)	(17)	(2.7)	(721)
EBITDA		597	667	(70)	(10.5)	710
Special factors affecting EBITDA		(275)	(281)	6	2.1	(213)
EBITDA (adjusted for special factors)		872	948	(76)	(8.0)	923
EBITDA margin (adjusted for special factors)	%	9.4	10.5			10.5
Cash capex		(553)	(725)	172	23.7	(681)
Average number of employees		48,224	47,588	636	1.3	45,328

Total revenue.

Total revenue in our Systems Solutions operating segment in the financial year amounted to EUR 9.2 billion, a year-on-year increase of 2.1 percent. This was mainly attributable to deals concluded in 2010 with E.ON and Deutsche Post DHL as well as new deals signed in 2011 with Everything Everywhere, Magna and TOTAL, which helped to offset the general negative price trend in IT and communications. Revenue generated with our other operating segments amounted to EUR 2.7 billion in the reporting period, a year-on-year increase of 1.4 percent. As a service provider for the Group, T-Systems continues to develop the intra-Group IT landscape on an ongoing basis. As part of this process, standardized systems contribute significantly to reducing the Group's IT costs.

Net revenue.

T-Systems increased its business volume with customers outside our Group in the reporting year, which proves that the new growth course of our systems solutions business is successful. The operating segment generated net revenue of EUR 6.6 billion, 2.4 percent more than in the prior year. This is primarily 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, in spite of falling prices. The deals with E.ON and Deutsche Post DHL closed in the prior year also had a positive effect on net revenue.

EBITDA, adjusted EBITDA.

In the financial year, our Systems Solutions operating segment generated EBITDA of EUR 0.6 billion. There are a number of reasons for the year-on-year decline of some 10.5 percent, including increased contract-related expenses, such as for the successful migration of the customer infrastructure to T-Systems' operational business. There were also increases in start-up expenses for new contracts and the development of our growth areas, such as intelligent networks, energy, healthcare, and connected cars. Savings generated by our comprehensive restructuring and efficiency enhancement program Save for Service did not offset this rise in costs.

In addition, EBITDA was 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. By contrast, adjusted EBITDA decreased to a lesser extent, falling to EUR 0.9 billion in the reporting period, a decline of around 8.0 percent.

EBIT, adjusted EBIT.

Adjusted EBIT for 2011 was EUR 81 million lower than in the prior-year period. This decrease 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 business in the prior year. Our comprehensive Save for Service restructuring and efficiency enhancement program was not able to fully offset this development. The adjusted EBIT margin decreased from 3.7 percent in 2010 to 2.7 percent in 2011.

Cash capex.

At EUR 0.6 billion, cash capex in the reporting period was well below the prior year level – primarily because T-Systems had significantly built out its dynamic computing platform in the prior year. Systematic measures to increase efficiency (such as the increasing standardization of the ICT platforms) also reduced capital expenditure.

Employees.

Average headcount grew by 636 in 2011 to 48,224, 1.3 percent more than in 2010. In Germany, it increased by 453 or 1.8 percent to a total of 25,548; internationally the average rose by 183 or 0.8 percent to 22,676. The increase was largely due to staff taken on in connection with large-scale contracts, an increase in insourcing, i.e., the provision of services previously rendered by third parties, and the set-up and expansion of nearshore and offshore sites. We were able to partially offset this increase thanks to measures taken to cut costs.

Group Headquarters & Shared Services.

Vivento, our personnel service provider consistently supported us once again in 2011 with staff restructuring in the Group. The focus was on securing external employment opportunities for civil servants and employees, predominantly in the public sector.

As of December 31, 2011, Vivento had a workforce of about 8,500 employees, of which around 3,500 were deployed externally, mainly in the public sector, for example at the Federal Employment Agency. Another 3,300 or so employees were employed within the Group, especially in service centers. About 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 in the reporting year, around 1,900 employees left the personnel service provider to pursue new opportunities.

Our property management unit continued to focus on further streamlining and improving the Company's real estate portfolio further in 2011. Overall, we closed a total of 186 property sales in the reporting year, 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 thanks 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.

Development of operations.

	2011 millions of €	2010 millions of €	Change millions of €	Change %	2009 millions of €
Total revenue	2,144	2,166	(22)	(1.0)	2,410
Profit (loss) from operations **(EBIT)**	1,160	(2,479)	3,639	n.a.	(1,249)
Depreciation, amortization and impairment losses	(796)	(840)	44	5.2	(833)
EBITDA	1,956	(1,639)	3,595	n.a.	(416)
Special factors affecting EBITDA	2,698	(769)	3,467	n.a.	(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

Total revenue.

Total revenue at Group Headquarters & Shared Services declined by 1.0 percent year-on-year in 2011, this slight decrease being mainly due to more efficient use of floor space by the operating segments.

EBITDA, adjusted EBITDA.

Adjusted EBITDA at Group Headquarters & Shared Services improved by EUR 0.1 billion year-on-year in 2011. This positive development was mainly attributable to income in connection with the Deutsche Telekom and France Télécom-Orange procurement joint venture BUYIN and to the lower headcount at Vivento. However, this was contrasted by some negative effects: 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 negatively impacted adjusted EBITDA in the reporting period compared to the prior year.

Special factors of EUR 2.7 billion had a positive effect on EBITDA in the 2011 financial year. This is essentially attributable to the termination of the agreement for the sale of T-Mobile USA to AT&T (positive special factors) and to expenses for staff-related measures, primarily for early retirement (negative special factors). In the same period in 2010, EBITDA had been negatively impacted by special factors of EUR 0.8 billion, primarily expenses relating to the settlement of disputes concerning ownership of the Polish mobile communications company Polska Telefonia Cyfrowa S.A. (PTC) and expenses for staff-related measures, particularly early retirement.

EBIT.

EBIT improved by EUR 3.6 billion year-on-year – due primarily to the aforementioned special factors and to an improvement in adjusted EBITDA.

Employees.

The average number of employees during the reporting period was 21,494, i.e., 818 less than in 2010. This is primarily attributable to the lower headcount at Vivento.

Development of business at Deutsche Telekom AG.

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

As the headquarters of the Deutsche Telekom Group, we perform strategic and cross-segment management functions and provide services for other Group companies. The profits and losses of our subsidiaries and Group financing measures have a material effect on our financial position and results of operations. For Deutsche Telekom AG, the 2011 financial year was again marked by intense competitive and price pressure in the telecommunications industry, which was also reflected in the income and loss of its subsidiaries.

Deutsche Telekom AG reported income after taxes for the 2011 financial year of EUR 1.6 billion. The development of business in the reporting year was marked by a number of very different effects (e.g., the extension of early retirement arrangements until December 31, 2011, compensation received from AT&T, amalgamation of shares held in Polska Telefonia Cyfrowa S.A. (PTC)), arising both from the Company's own business and from income related to subsidiaries, associated and related companies.

Results of operations of Deutsche Telekom AG.

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

	2011 millions of €	2010 millions of €	Change millions of €	Change %	2009 millions of €
Net revenue	**3,824**	**4,269**	**(445)**	**(10.4)**	**18,220**
Changes in inventories and other own capitalized costs	–	7	(7)	n.a.	37
Total operating performance	**3,824**	**4,276**	**(452)**	**(10.6)**	**18,257**
Other operating income	7,542	5,146	2,396	46.6	7,160
Goods and services purchased	(1,404)	(1,596)	192	12.0	(6,935)
Personnel costs	(3,398)	(3,394)	(4)	(0.1)	(3,979)
Depreciation, amortization and write-downs	(491)	(525)	34	6.5	(3,526)
Other operating expenses	(5,221)	(6,081)	860	14.1	(9,160)
Operating results	**852**	**(2,174)**	**3,026**	**n.a.**	**1,817**
Financial income (expense), net	1,214	4,738	(3,524)	(74.4)	3,183
Results from ordinary business activities	**2,066**	**2,564**	**(498)**	**(19.4)**	**5,000**
Extraordinary income (loss)	(19)	(24)	5	20.8	(329)
Taxes	(399)	443	(842)	n.a.	(161)
Income after taxes	**1,648**	**2,983**	**(1,335)**	**(44.8)**	**4,510**

Operating results improved by approximately EUR 3.0 billion year-on-year. The decrease of EUR 0.4 billion in net revenue was offset by the decline in goods and services purchased and other operating expenses. The year-on-year increase of EUR 2.4 billion in other operating income was primarily attributable to the compensation amounting to EUR 2.9 billion, which Deutsche Telekom received from AT&T for the discontinuation of the sale of T-Mobile USA. In addition, the reassignment within the Group of the shares held in PTC at fair values resulted in other operating income of EUR 0.6 billion in the reporting year. Personnel costs and depreciation, amortization and write-downs were stable in the reporting year, remaining almost at the prior-year level.

Financial income decreased by EUR 3.5 billion year-on-year to EUR 1.2 billion.

This was largely attributable to the decrease of EUR 3.9 billion in income related to subsidiaries, associated and related companies. That decrease was a result in particular of loss transfers from T-Mobile Global Zwischenholding GmbH (TMGZH) amounting to EUR 3.3 billion (as compared with a profit transfer of EUR 1.8 billion in 2010), which was primarily a consequence of a write-down on the net carrying amount of T-Mobile Global Holding GmbH, whose most significant holding is T-Mobile USA. In an offsetting effect, a profit transfer from Telekom Deutschland GmbH amounting to EUR 5.7 billion, which included a dividend payment from PTC of EUR 1.6 billion for the first time in the reporting year, had a positive impact on income related to subsidiaries, associated and related companies.

Additionally, financial income decreased in the reporting year on account of write-downs on financial assets amounting to EUR 0.6 billion (primarily on the carrying amount of OTE).

Results from ordinary business activities were particularly impacted by the aforementioned effects and decreased by a total of EUR 0.5 billion year-on-year in 2011.

Extraordinary expenses of EUR 19 million and a tax expense of EUR 399 million, particularly due to the application of the minimum tax charge to the compensation received from AT&T (compared to a tax income of EUR 0.4 billion attributable to a different period recorded in the prior year), combined with the aforementioned factors resulted in a year-on-year decrease of EUR 1.3 billion in income after taxes to EUR 1.6 billion.

Financial position of Deutsche Telekom AG.

Balance sheet of Deutsche Telekom AG under German GAAP.

	Dec. 31, 2011 millions of €	Dec. 31, 2011 %	Dec. 31, 2010 millions of €	Change millions of €	Dec. 31, 2009 millions of €
Assets					
Intangible assets	326	0.3	206	120	1,275
Property, plant and equipment	4,698	4.8	5,034	(336)	17,282
Financial assets	81,146	82.4	80,876	270	75,759
Non-current assets	**86,170**	**87.5**	**86,116**	**54**	**94,316**
Inventories, materials and supplies	5	0.0	10	(5)	84
Receivables	8,439	8.6	11,571	(3,132)	9,356
Other assets	1,636	1.7	869	767	1,112
Marketable securities	–	–	14	(14)	226
Cash and cash equivalents	1,507	1.5	754	753	2,732
Current assets	**11,587**	**11.8**	**13,218**	**(1,631)**	**13,510**
Prepaid expenses and deferred charges	644	0.7	738	(94)	516
Difference between plan assets and partial retirement liabilities	29	0.0	12	17	–
Total assets	**98,430**	**100.0**	**100,084**	**(1,654)**	**108,342**
Shareholders' equity and liabilities					
Capital stock and reserves	53,307	54.2	53,310	(3)	53,715
Unappropriated net income	4,656	4.7	6,018	(1,362)	6,421
Shareholders' equity	**57,963**	**58.9**	**59,328**	**(1,365)**	**60,136**
Accruals for pensions and similar obligations	2,461	2.5	2,662	(201)	2,769
Tax accruals	515	0.5	124	391	547
Other accruals	3,578	3.6	2,903	675	4,598
Accruals	**6,554**	**6.6**	**5,689**	**865**	**7,914**
Debt	7,153	7.3	6,711	442	6,195
Other liabilities	26,485	26.9	28,031	(1,546)	33,891
Liabilities	**33,638**	**34.2**	**34,742**	**(1,104)**	**40,086**
Deferred income	275	0.3	325	(50)	206
Total liabilities and shareholders' equity	**98,430**	**100.0**	**100,084**	**(1,654)**	**108,342**

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

The balance sheet total decreased by EUR 1.7 billion year-on-year to EUR 98.4 billion.

The decrease in total assets was mainly attributable to the decline of EUR 2.5 billion in receivables from subsidiaries. In addition to increased offsetting with the corresponding liabilities in the reporting year, the loss transfer from TMGZH in particular decreased the level of receivables compared with the prior year. The EUR 0.8 billion increase in other assets is primarily the result of the recognition of a receivable from AT&T for spectrum licenses to be granted in connection with the non-completion of the sale of T-Mobile USA.

The decrease in shareholders' equity and liabilities is mainly due to a reduction in shareholders' equity and the lower level of other liabilities. Shareholders' equity decreased by EUR 1.4 billion compared with December 31, 2010 as dividend payments of EUR 3.0 billion from the prior year were netted against the income after taxes of EUR 1.6 billion. The equity ratio remained almost constant at 58.9 percent (2010: 59.3 percent). Other liabilities also decreased, due in part to netting against the corresponding receivables, but in particular to repayments of short-term loans from Deutschen Telekom Finance. This was offset mainly by an increase of EUR 0.7 billion in other accruals, primarily from expected currency exchange losses not realized at the balance sheet date.

Statement of cash flows.

	2011 millions of €	2010 millions of €	Change millions of €
Income after taxes	1,648	2,983	(1,335)
Net cash provided by operating activities	3,997	751	3,246
Net cash used for investing activities	(571)	(329)	(242)
Net cash used for financing activities	(2,673)	(2,400)	(273)
Net change in cash and cash equivalents	**753**	**(1,978)**	**2,731**
Cash and cash equivalents, at beginning of period	754	2,732	(1,978)
Cash and cash equivalents, at end of period	**1,507**	**754**	**753**

Although income after taxes decreased, net cash provided by operating activities increased primarily as a result of the compensation received from AT&T.

The change in net cash used for investing activities is primarily attributable to the increase in the number of shares held in OTE.

Cash outflow for financing activities mainly relates to the payment of the dividend of EUR 3.0 billion for the 2010 financial year. The net issuance of non-current financial liabilities increased the level of net cash used.

Combined, these cash flows resulted in an increase in cash and cash equivalents of approximately EUR 0.8 billion in the financial year.

Risk management in hedge accounting.

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

Corporate responsibility.

For more information relating to our CR strategy, our CR targets, and the most important CR issues, please refer to our online CR Report at: www.cr-bericht.telekom.com.*

// Easy media use for everyone // Environmentally friendly products // Addressing the digital divide //

Responsible corporate governance.

Deutsche Telekom's strategic goal is to become a global leader in connected life and work. For us this also means thinking and acting from an overall social perspective. Accordingly, Fix – Transform – Innovate, our business strategy, forms the basis of our CR strategy. CR stands for corporate responsibility, a company's commitment to promote sustainable development. In our opinion this includes ecological, social, and economic objectives.

In line with our strategic goal, we also want to play a leading role in assuming social responsibility. "We take responsibility" is the way we see ourselves in our position as one of the leading international information and communications technology corporations. We want to be at the forefront of our industry by 2015 when it comes to taking social and ecological responsibility. Our CR strategy also forms the activity framework in which our subsidiaries are working on sustainable development. The three areas of activity involved in our CR strategy are described below.

Areas of activity of our CR strategy.

We take responsibility ...		
... for connected life and work. We are helping shape the change in the increasingly digitalized work and living environment in a positive way. Deutsche Telekom supports cultural change with innovative products and solutions toward greater self-determination and quality of life both in our professional and personal lives. Our goal is to be a driving force for sustainable life and work.	**... for active, equal-opportunity participation in the information and knowledge society.** Independent of their social or economic opportunities, we try to involve as many people as possible in social development. With this goal in mind, we promote numerous social initiatives and support projects for media competence development.	**... for a climate-friendly society.** One of the biggest challenges for humanity is global warming and its consequences. We are sustainably reducing our own emissions with comprehensive initiatives. At the same time we are also empowering our customers and partners to make their contribution to climate protection with our solutions.

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

Measuring performance.

We derive binding parameters, our CR Key Performance Indicators (CR KPIs), from our CR strategy and take into consideration recognized CR standards to make our achievements in the field of CR transparent and measurable. These KPIs apply throughout the Group and contribute to the action areas of our CR strategy. They also serve as a CR control instrument, enabling systematic, continuous further development in the essential sustainability areas. With the CR KPIs, we laid the cornerstone for centralized CR controlling in 2011.

Telekom's annual CR reporting is based on the requirements defined by the Global Reporting Initiative (GRI). The GRI audited our 2010/2011 CR Report and awarded it its highest application level of A+.

Overview of CR KPIs.

Name	Description
CR KPI "Energy Consumption"	Amount of electricity consumed in relation to sales, based on the Monetary Power Efficiency Indicator (MPEI).
CR KPI "CO_2 Emissions"	Development of CO_2 emissions (in thousands of metric tons of CO_2 and in %). [a]
CR KPI "Social Commitment"	Public awareness of Deutsche Telekom's CR activities, based on regular market research studies. [b]
CR KPI "Sustainable Investment"	Share of Deutsche Telekom AG stock that is owned by investors who incorporate environmental, social and governance criteria in their investment strategies.

[a] The base year for CR KPI "CO_2 Emissions" is 2008. The Group's climate protection target for Germany, which has already been announced in other publications, takes 1995 as its base year.
[b] The CR KPI "Social Commitment" is not yet recorded Group-wide.

Our contribution to protecting the climate and the environment.

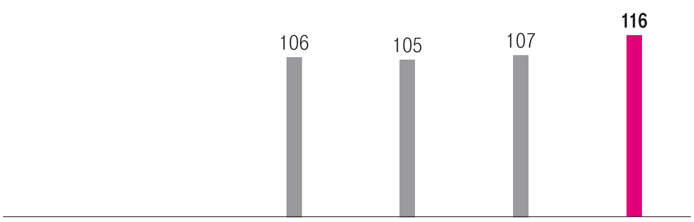
Minimizing consumption of energy and resources. In light of the rising global demand for energy, the information and communications technology (ICT) industry is assuming a key role when it comes to containing climate change. Intelligently deployed information technologies can help many industries to reduce their global greenhouse gas emissions. Our products are already contributing to energy savings and energy efficiency in many sectors, such as facility management, logistics and industrial automation. The transition to renewable energies, for example, will only be possible with a smart electricity grid. Many small local power stations such as solar panels or large offshore wind farms must be integrated into the network. This places new demands on the balancing of supply and demand in the electricity market. Modern ICT plays an important role in this process. It helps us tap new growth markets while promoting sustainable development at the same time.

Of course, we are aware that the expansion of modern ICT services has resulted in a significant increase in energy consumption in recent years, e.g., for building and operating our infrastructure. This is why we are massively intensifying our efforts to reduce our own CO_2 emissions. By implementing more energy-efficient hardware and data centers, for example, we are driving ahead the roll-out of an environmentally and climate-friendly network infrastructure. We replaced 3,400 first-generation 3G base stations within our mobile network with more efficient next-generation technology in the course of the reporting year. Besides the technical improvements, this led to reduced electricity consumption of up to 8,000 kWh per base station.

Reduction of the Group's environmental impact. The Group's ambitious climate target for Germany is to have 40 percent lower CO_2 emissions by the year 2020 than in 1995. We continued to pursue our climate protection strategy during the reporting year, particularly in the international arena, with the inclusion of our international subsidiaries. To this end, we compared the Group-wide figures with local potential and will define individual CO_2 reduction targets for each entity one after another. To ensure success, we are constantly improving our operational processes and infrastructure. We also made improvements to the technical systems in place in our fixed network in 2011 and made preparations for the implementation of a more efficient network platform (transition from the PSTN to the more energy-efficient Internet Protocol (all-IP)). Besides the technical improvements, this also led to a 36.5 GWh cut in electricity consumption in Germany. Our climate protection efforts also include cutting energy consumption and making improvements in facility management. Small contributions all add up to make a difference – for example, LED lighting has been introduced at ten administrative sites.

Deutsche Telekom operates one of the largest fleets of company vehicles in Europe. For years we have specifically selected low-emission models for our service vehicles. The bonus/penalty system included in our Green Car Policy gives an additional incentive to choose low-emission company cars. Our target is to have all new company cars at least 10g below the EU limit for CO_2 emissions by 2015. EUR 300,000 in penalty payments was donated to various environmental organizations in the reporting year. Our employees were invited to vote on who should receive the money. The most popular choice was One Earth – One Ocean e.V., an organization committed to clearing the oceans of plastic waste. The CO_2 reductions are measured with the CO_2 emissions CR KPI which, along with the energy consumption CR KPI, is one of the key measures of our environmental performance.

CR KPI "Energy Consumption."



	2008	2009	2010	**2011**
Revenue (billions of €)	55.8	57.6	58.4	**55.4**
Power consumption ('000 MWh)	5,900.5	6,049.2	6,262.6	**6,409.4**

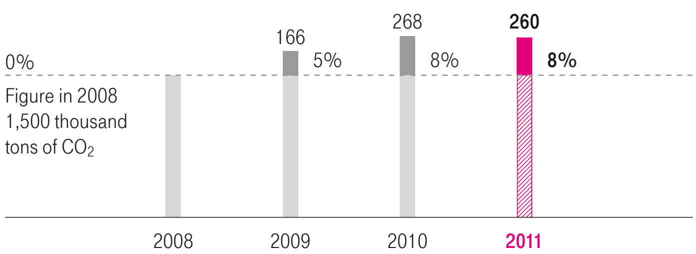
CR KPI "Energy Consumption": Ratio of power consumption in thousands of MWh to relevant revenue in billions of €; produces what is known as the Monetary Power Efficiency Indicator (MPEI).

Calculated on the basis of appropriate estimates and extrapolations.

The energy consumption CR KPI increased slightly compared with the prior year, as the Group's electricity consumption increased by 2 percent. The corresponding revenue decreased by 5 percent over the same period – the revenue relevant in this context accounts for 94 percent of the Group's net revenue. The constant growth in data volumes is another reason for the increased electricity consumption. Nevertheless, our considerable efforts to save energy and to increase energy efficiency prevented the increase in energy consumption from being much higher.

This has also had an impact on our CO_2 emissions CR KPI, which remained on the prior-year level of 8 percent over the baseline figure. Contributing factors, besides the aforementioned energy consumption effects, included a clear reduction in fuel consumption in Germany as well as a slightly lower emission factor for electricity in Germany.

CR KPI "CO_2 Emissions." (thousands of tons of CO_2)



Changes in CO_2 emissions compared against 2008. Emissions are measured in CO_2 equivalent values based on energy and fuel consumption in accordance with the Greenhouse Gas Protocol and employing the International Energy Agency's emission factors.

CO_2 emissions in 2008.

Calculated on the basis of appropriate estimates and extrapolations.

Environmental protection and industrial health and safety of our employees. We want to make sustainability a component of all our business processes and of our employees' everyday lives. To achieve this goal, we have implemented a health, safety and environment management system that is based on the following international standards: OHSAS 18001 for occupational health and safety, ISO 14001 for environment management, and ISO 9001 for quality management. Our Headquarters in Bonn and 13 other Group companies were certified according to OHSAS 18001 in 2011.

Establishing sustainable behavior among our customers.

Customer satisfaction. As one of the world's leading ICT service providers, we have the potential – and bear the responsibility – to enable our customers to become sustainable consumers. As a service-oriented, responsible company, we feel obliged to respond to their needs and expectations. That is why we work together with TNS-Infratest, an independent service provider, to perform systematic surveys of customer satisfaction at all our sites (using the TRI*M method) and incorporate the results in our management processes. We use these surveys to measure the intensity of customer loyalty to our company four times a year. The results of this TRI*M analysis at the end of 2011 showed a considerable year-on-year increase in customer loyalty by almost 6 percent. We have also set ourselves the target of consistently increasing this figure in Germany by a further 3.6 percent each year through 2015.

Our German website www.telekom.com/nachhaltig-handeln lets people know what they can do as individuals, for example by receiving bills online instead of paper printouts or holding virtual conferences to avoid business travel. *

Solutions for climate-friendly connected life and work. We help our customers take responsibility for sustainable development with our research into sustainable forms of the digital future and a growing range of climate-friendly products and services. For instance, according to an ICT study our download portals (Gamesload, Musicload, Softwareload, and Videoload) are able to cut CO_2 emissions by between 40 and 80 percent compared to our store-based retail infrastructure. One of the topics we pushed in the past fiscal year was cloud computing, where companies utilize computing and storage capacity as well as software from the network according to their needs. This does away with energy costs for their own infrastructure and cuts CO_2 emissions.

Promoting sustainable activities. In 2009, we launched our extensive sustainability drive, "Big changes start small." With this campaign, we aimed to promote awareness for responsible consumption and a more sustainable lifestyle among our customers and with the general public. We have already motivated many people to join in.

The return of used and obsolete cell phones was the focus of 2011. We use the proceeds from returned devices in Germany to make donations to charitable organizations. We collected a total of around 762,000 cell phones in the reporting year, ensuring that a proportion of the phones that still work are reused and the valuable raw materials contained in all the others are recycled and recovered. We increased the number of old phones collected by more than 500,000 compared with 2010, with proceeds benefiting the children's charity BILD hilft e.V. "Ein Herz für Kinder." In December 2011, we won a televised bet that we could encourage the German public to hand in half a million old cell phones. During the campaign we donated EUR 2 per returned mobile phone to "Ein Herz für Kinder."

Responsibility in the supply chain.

Sustainable procurement strategy. We want to live up to our social and ecological responsibility across the entire value chain. For this reason, we directly and closely involve our suppliers in our sustainability strategy. Global procurement opens up business opportunities for us and our suppliers – but also imposes great responsibility. Sustainable procurement of raw materials in the ICT industry involves major challenges. Many valuable metals are used in making fixed-network and mobile phones, computers, and other ICT products. The majority of these resources originate from emerging and developing markets, and the raw materials are often extracted under problematic conditions. To change this, we request our suppliers to commit to our Statement on Extractives, which requires them to save as many resources as possible and to adhere to the minimum social standards defined therein. In addition, we require all our suppliers to apply our Group-wide Code of Conduct and the guidelines of the social charter it contains consistently within their areas of responsibility. This helps us promote and secure social, environmentally friendly standards and the protection of human rights among our suppliers. We also gradually began to incorporate sustainability criteria in our invitations to tender in the reporting year, the aim being to implement a standardized process and have these criteria firmly embedded in our bidding processes by 2013.

Industry collaboration in supply chain auditing. We deploy a variety of methods to identify risks in our supply chain and take sustainability into consideration already when selecting our suppliers. Anyone looking to enter into a business relationship with Telekom has to undergo a software-based prequalification process. Suppliers in risky industries and suppliers who are significant to our procurement overall, for example due to the scale of the business relationship, are also required to provide detailed information about the social and ecological aspects of their production and management systems. We use the E-TASC information system, an industry-wide solution for the fast, standardized sustainability assessment of suppliers, for this purpose. On-site social audits are also conducted on the suppliers' premises, although we usually commission auditing companies to perform them. We established a joint audit cooperation (JAC) with other companies in our industry in 2009 for this purpose. France Télécom and Telecom Italia were co-initiators and partners from day one; four additional telecommunications companies joined in 2011: Belgacom, KPN, Swisscom, and Vodafone. Together, we audit our suppliers around the world according to uniform criteria and push for the establishment of social, ethical and environmental standards among our suppliers. The processes used for accomplishing this goal are based on the international social and environmental standards SA 8000 and ISO 14001. In the year under review, 15 audits were performed at suppliers and second-tier suppliers within the JAC. We carried out an additional 12 social audits ourselves. This comprehensive, efficient auditing system helps us make our supply chain more transparent, minimize risks, and contribute to our company's positive image.

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Social commitment.

Access to the information and knowledge society. To achieve our goal of helping get society into shape for future developments, we want to enable as many people as possible to take part in the information and knowledge society, regardless of their location, age, level of education or physical disabilities. The non-profit Deutsche Telekom Foundation has been the cornerstone of our commitment to education in Germany since 2003. It works to improve education in the STEM subjects science, technology, engineering, and mathematics. With a trust capital of EUR 150 million, it is one of the largest corporate foundations in Germany. For example, it provides kits designed to help elementary school children learn all about basic physics issues such as air and air pressure. These kits are now in use at around 1,600 elementary schools throughout Germany.

We want to help children and youths better cope with the demands of everyday life and shape their future lives, which is why the "Yes, I can!" initiative ("Ich kann was!" – IKW) was launched in 2009 as an important new element of our commitment to education. By the end of 2011, we had supported over 230 projects with a total of around EUR 2 million, reaching over 50,000 adolescents between the ages of 9 and 14. The initiative places great emphasis on supporting institutions for open youth work that are in or close to deprived areas. Both the educational concept and the practical work of our initiative are closely oriented toward the conceptual approach of the OECD which focuses on the attainment of key skills as part of our goal of helping children take an active part in society. The projects supported range from the attainment of everyday skills, to projects with a media-based or cultural focus, to programs offering new experiences.

During the reporting year, our employees, executives and board members launched the "Ich kann was! – Initiative für Kinder und Jugendliche e.V.," which aims to solicit additional third-party donations and address potential partners. The Germany Foundation awarded the prestigious "Golden Victoria for Integration 2011" to our CEO René Obermann for his exemplary dedication to more diversity and equal opportunity.

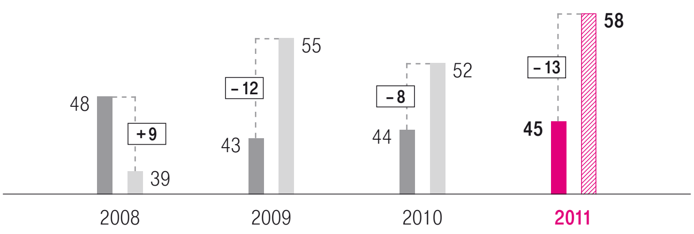
Our commitment needs to be versatile in order to break down the barriers that still cut many people off from the information and knowledge society today. That is why we are also pushing ahead with the nationwide roll-out of our network infrastructure.

Bridging the digital divide. Many people and companies still have no or only insufficient access to modern communications technology. We are therefore systematically promoting the connection of so far unconnected regions to our broadband network under our CR category "For active, equal-opportunity participation in the information and knowledge society." Cosmote Greece equipped 70 schools on the Greek islands with PCs, WLAN routers, multifunctional devices, and webcameras by the end of 2011 as part of its Surfing the World program, giving more than 3,600 school children and their teachers access to fast, wireless broadband Internet.

commitment@telekom. Around the world, we are committed to our social environment. We direct this commitment – with regard to the design, scope and thematic emphases – toward local demands and needs. For example, we have been a partner of "Nummer gegen Kummer," a youth counseling hotline, since 1991, providing technical expertise and funding. In addition, our employees give much support to charitable initiatives and organizations – whether helping staff of the crisis hotline "TelefonSeelsorge," as bone marrow donors, or through individual volunteer work. Entire teams of employees volunteer at social institutions on Social Days. All these activities are consolidated in our commitment@telekom program, which focuses on cooperation with social organizations, corporate volunteering by our employees and corporate giving by Telekom. A pilot project was launched in the summer of 2011 calling upon employees to suggest charitable projects to receive donations. For the project to qualify for a donation of EUR 1,000, our employees had to demonstrate voluntary involvement in it. This initiative was so well received that a follow-up campaign was launched in cooperation with the Deutsche Telekom Foundation in December 2011. The focus of this second project was on employees' voluntary involvement at kindergardens and schools, particularly in the STEM subjects.

We launched a new intranet platform for corporate volunteering in 2011, where employees can find information about various projects to which they can donate their time and effort. They can also suggest projects themselves and seek helpers. Moreover, they can request aid funding from Telekom for the charitable projects they are involved in. The personal commitments are as varied as our employees themselves, ranging from activities to promote a biodiverse countryside and organizing a holiday camp for children with kidney problems through to offering support to immigrants.

CR KPI "Social Commitment."



- Activities: Percentage of respondents who considered Deutsche Telekom to be committed to social issues.
- Importance: Percentage of respondents who considered corporate social commitment to be "important" or "very important."
- CR KPI "Social Commitment": Difference between the assessment of the importance of social commitment and Deutsche Telekom's social commitment activities (expressed in percentage points).

Source: TNS Infratest, exclusive telephone survey of 1,000 persons resident in Germany, October 2011.

Awareness of Deutsche Telekom's CR commitment increased by 1 percentage point in 2011. A survey of the CR community found that awareness of Deutsche Telekom's social activities had increased considerably more. At the same time, the public's assessment of the importance of social commitment jumped from 52 percent to 58 percent. As such, the gap between the assessment of the importance of social commitment and the awareness of Deutsche Telekom's activities in this area increased by 5 percentage points in 2011.

Being an attractive employer.

We believe in efficient HR structures and processes and a multifaceted, lively culture that enables and welcomes new ideas. With the right people in the right place and an excellent product and service portfolio we are strengthening the global competitiveness of our company, its customer focus and its flexibility, allowing us to create and safeguard jobs for the long term. **For more details about this topic, please refer to the section "Employees," page 126 et seq.**

Interaction with our stakeholders.

One of the most important tasks of our CR management is managing interaction with our stakeholder groups. To ensure that such interaction is uniform throughout the Group, we developed a strategic program in 2011 for involving stakeholders that is based on the principles of the internationally recognized AA 1000 (AccountAbility 1000) standard, a globally valid framework for auditing sustainability management and reporting figures. It defines relevant groups of stakeholders and sets out how the Group intends to manage its relationships with them. Auditors PricewaterhouseCoopers (PwC) performed an independent moderate assurance audit that confirmed that processes and systems at Deutsche Telekom governing activities to involve stakeholders comply with the requirements of the AA1000 standard. We maintain a database that assists us in involving our stakeholder groups as effectively as possible. Internal networking meetings provide a platform for exchanging experiences in dealing with stakeholders, discussing practical examples, and planning and implementing joint activities. We are also constantly working on developing our dialog further as part of our strategic program. One of our dialog events with our stakeholder groups is described below.

Sustainable Procurement Stakeholder Dialog Day in China. In cooperation with our suppliers, we brought important non-European members of our value chain together for the first time during the reporting year. Our Sustainable Procurement Stakeholder Dialog Day in the southern Chinese city of Shenzhen reflected the crucial rule of the Chinese market in our global value-added chain. In November 2011, Telekom experts and Chinese suppliers met with government representatives, NGOs and scientific institutes to debate the question of how to work better together to comply with established environmental and social standards. This gave us the ideal opportunity to demonstrate the significance of CR for the success of our company and the resulting requirements for our suppliers, and offer assistance in better meeting these requirements. By working together, companies and their suppliers can resolve problems identified in the global supply chain such as working hours, occupational health and safety, and fair pay, as well challenges such as the conservation of natural resources and climate change. The observation of ecological and social standards in the global supply chain is a fundamental aspect of our CR risk management. That involves creating transparency throughout the entire supply chain, something that still needs improvement. We will demand greater cooperation from our suppliers in this respect in the future.

Sustainability ratings and awards.

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

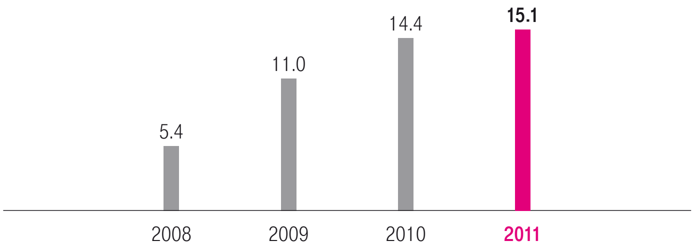
Rating agency	Indexes/ratings/ranking	Successfully listed in index			
		2011	2010	2009	2008
SAM	DJSI World	✓	✓	✓	✓
	DJSI Europe	✓	✓	✓	✓
Oekom	“Prime”	✓	✓	✓	✓
VIGEO	ASPI	✓	✓	✓	✓
	ESI	✓	✓	✓	✓
imug/EIRIS	FTSE4Good	✓	✓	✓	✓
Sarasin	DAX Global Sarasin Sustainability	✓	✓	✓	✓
CDP	Carbon Disclosure Leadership	✗	✗	✗	✗
	Carbon Performance Leadership (new since 2010)	✗	✓	n.a.	n.a.
MSCI *	MSCI Global Climate	✓	✓	✓	✓
	MSCI World ESG	✗	✗	✗	✗
Newsweek Green Rankings Global 100	Rank Germany #6, Global #80, Technology #12	✓	✓	n.a.	n.a.
Sustainalytics	STOXX Global ESG Leaders (new since 2011)	✓	n.a.	n.a.	n.a.

✓ Successfully listed.
✗ Not listed.
* Previously RiskMetrics/KLD.

Socially responsible investment. As an international corporation, we aim to boost our enterprise value in the long term. Our CR strategy helps us to better deal with risks in the area of sustainability. Our goal is to consistently increase the proportion of shares held by ethically oriented investors. We measure our performance in this area with the sustainable investment CR KPI (SRI).

Rating and ranking results. Analysts once again showed increased interest in environmental and social KPIs, as demonstrated by the rising number of sustainability-oriented rating and ranking agencies as well as the growing demands placed on companies. Our KPI remained at a stable level despite the growing demands placed on them. We were included again in various sustainable stock indices such as the Dow Jones Sustainability Index and the FTSE4Good. In another success of our sustainability work, we were added to the new STOXX ESG sustainability index. The STOXX Global ESG Leaders family of indices processes KPIs of 1,800 European stock corporations and rates them according to ESG (environment, social and governance) criteria.

CR KPI “Sustainable Investment (SRI).” (%)



Share of Deutsche Telekom AG stock that is owned by investors who incorporate environmental, social and governance criteria in their investment strategies (source of data since 2009: Ipreo; data in 2008: Sustainable Business Institute). Year-on-year comparisons may not be entirely accurate since the calculation base is updated annually.

In 2011, 13 percent of Deutsche Telekom’s shares were held by investors who take SRI/ESG criteria into account at least partially in their investment decisions. 2 percent of T-Shares are held by investors who give priority to SRI/ESG aspects when managing their funds.

Innovation and product development.

// Connected life and work drives innovation //

Innovation as a growth engine.

Innovative products and services that respond directly to consumers' needs or even create new needs are immensely important. They set us apart from our competitors, retain existing customer groups, and open up new ones. Innovation and product development therefore play an important role for the long-term success of our Group. We invest in technological innovations so as to be in a position to meet the needs of our customers. The leitmotif for our innovation process is our vision of connected life and work. We want to make this vision a reality.

Focus on digital growth markets.

We firmly believe in the revenue potential of our strategic growth areas, i.e., mobile Internet, connected home, Internet services and intelligent network solutions for industries such as energy, healthcare, media, and automotive, as well as activities that are mainly managed by T-Systems, such as cloud computing. By reorganizing its Product and Innovation division in the autumn of 2011, Deutsche Telekom prepared the ground for more growth in the digital markets. The Group is thus underlining its strategic aim to open up new fields of revenue outside its core business. Our Products & Innovation unit covers six business areas that develop products and services for consumers and business customers: communication services, media/entertainment, cloud services, advertising, e-commerce, and payment services.

The unit's responsibilities include Group-wide research & development, innovation management and marketing, product development and management, and management of our product portfolio. Our aim is to develop innovative and competitive products, services and business models. Products & Innovation is home to the Scout24 group, DeTeMedien, the Internet service provider STRATO, and Telekom Innovation Laboratories.

Partnerships are paying off.

Innovation is the result of interaction between many different ideas. Besides its in-house R&D units, external partners are becoming increasingly important to Deutsche Telekom. This cooperation is useful to both parties – and especially to customers who benefit from innovative products. Deutsche Telekom consistently relies on open innovation processes in which external partners are closely involved. This "enabling" approach is a crucial part of our corporate strategy. For instance, we maintain simple programming interfaces through which our partners have direct access to core services on Deutsche Telekom's systems and platforms. We also cooperate with young firms that are brimming with ideas that complement the Group's portfolio perfectly. One example is VideoMeet, a cloud-based video conferencing service that runs on a Blue Jeans Network platform. Working together with other large corporations on the basis of partnership agreements is equally important to Deutsche Telekom. Because technological progress is so rapid nowadays, it is usually more efficient to collaborate on innovations rather than bring competing products to the market.

Everything starts with an idea.

Clear processes provide for targeted innovation and product developments. For this reason, we bring together our Group-wide research and innovation activities at **Telekom Innovation Laboratories** (T-Labs). T-Labs works closely with Deutsche Telekom's operating units to deliver new ideas and support when it comes to developing and rolling out innovative products, services and infrastructures in our growth areas. With sites in Berlin, Darmstadt, Bonn, Tel Aviv (Israel), and Silicon Valley in the United States, T-Labs' focus is on medium-term projects and on technologies that produce USPs and new business for Deutsche Telekom. Around 360 experts, researchers in a variety of disciplines from more than 25 countries, and young entrepreneurs work here side by side.

Since 2005 the main T-Labs site in Berlin has worked with a private research institute affiliated with Berlin Technical University (TU Berlin). Together they form one of the largest and best-known public-private partnerships in Europe. Deutsche Telekom has set up six professorships under its partnership with TU Berlin and in cooperation with Berlin University of the Arts. The cooperation with Berlin-based higher education institutions as well as several other universities, institutes, industry partners, and start-ups around the world ensures close links between the research community and the private sector. This is how we strengthen our innovative power with external expertise, too. Additionally, we participate in national and international forums and committees to help shape future products and services.

The results-driven research and innovation of our T-Labs plays an important role for the future of our Group. After all, its activities are aligned with our Fix – Transform – Innovate Group strategy and the Company's strategic targets and directly contribute to our principal growth areas through targeted projects. Examples of these are:

- One Internal Cloud: consolidation of Deutsche Telekom's IT production infrastructure
- Secure Microkernel: a safe operating system for mobile devices such as smartphones
- Load Adaptive Networks: creating greater efficiency in home and customer networks and in the access network
- Connected Home platform: a control hub for connected homes
- Revvl: an innovative software client for voice telephony for Internet users worldwide

More information on our growth areas can be found in this report, page 68.

The results of the T-Labs' research and innovation activities are already being used to develop and prepare the ground for a large number of Deutsche Telekom's existing and future products and services. They include solutions for payment with mobile devices (the mobile wallet), new features for our IPTV service Entertain, and processes that more effectively utilize fiber-optic cables and radio bands.

The T-Labs' achievements also help to enable start-ups such as Zimory (www.zimory.com), wahwah.fm (www.wahwah.fm) and QiSec, all of which are major innovation drivers. The city offers an excellent infrastructure – not only is Berlin home to the main T-Labs site, it is also the preferred location for start-ups all over Europe. The T-Labs network extends as far as the United States and Israel, ensuring that the start-up scene outside of Europe is also in the scope. Thanks to this structure, entrepreneurial initiatives and ideas with potential for growth that fall outside defined product planning also receive support.

Product design.

We continually monitor the very latest trends and developments, highlighting all the opportunities that will shape the digital world of tomorrow. In this respect, identifying developments in society, technology and future customer needs, evaluating markets, and taking into account lifestyle and trends are vital. We choose colors, materials and surfaces with the utmost care – after all, we aim to provide customers with an outstanding experience and make products as user-friendly as possible.

Bringing ideas to life.

T-Gallery. T-Gallery, our future forum in Bonn, showcases what we are developing. Visitors can experience the prototypes for products and services of the future as well as global developments relating to connected life and work. We demonstrate how we will always be there for people in future, at home, on the move, and at work.

T-City. T-City has been our joint future lab with the city of Friedrichshafen since February 2007. Together we are committed to turning the world of tomorrow into a tangible experience today – on the basis of some 40 future-oriented projects with a focus on energy, healthcare, and transport. To this end, we will continue to work closely together with Friedrichshafen over the next three years.

Patents and awards.

Patents. As markets converge, the patent market is becoming more dynamic. Market players and their areas of activity are changing, with a knock-on effect on Deutsche Telekom's IPR agenda. On the one hand, the scope for action of the Group's business areas must be maintained. On the other, mechanisms need to be put in place to enable open innovation through cooperation and partnerships. Value-driven IPR also facilitates the creation of spin-offs.

National and international intellectual property rights are vital for these types of activity. We are dedicated to generating our own IP rights in the context of our research and development activities and in product and technology development. In the reporting year we filed 244 patent applications, taking the total number of IP rights held by the Group to 7,500 (2010: 7,434).

Thanks to our intense efforts to develop and structure our IPR portfolio, the rights we hold are highly valuable and firmly in line with the Group's strategic objectives. All legal concerns in this area are managed by professionals specializing in patent law, as is all standardization-related interaction with other market players – an approach that delivers even greater stability to Deutsche Telekom's IPR assets. We manage our IP rights based on cost/benefit aspects, filing only selected applications subject to a strict schedule.

Awards. The success of our innovation work can also be seen in the numerous awards conferred on our Company, our products and our employees. For example, in 2011 T-Labs' Professor Anja Feldmann, Ph.D. was awarded the Gottfried-Wilhelm-Leibniz Prize – Germany's most highly endowed research award – for her research on new ways to adapt the Internet to the needs of the future. The results of our research help make the Web faster and more secure. The Johann-Philipp-Reis Prize was also awarded to a T-Labs professor – for the second year in a row. The 2011 CELTIC Gold Award was presented to the European research project 100GET (100 Gbit/s Carrier-Grade Ethernet Transport Technologies) for its exceptional results.

Innovative products and the continued development of existing products benefit our growth areas.

In 2011 the Group's strategic growth areas sharpened the profile of a large number of existing innovations and turned them into marketable products:

Mobile Internet.

Go online anytime using your smartphone, download and edit data or communicate with friends on social network sites – the requirements placed on networks and devices are becoming increasingly more demanding. By expanding and converting its infrastructure and cooperating with manufacturers of innovative devices, Deutsche Telekom is making its contribution towards making life and work involving mobile Internet even simpler.

Various key technologies are used to achieve this. For instance, the Group is expanding its existing UMTS capacity, increasing the system's speed, and supplementing it with ultrafast LTE and WLAN access. Deutsche Telekom is working to ensure that customers across all of Germany will soon be able to use HSPA plus offering data rates of up to 42 Mbits/s. In addition, the Group has developed new apps, including a HotSpot Finder, for the most common smartphone platforms that make it significantly easier to access Telekom hotspots. There are currently 45,000 of these hotspots all over the world that allow wireless Internet access using a notebook, smartphone or tablet PC.

Expanding the Company's infrastructure is just a starting point. Collaboration with manufacturers of innovative devices is also becoming increasingly important. For instance, Telekom marketed Apple's iPhone jointly and exclusively with the manufacturer and distributes the first LTE tablet PC in the world in close cooperation with Samsung. With the launch of its first data roaming app, Telekom is also ensuring that its customers are able to use innovative Internet-based services internationally at fair prices.

Travel & Surf. Travel & Surf is our first EU-based data roaming flat rate for smartphones, tablets and laptops. The core feature of this product is cost control, so fear of hidden costs is now a thing of the past. When entering their country of destination, customers are informed immediately by SMS and prompted to make a booking. They can then purchase the Travel & Surf pass directly by text message or by clicking on a link on their browser.

Smartphone Sync. This service, launched by Telekom in March 2011, synchronizes e-mails, contacts and appointments between mobile devices and the E-Mail Center. Data is synchronized automatically and wirelessly via the Internet. The free service acts as a back-up for our customers' data and makes it easier to set up new smartphones and tablet PCs.

Connected home.

Our Connected Home offering brings together existing double- and triple-play packages – our fixed-line voice, data and TV products – and innovative services such as Deutsche Telekom's Home Management platform. By adding Entertain to the triple-play package Deutsche Telekom has revolutionized the TV experience. Customers receive their TV programs in outstanding quality via the Internet or by satellite and benefit from a large number of easy-to-use features and an interface to the TelekomCloud.

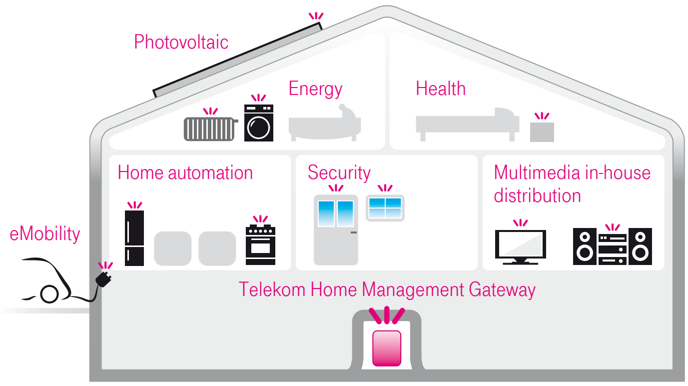
Entertain via Sat. Our TV services have also been available via satellite since September 1, 2011, with TV and radio signals being sent as digital satellite signals. They offer a range of interactive features, including the online video store, the electronic program guide, and the program manager that enables our customers to program their hard disk recorders via the Internet. Thanks to Entertain via Sat, our TV services are available to around 75 percent of all households in Germany.

Entertain recommendations. Entertain customers have been receiving personalized recommendations since March 2011. These recommendations guide the user through the vast array of movies and programs. The recommendation functions are clearly laid out and intuitive, offering users an unrivaled service in the German TV market: The user can rate movies via the Entertain menu, thus allowing Entertain to get to know the user's own tastes in film. The Entertain customer receives personalized TV tips under "My Program" based on these ratings as well as the personal wish list and any searches made.

HomeTalk. With HomeTalk customers can use their smartphones at home thanks to Deutsche Telekom's new IP-based telephone line. If their smartphones are connected to their home WLAN network, customers can use them to respond to calls to their fixed-network numbers at home and call out using the fixed-network number. Calls are billed at fixed-network rates. The HomeTalk app is available free of charge to all customers with a Call & Surf IP or Entertain IP package. The service is yet another milestone on the way to full fixed-network/mobile convergence.

Connected Home. Our vendor-independent platform for the smart home enables us to offer leading companies from the energy, consumer electronics, and household appliance sectors a secure, flexible infrastructure that supports residential customer solutions for home networking. The aim is to create a cross-industry service that will cover not only energy, but also topics such as security, healthcare and other aspects of daily life. Easy-to-use, flexible applications control, automate and monitor – on a vendor-independent basis – heating and electrical appliances in the home and garden. The core component of the system is a Home Management Gateway that links the various components in the home with each other and to the Internet via any broadband connection. Coupled with a smartphone or tablet PC, this gateway is then the control center for the home. We are driving forward national and international standards for home networking together with E.ON, EnBW, Miele, Samsung, eQ3, and other partners.

Connected Home – Smart Connect.



Internet services.

PagePlace. Convenient reading of digital books, magazines, and newspapers on tablets, smartphones, and computers has been available to a broad user group since June 2011. PagePlace is Deutsche Telekom's independent online store for digital newspapers, magazines and books. It is intended to complement traditional media usage. PagePlace currently offers more than 66,000 e-books, 620 e-magazines, and 60 e-newspapers from more than 930 publishers. It is the central publisher-independent starting point for mobile users who wish to acquire and read digital content anytime, anywhere. All content that customers have purchased via www.pageplace.de appears on their personal bookshelf so they can take their growing online library with them wherever they go.

Interactive advertising with Entertain. With Entertain, Deutsche Telekom is taking matters to a new level in advertising, too. Viewers of the Bundesliga channel LIGA total! can now decide for themselves if and when they want to know more about the advertised products. Via remote control, Entertain customers can call up product descriptions and videoclips and also take part in a prize draw. This interactive advertising service is made possible thanks to Entertain's TV back channel that allows customers to interact with the program. In 2011 Deutsche Telekom received the respected IPTV Industry Award in the Best TV App category for its interactive advertising concept.

Scout24. The AutoScout24 portal is opening up new sales opportunities for auto repair shops. For a charge, they can advertise their services to thousands of potential new customers and customer segments. For consumers, this innovation creates unprecedented transparency when it comes to auto repair services.

Vertical portals. With www.zuhause.de, www.wanted.de and www.feelgreen.de Deutsche Telekom has launched a series of themed Internet portals. They have an extensive reach thanks to the integration with Germany's largest online portal www.t-online.de – a setup that reflects the trend towards increasing verticalization. These new platforms are highly valuable to advertising companies for whom Deutsche Telekom's subsidiary InteractiveMedia develops tailor-made advertising concepts.

Cloud Services.

TelekomCloud. Bandwidth, storage capacity, computing power, and applications – we offer cloud services to meet the requirements of all customer segments. Residential customers, small and medium-sized enterprises, and even multinational corporations benefit from the services offered from the TelekomCloud. Customers can save their photos, e-mails and videos in Deutsche Telekom's virtual Media Center and access the data over the public Internet at anytime using a smartphone app, on their PC or TV set. 25 gigabytes of online storage is available free of charge. Music purchased in the Music Shop is also directly added to the music collection in the Media Center in the cloud, providing access to all of the tracks no matter where you are.

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

VideoMeet. VideoMeet is the first video conferencing solution ever to close the gap between proprietary applications such as Cisco/Tandberg, Polycom, and Lifesize on the one hand and mass-market solutions such as Skype and Google Video Chat on the other. With this service, companies of any size can easily organize video conferences with several participants connected with devices ranging from smartphones and tablet PCs to complex HD room systems. Work-related video conferences can now be followed from anywhere, with participants logging in whenever necessary, from whatever location they are in. As the system is completely interoperable with other conferencing systems, video meetings with business partners using other technologies are no longer a problem.

Intelligent network solutions.

Tapping future markets with "intelligent networks." In order to serve our growth area "intelligent network solutions" (see page 68) with innovative solutions, we have defined the following new business areas.

Connected car. Deutsche Telekom combines car and Internet. The car is increasingly becoming part of connected life and work. With our information and communication technologies, we are helping to make driving more efficient, safe and convenient. By networking their vehicles, automotive manufacturers gain direct access to their customers and can offer and manage their services online throughout the useful life.

Below we present several of our projects from the connected car segment:

- Together with the automotive manufacturer BMW, we provide the telematics service ConnectedDrive which offers more extensive traffic information in all classes of BMW vehicles, automated emergency calls, Google services, and a maintenance system that informs the driver about necessary visits to the repair shop.
- Together with commercial vehicle manufacturer MAN, we have developed a telematics application which automatically transfers vehicle data to the control center and repair shops. Our TelematicOne product gives logistics companies a central control unit for all their logistics activities. Functions include a digital driver's logbook and fleet and maintenance management systems.
- Telecommunications also play an important role for new urban mobility concepts. We deliver special SIM cards for the vehicles of car2go, a car sharing company. The rental cars are constantly online and automatically exchange M2M data with the fleet operator's IT system via the mobile communications network. The close interaction of ICT and GPS tracking is a key element of the flexible rental car concept.
- We gave the green light for the roll-out of LTE (1.8 GHz) mobile communications systems in around 100 towns and cities in the reporting year. This brings us another step closer to launching the new technology for users. Only a few months after 100 antenna sites came online in the pilot city of Cologne, car manufacturer Audi successfully tested the in-car use of LTE in the city.

Healthcare. Deutsche Telekom is networking healthcare. In healthcare we are active in a number of fields: For example, we have developed a telemedical workstation that enables doctors from Brandenburg and Cottbus to care for up to 500 high-risk cardiac patients remotely. In our T-City Friedrichshafen, to support living independently in old age, we are trialling special tablet PCs on which customers can order medicines, meals on wheels, or janitorial services with just a few taps on the screen. We are enjoying success in the private healthcare market together with our partner Medisana, where in 2011we began to sell smartphone-based measuring devices for blood glucose, temperature, weight, pulse, and blood pressure in our Telekom Shops. We are currently also working on a secure server connection, which in the future will enable customers to give doctors or family members access to the data gathered. In the hospital sector, we are working with partners on tablet PCs that provide doctors at a patient's bedside with secure, mobile access to all the relevant information about the patient.

Energy. Creating the energy revolution with new networks. The government's decision to phase out nuclear power changes the framework for energy production. Smart information and communication technology is a core component of the energy revolution. Energy providers and households are generating more and more energy from wind, solar and hydroelectric power. However, these local sources of energy do not provide as constant a source of power as power stations; power suppliers are as yet unable to manage the fluctuations in the electricity grids. We are currently working on a solution for intelligent electricity grids, so-called smart grids, that reconcile fluctuating production with consumption. A solution is available for efficient energy use in the form of smart electricity meters, which create the necessary transparency by providing readings of power consumption in 15-minute intervals. Our Smart Metering & Home Management is a modular data communications solution designed to fulfill the requirements of all stakeholders: homeowners, the housing sector, meter operators, utilities, sales companies, and distribution network operators.

Expenditure and investment in research and development.

Research and development expenditure in the narrower sense relates to pre-production research and development, such as the search for alternative products, processes, systems, and services. By contrast, we do not class as research and development expenditure the costs of developing system and user software with the aim of increasing productivity. In 2011, research and development expenditure in the Deutsche Telekom Group amounted to EUR 121 million, which is less than in the previous year. As the parent company, Deutsche Telekom AG bears part of the Group's research and development expenditure. At EUR 48 million, its expenditure is again lower than in the previous year (down EUR 17 million).

Deutsche Telekom's investments in internally generated intangible assets to be capitalized increased by EUR 39.8 billion compared with the previous year. These investments predominantly relate to internally developed software, mainly for our Germany operating segment. As in the previous year, over 2,200 employees were involved in projects and activities to create new products and market them efficiently to customers in the reporting year. The majority of employees working for T-Labs, the unit responsible for results-oriented research and innovation, are researchers from a wide variety of disciplines.

Expenditure and investment in research and development.

	2011 millions of €	2010 millions of €	2009 millions of €	2008 millions of €	2007 millions of €
Research and development expenditure	121.4	145.6	205.5	172.4	235.7
Investments in internally generated intangible assets to be capitalized	122.4	162.2	232.5	413.6	345.7

Employees.

For more detailed reporting on all HR-related issues please refer to the 2011/2012 HR Report. Information regarding corporate social responsibility can be found in the 2011 CR Report. www.telekom.com/hr-report and www.cr-report.telekom.com.*

// Bologna@Telekom // Diversity management // The human success factor //

Partner for business: Links between HR strategy and Group strategy.

Fix – Transform – Innovate: We continue to consistently implement the Group strategy we unveiled in March 2010. The close links between Group and HR strategy enable us to manage the transformation of our Group into an efficient service company and creative driver of innovation. To promote market- and future-oriented restructuring, we have further developed the cornerstones of our "HR – Your Partner in Business" mission and our Big 4 strategy program.

The 2011 Annual Report provides an overview of the key HR topics.

Big 4: Key strategic focuses for HR.

Our HR unit drives forward the customer- and business-oriented transformation of Deutsche Telekom in tune with our Group strategy. To this end, we have reinforced the four strategic cornerstones of our HR mission (HR – Your Partner in Business) and further developed the Big 4 strategic program on which these four cornerstones rest:

- Big I: for the cornerstone "Add Value" with a competitive workforce
- Big II: for the cornerstone "Enable Transformation" with a service culture
- Big III: for the cornerstone "Best People" with the talent agenda
- Big IV: for the cornerstone "HR Excellence" with HR@2012

Big I – "Add Value" with a competitive workforce. Changing customer needs and markets, demographic change and technological innovations: The engines that drive forward the changes in our Group are running at full speed. Total Workforce Management gives us a tool for effective, global and, above all, future-oriented HR planning to manage this change in line with our goals. Our skill management is also based on this planning, which enables us to manage business-oriented retraining and further training for our employees and executives. We are significantly boosting the productivity of our workforce by focusing the quality, scope and structure of our workforce on future business requirements and the associated restructuring and mix of staff skills, thus creating and safeguarding highly productive and highly qualified jobs with long-term prospects as well as sustainable growth for our Company.

Big II –"Enable Transformation" with a service culture. Four factors help us promote the growing service culture. Firstly, the continuing international uptake of our shared corporate values; secondly, the reinforcement of our executives as service role models through intensive coaching in our in-house Service Academy, and thirdly, the service-oriented realignment of our Group structures. The fourth critical success factor for good service culture is establishing a creative, open innovation culture. This is the only way we can efficiently and extensively utilize our staff's expertise and potential, and offer our customers top services and exhilarating products from a single source. The technological possibilities of Web 2.0 enable us to give the individual greater freedom and autonomy, while also facilitating new forms of Group-wide cooperation.

Big III – "Best People" with our talent agenda. By becoming a more attractive employer – thanks to the qualities of our corporate culture, attractive working conditions and our forward-looking career and development opportunities – we are increasingly managing to secure new talent in a highly competitive global market. We already lead the field in Germany when it comes to investing in training with our wide-ranging "Bologna@Telekom" training initiative, making us the top company for systematic vocational and further training. We have also been improving our attractiveness as an employer since spring 2010 by substantially and continually increasing the proportion of women in management and expert posts within our Group. That is also a clear competitive advantage. Companies with a diverse employee structure respond much more successfully to demographic movements and challenging business developments. We therefore apply our program to implement the women's quota along the entire talent pipeline. We also continue to build on "work-life@telekom," our work-life balance program for women and men alike.

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

Big IV – "HR Excellence" with HR@2012. We are promoting the customer-, business- and service-oriented alignment of our HR unit through HR Excellence in order to ensure high-quality, reliable HR work as a partner for business. We are also expanding development within the HR department itself as part of this process. The goal is to create a professional HR product portfolio which makes an efficient contribution to the business and delivers an outstanding experience for customers of HR. We are also standardizing our IT infrastructures and selected key HR products globally; we expect this to generate positive synergies both in terms of efficiency and quality.

Our HR strategy.
Interaction between HR mission, HR Big 4 and Guiding Principles.

Bologna@Telekom as the gateway to a degree while working.

Meet in-house demand for experts – Provide training opportunities. Today's world of training and work demands and facilitates more flexible training profiles, greater international mobility and a much larger range of academic, vocational and further training for employees of all ages. Lifelong learning is not simply a virtue - it's a necessity. The Bologna university reform is intended to promote this new diversity of training and career paths. Since the 2009 winter semester, our Bologna@Telekom initiative has been helping high-performing employees study for bachelor's and master's degrees in business and economics, business information systems, information and communication technology, and digital pioneering by providing them with both the time and funding to do so. All of these are fields where we see the greatest need for skilled workers, now and in the medium term.

Bologna 40+: Greater access for all ages. The Group is currently sponsoring 433 employees in their studies. Sigrid Mildenberger, expert for HR Development at Telekom Training GmbH, is one of them: "When I found out about the availability of a Bologna grant, I realized straight away it was time for me to start studying – at the age of 43." Sigrid Mildenberger had already demonstrated that you can be successful at Deutsche Telekom without a degree, but still wanted to learn more and progress further. "I'm definitely already in a good position, but I don't think you should sit back after 40 and just look back on what you've achieved. I have at least another 20 years of working life ahead of me." Sigrid Mildenberger is now in her third semester of a business administration degree. Her course has also awoken ambition in her. "My goal is to be appointed to a management position in HR Development. The Group offers a whole range of opportunities and prospects – I intend to take full advantage of them."

Spoilt for choice. Every year we award some 200 Bologna grants to selected employees who would like to study at one of the nine Deutsche Telekom partner universities while continuing to work for the Company. They receive 50 percent of the fees and are released from work for ten days per academic year. The initiative will enter its final stage in 2012, with 600 employees sponsored each year. The program is based on two important underlying principles. The Group provides training opportunities on the one hand while meeting its requirements for specialist staff on the other. The students can choose between 14 bachelor's and 14 master's degrees in four available disciplines, each of which is tailored to the employees' needs in terms of content, methodology and time. "I've learned a great deal studying at the Hochschule für Oekonomie und Management (FOM), and I've often seen direct correlations with my day-to-day work. I have developed a whole new understanding of the issues I deal with on a daily basis," says Sigrid Mildenberger.

Sponsoring academic studies has also been successful internationally. Local and specific agreements between employees and companies are also in place in our international subsidiaries, govern the sponsorship of academic study and help staff gain university degrees. The agreements cover independent training providers as well as private and state universities. Slovak Telekom, for instance, sponsors its employees on postgraduate and doctoral courses in cooperation with the Technical University of Bratislava. The company provides these employees with additional time off (one day a month) so they can successfully combine the additional demands of university studies with their job. PhD students also teach younger students and conduct expert seminars, thus ensuring the transfer of knowledge and experience to the next generation.

Award-winning. In 2011, Bologna@Telekom received the "Initiative Award for Vocational and Further Training" for excellent training initiatives from the Otto Wolff Foundation and the Association of German Chambers of Industry and Commerce (DIHK). The judges stated that Bologna@Telekom made an outstanding contribution to the development of specialist staff. It was not just the scale of our co-investment in academic study that impressed the judges; they also singled out criteria such as "Innovation" and "Transferability for other companies" as particularly important. These criteria were met, for instance, because Bologna@Telekom promotes access to and flexibility within the university system. All university courses are open to employees with vocational qualifications but without high-school diplomas. As such, Bologna@Telekom offers individuals, especially those completing sandwich courses, the opportunity to study further, thus opening up new opportunities. "Studying alongside my job is hard work, but it's a great opportunity for my professional development," is how Sigrid Mildenberger sums up her experience so far.

Diversity management.

For a diverse, flexible corporate culture. Our Group brings together numerous cultures, attitudes and talents from around the world. The aim is to promote and utilize this diversity as a source of creativity and innovation. "For us diversity is a decisive factor in the transformation of our corporate culture – from a monoculture to an open enterprise," says Mechthilde Maier, Head of Group Diversity Management at Deutsche Telekom. We were the first DAX 30 company to introduce a women's quota for management positions in 2010. By the end of 2015, at least 30 percent of upper and middle management posts worldwide are to be filled by women. We apply our program to implement the women's quota along the entire talent pipeline: from hiring computer scientists, through a quota system for executive development programs and selection assessments, to appointments to Group-internal supervisory committees.

We also continue to expand "work-life@telekom," our work-life balance program. In 2010 we introduced appointed diversity consultants in Germany in order to firmly integrate flexible working models within the Company. "We provide employees and executives with support and advice where tailor-made solutions have to be developed to meet the need for flexible working practices," says Sabine Heise, one of the diversity consultants. "Work-life balance also provides us with a lever for the women's quota," adds Mechthilde Maier "After all, getting more women into management positions also entails creating working environments where private life, family and career can be reconciled." We are also developing in-company crèche facilities to make it easier for women to reconcile these demands while pursuing a career. Our facilities will have been increased by at least 180 places by May 2012, bringing the total to 559.

Proportion of women among junior staff and in senior management increased. Recent figures indicate that the introduction of the women's quota has pushed up percentages. The proportion of women in executive positions across the Group increased from 19 percent in February 2010 to 23.3 percent in September 2011. Our Board of Management is becoming more feminine, too. From 2012 onwards there will be seven positions on the Board (previously eight), two of which will be occupied by women from May 3, 2012. The number of women in the Business Leader Team, the international management team below the Group Board of Management, increased from two in February 2010 to seven in September 2011. "We are specifically feeding our talent pipeline from the lower ranks. We have increased the proportion of women in newly hired top-level junior staff from 33 percent in February 2010 to 56 percent in September 2011. The percentage of women in executive development programs also increased from 18.8 percent in February 2010 to 31.5 percent in September 2011," says Mechthilde Maier.

Corporate restructuring successful throughout the Group. Much has been achieved in the field of work-life balance, too, explains Sabine Heise. "Executives are becoming role models in the transformation of our corporate culture. While there were just 16 executives in Germany working part-time up to 2010, there are now 29. Another 80 or so have already expressed interest, of which two thirds are men." We have already progressed a lot further at our subsidiary T-Mobile Netherlands, where 25 percent of management now work part-time. The question of whether it's possible to work part-time and have a career has long since been answered with a resounding "yes." These days, working from home and on the move is an integral part of the corporate culture.

The human success factor.

Our corporate health management. The Health & Safety Management unit brings together a multidisciplinary team of various experts providing comprehensive corporate health management services. Promoting the health of our employees and contributing to their well-being within the working environment enhances our staff's quality of life. This is a key element in retaining capable, motivated staff within the Company. Preventive healthcare is therefore not only in the individual's own interest, but of course also in the Company's interest, too. "Preventive and remedial care for our staff are cornerstones of our corporate culture. Comprehensive health promotion is not only a basic principle of sustainable HR management but also the mainstay of the Company's intrinsic value," stresses our chief medic Dr. Anne-Katrin Krempien.

Pioneer in German business. "Few companies provide the level of preventive corporate healthcare that we do." Where back pain used to be the focus of preventive care in German business, today that focus has shifted to psychological problems, including burnout that is widespread in modern society. "For years, we have had 50 psychology experts trained in systemic therapy who provide our employees throughout Germany with support to help them deal with work-related and personal issues. Working together with international providers of the Employee Assistance Program (EAP) ensures that employees at many international subsidiaries also have access to advice and help," says Dr. Krempien. Regular global employee surveys on the issue of health also act as an early-warning system. The effort is well worth it. "The results of the last survey provided the basis for numerous sustainable, integrated follow-up measures and developments throughout the Group over the next few years." Our commitment in this area constitutes an unrivalled USP not just vis-à-vis our competitors, but also in the German and international business communities," explains the chief medic.

Why is this issue given such prominence? "Deutsche Telekom faces multiple challenges," says Dr. Krempien. "Demographic shift inevitably increases the competition for talent. Our professional health management helps ensure that applicants and employees perceive our company as an attractive employer. Studies have shown that corporate healthcare has a strong influence on competition for highly qualified staff." What is more, the aging of the workforce is putting more of a focus on the increase in absence and the costs of sick leave. As Dr. Krempien explains, "Around 75 percent of absenteeism caused by chronic illness can be averted with preventive healthcare. Studies show that in-company measures can prevent 30 to 40 percent of absences from work."

Scientific support & numerous accolades. "Instead of spreading our budget around, we focus on target group-specific effects," adds Dr. Krempien. Comprehensive preventive medical checkups during working hours as well as numerous seminars on health & safety issues, especially for executives, help promote a healthier working environment. Employees should be encouraged to assume long-term responsibility for their health in order to improve their employability and their own quality of life. Our health management receives independent scientific support from the University of Dresden. "The 2010 Corporate Health Award and several certifications in 2011 tell us we are on the right track. On average Deutsche Telekom employees are slightly healthier than employees at other companies," says Dr. Krempien.

Dr. Krempien has a few figures that attest to the value of our commitment to healthcare and the positive response of employees to this initiative. "In 2011 10,036 employees were vaccinated against flu. 10,891 employees took the opportunity to have a bowel cancer checkup. In over 200 cases, early detection probably prevented the cancer from developing." In Germany, employees have access to some 80 company physicians as well as 120 health and safety specialists, in addition to the aforementioned 50 employee and executive consultants.

Group-wide standards & international roll-out. "At the international level, a Health & Safety and Environment Management System ensures uniform minimum standards for health and safety are observed throughout the Group. Key performance indicators ensure transparency and comparability," says Dr. Krempien of future plans. The roll-out had already been completed at 16 Group companies by the end of 2011, some of which were also certified externally. Implementation at another 14 companies is slated for 2012, with all our international affiliates due to be included by the end of 2013. "Only with capable and motivated staff will we succeed in implementing the necessary transformation in a society that demands performance and expertise," is how Dr. Krempien sums up the situation. "We are excellently prepared to meet this challenge – both domestically and internationally."

Employee statistics.

Headcount development.

Employees in the Group		Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Total		**235,132**	**246,777**	**259,920**	**227,747**	**241,426**
Of which: Deutsche Telekom AG [a]		33,335	35,855	49,122	44,645	51,863
Germany operating segment		75,058	76,478	81,336	85,637	91,337
Europe operating segment		58,010	63,338	71,163	39,140	40,534
United States operating segment		32,868	37,760	40,697	38,031	33,750
Systems Solutions operating segment		48,163	47,707	46,021	45,862	49,835
Group Headquarters & Shared Services		21,033	21,494	20,703	19,077	25,970
Breakdown by geographic area						
Germany		121,564	123,174	127,487	131,713	148,938
International		113,568	123,603	132,433	96,034	92,488
Of which: other EU Member States		64,257	68,941	76,196	45,115	45,709
Of which: rest of Europe		9,736	9,991	10,061	7,908	8,179
Of which: North America		33,511	38,467	41,235	38,621	34,297
Of which: rest of world		6,064	6,204	4,941	4,390	4,303
Productivity trend [b]						
Net revenue per employee	thousands of €	244	247	251	263	257

[a] On account of the spin-off of the fixed-network business in 2010, the figures are not comparable with the amounts for the previous year.
[b] Average number of employees.

Personnel costs.

		2011 billions of €	2010 billions of €	2009 billions of €	2008 billions of €	2007 billions of €
Personnel costs in the Group		14.7	15.1	14.3	14.1	15.4
Special factors [a]		1.1	1.0	0.5	1.1	2.0
Personnel costs in the Group adjusted for special factors		13.6	14.1	13.8	13.0	13.4
Net revenue		58.7	62.4	64.6	61.7	62.5
Adjusted personnel cost ratio	%	**23.1**	**22.5**	**21.4**	**21.1**	**21.5**
Personnel costs at Deutsche Telekom AG under German GAAP [b]		**3.4**	**3.4**	**4.0**	**3.9**	**6.3**

[a] Expenses for staff-related measures (for detailed information, please refer to the section “Development of business in the Group,” page 76 et seq.).
[b] On account of the spin-off of the fixed-network business in 2010, the figures are not comparable with the amounts for the previous year.

Risk and opportunity management.

// Risk early warning system further expanded and improved //

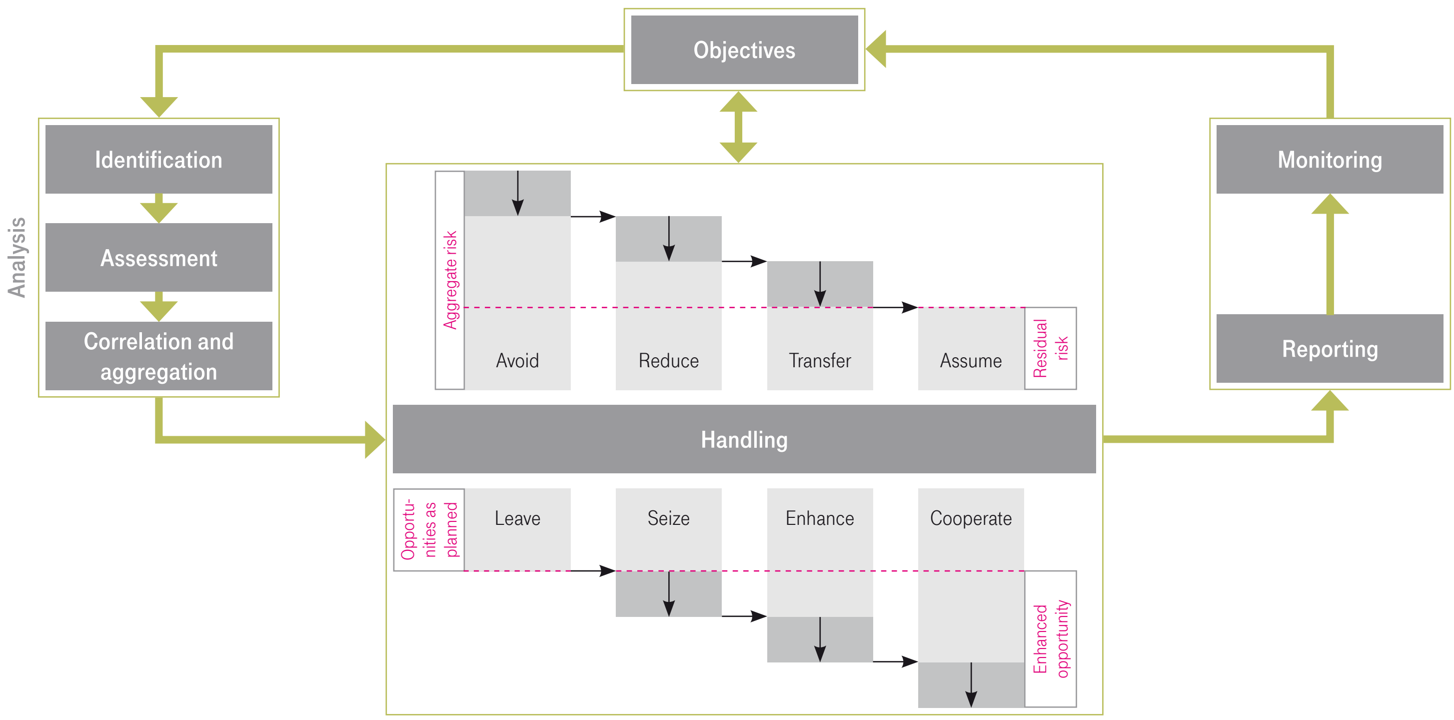
Risk management system.

In order to operate successfully in the current very volatile environment, we need to anticipate developments at an early stage and systematically identify, assess and manage the resulting risks. It is equally important to recognize and exploit opportunities.

Our risk management system is based around a standard process (see diagram below), starting with the definition of the desired risk profile. When opportunities and risks have been identified, we move on to analyze and assess them in more detail. This also includes aggregating opportunities and risks based on their probability of occurrence and magnitude. This is followed by a decision on the actual action to be taken (e.g., reducing risks/seizing opportunities). The associated action plan is implemented, constantly monitored and evaluated. All steps are traversed again and again, and modified to reflect the latest developments and decisions.

The risk management system at Deutsche Telekom covers all strategic, operational and financial risks and opportunities. The aim is to identify these early on, monitor them and manage them in accordance with the desired risk profile. The Group Risk Management, Insurance unit is in charge of the methods and systems for the independent risk management system that has been standardized across the Group, and the associated reporting of material risks and opportunities.

The risk management system (RMS).



All financial transactions are subject to the principle of risk minimization, which accordingly also applies to the use of derivatives. We use derivatives to hedge interest rate and currency exposures that could have an effect on cash flow as well as other price risks; we do not use them for trading or other speculative purposes. All financial transactions and risk positions are managed in a central treasury system and reported to Group management on a regular basis.

Depending on the type and volume of the financial transaction, prior approval is required from the Board of Management, which is also regularly briefed on the scope and amount of the current risk exposure. We use simulations that ideally cover every conceivable market development to assess the impact of various market factors. We use selected derivative and non-derivative hedging instruments to hedge market risks. However, we only hedge risks that affect cash flows.

Internal Audit reviews the functionality and effectiveness of the risk management system at regular intervals. The external auditor mandated by law to audit the Company's annual financial statements and the consolidated financial statements examines whether the risk management system is able to identify at an early stage risks and developments that could jeopardize the Company's future. The system complies with the statutory requirements for risk early warning systems and conforms to the German Corporate Governance Code.

Risk reporting.

Each operating segment produces a quarterly risk report according to the standards laid down by the central Risk Management unit and based on its specific materiality thresholds. The report assesses individual risks and opportunities in relation to their impact on EBITDA, both in terms of magnitude and probability of occurrence. In addition, it identifies actions to be taken and suggests/initiates measures.

This information forms the basis for the Group risk report to the Board of Management. This report presents individual risks that are material and assessed according to their impact on EBITDA as a portfolio, draws correlations and reports using a simulation process. The analysis also takes in a number of qualitative factors which could have a bearing on our reputation and image, and help to determine the overall risk. The Board of Management informs the Supervisory Board. The Audit Committee of the Supervisory Board examines the risk report at its meetings. If any unforeseen risks arise outside regular reporting of key risks and opportunities, they are reported ad hoc.

In response to the financial crisis in 2008, we expanded the risk management system and significantly enhanced the early warning function. For around two years, we have therefore produced a so-called "risk cockpit," as an additional risk monitoring and analysis tool for the Board alongside the risk report. This tool collects a large number of indicators each quarter, e.g., on macroeconomic, political and legal developments in our core countries. When analyzing economic indicators, we use leading, coincident and lagging indicators. The OECD's composite leading indicators, for example, as the product of several upstream sub-indicators, shed light on economic developments overall. Being generated on a monthly basis, they give a more up-to-date view of economic activity than a quarterly publication of gross domestic product ever could (see "Extract from risk cockpit – Economic trends," page 133).

We develop various scenarios based on the entire system of indicators and calculate potential effects on the results of operations, financial position or cash flows of the Group. We have thus developed a tool that creates greater transparency about our risks, assesses the relevance of these risks and prioritizes them. This is essential if we are to focus on all the risks that need to be managed and counter them quickly and effectively when things do not develop as planned.

Extract from the risk cockpit.

Economic trends.

		Germany	United States	Greece	Poland	Hungary	UK
Leading [a]	Composite leading indicator	97.9 | 100.8	101.2 | 101.2	98.1 | 97.5	100.6 | 100.2	97.6 | 98.4	98.4 | 100.1
	Consumer climate	5.4 | 5.4	64.1 | 55.7				
	Trend						
Coincident [b]	GDP	2.1% | 2.6%	1.6% | 1.5%	– 5.5% | – 6.7%	3.9% | 4.2%	1.2% | 1.4%	0.8% | 0.5%
	Consumer spending	0.7% | 1.3%	1.9% | 2.2%	– 4.8% | – 4.8%	3.1% | 3.0%	– 0.8% | – 1.1%	– 1.6% | – 1.5%
	Industrial output	4.3% | 8.1%	3.5% | 3.7%	– 10.5% | – 4.9%	7.2% | 5.7%	7.5% | 1.8%	– 1.8% | – 1.4%
	Trend						
Lagging [b]	Unemployment	6.5% | 6.9%	8.7% | 9.1%	18.8% | 18.2%	12.2% | 12.4%	10.7% | 10.7%	8.0% | 7.9%
	Consumer prices	2.4% | 2.4%	3.3% | 3.8%	2.8% | 2.3%	4.3% | 4.0%	3.6% | 3.3%	4.6% | 4.7%
	Trend						

[a] Current month | Corresponding month in prior quarter.
[b] Q4 2011 | Q3 2011, compared with the respective prior-year quarter.

Sources: OECD, destatis, BEA, Oxford Economics, GfK, Conference Board.

The risks.

Of all the risks identified for the Group, the following section examines those risk areas or individual risks that could, as it stands today, materially affect Deutsche Telekom's financial position and results and, by way of the profits and losses of the Company's subsidiaries, also Deutsche Telekom AG's financial position and results of operations. Our business operations may also be impacted by other risks that we are not currently aware of or did not consider significant. Insurable risks are covered by a Group-wide insurance program.

Economic environment.

The negative trend that has been in place since July 2011 is continuing: a sovereign debt crisis has turned into a banking crisis and now into a crisis of confidence, which is having an ever-increasing impact on the real economy. This so-called "euro crisis" still constitutes a significant risk to economic development in Europe and around the world.

It remains to be seen how European banks can be adequately re-financed and how countries like Greece, Portugal, Ireland, Spain, and Italy which have attracted the attention of the financial markets can be brought back on track in the longer term. A possible breakdown of talks with private-sector creditors in relation to Greece and failed auctions of government bonds from these countries on the capital markets could, for example, cause a further deepening of the crisis. Further downgrades of key national ratings may also cause renewed uncertainty in the financial markets, or further undermine confidence in the countries concerned.

This poses risks to economic development in some of our core countries in several ways: Consumers and business customers could increasingly restrain or optimize their consumption in an atmosphere of continued economic depression and increasing uncertainty. National austerity measures could also have further negative effects on telecommunications consumption, caused by reduced government demand and cuts in disposable income in the private sector. In view of such national efforts at consolidation, our operational business also faces the risk of unannounced tax rises or special taxes, particularly in our Southern and Eastern European markets.

In addition, there is the risk exposure from the ever more volatile exchange rate movements generated by the "euro crisis." We are currently seeing a devaluation of the euro against the U.S. dollar, whereas it has gained in strength against the Southern and Eastern European currencies. Depending on the future development of the "euro crisis," these trends could either continue or reverse. However, the relatively high level of volatility is likely to continue until the crisis is resolved.

Industry and competition.

Prices for voice and data services decreased again in 2011 in the fixed network and in mobile communications, caused partly by regulation-induced price cuts but also by intense competition and cannibalization effects of technological progress.

Competition-induced pressure, particularly in the fixed network, could increase even further, for example, if (regional) telecommunications carriers significantly expand their market coverage and the trend toward bundled products continues. The competitive situation is also intensified by the fact that mobile communications is increasingly replacing the fixed network.

In the fixed-network broadband market, we still observe a growing dominance of cable network operators in the new customer business: They provide private homes and smaller companies throughout Germany with telecommunications products that require them to neither build out their own network nor lease unbundled local loop lines from Deutsche Telekom.

In certain regions, competitors are additionally extending their own fiber-optic network to the home so that they are independent of our network in the local loop, too. Another competitive risk lies in the fact that we are increasingly faced with competitors who are not part of the telecommunications sector as such: major companies in the Internet and consumer electronics industries. We are therefore exposed to the risk of a further loss of market share, beyond the loss already suffered, and falling margins.

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

In the United States, T-Mobile USA is the smallest of the four national mobile communications providers. The company faces the challenge of winning over customers with a combination of product and service quality and attractive pricing.

The ICT market in our Systems Solutions operating segment is also experiencing continued strong competition, price erosion, long sales cycles, and restraint in the awarding of projects. This creates a potential risk of revenue losses and declining margins for T-Systems.

Products, services, and innovations.

We are establishing a “telco plus,” by building the networks of the future and expanding our traditional business to include cloud- and Internet-based services. The idea of connected life and work also drives the innovation process at Deutsche Telekom. Ever shorter innovation cycles confront the telecommunications sector with the challenge of bringing out new products at shorter and shorter intervals.

As a result of rapid technological progress, technologies and products may be to some extent interchangeable. This could lead to lower prices and revenues in both voice and data traffic. But new and refined smartphones and data services will be new sources of mobile Internet revenue. Should, however, mobile data applications not develop as expected, revenue targets may be missed.

Regulation.

We remain subject to sector-specific market regulation, both in Germany and at the international subsidiaries. The national regulatory authorities still have extensive powers to intervene in our product design and pricing, with significant effects on our operations. We can only to a limited extent anticipate such interventions, which may additionally intensify existing price and competitive pressure.

There are concerns that regulatory interventions in Germany and other European countries may continue to impact the revenue trend in the fixed and mobile market in the medium and long term.

We are always subject to strict regulation in cases where national regulatory bodies consider or prove us to have “significant market power” in the relevant telecommunications market.

In Germany, we therefore still face ex-post control of anti-competitive practices in the market for fixed-network telephone lines and related packages. We also have to offer our competitors cost-based upstream services such as access to the local loop, bitstream access, and fixed-network and mobile termination in wholesale markets. Our European subsidiaries are also subject to corresponding regulatory regimes in the fixed-network and mobile areas.

Furthermore, the European Commission is issuing recommendations which are not directly binding but do have to be taken into account by the national regulatory authorities.

- According to “Commission Recommendation of May 7, 2009 on the Regulatory Treatment of Fixed and Mobile Termination Rates in the EU” (2009/396/EC), termination rates across the European Union are to be set on the basis of a new costing approach from January 1, 2013. This exposes us and our European subsidiaries to the risk of further reductions in termination rates.

- On October 3, 2011, the European Commission launched a consultation on costing 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 “fiber to the home” (FTTH). If this concept is included in a European Commission recommendation, it could lead to a loss of revenue in the wholesale business in the medium term and, rather than promoting next-generation access networks, would make investing in them much more difficult.

- The European Commission’s draft for a new roaming regulation dated July 6, 2011 aims to tighten up and extend existing price regulation (for details, please refer to the section “Regulatory influence on Deutsche Telekom’s business,” pages 74 – 75).

Investments in next-generation access (NGA) require a modified regulatory framework that promotes investments and, among other factors, provides for a fair distribution of risk among investors and access-seekers while also allowing for the necessary price flexibility. Otherwise, there is a risk that these investments will not pay off as planned.

To this day, there is still no generally accepted but also technically appropriate definition of the term "network neutrality" and it is increasingly becoming a subject of public debate. There are even demands from some quarters that all data packets should be treated in exactly the same way, both in technical and in commercial terms. Content and application providers in particular expect network operators to continue expanding their transport capacities and their infrastructure in the years to come. There is a risk of regulation restricting the scope for introducing new business models on the Internet.

In Germany, in addition to the aforementioned regulatory risks, there are uncertainties arising from the fact that general rate rulings by the regulatory authority may be overturned by administrative courts and have to be revised by the regulatory authority with retroactive effect. Due to complaints from competitors, a number of current and previous rate rulings are not final. Some rate decisions – such as the ruling on ULL monthly charges from 1999 and 2001 and ULL one-time charges from 2001 and 2003 – have been revoked with final and binding effect. The Federal Network Agency must now decide again on these rates. It is generally not clear whether and to what extent rates will be changed. Furthermore, 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.

Personnel.

In 2011, we once again used socially responsible measures to restructure the workforce in the German part of the Group, essentially by means of voluntary redundancies, partial and early retirement, and employment opportunities for civil servants and employees offered by Vivento, especially in the public sector. Staff restructuring will continue in the coming financial year. If it is not possible to implement the measures as planned or at all, this may have negative effects on our financial targets and profitability.

Civil servants' right to return to Deutsche Telekom AG. When Group entities that employ civil servants are disposed of, it is generally possible to continue to employ them at the Group entity to be sold, provided the civil servant agrees or submits an application to be employed at the respective unit in future. However, there is a risk that they may return to us from a sold entity, for instance after the end of their temporary leave from civil servant status, without the Company being able to offer them jobs. There are currently some 2,850 civil servants who are entitled to return to Deutsche Telekom in this way. On the assumption that all these civil servants were to return to us in 2012, the maximum risk is EUR 0.2 billion per year. This risk can be reduced by compensation payments, for example, but not completely eliminated.

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.

Risks from IT/NT infrastructure.

We have a complex information/network technology (IT/NT) infrastructure. Technical infrastructure outages cannot be completely ruled out. Any such disruptions could result in revenue losses or increased costs.

Our IT/NT infrastructure comprises all buildings (network nodes), communication services (networks), and hardware and software used for information processing. Our IT/NT resources and structures are the organizational and technical backbone for our operations.

We provide regular reports on the latest developments in these areas on our website at www.telekom.com/security.*

In the reporting year, we again worked to adapt our IT systems and infrastructure to changing customer needs and new organizational structures. This work includes, for example, One.ERP (Enterprise Resource Planning), one of the largest IT projects in Europe, which aims to create a standardized IT system for Finance, Human Resources, Logistics and Procurement.

Five Group-wide Next-Generation IT programs help us realize the IT strategy and implement the Group's target IT architecture with a focus on harmonizing, standardizing and consolidating our applications and infrastructure. Group-wide projects are drawing up solutions, for example, for an overall customer relationship management system and IT support for the finance, procurement, logistics and HR functions.

We are replacing the many heterogeneous architectures, access types and services with a standardized architecture – with shared aggregation, transport and access levels. Risks could arise in this area relating to all IT/NT systems and products that require Internet access. For example, faults between newly developed and existing IT/NT systems could cause interruptions to business processes and products such as smartphones and Entertain.

We are arming ourselves against the risk of failures, e.g., from natural disasters or fire, by deploying early warning systems and duplicating IT/NT systems. Based on a standardized Group-wide Business Continuity Management process, we are taking organizational and technical measures to prevent or reduce any damage. Furthermore, we have Group-wide insurance cover for insurable risks.

Data privacy and data security.

The security and privacy of customer data are our top priority. This also applies to the growing cloud computing business, which is subject to the same rigorous requirements in terms of security and data privacy as all our other products.

In order to maintain these high standards and largely exclude risks, we support the view that European data protection rules should be made mandatory where a company offers its services on the European market. This would provide consumers with the same rights all over Europe. Loopholes in data protection in Europe could also be closed and uniform competitive conditions created.

With regard to information security, we are faced with numerous new challenges. In recent years, the focus of IT security has shifted from prevention to analysis. This is where our early warning system comes in: It detects new sources and types of cyber attack, analyzes the behavior of the attackers while maintaining strict data privacy, and identifies new trends in the field of security. Along with the so-called "honeypot systems" (simulated weaknesses in IT systems), our early warning system includes alerts and analytical tools for spam mails, viruses and Trojans. The information obtained from the honeypots is exchanged with public and private bodies to enable future attacks to be detected and prevented. The advantage of internal early warning systems is obvious: They enable us to make an independent and objective assessment of the security situation, and allow a prompt and appropriate reaction to threats from the Internet.

Cyber crime and industrial espionage are on the rise. We are addressing these risks with new security concepts. We are increasingly relying on partnerships, e.g., with public and private organizations, to make "security as a service" a reality: security as a development criterion for new products and information systems. For new products, this means more intensive and mandatory security tests which we intend to establish as a standard within the industry.

We want to turn data privacy and data security into fundamental, integral parts of our corporate culture, our products and the mindset of our staff. We have moved closer to this goal. We are among the pioneering companies in this area, and in 2008 we established a dedicated Board of Management department for Data Privacy, Legal Affairs and Compliance. This department ensures that we coordinate actions relating to data privacy and data security across the Group and continue to implement them in line with our Group-wide security regulations.

In 2011, the Data Privacy Advisory Council comprising leading data privacy experts and representatives from politics, academia, industry and independent organizations, continued its successful work. In its meetings, the Advisory Council addressed data privacy aspects of the strategic growth areas of healthcare and energy, among other issues.

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

Health and the environment.

Electromagnetic fields (EMFs) are repeatedly associated with potential environmental and health hazards. There is intense public, political and scientific debate of this issue. Acceptance problems among the general public concern both mobile communications networks and the use of handsets. In mobile communications, this affects projects like the build-out of mobile networks and the use of mobile terminal devices. In the fixed network, it affects sales of traditional DECT (digital cordless) phones and devices that use WiFi technology. Apart from legal risks (reduced thresholds), regulatory interventions are also possible, such as precautionary measures in mobile communications, e.g., amendments to building law or labeling requirements for handsets.

Institutions like the World Health Organization and the International Commission on Radiological Protection stress that the current state of scientific knowledge provides no evidence of adverse effects on health below the international thresholds. Based on isolated indications, however, the International Agency for Research on Cancer, a branch of the World Health Organization, has rated the high-frequency fields produced by the use of mobile communications devices as "potentially carcinogenic" – the same category as coffee-drinking. Along with enhanced media coverage, this rating could lead to the introduction of consumer protection measures such as warning notices. There is agreement among all the institutions on the need for further research.

The basis of our responsible dealing with mobile communications is the "EMF Policy." This policy contains ten recommendations, binding on all European mobile communications companies, on the following principles: transparency, information, participation, research and partnership. We aim to overcome uncertainty among the general public by pursuing an objective, scientifically well-founded, and transparent information policy.

Procurement.

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

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

Legal risks.

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

Major ongoing litigation.

Contingent asset – Claim for compensation against the Federal Republic of Germany and Kreditanstalt für Wiederaufbau
Prospectus liability proceedings
Toll Collect arbitration proceedings
Eutelsat arbitration proceedings
Claims for damages concerning the provision of subscriber data
Claims for damages due to price squeeze
Litigation concerning decisions by the Federal Network Agency
– Monthly charges for the unbundled local loop
– Spectrum allocation (auction of LTE frequencies, extension of GSM frequency usage)
Shareholder litigation
Patent risks
– Mobile communications patent litigation
Claim for compensation against Slovak Telekom
Claim for compensation against OTE

- **Contingent asset – 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.

- **Prospectus liability proceedings.** There are around 2,600 ongoing lawsuits from around 16,000 alleged buyers of T-Shares sold on the basis of the prospectuses published on May 28, 1999 and May 26, 2000. The complainants assert that individual figures given in these prospectuses were inaccurate or incomplete. The amount in dispute totals approximately EUR 80 million. Some of the actions are also directed at Kreditanstalt für Wiederaufbau (KfW) and/or the Federal Republic of Germany as well as at the banks that handled the issuances. The Frankfurt/Main Regional Court has issued certified questions to the Frankfurt/Main Higher Regional Court in accordance with the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz) relating to the second and third public offerings (DT2 and DT3) and has temporarily suspended the initial proceedings. The last hearing in the DT3 model proceedings up to now was held on January 25, 2012. The parties have the opportunity to respond again in writing. The court scheduled the announcement of a decision for April 25, 2012. The proceedings for a preliminary ruling on DT2 are currently suspended.

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

- **Toll Collect 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.

- **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.

- **Claims for damages concerning the provision of subscriber data.** In 2005, Deutsche Telekom AG received a claim for damages of approximately EUR 86 million plus interest from telegate AG. telegate alleges that Deutsche Telekom AG charged excessive prices for the provision of subscriber data between 1997 and 1999, which resulted in telegate AG not having sufficient funds available for marketing measures, thus preventing it from reaching its planned market share. Also in 2005, Deutsche Telekom AG received a claim for damages of approximately EUR 329 million plus interest from Dr. Harisch. Dr. Harisch alleges that the excessive prices for the provision of subscriber data between 1997 and 1999 caused telegate AG's equity ratio to decrease significantly on several occasions, resulting in the need for capital increases. This required Dr. Harisch and another shareholder to release shares from their own holdings, thereby diluting their remaining shareholdings. The complainant has since lodged an increased claim for EUR 612 million plus interest. A further claim for approximately EUR 14 million plus interest was lodged in 2006 by klickTel AG (now part of telegate AG) on the grounds that the company had lost substantial profits because, without the allegedly excessive prices, it would have launched online directories as early as in 1999. All actions are still pending before the Cologne Regional Court in the first instance.

- **Claims for damages due to price squeeze.** Competitors have claimed for damages from Deutsche Telekom on the grounds of a price squeeze between local-network wholesale and retail prices that the European Commission had identified in 2003 as part of a decision to impose fines. Vodafone (formerly Arcor) is seeking damages of currently EUR 223 million plus interest. This case had been suspended until the European courts issued a final decision relating to the fine ruling by the European Commission. On April 10, 2008, the European Court of First Instance dismissed Deutsche Telekom AG's claim for reversal of the fine ruling. The appeal filed by Deutsche Telekom AG against this ruling was rejected by the European Court of Justice (ECJ) on October 14, 2010. The European Commission's decision, which requires Deutsche Telekom AG 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 compensation. The amount of the loss suffered by competitors was not the subject of the case brought before the ECJ. In 2011, Versatel and EWE Tel filed claims for damages against Telekom Deutschland GmbH of around EUR 70 million and around EUR 82 million, respectively; NetCologne filed for around EUR 73 million, MNet for around EUR 27.3 million and HanseNet for EUR 126 million, plus interest in each case. In January 2012, HanseNet (now Telefónica Germany) withdrew the action.

- **Litigation concerning decisions by the Federal Network Agency.** In many cases, competitor companies have requested the reversal of decisions by the Federal Network Agency that had also been in favor of Deutsche Telekom or Telekom Deutschland GmbH. If these applications were to be successful, they would normally require a new decision by the Federal Network Agency. The proceedings listed below are of particular importance from Deutsche Telekom's point of view.

  - **Monthly charges for the unbundled local loop.** With the exception of the approval of one-time charges from 1999, approvals for monthly charges of unbundled local loop lines are not final, because competitors have applied to have them revoked by the competent courts. Individual approvals have been revoked, so the Federal Network Agency has to decide again on the charges. In November 2008, the Cologne Administrative Court revoked the approval of monthly charges from 1999. When the complaints against non-allowance of appeal before the Federal Administrative Court were dismissed on October 5, 2009, the decision became final. The Federal Network Agency has to decide again on the requested rates approval. 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 Telekom Deutschland GmbH. The Federal Network Agency has to decide again on the requested rates approvals. In November 2009, the Cologne Administrative Court revoked the rates approval from 2002 for the one-time charges. When the complaints against non-allowance of appeal before the Federal Administrative Court were dismissed on June 30, 2010, the decision became final. The Federal Network Agency approved new rates with its ruling dated January 20, 2011. 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 has to decide again on the requested rates approval. In December 2011, the Cologne Administrative Court revoked the approval of monthly charges from 2003. Should the judgment become final, the Federal Network Agency will have to decide again on the requested rates approvals.

- **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/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 in April/May 2010 was a general order issued by the Federal Network Agency on October 12, 2009 (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 published 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 (today 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 meanwhile 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 these two aforementioned proceedings on the allocation of spectrum, 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 the 2010 financial year (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 court dismissed the claim in the first instance.
- **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. The proceedings listed below are of particular importance from Deutsche Telekom's point of view.
  - **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.
- **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 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 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.
- **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.

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

Actions concluded in 2011:

- **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 then commissioned an independent law firm to investigate the lawfulness of these contracts. Magyar Telekom and Deutsche Telekom reached an agreement with the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) on December 29, 2011 to resolve investigations into alleged breaches of the U.S. Foreign Corrupt Practices Act (FCPA) in relation to incidents from 2006. As part of this agreement, civil proceedings were opened by the SEC against Deutsche Telekom for violations of the FCPA and closed a few days later; without admitting or denying the alleged offenses, Deutsche Telekom consents to a judicial decision on behalf of the SEC, which places Deutsche Telekom under a permanent obligation not to violate accounting and control requirements laid down in the FCPA. Deutsche Telekom additionally reached an out-of-court settlement with the DOJ, a non-prosecution agreement. Deutsche Telekom made a payment totaling USD 4.36 million (EUR 3.5 million) with respect to the settlements with the DOJ and the SEC. With a view to the ongoing discussions with the SEC and the DOJ on potential settlements, Deutsche Telekom 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). 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 levied by the SEC, accepting a court ruling permanently obliging Magyar Telekom not to violate the 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.
- **ADSL patent litigation.** CIF Licensing LLC had initiated proceedings against Deutsche Telekom AG for alleged infringement of four patents relating to the use of ADSL devices and processes. When two of these patents alleged to have been infringed were declared invalid by the Federal Patent Court acting as the court of first instance in response to a nullity suit brought by Deutsche Telekom AG 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 free licenses to the disputed patents.

Breaches of anti-trust and consumer protection law.

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. Deutsche Telekom believes the respective allegations are unfounded. The major anti-trust and consumer protection actions are described below.

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. Two other actions concerning consumer protection were dropped in November 2011 and January 2012 without any fines being imposed.

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 price 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.

Search of T-Mobile Netherland's premises. Following a search of T-Mobile Netherland's (TM NL's) premises on December 6, 2011, the Dutch anti-trust authority NMa initiated proceedings against TM NL and other Dutch mobile communications providers. The providers are accused of anti-competitive collusion on rates and sales channels. TM NL considers these accusations to be unfounded, but is assisting the authority with its inquiries.

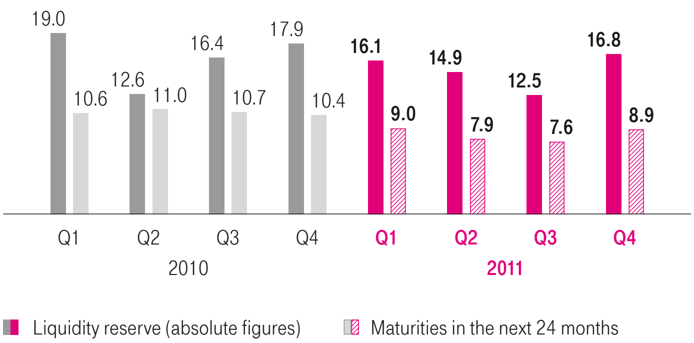
Proceedings initiated by the Croatian competition authority against Hrvatski Telekom. In the fall of 2011, the Croatian competition authority AZTN initiated proceedings against Hrvatski Telekom (HT) and other mobile communications providers for alleged anti-competitive collusion. It is investigating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

Financial risks.

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

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

Liquidity reserve and maturities. (billions of €)



The graphic shows the development of our liquidity reserve in relation to maturity dates. As of the end of 2011 and in preceding quarters, we clearly met our targets for the liquidity reserve to cover maturities due in the next 24 months.

As of December 31, 2011, 22 banks had granted us credit lines totaling EUR 13.2 billion. Although two banks did not extend their credit lines in 2011, one new line was agreed. From today's perspective, access to the international debt capital markets is not jeopardized. In 2011, Deutsche Telekom issued a bond in the amount of USD 1.25 billion (approximately EUR 0.9 billion).

As of December 31, 2011, Deutsche Telekom's credit rating with Moody's was Baa1, while Fitch and Standard & Poor's rated us BBB+. All three agencies gave us a "stable" outlook. If our rating fell below certain defined levels, interest rates for some of the bonds and MTNs issued would rise.

Economic situation in Greece.

The recession in Greece is continuing. Cuts in tax policy and government spending are additionally impacting on economic development. The continued rise in unemployment, falling incomes, and general uncertainty are negatively affecting private consumption. Further cuts in government spending and a sustained drop in private consumption may continue to impact telecommunications consumption. A possible debt haircut will give rise to uncertainties in the current situation and may have repercussions for our future business development and interest rates, especially in Greece. If Greece is to leave the eurozone, the situation will have to be re-assessed.

Impairment of Deutsche Telekom's assets.

The value of the assets of Deutsche Telekom and its subsidiaries is reviewed periodically. In addition to the regular annual measurements, specific impairment tests may be carried out, for example where changes in the economic, regulatory, business or political environment suggest that the value of goodwill, intangible assets or property, plant and equipment might have decreased (for a detailed explanation, please refer to the section "Summary of accounting policies – Judgments and estimates" in the notes to the consolidated financial statements, page 179 et seq.). These tests may lead to the recognition of impairment losses that do not, however, result in cash outflows. This could impact to a considerable extent on our results, which in turn may negatively affect the T-Share price.

Sales of shares by the Federal Republic or KfW.

As of December 31, 2011, the Federal Republic and KfW jointly held approximately 32.0 percent in Deutsche Telekom AG, while the Blackstone Group held 4.4 percent. On April 24, 2006, the Blackstone Group purchased an interest in Deutsche Telekom AG's share capital from KfW.

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

Aggregate risk position.

The assessment of the aggregate risk position is the outcome of the consolidated analysis of all material areas of risk or individual risks. The aggregate risk position did not change fundamentally in 2011 compared with the previous year. Our major challenges particularly include the economic and regulatory factors, intense competition and price erosion affecting the telecommunications business. As it stands today, management sees no risk to our Company's continued existence as a going concern. We are convinced that we will also be able to exploit future opportunities and challenges, without having to take on any unacceptably high risks.

The opportunities.

With our Fix – Transform – Innovate strategy (please also refer to the section "Group strategy," page 66 et seq.), we aim to broaden our revenue mix by focusing on new pockets of growth in addition to the traditional access business in fixed-network and mobile communications. Through our strategic action areas, we intend to focus specifically on the challenges and opportunities in the market and safeguard our successful positioning in the long term.

Advances in our strategic action areas are having a positive and direct effect on our principal growth areas: mobile Internet, the connected home, Internet services, T-Systems, and intelligent network solutions. We plan to almost double revenues in these growth areas by 2015.

The transition to "telco plus" includes not only building future networks, but also in particular extending our classic line business to include cloud-based services. Cloud computing is the provisioning and usage of IT devices, applications and services over shared networks. The TelekomCloud provides secure online storage for all data – music, photos, e-mails, contacts and much more – which can be accessed anywhere, on any device (smartphone, computer, tablet or TV) over the Internet. Deutsche Telekom uses this offering to participate in the fast growing business segment. The industry association BITKOM expects the German market for cloud computing to increase from an estimated EUR 1.1 billion in 2010 to EUR 8.2 billion in 2015.

In countries where we offer mobile communications services, we are investing specifically in next-generation technologies to further enhance our performance. We are also developing innovative services and expanding our portfolio of high-quality mobile handsets. We will also systematically continue to integrate fixed-network and mobile communications, which will enable us to further improve customer service, leverage synergies from integration in marketing, distribution and customer service, and open up additional cross-selling revenue potential. New innovative services and calling plans have allowed us to set ourselves apart from our competitors more clearly. We believe the mobilization of data services and, in particular, mobile Internet access, offer the best growth opportunities in our industry. Another strategic opportunity is to offer innovative, non-device-specific and convergent services. Besides our own services and solutions, we are also entering into selected cooperative ventures and positioning ourselves long-term as a strategic partner for key players in other sectors, e.g., as an exclusive online content partner or for the marketing of innovative terminal equipment.

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

Cooperative ventures also open up opportunities to tap into new market segments and to cut costs, for example. BUYIN, the procurement joint venture between Deutsche Telekom and France Télécom-Orange, was launched in the fall. The partners have pooled their procurement activities in the areas of terminal devices, mobile communications networks, large parts of their fixed-network equipment, and service platforms in a 50/50 joint venture. The aim is to establish a more competitive standing in procurement and to generate sustainable advantages through economies of scale. For the third year after the launch of operations, global annual savings for Deutsche Telekom and France Télécom-Orange are estimated to have reached more than EUR 400 million and up to EUR 900 million, respectively. Pilot projects in the field of IT infrastructure and other areas of IT have also been scheduled with the aim of integrating them into the joint venture, too.

Sharing wireless access networks in Europe, WiFi roaming and the area of machine-to-machine (M2M) services and the utilization of fiber-optic capacity all generate additional potential. Higher infrastructure utilization can be achieved by making the network available to other providers. Numerous cooperation agreements were concluded in 2011 – both in Germany and in other countries such as in Poland, the Czech Republic and Austria. The shared use of networks can produce significant potential savings.

We also entered into various cooperative ventures in the reporting year in order to tap into additional market potential. The conclusion of the strategic partnership with property group Deutsche Annington Immobilien Gruppe also opened up additional market potential for our TV and Internet services. The cooperative venture entails capital expenditure running into the low hundreds of millions and opens up the opportunity to provide TV services to 171,000 households. A strategic partnership was concluded with Groupon, the global market leader among mobile coupon providers. This partnership aims to accelerate growth in the area of mobile location-based services. We will be offering Groupon's online services directly to our customers via various marketing and sales channels in future. This partnership will allow us to further strengthen our role in the mobile Internet.

We place security and data privacy at the start of any development of new products and services. Security and data privacy thus become a design criterion. Before a product is placed on the market, we subject it to intensive digital crash and penetration tests. If we discover any new weaknesses, we make the manufacturers aware of them. Security is a process, not a state. We are aware of the fact that there is no such thing as absolute security. But we are setting the trend with our approach.

Accounting-related internal control system.

Deutsche Telekom AG's internal control system (ICS) is based on the internationally recognized COSO (The Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework.

The Audit Committee of Deutsche Telekom monitors the effectiveness of the ICS as required by § 107 (3) sentence 2 AktG. The Board of Management has the responsibility to define the scope and structure of the ICS at its discretion. Internal Audit is responsible for independently reviewing the functionality and 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. In addition, the 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 continuously being refined, comprises the principles, methods, and measures used to ensure appropriate accounting. The accounting-related ICS aims to ensure that the consolidated financial statements of Deutsche Telekom are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the regulations under commercial law as set forth in § 315a (1) HGB. Another objective of the accounting-related ICS is the preparation of annual financial statements of Deutsche Telekom AG in accordance with German GAAP.

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, but no absolute certainty that material accounting misstatements will be prevented or detected.

Group Accounting manages the processes of Group accounting and management reporting. 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 ensures that 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 policies and procedures are complied with. The Group companies ensure the compliance and timeliness of their accounting-related processes and systems, being supported and monitored by Group Accounting.

Operating accounting processes at the national and international level are increasingly being managed by our shared service centers. Harmonizing the processes enhances their efficiency and quality and in turn, improves the reliability of the ICS. In this context, the ICS safeguards the quality of internal processes as well as of the interfaces to our customer by means of adequate controls and an internal certification process.

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, and change management

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 accounts 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.

Significant 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.

Other disclosures.

Corporate Governance Statement in accordance with § 289a HGB.

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

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

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

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

Development of revenue and profits.[1]

Economic outlook.

The euro crisis is expected to result in a pronounced cooling-off of the global economy, even though most countries are currently anticipated to undergo only a mild recession or none at all. Early indicators, such as the OECD's composite leading indicators and the international purchasing managers' indices, point to a clear slowdown in growth in 2012, although not to the extent experienced during the financial and economic crisis in 2008/09. Global discrepancies in growth will continue to persist in 2012 and in some cases become even more severe. The emerging economies are predicted to continue growing robustly, if less strongly than before, whereas most Western industrialized economies will probably stagnate or see only marginal growth.

The economic outlook in our core markets continues to vary greatly. After two very strong years in 2010/11, Germany's economy is forecast to stagnate in 2012. Nevertheless, it is expected to maintain its relatively strong competitive position over the course of the year, with the export industry continuing to play a significant role. In its 2011 Autumn Report for Germany, the Joint Economic Forecast Project Group (Projektgruppe Gemeinschaftsdiagnose) predicted an increase in real GDP of 0.8 percent for 2012. Current forecasts, including those by the Bundesbank, predict growth rates of 0.6 percent for 2012.

The latest forecasts for the United States are predicting a growth rate of between 2 and 2.5 percent for 2012. The most recent brightening of the outlook is predominantly due to improved labor market figures in late 2011/early 2012. Should these forecasts prove accurate, this may translate into greater private consumption, which is still the most significant driver of the U.S. economy. That said, economic development in the United States remains beset by strong uncertainty. Unemployment is still relatively high, and there is ongoing ambiguity concerning the plans to cut the national debt and how this will impact on economic growth.

Economic growth in our core markets in Poland, Austria, the Netherlands, the Czech Republic, and Slovakia is predicted to cool off, yet continue to grow at a moderate pace in 2012, with annual growth rates of between 0.1 and 2.5 percent. A slight recession and in turn, a difficult economic situation is expected for 2012 in our core markets in Hungary, Romania, and Croatia, with growth rates of between 0 and –1 percent. Greece is expected to remain mired in a deep recession in 2012, with current forecasts predicting average growth rates of –5.5 percent.

GDP forecasts for 2012.

	2012 compared with 2011 %
Germany	0.6
United States	2.5
Greece	(5.5)
Poland	2.0
Hungary	(0.7)
Czech Republic	0.1
Croatia	(0.5)
Netherlands	0.1
Slovakia	0.6
Austria	0.7
United Kingdom	0.3

Source: Oxford Economics, last revised: January 2012.

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 customer growth, driven mainly by an ongoing rise in mobile data service uptake. The rising popularity of smartphones and tablet PCs will drive mobile data and Internet usage as well as mobile data revenues in the coming years. In the fixed-network market we expect no more than a slight increase in broadband lines. Traditional voice revenues will continue to decline. By contrast, we anticipate growth in related segments such as TV, De-Mail 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 the European markets (excluding Germany) the regulation- and competition-induced decline in voice telephony will continue to impact negatively on all market players. 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 rebalance their financial situation through fiscal policy interventions. Such 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 providing voice services and text messaging which continues to see 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, which was impacted by the debt and euro crisis in Western Europe, in late 2011 weakened the recovery in the ICT market that had been forecast in early 2011. We expect growth in this market to continue slowing down in 2012, before it begins to pick up in the following years. As for IT services, following a slight decline in 2012 we expect the market to return to stable growth. The long-term outsourcing business will continue to grow despite increasing pressure on prices. Opportunities for business with new customers will result thanks to the pressure on costs and to consolidation tendencies in the market. Pressure on prices in the project business has weakened. Companies are modernizing their IT infrastructures and launching new projects, which will translate into long-term stable growth. However, 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. Demand for bandwidth, however, will rise steeply while prices in all segments of the telecommunications market will decline. We expect the overall market to remain stable.

Expectations for the Group.

Despite the general uncertain economic outlook, Deutsche Telekom feels well prepared for the future. In our key markets we are either the market leader or among the most important players, a position we intend to maintain and strengthen in the coming years. Besides stabilizing our traditional fixed-line and mobile communications businesses, we are expanding into new growth areas, especially those related to connected life and work. In early 2012 we consolidated our innovation activities at Group Headquarters & Shared Services, while our internal IT activities will be transferred to the Systems Solutions operating segment from mid-2012 onwards. Our award-winning telecommunications networks will continue to function as a high-performance backbone of our business. Accordingly, our investments will serve to enable us to maintain our leading position when it comes to fast, intelligent networks. In 2012 we expect our net investment levels to remain approximately at the same level as the prior year (excluding any investments in spectrum). Should we find that our plans would benefit from strategic alliances with other companies, we would be open to such partnerships, too.

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.

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 above and beyond what we anticipate today would lead to a further decline in revenue. Assuming constant exchange rates (see “Exchange rates” table, page 152) and a comparable consolidation structure, for 2012 we expect adjusted EBITDA of around EUR 18 billion and a free cash flow of around EUR 6 billion. Provided the macroeconomic and regulatory situations do not worsen significantly, we expect earnings to remain at the prior-year level in 2013. Exchange rate fluctuations can have a considerable impact on earnings.

To account for our guidance, we plan to continue our successful Save for Service cost cutting program beyond 2012. In the second phase of Save for Service, costs are to be cut by a further EUR 4.2 billion by 2012 compared with their 2009 level. Thanks to the extremely systematic and successful implementation of the program, we already achieved this target in 2011 – a year earlier than originally planned. In light of the current state of the economy, however, Save for Service will remain an important part of our efforts to safeguard our profitability. Increased attention will be given to cutting net costs in all areas.

After all, the anticipated savings are to contribute towards improving our return on capital employed (ROCE). Our finance strategy is geared towards improving ROCE by 150 basis points by 2012. The macroeconomic situation, regulatory interventions, and the reorientation of our business in the United States following the non-approved sale of T-Mobile USA to AT&T means we now consider that to be an ambitious goal.

Although we invest heavily in the Company's continued viability we also plan to remunerate our shareholders appropriately. Accordingly, a minimum dividend of EUR 0.70 per share is to be paid out to Deutsche Telekom AG shareholders in 2012. Including the share buy-backs to be carried out in 2012, this amounts to a total shareholder remuneration of EUR 3.4 billion per year.[2] The dual policy of dividend payments and share buy-back aims to ensure the cash inflow for our shareholders and also to support our share price.

The general mood on the international finance markets in 2011 was dominated by the European debt crisis, which meant that some countries had difficulties refinancing their due debts. In 2012, too, financial market development is anticipated to be dominated by the introduction of suitable measures to address the debt crisis.

Deutsche Telekom continues to have excellent access to international capital markets and thanks to its continuous issuing activities is in a position to place issues on these markets at any time. Repayments totaling EUR 3.6 billion in bonds, medium-term notes (MTNs), and promissory notes will be due in 2012.

Solid financial ratios are expected to ensure continued access to capital markets. Accordingly, Deutsche Telekom has set itself the following targets:

- Ratio of net debt to EBITDA: 2 to 2.5x
- Equity ratio: 25 to 35 percent
- Gearing: 0.8 to 1.2

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

As of the end of 2011, we had a comfortable liquidity reserve of around EUR 16.8 billion. For 2012, too, we plan to maintain a liquidity reserve that at a minimum is able to meet all maturities of the next 24 months. To maintain its liquidity, Deutsche Telekom will raise debt capital on the capital market in 2012.

Expectations for Deutsche Telekom AG.

The development of business at Deutsche Telekom AG as the parent company of the Group is reflected particularly in its commercial relationships with our subsidiaries, the results from our domestic reporting units, and other investment income. In other words, the future development of Deutsche Telekom AG's figures is mainly shaped by our subsidiaries' operating results and by the opportunities and challenges they face. Accordingly, in addition to our expectations for the Group, the expectations described on the following pages concerning the operating segments' revenue and profit developments – such as strong competition, regulatory intervention, market and economic developments, etc. – have an impact on our expectations concerning the development of Deutsche Telekom AG's future income after taxes.

We remain committed to an attractive shareholder remuneration policy, so Deutsche Telekom AG's income after taxes plays an important role in this respect. In light of the described effects at the operating segments, for 2012 and 2013 we expect that Deutsche Telekom AG's income after taxes continues to be dominated by profit transfers from Telekom Deutschland GmbH.

Expectations for the operating segments.

Assuming constant exchange rates and a consolidation structure as described below, the operating segments expect adjusted EBITDA at the levels given in the table. Expectations may change if there is a further deterioration of the macroeconomic situation and/or any unforeseen government or regulatory interventions. The expectations for Europe do not include a weakening of the macroeconomic situation compared to the prior year, nor a return of the Greek drachma, nor any additional government or regulatory interventions.

Adjusted EBITDA.

	2012 (forecast) *
Germany	Approx. € 9.4 billion
Europe	Approx. € 5.0 billion
United States (in local currency)	Approx. USD 4.8 billion
Systems Solutions	Approx. € 0.9 billion

* Excluding Group Headquarters & Shared Services and consolidation effects.

We have based our forecast on the following exchange rates:

Exchange rates.

Croatian kuna	HRK	7.44/€
Polish zloty	PLN	4.12/€
Czech koruna	CZK	24.58/€
Hungarian forint	HUF	279.25/€
U.S. dollar	USD	1.39/€

The following table contains a summary of our model calculations and analyses of potential external factors:

Factors potentially affecting earnings.

External factors	Current trend	Effects on income
Intensity of competition in the telecommunications sectors in the United States and Europe	↓	–
Regulation of fixed-network and mobile communications in Europe	↔	o
Exchange rate trend: USD	↑	+
Exchange rate trend: European currencies	↓	–
Economic development in Europe and the United States	↓	–
Price pressure in telecommunications markets	↓	–
Inflation	↔	o
Euro crisis	↓	–
Additional taxes (in Europe/ United States)	↓	–
ICT market	↑	+
Data traffic	↑	+

↑ Improving
↔ Stable
↓ Intensifying

\+ Positive
o Unchanged
– Negative

Germany.

Germany's fixed-network and mobile communications markets will be exposed to regulatory interventions and intense competition in the coming years.

In the fixed network, we continue to successfully market our premium complete packages. A rising number of our broadband customers are also interested in our innovative products and services, such as the TV services Entertain or Entertain Sat. We are also entering new growth areas such as the migration of applications and documents to the TelekomCloud, and De-Mail, the secure, legally binding electronic communication service in Germany. The continued build-out of our broadband infrastructure using cost-efficient access technologies (e.g., VDSL and FTTH), in some cases in cooperation with partners such as the housing industry, will play an important role in this respect.

In mobile communications, we have an attractive, comprehensive portfolio of smartphones for the full range of operating systems plus a variety of target group-oriented rate plans for voice and data. In the contract customer segment, in particular, we are ahead of the competition. We continue to believe in mobile Internet as a major driver of growth and expect ongoing strong growth in data revenues. Our success in this area is thanks to our mobile communications network, which has repeatedly been voted best network, and an accelerated LTE roll-out.

For 2012 we expect the Germany operating segment to make investments of around EUR 3.3 billion. If this target is met, the operating segment's planned volume of capital expenditure for 2010 to 2012 of EUR 10 billion would be exceeded. Our primary investment focus will remain the cost-efficient 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 maintain and even increase our lead in terms of network quality in the long term. In the fixed network, we continue to work on meeting the growing demand for broadband. In this area, the investment focus is clearly on the demand-oriented expansion of our optical-fiber infrastructure (FTTH) and the "More broadband for Germany" project.

For 2012 and 2013 we expect revenues in the Germany operating segment to decline compared with the respective prior year, mainly due to anticipated regulatory decisions, a decline in revenues in traditional voice telephony, and the migration of the Digital Services growth area to Group Headquarters & Shared Services. On a like-for-like basis (excluding Digital Services), we expect largely stable adjusted EBITDA in 2012 and a slight decline in adjusted EBITDA in 2013 compared to 2012. Through ongoing stringent cost management and long-term process optimization we intend to continue raising the adjusted EBITDA margin at our Germany operating segment.

Activities and functions previously reported under Digital Services (essentially, the Load and Scout families) in the Germany operating segment, will be consolidated and reported from January 1, 2012 under Group Headquarters & Shared Services. Statements concerning financial development are made on a like-for-like basis excluding the growth area of Digital Services.

Europe.

As described in the section on market expectations for 2012, we expect the Europe operating segment to be faced with a continued tense and in some areas unstable environment, despite some slight signs of recovery.

The markets in this operating segment are beset by intense competition. Most of them are virtually saturated, and line losses affect the traditional fixed-line business. Regulatory measures such as 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.

Despite the intensity of competition in most markets in this segment, we intend to continue defending our strong position. In line with our vision of connected life and work, we aim to win over our consumers and business customers with new, intelligent handsets and attractive rate plans. Moreover, we intend to improve our range of innovative data and content services for smartphones and laptops. In countries where we offer both fixed-network and mobile services, we will push our product portfolio by increasing the number of innovative bundled offers, involving new products such as high-speed Internet access, 3D TV, high-resolution films, and value-added services.

In this respect it is crucial that customers have broadband access. Our bundled offers enhance the customer experience in several ways, for instance by enabling them to watch TV using any terminal equipment – TV, computer, laptop or mobile device. We also plan to explore new growth areas, such as healthcare and mobile payment systems. In Hungary, for instance, in the coming year we aim to team up with other industry players and with banks to develop innovative payment services via mobile handsets. Intelligent ICT solutions will also become more important in the Europe operating segment as part of our "connected work" strategy. In the (business-to-business) B2B area, we will hence be stepping up our activities, particularly when it comes to cloud services for small and medium-sized enterprises.

To be able to realize these products, we will focus our capital expenditure on upgrading the network infrastructure. In mobile communications, we will concentrate our efforts on introducing LTE as the fourth-generation mobile technology in Hungary and Croatia, just as we did in 2011 in Austria. At the same time we are going to invest in building out the UMTS networks and making them HSPA plus-ready in most of the countries in the operating segment. In 2012, we again plan to take part in spectrum auctions. More investments are to be made in the fixed network to increase broadband coverage. Further investments are planned to improve customer service and make processes more efficient.

Our revenue and earnings may be adversely affected by changes in legislation, for instance in connection with government austerity programs. The special tax in Hungary, for instance, will again impact negatively on revenue and earnings in 2012, restricting the potential for investment in this market. 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 earnings on a euro basis. However, cost-cutting measures and strategic initiatives are to compensate to some extent for any negative effects. We will continue to increase productivity by cutting costs, which will entail headcount reductions in some of the countries in our segment. We also intend to look into the possibility of more network cooperations with competitors in the countries of our Europe operating segment. In the medium term, we plan to leverage cost-cutting potential in Poland and the Czech Republic, for instance, and create positive revenue effects in Austria.

In light of this general situation we expect that in 2012 revenue and adjusted EBITDA in the Europe operating segment, assuming constant exchange rates, will decline year-on-year. In 2013, we expect revenue and adjusted EBITDA to stabilize compared with 2012.

United States.

In December 2011, Deutsche Telekom and AT&T jointly terminated their agreement to sell T-Mobile USA to AT&T. Following the termination of the planned sale, T-Mobile USA will continue 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, and developing attractive handset offerings.

T-Mobile USA continues to focus on the investment in and enhancement of network quality and coverage, and in particular on the further expansion and upgrade of its mobile broadband communications network. In connection with the termination of the purchase agreement with AT&T, T-Mobile USA will receive Advanced Wireless Solutions (AWS) spectrum licenses from AT&T, contingent upon regulatory approvals. As a result, T-Mobile USA does not expect further investment in spectrum licenses in 2012 and 2013. However, T-Mobile USA is exploring the possibility of making significant investments in the deployment of an LTE (Long Term Evolution) network in 2012 and 2013, as well as reviewing further options to leverage the network investments to enhance the Challenger strategy based on these new circumstances.

T-Mobile USA expects revenues in local currency to decline in 2012 and to stabilize in 2013. Results in 2012 are expected to be positively impacted by growth in non-voice services but be adversely affected by branded customer losses and declining voice revenue from customers moving to unlimited value plans. T-Mobile USA expects adjusted EBITDA in local currency to decline in 2012 and 2013 due to continued investment in the network and increased marketing of the T-Mobile USA brand focused on attracting and retaining customers. However, continued focus on cost-cutting initiatives is expected to contain operating expenses. Additionally, competitive pressures may significantly affect expected revenues and adjusted EBITDA in local currency and exchange rates may significantly affect revenues and adjusted EBITDA in euros in 2012 and 2013.

Systems Solutions.

In the Systems Solutions operating segment, the focus is on the growing market for ICT services and solutions for corporate customers. As companies globalize, the significance of international ICT solutions is on the rise, despite the current tense state of the market. Drawing on a global infrastructure of data centers and networks, T-Systems manages information and communication services for some 400 corporate customers, including multinational corporations and public-sector and public-health institutions. On this basis, our corporate customers arm provides integrated solutions for the networked future of business and society. We have paved the way for enhancing the segment's revenue potential in the coming years, specifically through the outsourcing agreement with Everything Everywhere, new major ICT service deals with respected industry players such as Daimler, and several agreements concerning cloud computing services, which is a growing market. The project business is a further important area of activity for the Systems Solutions operating segment as a whole, with the automotive industry and the public sector being the significant customer segments. Also, the current economic climate is influencing customers' outsourcing activities.

T-Systems' cost-cutting measures showed encouraging effects in the past financial year and will be continued. By contrast, earnings were impacted by a number of factors, including higher expenditure due to agreements concerning the successful migration of customer infrastructures to our operational business, start-up investments for new contracts, and the development of new areas of activity, such as intelligent networks. Overall, in 2012 and 2013 the segment expects revenue to stabilize and adjusted EBITDA to increase slightly. 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 and adjusted EBITDA expectations are based on the assumption of an unchanged consolidation structure that does not yet include the aforementioned consolidation of IT activities.

Group Headquarters & Shared Services.

The activities and functions of the Digital Services growth business that were previously reported under the Germany operating segment, will be bundled and reported from January 1, 2012 under Group Headquarters & Shared Services. Statements concerning financial development are made on a like-for-like basis including the innovation areas. Excluding the one-time effects recorded in 2011 (mainly consisting of earnings in connection with the procurement joint venture BUYIN), for 2012 we expect adjusted EBITDA to remain largely stable year-on-year. In the absence of these effects in 2012 we expect adjusted EBITDA to decline. For 2013, adjusted EBITDA is anticipated to remain stable, with a potential improvement coming from efficiency gains at Group Headquarters (through the Shape HQ program). Adjusted EBITDA will be negatively impacted in particular by expenditure at Group Headquarters and staff restructuring at Vivento. By contrast, earnings contributions are anticipated to come from Shared Services and the aforementioned innovation areas, which will be reported under Group Headquarters & Shared Services from January 1, 2012.

[1] The forecasts for the development of revenue and profits contain forward-looking statements that reflect management's current views with respect to future events. Words such as "assume," "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "plan," "project," "should," "want," and similar expressions identify forward-looking statements. These forward-looking statements include statements on the expected development of net revenue, adjusted EBITDA, capital expenditure, and free cash flow until 2013. Such statements are subject to risks and uncertainties, such as an economic downturn in Europe or North America, changes in exchange and interest rates, the outcome of disputes in which Deutsche Telekom is involved, and competitive and regulatory developments. Some uncertainties or other imponderabilities that might influence Deutsche Telekom's ability to achieve its objectives, are described in the "Risk and opportunities management" section in the combined management report and the disclaimer at the end of the Annual Report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. We do not guarantee that our forward-looking statements will prove correct. The forward-looking statements presented here are based on the current structure of the Group, without regard to significant acquisitions, dispositions, business combinations or joint ventures Deutsche Telekom may choose to undertake. These statements are made with respect to conditions as of the date of this document's publication. Without prejudice to existing obligations under capital market law, we do not intend or assume any obligation to update forward-looking statements.

[2] This policy is subject to the requisite unappropriated net income being posted in the German GAAP single-entity financial statements of Deutsche Telekom AG for the financial year in question and the ability to form the necessary reserves for the share buy-back. It is also contingent upon the executive bodies adopting resolutions to this effect, taking account of the Company's situation at the time. No resolution has yet been passed regarding the share buy-backs and when they will take place.

Consolidated financial statements

In the 2011 financial year we again invested over EUR 8 billion in securing our Company's future. We have boosted the capacity and speed of our networks in Europe and the United States. In Germany we have begun to roll out our LTE high-speed network in some one hundred cities. In addition, around 2,000 previously unserved rural areas are now connected to our broadband network.

Consolidated statement of financial position.

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

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

Consolidated income statement.

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

Consolidated statement of comprehensive income.

	2011 millions of €	2010 millions of €	2009 millions of €
Profit (loss)	**670**	**1,760**	**873**
Actuarial gains and losses on defined benefit pension plans	177	(32)	(461)
Revaluation due to business combinations	0	(2)	(38)
Exchange differences on translating foreign operations			
Recognition of other comprehensive income in income statement	–	2,151	–
Change in other comprehensive income (not recognized in income statement)	10	1,547	(211)
Available-for-sale financial assets			
Recognition of other comprehensive income in income statement	0	0	0
Change in other comprehensive income (not recognized in income statement)	242	(3)	(4)
Gains (losses) from hedging instruments			
Recognition of other comprehensive income in income statement	200	0	8
Change in other comprehensive income (not recognized in income statement)	(765)	58	(56)
Share of profit (loss) of investments accounted for using the equity method	–	28	–
Other income and expense recognized directly in equity	–	0	11
Income taxes relating to components of other comprehensive income	102	(5)	138
Other comprehensive income	**(34)**	**3,742**	**(613)**
Total comprehensive income	**636**	**5,502**	**260**
Total comprehensive income attributable to:	**636**	**5,502**	**260**
Owners of the parent	425	5,443	(261)
Non-controlling interests	211	59	521

Consolidated statement of changes in equity.

	Issued capital and reserves attributable to owners of the parent					
	Number of shares	Equity contributed			Consolidated shareholders' equity generated	
		Issued capital	Treasury shares	Capital reserves	Retained earnings incl. carryforwards	Net profit (loss)
	thousands	millions of €	millions of €	millions of €	millions of €	millions of €
Balance at January 1, 2009	**4,361,320**	**11,165**	**(5)**	**51,526**	**(18,761)**	**1,483**
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					1,483	(1,483)
Dividends					(3,386)	
Proceeds from the exercise of stock options				4		
Profit (loss)						353
Other comprehensive income					(333)	
Transfer to retained earnings					46	
Balance at December 31, 2009	**4,361,320**	**11,165**	**(5)**	**51,530**	**(20,951)**	**353**
Balance at January 1, 2010	**4,361,320**	**11,165**	**(5)**	**51,530**	**(20,951)**	**353**
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					353	(353)
Dividends					(3,386)	
Proceeds from the exercise of stock options				3	2	
Capital decrease	(40,001)	(102)		102	(400)	
Profit (loss)						1,695
Other comprehensive income					(52)	
Transfer to retained earnings					79	
Balance at December 31, 2010	**4,321,319**	**11,063**	**(5)**	**51,635**	**(24,355)**	**1,695**
Balance at January 1, 2011	**4,321,319**	**11,063**	**(5)**	**51,635**	**(24,355)**	**1,695**
Changes in the composition of the Group				(131)		
Unappropriated profit (loss) carried forward					1,695	(1,695)
Dividends					(3,011)	
Proceeds from the exercise of stock options						
Share buy-back			(1)		(2)	
Profit (loss)						557
Other comprehensive income					105	
Transfer to retained earnings					70	
Balance at December 31, 2011	**4,321,319**	**11,063**	**(6)**	**51,504**	**(25,498)**	**557**

Issued capital and reserves attributable to owners of the parent							Non-controlling interests	Total shareholders' equity
Total other comprehensive income						Total		
Translation of foreign operations millions of €	Revaluation surplus millions of €	Available-for-sale financial assets millions of €	Hedges millions of €	Other comprehensive income millions of €	Taxes millions of €	millions of €	millions of €	millions of €
(6,356)	**202**	**3**	**1,085**	**(11)**	**(334)**	**39,997**	**3,115**	**43,112**
						0	2,783	2,783
						0		0
						(3,386)	(840)	(4,226)
						4	4	8
						353	520	873
(221)	(38)	(6)	(48)	11	21	(614)	1	(613)
	(46)					0		0
(6,577)	**118**	**(3)**	**1,037**	**0**	**(313)**	**36,354**	**5,583**	**41,937**
(6,577)	**118**	**(3)**	**1,037**	**0**	**(313)**	**36,354**	**5,583**	**41,937**
						0	(23)	(23)
						0		0
						(3,386)	(612)	(3,998)
						5	5	10
						(400)		(400)
						1,695	65	1,760
3,734	(2)	(1)	85		(16)	3,748	(6)	3,742
	(79)					0		0
(2,843)	**37**	**(4)**	**1,122**	**0**	**(329)**	**38,016**	**5,012**	**43,028**
(2,843)	**37**	**(4)**	**1,122**	**0**	**(329)**	**38,016**	**5,012**	**43,028**
(2)						(133)	(77)	(210)
						0		0
						(3,011)	(497)	(3,508)
						0	(2)	(2)
						(3)		(3)
						557	113	670
67		106	(565)		155	(132)	98	(34)
	(70)					0		0
(2,778)	**(33)**	**102**	**557**	**0**	**(174)**	**35,294**	**4,647**	**39,941**

Consolidated statement of cash flows.

	Note	2011 millions of €	2010 millions of €	2009 millions of €
	31			
Profit (loss)		**670**	**1,760**	**873**
Depreciation, amortization and impairment losses		14,436	11,808	13,894
Income tax expense (benefit)		2,349	935	1,782
Interest income and interest expense		2,325	2,500	2,555
Other financial (income) expense		169	253	826
Share of (profit) loss of associates and joint ventures accounted for using the equity method		73	57	(24)
(Profit) loss on the disposal of fully consolidated subsidiaries		(4)	349	(26)
Non-cash transactions in connection with the compensation from AT&T		(705)	–	–
Other non-cash transactions		27	(21)	(230)
(Gain) loss from the disposal of intangible assets and property, plant and equipment		28	90	51
Change in assets carried as working capital		690	(243)	1,936
Change in provisions		535	(68)	(891)
Change in other liabilities carried as working capital		(1,578)	(209)	(1,818)
Income taxes received (paid)		(778)	(819)	(928)
Dividends received		515	412	29
Net payments from entering into or canceling interest rate swaps		–	265	242
Cash generated from operations		**18,752**	**17,069**	**18,271**
Interest paid		(3,397)	(3,223)	(3,456)
Interest received		859	885	980
Net cash from operating activities		**16,214**	**14,731**	**15,795**
Cash outflows for investments in				
Intangible assets		(1,837)	(2,978)	(1,598)
Property, plant and equipment		(6,569)	(6,873)	(7,604)
Non-current financial assets		(430)	(997)	(176)
Investments in fully consolidated subsidiaries and business units		(1,239)	(448)	(1,007)
Proceeds from disposal of				
Intangible assets		20	26	7
Property, plant and equipment		336	318	369
Non-current financial assets		61	162	99
Investments in fully consolidated subsidiaries and business units		5	4	116
Net change in short-term investments and marketable securities and receivables		339	491	(320)
Net change in cash and cash equivalents due to the first-time full consolidation of OTE		–	–	1,558
Other		39	(416)	(93)
Net cash used in investing activities		**(9,275)**	**(10,711)**	**(8,649)**
Proceeds from issue of current financial liabilities		66,349	30,046	3,318
Repayment of current financial liabilities		(71,685)	(34,762)	(9,314)
Proceeds from issue of non-current financial liabilities		3,303	3,219	5,379
Repayment of non-current financial liabilities		(51)	(149)	(93)
Dividends		(3,521)	(4,003)	(4,287)
Proceeds from the exercise of stock options		–	–	2
Share buy-back		(3)	(400)	–
Repayment of lease liabilities		(163)	(139)	(128)
Other		(187)	(181)	–
Net cash used in financing activities		**(5,958)**	**(6,369)**	**(5,123)**
Effect of exchange rate changes on cash and cash equivalents		(40)	50	58
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale		–	85	(85)
Net increase (decrease) in cash and cash equivalents		**941**	**(2,214)**	**1,996**
Cash and cash equivalents, at the beginning of the year		**2,808**	**5,022**	**3,026**
Cash and cash equivalents, at the end of the year		**3,749**	**2,808**	**5,022**

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

General information.

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

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

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

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

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

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

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

Basis of preparation.

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

The consolidated financial statements of Deutsche Telekom thus also comply with IFRS as issued by the IASB. Therefore the term IFRS is used in the following.

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

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

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

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

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

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

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

In November 2009, the IASB issued an amendment to its requirements on accounting for pension plans. The European Union endorsed the amendment in July 2010. The amendment is to **IFRIC 14 "Prepayments of a Minimum Funding Requirement,"** which is an interpretation of IAS 19 "Employee Benefits." The amendment applies in limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover these requirements. It permits such an entity to treat the benefit of such an early payment as an asset. The amendment has an effective date for mandatory adoption of January 1, 2011. Retrospective adoption is required. The adoption of IFRIC 14 did not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

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

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

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

In November 2009, the IASB issued **IFRS 9 "Financial Instruments."** The European Union has not yet endorsed the amendments. The standard is the result of the first of three phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9. IFRS 9 governs the classification and measurement of financial assets. The rules for impairment of financial instruments and hedge accounting are currently being revised by the IASB. IFRS 9 requires financial assets to be assigned to one of the following two measurement categories: "at amortized cost" or "at fair value." IFRS 9 also grants a fair value option which allows financial assets that would normally be assigned to the "at amortized cost" category to be designated as "at fair value" if the fair value designation would eliminate or significantly reduce measurement or recognition inconsistency. It is mandatory to assign equity instruments to the "at fair value" category. If, however, the equity instrument is not held for trading, the standard allows an irrevocable option to be made at initial recognition to designate it as "at fair value" through other comprehensive income. Dividend income resulting from the equity instrument is recognized in profit or loss. IFRS 9 is effective for financial years beginning on or after January 1, 2015. Prior periods do not have to be adjusted for first-time adoption, but there is a requirement to disclose the effects of first-time adoption. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

In October 2010, the IASB issued the pronouncement "Disclosures – Transfers of Financial Assets" as an amendment to **IFRS 7 "Financial Instruments: Disclosures."** The amendment requires quantitative and qualitative disclosures to be made for transfers of financial assets where the transferred assets are derecognized in their entirety or the transferor retains continuing involvement. The amendment is intended to provide greater transparency around such transactions (e.g., securitizations) and help users understand the possible effects of any risks that may remain with the entity that transferred the assets. The amendment also requires supplementary information to be disclosed if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period. The amendments are applicable for financial years beginning on or after July 1, 2011. The European Union endorsed this pronouncement in November 2011. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows and is expecting additional disclosure requirements.

Also in October 2010, the IASB issued requirements on accounting for financial liabilities. These are integrated into **IFRS 9 "Financial Instruments"** and replace the existing provisions on this subject in IAS 39 "Financial Instruments: Recognition and Measurement." In the new pronouncement, the requirements relating to recognition and derecognition as well as most of the requirements for classification and measurement are carried forward unchanged from IAS 39. The new IFRS 9 modifies the requirements relating to fair value option for financial liabilities to address the issue of an entity's own credit risk. The prohibition of fair value measurement of derivative liabilities that are linked to an unquoted equity instrument and must be settled by delivery of an unquoted equity instrument, has been eliminated. The pronouncement is effective for financial years beginning on or after January 1, 2015. Prior periods do not have to be adjusted for first-time adoption, but there is a requirement to disclose the effects of first-time adoption. The European Union has not yet endorsed this pronouncement. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position or cash flows.

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting policies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group arranges **defined benefit pension plans** in different countries on the basis of the pensionable compensation of its employees and their length of service. Some of these pension plans are financed through external pension funds and some through incorporation in a contractual trust agreement (CTA). **Provisions for pensions** are measured using the projected unit credit method for defined benefit plans, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future salary and benefit increases. The interest rate used to determine the present value of the obligations is set on the basis of the yield on high-quality corporate bonds in the respective currency area. In countries without a deep market for such bonds, estimates based on the yield on government bonds are used instead.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue recognition at Deutsche Telekom is as follows:

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

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

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

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

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

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

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

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

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

Judgments and estimates.

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

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

The determination of **impairments of property, plant and equipment, and intangible assets** involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the telecommunications industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Specifically, the estimation of cash flows underlying the fair values from the mobile business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for these products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment to write down these investments to their fair values. When determining the fair values, additional planning uncertainties are factored in that reflect the risks of macroeconomic development, which could adversely affect future operating results.

The determination of the **recoverable amount of a cash-generating unit** involves the use of estimates by management. Methods used to determine the fair value less costs to sell include discounted cash flow-based methods and methods that use quoted stock market prices as a basis. The measurements on the basis of discounted cash flows are founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the planning horizon are extrapolated using appropriate growth rates. The key assumptions on which management has based its determination of fair value less costs to sell include the following assumptions that were primarily derived from internal sources and largely reflect past experience and/or are compared with external market values: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates were determined on the basis of external figures derived from the market. Any future changes in the aforementioned assumptions could have a significant impact on the fair values of the cash-generating units.

The valuation of **investments accounted for using the equity method** in the case of the 50-percent stake in the Everything Everywhere joint venture, which was based on the discounted cash flow method, involved the use of estimates for determining the fair value at the date of first-time inclusion using the equity method at April 1, 2010.

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

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

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

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

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

Revenue recognition.

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

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

Consolidated group.

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

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

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

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

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

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

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

Business combinations and other transactions.

Business combinations.

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

Transaction involving T-Mobile USA.

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

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

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

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

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

- A break-up fee of EUR 2.3 billion (USD 3 billion) received in 2011 was recognized in other operating income. This income was partially offset by a negative amount of EUR 0.2 billion relating to a cash flow hedge to compensate for fluctuation in the U.S. dollar spot exchange rate (please also refer to Note 37).

- The right to the transfer of Advanced Wireless Service (AWS) spectrum licenses was recognized in the statement of financial position under other non-current assets (please also refer to Note 9), since the transfer is still subject to formal approval by the FCC. The amount was recognized under operating income in the income statement. The right to the transfer of the license was measured at fair value in the amount of EUR 0.9 billion (USD 1.2 billion).

- An agreement on UMTS roaming services for voice and data traffic within the United States covering a term of more than seven years that Deutsche Telekom had been assured of was not recognized in the financial statements, since it is an executory contract for both parties. There are no indications that the agreement was not concluded at market terms.

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

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

- Retrospective depreciation and amortization: No depreciation and amortization was permitted to be recognized for the period March 20, 2011 to December 19, 2011 when T-Mobile USA was recognized as a discontinued operation. In a first step following the reclassification of T-Mobile USA as a continuing operation, the assets and liabilities of T-Mobile USA had to be reported at their amortized carrying amount from that point in time onwards. Depreciation and amortization amounting to EUR 1.6 billion were therefore recorded from March 20, 2011 to December 19, 2011 under functional costs in the income statement (please also refer to Note 30).

- Impairment to recoverable amount: The carrying amount of the United States cash-generating unit was written down to the recoverable amount in a second step. The recoverable amount was determined as part of the annual impairment tests as of December 31, 2011. The corresponding goodwill impairment loss of EUR 2.3 billion was recognized under other operating expense (please also refer to Note 5).

Other effects:

- Tax effects: The break-up fee and the transfer of the right to spectrum licenses were fully subject to income tax in Germany in the 2011 financial year. Loss carryforwards were utilized for 60 percent of the total amount. The compensation, including the cash flow hedge, resulted in a tax expense of EUR 0.9 billion.

- Hedging of a net investment: Hedging instruments were used to hedge the purchase price for T-Mobile USA with the purpose of eliminating exchange rate effects. These hedging instruments with a nominal value of USD 7.0 billion were designated as a net investment hedge with a change in the U.S. dollar spot exchange rate change being the hedged risk (please also refer to Note 37). The hedging volume was reduced to USD 5.8 billion at the end of the 2011 financial year. The remainder is equivalent to the value of the licenses as of the end of the financial year. In the 2011 financial year, total value fluctuations of EUR –0.4 billion were recognized directly in equity under hedging instruments in total other comprehensive income.

Pro forma information.

The pro forma information shown in the table on the right presents Deutsche Telekom's financial data, including its principal consolidated subsidiaries acquired in the financial years 2009 through 2011, as if they had been included in the consolidated financial statements from the beginning of each financial year in which they were acquired. There were no new principal subsidiaries to be fully consolidated in Deutsche Telekom's consolidated financial statements in the 2011 financial year.

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

Principal subsidiaries.

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

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

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

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

Consolidation methods.

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

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

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

Currency translation.

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

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

The exchange rates of certain significant currencies changed as follows:

	Annual average rate			Rate at the reporting date	
	2011 €	2010 €	2009 €	**Dec. 31, 2011 €**	Dec. 31, 2010 €
100 Czech korunas (CZK)	4.06830	3.95536	3.78123	3.87758	3.98728
1 Pound sterling (GBP)	1.15203	1.16553	1.12218	1.19583	1.15979
100 Croatian kuna (HRK)	13.44360	13.72000	13.62190	13.28090	13.54730
1,000 Hungarian forints (HUF)	3.58103	3.63022	3.56631	3.18883	3.59999
100 Macedonian denars (MKD)	1.62472	1.62536	1.62428	1.62320	1.59628
100 Polish zlotys (PLN)	24.27060	25.03330	23.09760	22.39550	25.25810
1 U.S. dollar (USD)	0.71801	0.75398	0.71692	0.77246	0.74698

Notes to the consolidated statement of financial position.

1 Cash and cash equivalents.

Cash and cash equivalents have an original maturity of less than three months and mainly comprise fixed-term bank deposits. They also include small amounts of cash-in-hand and checks. Deutsche Telekom obtained cash collateral of EUR 640 million (December 31, 2010: EUR 625 million) on the basis of collateral contracts as surety for potential credit risks arising from derivative transactions.

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

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

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

As of December 31, 2011, the Group reported cash and cash equivalents of EUR 20 million (December 31, 2010: EUR 0.5 billion (including Croatia)) held by subsidiaries in the F.Y.R.O. Macedonia and Montenegro. These countries are subject to foreign exchange controls or other legal restrictions. As a result, the cash balances are not fully available for use by the parent or other Group companies.

2 Trade and other receivables.

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Trade receivables	6,455	6,766
Other receivables	102	123
	6,557	**6,889**

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

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

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

	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
Trade receivables	millions of €	Less than 30 days millions of €	Between 30 and 60 days millions of €	Between 61 and 90 days millions of €	Between 91 and 180 days millions of €	Between 181 and 360 days millions of €	More than 360 days millions of €
As of Dec. 31, 2011	3,190	490	78	47	71	71	20
As of Dec. 31, 2010	3,295	483	93	59	96	97	32

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

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

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

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

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

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

3 Inventories.

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

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

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

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

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

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

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

5 Intangible assets.

	Internally generated intangible assets **millions of €**	Total millions of €	Acquired concessions, industrial and similar rights and assets millions of €
Cost			
At December 31, 2009	**2,515**	**40,205**	**1,530**
Currency translation	59	1,521	12
Changes in the composition of the Group	1	232	35
Other changes	0	0	0
Additions	162	2,064	6
Disposals	334	1,067	1
Change from non-current assets and disposal groups held for sale	0	(4)	0
Reclassifications	513	1,001	9
At December 31, 2010	**2,916**	**43,952**	**1,591**
Currency translation	46	369	(18)
Changes in the composition of the Group	2	8	1
Other changes	0	0	0
Additions	122	845	7
Disposals	282	709	51
Change from non-current assets and disposal groups held for sale	0	(24)	0
Reclassifications	677	648	(696)
At December 31, 2011	**3,481**	**45,089**	**834**
Accumulated amortization			
At December 31, 2009	**1,455**	**11,002**	**735**
Currency translation	39	150	11
Changes in the composition of the Group	0	11	0
Additions (amortization)	577	2,767	158
Additions (impairment)	0	3	0
Disposals	332	1,061	6
Change from non-current assets and disposal groups held for sale	0	0	0
Reclassifications	(14)	44	(3)
At December 31, 2010	**1,725**	**12,916**	**895**
Currency translation	35	(211)	(18)
Changes in the composition of the Group	1	(2)	0
Additions (amortization)	662	2,662	78
Additions (impairment)	14	7	4
Disposals	278	692	51
Change from non-current assets and disposal groups held for sale	0	0	0
Reclassifications	4	(3)	(272)
At December 31, 2011	**2,163**	**14,677**	**636**
Net carrying amounts			
At December 31, 2010	1,191	31,036	696
At December 31, 2011	**1,318**	**30,412**	**198**

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

The net carrying amount of the UMTS licenses of EUR 5.4 billion mainly relates to the Germany operating segment.

Deutsche Telekom had commitments for the acquisition of intangible assets in the amount of EUR 0.3 billion (December 31, 2010: EUR 0.3 billion) as of the reporting date. These are largely related to the network build-out in the Germany and United States operating segments.

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

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

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

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

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

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

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

Disclosures on impairment tests. Deutsche Telekom performed its annual impairment tests of the goodwill recognized for the cash-generating units at December 31, 2011. On the basis of information available at the reporting date and expectations with respect to the market and competitive environment, the year-end impairment tests indicated a need for impairment at the following cash-generating units:

	Goodwill impairments millions of €	Impairments of property, plant and equipment millions of €	Assigned to segment
United States	2,297	–	United States
Greece – Mobile communications	439	–	Europe
Greece – Fixed network	135	–	Europe
Bulgaria	130	–	Europe
Macedonia	92	–	Europe
Romania – Fixed network	7	237	Europe
Impairments (other operating expenses)	**3,100**	**237**	
Deferred taxes	–	(38)	
Effect on profit (loss)	**3,100**	**199**	
Of which: non-controlling interests	(38)	(162)	
Of which: owners of the parent (net profit (loss))	**3,062**	**37**	

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

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

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

The measurements of the cash-generating units are generally founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the planning horizon are extrapolated using appropriate growth rates. The key assumptions on which the determination of fair value less costs to sell are based include the following assumptions that were primarily derived from internal sources and largely reflect past experience and/or are compared with external market values: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market shares, and growth rates. Discount rates were determined on the basis of external figures derived from the market. Any significant future changes in the aforementioned assumptions would have an impact on the fair values of the cash-generating units. Any changes in the assumptions may have a negative impact, in particular in the Europe operating segment, as a result of the future macroeconomic trends, continued intense competition, further possible legislation changes (e.g., as part of national austerity programs) and regulatory intervention.

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

The following table gives an overview of the periods for which the Group has provided cash flow projections, the growth rates used as the basis for the cash flow projections, and the discount rates applied to the cash flow projections, broken down by operating segment:

	Periods used (years)	Growth rates %	Discount rates %
Germany	10	1.0	5.96
Europe	10	1.5 – 2.0	6.60 – 11.21
United States	10	1.0	6.74
Systems Solutions	10	1.5	7.17

If the discount rates used for impairment testing had been 0.5 percentage points higher, the resulting impairment losses would have increased by EUR 2.6 billion. If, by contrast, the discount rates had been 0.5 percentage points lower, the resulting impairment losses would have been EUR 2.5 billion lower. If the growth rates used as a basis in the impairment tests had been 0.5 percentage points lower, the impairment losses would have been EUR 1.6 billion higher. In turn, impairment losses would have been EUR 1.7 billion lower if the growth rates had been 0.5 percentage points higher.

6 Property, plant and equipment.

	Land and equivalent rights, and buildings including buildings on land owned by third parties millions of €	Technical equipment and machinery millions of €	Other equipment, operating and office equipment millions of €	Advance payments and construction in progress millions of €	**Total millions of €**
Cost					
At December 31, 2009	**18,892**	**97,715**	**7,106**	**2,794**	**126,507**
Currency translation	121	830	117	67	1,135
Changes in the composition of the Group	4	11	94	(13)	96
Additions	151	2,596	455	4,038	7,240
Disposals	93	3,638	543	113	4,387
Change from non-current assets and disposal groups held for sale	(146)	(6)	(31)	(4)	(187)
Reclassifications	491	2,315	285	(3,746)	(655)
At December 31, 2010	**19,420**	**99,823**	**7,483**	**3,023**	**129,749**
Currency translation	(38)	(66)	(17)	2	(119)
Changes in the composition of the Group	0	4	0	0	4
Additions	117	2,493	495	3,410	6,515
Disposals	81	3,460	623	43	4,207
Change from non-current assets and disposal groups held for sale	(285)	(4)	(2)	(1)	(292)
Reclassifications	326	2,693	245	(3,794)	(530)
At December 31, 2011	**19,459**	**101,483**	**7,581**	**2,597**	**131,120**
Accumulated depreciation					
At December 31, 2009	**8,189**	**68,024**	**4,810**	**16**	**81,039**
Currency translation	57	375	69	(1)	500
Changes in the composition of the Group	1	1	65	0	67
Additions (depreciation)	814	6,098	701	2	7,615
Additions (impairment)	158	271	1	19	449
Disposals	75	3,491	457	1	4,024
Change from non-current assets and disposal groups held for sale	(109)	(6)	0	(7)	(122)
Reclassifications	39	(82)	10	3	(30)
Reversal of impairment losses	(43)	0	0	0	(43)
At December 31, 2010	**9,031**	**71,190**	**5,199**	**31**	**85,451**
Currency translation	(1)	(77)	(12)	0	(90)
Changes in the composition of the Group	0	1	0	0	1
Additions (depreciation)	799	6,146	716	0	7,661
Additions (impairment)	77	247	2	4	330
Disposals	67	3,285	541	6	3,899
Change from non-current assets and disposal groups held for sale	(223)	(3)	(1)	0	(227)
Reclassifications	30	(47)	2	0	(15)
Reversal of impairment losses	(19)	0	0	0	(19)
At December 31, 2011	**9,627**	**74,172**	**5,365**	**29**	**89,193**
Net carrying amounts					
At December 31, 2010	10,389	28,633	2,284	2,992	44,298
At December 31, 2011	**9,832**	**27,311**	**2,216**	**2,568**	**41,927**

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

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

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

7 Investments accounted for using the equity method.

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

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

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

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

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

	Dec. 31, 2011 billions of €	Dec. 31, 2010 billions of €
Total assets	0.2	0.2
Total liabilities	0.1	0.1
	2011 billions of €	**2010 billions of €**
Net revenue	0.1	0.2
Profit (loss)	0.0	0.0

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

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

	Everything Everywhere billions of €	Other billions of €	Total as of Dec. 31, 2011 billions of €	Total as of Dec. 31, 2010 billions of €
Total assets	**9.1**	**0.4**	**9.5**	**9.9**
Current	1.0	0.3	1.3	1.5
Non-current	8.1	0.1	8.2	8.4
Total liabilities	**2.4**	**0.4**	**2.8**	**2.7**
Current	1.6	0.3	1.9	2.3
Non-current	0.8	0.1	0.9	0.4
	Everything Everywhere billions of €	**Other billions of €**	**Total in 2011 billions of €**	**Total in 2010 billions of €**
Net revenue	4.0	0.2	4.2	3.3
Profit (loss)	(0.1)	0.0	(0.1)	(0.1)

8 Other financial assets.

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

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

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

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

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

The available-for-sale financial assets include unquoted equity instruments whose fair values could not be reliably measured, and which were therefore recognized at cost in the amount of EUR 270 million as of December 31, 2011 (December 31, 2010: EUR 335 million). No plans existed as of the reporting date to sell these instruments. The increase here is mainly attributable to the acquisition of government bonds amounting to EUR 0.3 billion. This was partially offset by the reclassification of Telekom Srbija accounting for EUR 0.2 billion to non-current assets and disposal groups held for sale.

In the 2011 financial year, EUR 15 million (2010: EUR 101 million) in impairment losses on available-for-sale financial assets were recognized in profit or loss because the impairment was permanent or significant.

9 Other assets.

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

10 Financial liabilities.

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

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

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

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

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

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

	Carrying amounts Dec. 31, 2011 millions of €	Cash flows in 2012		
		Fixed interest rate millions of €	Variable interest rate millions of €	Repayment millions of €
Non-derivative financial liabilities:				
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(42,332)	(2,018)	(143)	(6,853)
Finance lease liabilities	(1,351)	(99)		(180)
Other interest-bearing liabilities	(1,713)	(72)		(961)
Other non-interest-bearing liabilities	(1,528)			(1,489)
Derivative financial liabilities and assets:				
Derivative financial liabilities:				
Currency derivatives without a hedging relationship	(581)			(603)
Currency derivatives in connection with cash flow hedges	(13)			(9)
Currency derivatives in connection with net investment hedges	(78)			(83)
Interest rate derivatives without a hedging relationship	(245)	(17)	1	(97)
Interest rate derivatives in connection with fair value hedges	–			
Interest rate derivatives in connection with cash flow hedges	(470)	(109)	55	
Derivative financial assets:				
Currency derivatives without a hedging relationship	259			271
Currency derivatives in connection with cash flow hedges	21			16
Interest rate derivatives without a hedging relationship	574	43	(36)	34
Interest rate derivatives in connection with fair value hedges	431	242	(122)	
Interest rate derivatives in connection with cash flow hedges	248	12		24
Financial guarantees and loan commitments *	n.a.			(369)

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

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

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

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

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

All instruments held at December 31, 2011 and for which payments were already contractually agreed are included. Planning data for future, new liabilities were not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2011. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period. In accordance with § 2 (4) of the German Act on the Transformation of the Deutsche Bundespost Enterprises into the Legal Structure of Stock Corporation (Stock Corporation Transformation Act – Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were already outstanding as at January 1, 1995. At December 31, 2011, this figure was a nominal EUR 2.0 billion (December 31, 2010: EUR 2.0 billion).

11 Trade and other payables.

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

Of the total of trade and other payables, EUR 6,430 million (December 31, 2010: EUR 6,745 million) is due within one year.

12 Provisions for pensions and other employee benefits.

Defined benefit plans.

The following table shows the composition of pension obligations:

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Defined benefit liability	**6,095**	**6,373**
Defined benefit asset	(14)	(28)
Net defined benefit liability	**6,081**	**6,345**
Pension obligations		
Unfunded	5,710	5,996
Funded	369	346
Obligations in accordance with Article 131 GG	2	3

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

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

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

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

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

		2011 %	2010 %
Discount rate	Germany	5.31	5.16
	Switzerland (T-Systems)	2.57	3.05
	Greece (OTE S.A.)	4.72/4.18	4.56/3.71
Projected salary increase	Germany (pay-scale employees)	2.75	3.25
	Germany (non-pay-scale employees)	2.75	3.50
	Switzerland (T-Systems)	1.50	1.50
	Greece (OTE S.A.)	(10.06)/ (7.04)/ (3.93)/9.09 *	2.20/ 3.20/ 2.40/2.50
Projected pension increase	Germany (general)	1.50	1.50
	Germany (according to articles of association)	1.00	1.00
	Switzerland (T-Systems)	0.30	0.30
	Greece (OTE S.A.)	n.a.	n.a.

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

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

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

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

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

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

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

Sensitivity of defined benefit obligations:

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

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

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

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

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

Breakdown of plan assets at fair value by investment category:

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

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

At the reporting date, the plan assets include shares issued by Deutsche Telekom AG amounting to EUR 1.0 million (December 31, 2010: shares totaling EUR 0.8 million). No other own financial instruments were included in the years shown.

Determination of the expected return on essential plan assets:

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

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

	Presentation in the income statement	2011 millions of €	2010 millions of €	2009 millions of €
Current service cost	Functional costs *	192	193	204
Interest cost	Other financial income (expense)	342	344	371
Expected return on plan assets	Other financial income (expense)	(23)	(27)	(50)
Past service cost	Functional costs *	9	9	–
Pension expense before curtailments/settlements		**520**	**519**	**525**
Curtailments	Functional costs *	(2)	(2)	–
Settlements	Functional costs *	12	(3)	–
Pension expense		**530**	**514**	**525**
Actual return on plan assets		18	34	(41)

* Including other operating expenses.

The consolidated statement of comprehensive income contains the following amounts:

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

Pension payments expected:

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

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

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

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

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

Defined contribution plans.

In the 2011 financial year, current contributions for defined contributions plans, which are reported as an expense in the consolidated income statement of the respective year, amounted to EUR 118 million (2010: EUR 114 million, 2009: EUR 73 million).

Civil-servant retirement arrangements at Deutsche Telekom.

An expense of EUR 610 million was recognized in the 2011 financial year (2010: EUR 676 million, 2009: EUR 684 million) for the annual contribution to the BPS-PT special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. The present value to the total obligation arising from payment obligations to this special pension fund was EUR 5.2 billion as of the reporting date (December 31, 2010: EUR 5.9 billion).

13 Other provisions.

	Provisions for termination benefits millions of €	Other provisions for personnel costs millions of €	Provisions for restoration obligations millions of €	Provisions for litigation risks millions of €	Provisions for sales and procurement support millions of €	Miscellaneous other provisions millions of €	Total millions of €
At December 31, 2009	**1,280**	**1,601**	**798**	**450**	**407**	**994**	**5,530**
Of which: current	500	1,349	39	424	407	650	3,369
Changes in the composition of the Group	1	16	1	0	0	6	24
Currency translation adjustments	(2)	19	7	0	5	11	40
Addition	189	1,510	88	126	508	432	2,853
Use	(991)	(1,433)	(36)	(104)	(443)	(358)	(3,365)
Reversal	(66)	(110)	(30)	(19)	(22)	(152)	(399)
Interest effect	(9)	25	46	2	0	6	70
Other changes	35	11	0	2	(1)	21	68
At December 31, 2010	**437**	**1,639**	**874**	**457**	**454**	**960**	**4,821**
Of which: current	260	1,360	32	427	454	660	3,193
Changes in the composition of the Group	0	0	0	0	0	0	0
Currency translation adjustments	(1)	13	(6)	0	0	0	6
Addition	312	1,592	113	132	305	572	3,026
Use	(304)	(1,369)	(44)	(55)	(341)	(320)	(2,433)
Reversal	(87)	(122)	(38)	(83)	(82)	(205)	(617)
Interest effect	0	5	28	1	0	8	42
Other changes	(1)	5	(2)	0	0	59	61
At December 31, 2011	**356**	**1,763**	**925**	**452**	**336**	**1,074**	**4,906**
Of which: current	219	1,424	32	425	336	781	3,217

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

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

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

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

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

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

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

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

14 Other liabilities.

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

15 Shareholders' equity.

Issued capital.

As of December 31, 2011, the share capital of Deutsche Telekom totaled EUR 11,063 million. The share capital is divided into 4,321,319,206 no par value registered shares.

	2011	
	thousands	%
Federal Republic of Germany	646,575	15.0
KfW Bankengruppe	735,662	17.0
Free float	2,939,082	68.0
Of which: Blackstone Group	191,700	4.4
Of which: BlackRock	145,762	3.4
	4,321,319	**100.0**

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

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

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

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

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

Capital reserves.

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

Total other comprehensive income.

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

	Amount millions of €	No par value shares thousands	Purpose
2009 Authorized capital I *	2,176	850,000	Increase in share capital (until April 29, 2014)
2009 Authorized capital II *	38	15,000	Employee shares (until April 29, 2014)
Contingent capital II	32	12,427	Meeting subscription rights to shares from stock options under the 2001 Stock Option Plan
2010 Contingent capital	1,100	429,688	Servicing guaranteed convertible bonds or bonds with warrants issued on or before May 2, 2015

* The Supervisory Board's approval is required.

Notes to the consolidated income statement.

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

16 Net revenue.

Net revenue breaks down into the following revenue categories:

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

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

17 Cost of sales.

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

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

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

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

18 Selling expenses.

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

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

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

19 General and administrative expenses.

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

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

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

20 Other operating income.

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

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

21 Other operating expenses.

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

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

22 Finance costs.

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

* Interest expense calculated according to the effective interest method and adjusted for accrued interest from derivatives that were used as hedging instruments against interest rate-based changes in the fair values of financial liabilities measured at amortized cost in the reporting period for hedge accounting in accordance with IAS 39 (2011: interest income of EUR 126 million, 2010: interest income of EUR 155 million, 2009: interest income of EUR 107 million).

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

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

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

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

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

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

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

24 Other financial income/expense.

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

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

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

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

25 Income taxes.

Income taxes in the consolidated income statement.

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

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

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

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

Reconciliation of the effective tax rate. Income taxes of EUR 2,349 million in the reporting year (2010: EUR 935 million, 2009: EUR 1,782 million) are derived as follows from the expected income tax expense that would have arisen had the statutory income tax rate of the parent company (combined income tax rate) been applied to profit/loss before income taxes:

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

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

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

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

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

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

Income taxes in the consolidated statement of financial position.

Current income taxes in the consolidated statement of financial position:

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

Deferred taxes in the consolidated statement of financial position:

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

Development of deferred taxes:

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

Development of deferred taxes on loss carryforwards:

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

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

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

The allowances relate primarily to loss carryforwards.

The loss carryforwards are shown in the following table:

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

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

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

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 95 million (December 31, 2010: EUR 88 million) and on temporary differences for trade tax purposes in the amount of EUR 3 million (December 31, 2010: EUR 1 million). Apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 342 million (December 31, 2010: EUR 160 million) were recognized for other foreign income tax loss carryforwards.

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

A positive tax effect in the amount of EUR 6 million (2010: EUR 301 million, 2009: EUR 12 million) attributable to the utilization of tax loss carryforwards on which deferred tax assets had not yet been recognized, was recorded in the reporting year.

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

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

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

26 Profit/loss attributable to non-controlling interests.

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

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

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

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

27 Earnings per share.

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

Basic earnings per share.

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

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

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

Diluted earnings per share.

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

28 Dividend per share.

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

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

29 Average number of employees and personnel costs.

Average number of employees.

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

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

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

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

30 Depreciation, amortization and impairment losses.

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

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

The following table provides a breakdown of impairment losses:

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

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

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

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:

		Net revenue millions of €	Intersegment revenue millions of €	Total revenue millions of €	Profit (loss) from operations (EBIT) millions of €	Interest income millions of €	Interest expense millions of €	Share of profit (loss) of associates and joint ventures accounted for using the equity method millions of €	Income taxes millions of €
Germany	2011	22,621	1,410	24,031	4,445	92	(622)	2	(14)
	2010	23,523	1,622	25,145	4,916	24	(600)	–	8
	2009	23,813	1,610	25,423	5,062	172	(107)	2	(13)
Europe	2011	14,431	693	15,124	780	141	(478)	(54)	(522)
	2010	16,183	657	16,840	985	147	(840)	(52)	(319)
	2009	18,996	611	19,607	140	218	(666)	7	(582)
United States	2011	14,801	10	14,811	(710)	86	(628)	(11)	(562)
	2010	16,075	12	16,087	2,092	24	(514)	(1)	(595)
	2009	15,457	14	15,471	2,233	16	(543)	6	(643)
Systems Solutions	2011	6,567	2,682	9,249	(43)	31	(31)	(10)	(12)
	2010	6,411	2,646	9,057	44	23	(31)	(4)	(12)
	2009	6,083	2,715	8,798	(11)	39	(46)	10	(12)
Group Headquarters & Shared Services	2011	233	1,911	2,144	1,160	1,558	(2,418)	–	(1,279)
	2010	229	1,937	2,166	(2,479)	1,892	(3,089)	–	117
	2009	253	2,157	2,410	(1,249)	1,156	(2,768)	–	(570)
Total	**2011**	**58,653**	**6,706**	**65,359**	**5,632**	**1,908**	**(4,177)**	**(73)**	**(2,389)**
	2010	**62,421**	**6,874**	**69,295**	**5,558**	**2,110**	**(5,074)**	**(57)**	**(801)**
	2009	**64,602**	**7,107**	**71,709**	**6,175**	**1,601**	**(4,130)**	**25**	**(1,820)**
Reconciliation	2011	–	(6,706)	(6,706)	(46)	(1,640)	1,584	–	40
	2010	–	(6,874)	(6,874)	(53)	(1,761)	2,225	–	(134)
	2009	–	(7,107)	(7,107)	(163)	(1,260)	1,234	(1)	38
Group	2011	58,653	–	58,653	5,586	268	(2,593)	(73)	(2,349)
	2010	62,421	–	62,421	5,505	349	(2,849)	(57)	(935)
	2009	64,602	–	64,602	6,012	341	(2,896)	24	(1,782)

		Segment assets millions of €	Segment liabilities millions of €	Segment investments millions of €	Investments accounted for using the equity method millions of €	Depreciation and amortization millions of €	Impairment losses millions of €	Average number of employees
Germany	2011	33,522	24,450	3,717	27	(4,438)	(9)	76,028
	2010	35,334	26,111	4,902	26	(4,178)	(15)	79,364
	2009	52,002	16,244	3,221	23	(4,189)	(7)	84,584
Europe	2011	37,815	12,990	1,998	6,781	(3,159)	(1,056)	60,105
	2010	46,040	20,334	2,127	7,143	(3,453)	(704)	65,435
	2009	46,759	22,063	4,813	52	(3,772)	(2,385)	69,277
United States	2011	38,075	24,110	1,787	27	(2,110)	(2,297)	34,518
	2010	38,316	23,056	2,118	24	(2,063)	(1)	37,795
	2009	36,087	19,326	2,494	18	(2,025)	(3)	38,231
Systems Solutions	2011	8,751	5,460	615	38	(626)	(14)	48,224
	2010	8,855	5,783	819	49	(619)	(4)	47,588
	2009	8,872	5,932	837	54	(718)	(3)	45,328
Group Headquarters & Shared Services	2011	101,152	57,182	623	–	(721)	(75)	21,494
	2010	107,357	60,806	675	–	(714)	(126)	22,312
	2009	120,162	78,379	747	–	(660)	(173)	20,181
Total	**2011**	**219,315**	**124,192**	**8,740**	**6,873**	**(11,054)**	**(3,451)**	**240,369**
	2010	**235,902**	**136,090**	**10,641**	**7,242**	**(11,027)**	**(850)**	**252,494**
	2009	**263,882**	**141,944**	**12,112**	**147**	**(11,364)**	**(2,571)**	**257,601**
Reconciliation	2011	(96,773)	(41,591)	(187)	–	69	–	–
	2010	(108,090)	(51,306)	(302)	–	68	1	–
	2009	(136,108)	(56,107)	(645)	–	41	–	–
Group	2011	122,542	82,601	8,553	6,873	(10,985)	(3,451)	240,369
	2010	127,812	84,784	10,339	7,242	(10,959)	(849)	252,494
	2009	127,774	85,837	11,467	147	(11,323)	(2,571)	257,601

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

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

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

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

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

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

33 Contingent liabilities and assets.

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

Contingencies.

Year-end bonus for civil servants. In November 2004, the Federal Republic of Germany passed the first Act to amend the Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz), which abolished the obligation on Deutsche Telekom and other successor companies to Deutsche Bundespost to pay active civil servants an annual year-end bonus under the German Federal Act on Bonus Payments (Bundessonderzahlungsgesetz). Various court instances saw no conflict with constitutional law in this. In December 2008, the Federal Administrative Court decided to refer the standards in dispute to the Federal Constitutional Court for a judicial review pursuant to Article 100 of the Basic Law. We expect a decision from the Federal Constitutional Court in the next few months. If the court rules that the abolition of the bonus payment was unconstitutional, a supplementary payment of around EUR 0.2 billion for the period 2004 to June 2009 may have to be made.

Reduced pay tables. With the entry into force of the reform of civil service law (Dienstrechtsneuordnungsgesetz) on February 11, 2009, the legislator integrated the previous year-end bonus paid annually in accordance with the German Federal Act on Bonus Payments into the basic monthly salary for all federal civil servants. In accordance with § 78 of the Federal Civil Service Remuneration Act (Bundesbesoldungsgesetz), this does not apply for civil servants employed by the successor companies to Deutsche Bundespost. Some civil servants also appealed the new, reduced pay tables. The Stuttgart Administrative Court has submitted two cases to the Federal Constitutional Court for it to evaluate whether this was constitutional. Depending on the outcome, supplementary payments of up to EUR 0.1 billion may have to be made for the period beginning July 2009.

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

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

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

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

European Commission investigates Slovak Telekom. In April 2009, the European Commission started an investigation into allegedly abusive behavior of Slovak Telekom (ST) in the broadband market in Slovakia. According to the European Commission, such an infringement could consist of refusing access to the unbundled local loop or other wholesale services for the broadband infrastructure as well as margin squeeze situations in these areas. In December 2010, the European Commission formally extended the investigation to include Deutsche Telekom as Slovak Telekom's parent company, allowing the European Commission to also hold Deutsche Telekom liable for Slovak Telekom's alleged infringements. Should the European Commission ultimately ascertain an infringement of European anti-trust law, it could impose fines against ST and Deutsche Telekom.

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

A first hearing took place in June 2008 during which the arbitration court discussed legal issues with the parties, yet shed no light on the possible outcome of the case. Various witnesses and experts were heard at another hearing in December 2010. We expect the proceedings to continue in 2012.

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

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

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

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

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

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

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

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

Contingent assets.

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

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

34 Disclosures on leases.

Deutsche Telekom as lessee.

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

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

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

The following table provides a breakdown of these amounts:

	Minimum lease payments		Interest component		Present values	
	Total millions of €	Of which: sale and leaseback millions of €	Total millions of €	Of which: sale and leaseback millions of €	Total millions of €	Of which: sale and leaseback millions of €
Dec. 31, 2011						
Maturity						
Within 1 year	257	108	100	60	157	48
In 1 to 3 years	413	218	177	109	236	109
In 3 to 5 years	363	209	142	90	221	119
After 5 years	1,136	666	399	257	737	409
	2,169	**1,201**	**818**	**516**	**1,351**	**685**
Dec. 31, 2010						
Maturity						
Within 1 year	235	106	93	63	142	43
In 1 to 3 years	405	213	185	114	220	99
In 3 to 5 years	360	211	154	96	206	115
After 5 years	1,279	758	447	290	832	468
	2,279	**1,288**	**879**	**563**	**1,400**	**725**

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

Some leases include extension options and provide for stepped rents. Most of these leases relate to radio towers in the United States.

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

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

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

Deutsche Telekom as lessor.

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

The amount of the net investment in a finance lease is determined as shown in the following table:

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

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

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

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

	Dec. 31, 2011 millions of €	Dec. 31, 2010 millions of €
Maturity		
Within 1 year	374	359
In 1 to 3 years	476	456
In 3 to 5 years	349	346
After 5 years	737	756
	1,936	**1,917**

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

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

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

Share matching plan.

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

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

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

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

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

At the end of the term of the individual plans, Deutsche Telekom AG's Supervisory Board will establish whether the absolute and relative performance targets for the Board of Management have been achieved. Based on these findings, the Board of Management will establish whether the target has been achieved for Deutsche Telekom and all participating companies as a whole and will communicate this decision. Once it has been established whether one or both targets have been achieved, the relevant amounts will be paid out to the beneficiaries. With the exception of Board of Management members who did not switch to the new compensation system for the Board of Management, the MTIP was issued for the last time in 2010.

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

MTIP plan year	Maximum budget millions of €	Term of plan years	Share price at start of plan €	Absolute performance target €	Starting value of the index
2009	55	3	11.01	14.31	328.55
2010	57	3	10.29	13.38	417.62
2011	**1**	**3**	**9.79**	**12.73**	**441.12**

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

The MTIP of **Magyar Telekom** is largely based on the model that has been used for the MTIP of Deutsche Telekom AG, except that the assessment benchmark is the performance of Magyar Telekom shares and the Dow Jones EURO STOXX® Total Return Index. In addition, the absolute performance target is achieved if, at the end of the individual plans, Magyar Telekom's share price has risen by at least 35 percent compared with Magyar Telekom's share price at the beginning of the plan. The 2009 to 2011 plans are still in operation.

The MTIP of **Hrvatski Telekom** is largely based on the model that has been used for the MTIP of Deutsche Telekom AG. The absolute performance target for the 2008 MTIP is, however, EBITDA, and the relative performance target is a combined index from a basket of telecommunications shares. The absolute performance target for the 2009 and 2010 MTIP is a 30-percent increase in the HT share price.

PTC has established a performance cash plan program with long-term incentive plans (LTIPs). The program provides for additional pay in the form of deferred compensation under the terms and conditions of the LTIP and is aimed at employees whose performance is of outstanding significance for the company's shareholder value. The LTIP is generally open to high-performers at specific management levels. Participants in the plans are selected individually by the management of PTC. Each plan encompasses three consecutive cycles, each running from January 1 through December 31. Participants receive payments from the plan after three years, provided the defined EBITDA target has been achieved (EBITDA hurdle). In addition, a bonus is paid at the end of each cycle. The amount of the bonus is determined for each cycle individually and depends on the level of target achievement. The 2009 to 2011 plans are still in operation.

Phantom share plan (PSP).

T-Mobile USA has established a phantom share plan (PSP) as long-term incentive plan (LTIP) on a revolving basis for the years 2005 through 2011, providing benefits for the top management. Under the PSP, T-Mobile USA grants performance-based cash bonus awards. These awards are earned (in full or in part) based upon customer growth on a sliding scale from 60 to 150 percent of the original number of phantom shares granted. The value of a phantom share appreciates or depreciates from its USD 10 per share face value proportionate to the change in the appraised enterprise value of T-Mobile USA over the performance period. The value of an award is determined by multiplying the number of phantom share awards earned by the appraised value of one phantom share. Awards are earned and paid out ratably over a performance period of two to three years.

Stock option plans.

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

Entity	Plan	Year of issuance	Stock options granted thousands	Vesting period years	Contractual term years	Weighted exercise price	Share price at grant date	Maximum price for SARs	Classification/ accounting treatment
Stock option plans at Deutsche Telekom:									
Deutsche Telekom AG	2001 SOP	2002	3,928	2 – 3	10	€ 12.36	€ 10.30		Equity-settled
	SARs	2002	3	2 – 3	10	€ 12.36	€ 10.30	€ 20.60	Cash-settled
Deutsche Telekom AG (T-Online International AG)	2001 SOP	2002	2,067	2 – 6	10	€ 10.26	€ 8.21		Cash-settled
T-Mobile USA	SOP	2002	5,964	up to 4	max. 10	USD 13.35			Cash-settled
		2003	1,715	up to 4	max. 10	USD 12.86			Cash-settled
	T-Mobile USA/ Powertel	2004	230	up to 4	max. 10	USD 19.64			Cash-settled
Stock option plans at OTE:									
OTE group	Cosmote group	2005 – 2007	3,440	up to 3	6	€ 14.90	€ 15.48		Equity-settled
	OTE (original) 2008	2008	3,142	up to 3	max. 6	€ 15.70	€ 21.38		Equity-settled
	OTE group 2008	2009	3,226	up to 3	max. 6	€ 16.20	€ 10.40		Equity-settled
		2010	4,671	up to 3	max. 6	€ 9.32	€ 11.26		Equity-settled
		2011	6,633	up to 3	max. 6	€ 4.96	€ 5.64		Equity-settled

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

The table below shows the changes in outstanding options from the stock option plans in the 2011 financial year:

	Equity-settled		Cash-settled		
	Deutsche Telekom AG	OTE group	Deutsche Telekom AG	Deutsche Telekom AG (T-Online International AG)	T-Mobile USA
	Stock options thousands	Stock options thousands	SARs thousands	Stock options thousands	Stock options thousands
Stock options outstanding at January 1, 2011	**6,700**	**12,680**	**132**	**2,021**	**3,042**
Of which: stock options exercisable at January 1, 2011	6,700	6,713	132	2,021	3,042
Granted	–	6,633	–	–	–
Exercised	–	–	–	–	488
Forfeited	4,405	752	131	1,041	2,100
Withdrawn	–	732	–	–	–
Stock options outstanding at December 31, 2011	**2,295**	**17,829**	**1**	**980**	**454**
Of which: stock options exercisable at December 31, 2011	**2,295**	**8,339**	**1**	**980**	**454**
Weighted average exercise price at December 31, 2011 (stock options outstanding)	€ 12.36	€ 11.41	€ 12.36	€ 9.11	USD 13.38
Weighted average exercise price at December 31, 2011 (stock options exercisable)	€ 12.36	€ 16.84	€ 12.36	€ 9.11	USD 13.38

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

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

* Weighted average.

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

* Weighted average.

36 Disclosures on financial instruments.

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

	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2011	Amounts recognized in the statement of financial position according to IAS 39			
			Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
		millions of €	millions of €	millions of €	millions of €	millions of €
Assets						
Cash and cash equivalents	LaR	3,749	3,749			
Trade receivables	LaR	6,455	6,455			
Originated loans and receivables	LaR/n.a.	2,030	1,712			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	177	177			
Financial assets available for sale [a]	AfS	729		270	459	
Derivative financial assets [b]						
Derivatives without a hedging relationship	FAHfT	833				833
Derivatives with a hedging relationship	n.a.	700			269	431
Non-current assets and disposal groups held for sale [c]	AfS	380			380	
Liabilities and shareholders' equity [d]						
Trade payables	FLAC	6,409	6,409			
Bonds and other securitized liabilities	FLAC	36,228	36,228			
Liabilities to banks	FLAC	4,916	4,916			
Liabilities to non-banks from promissory notes	FLAC	1,188	1,188			
Other interest-bearing liabilities	FLAC	1,713	1,713			
Other non-interest-bearing liabilities	FLAC	1,528	1,528			
Finance lease liabilities	n.a.	1,351				
Derivative financial liabilities [b]						
Derivatives without a hedging relationship	FLHfT	833				833
Derivatives with a hedging relationship	n.a.	561				561
Of which: aggregated by category in accordance with IAS 39:						
Loans and receivables	LaR	11,916	11,916			
Held-to-maturity investments	HtM	177	177			
Available-for-sale financial assets [a]	AfS	1,109		270	839	
Financial assets held for trading	FAHfT	833				833
Financial liabilities measured at amortized cost	FLAC	51,982	51,982			
Financial liabilities held for trading	FLHfT	833				833

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

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

Classes of financial instruments according to IFRS 7.27 et seq.

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

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

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

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

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

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

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

Net gain/loss by measurement category.

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

Interest from financial instruments is recognized in finance costs, dividends in other financial income/expense (please also refer to Notes 22 and 24). Deutsche Telekom recognizes the other components of net gain/loss in other financial income/expense, except for impairments/reversal of impairments of trade receivables (please also refer to Note 2) that are classified as loans and receivables which are reported under selling expenses. The net gain from the subsequent measurement for financial instruments held for trading (EUR 576 million) also includes interest and currency translation effects. The net currency translation gains on financial assets classified as loans and receivables (EUR 370 million) are primarily attributable to the Group-internal transfer of foreign-currency loans taken out by Deutsche Telekom's financing company, Deutsche Telekom International Finance B.V., on the capital market.

These were offset by corresponding currency translation losses on capital market liabilities of EUR 616 million. Finance costs from financial liabilities measured at amortized cost (EUR 2,440 million) primarily consist of interest expense on bonds and other (securitized) financial liabilities. The item also includes interest expenses from interest added back and interest income from interest discounted from trade payables. However, it does not include the interest expense and interest income from interest rate derivatives Deutsche Telekom used in the reporting period to hedge the fair value risk of financial liabilities (please also refer to Note 22).

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

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

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

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

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

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

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

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

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

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

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

The currency sensitivity analysis is based on the following assumptions:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If the market interest rates had been 100 basis points higher (lower) at December 31, 2011, profit or loss before taxes would have been EUR 223 million (December 31, 2010: EUR 249 million) lower (higher). The hypothetical effect of EUR –223 million on income results from the potential effects of EUR –190 million from interest rate derivatives and EUR –33 million from non-derivative, variable-interest financial liabilities. Potential effects from interest rate derivatives are partially balanced out by the contrasting performance of non-derivative financial instruments which cannot, however, be shown as a result of applicable accounting standards. If the market interest rates had been 100 basis points higher (lower) at December 31, 2011, the hedging reserve would have been EUR 208 million (December 31, 2010: EUR 164 million) higher (lower).

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

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

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

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

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

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

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

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

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

Liquidity risks. Please refer to Note 10.

Hedge accounting.

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

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

As the list of the fair values of derivatives shows (please refer to table under "Derivatives"), Deutsche Telekom had interest rate derivatives with a net fair value of EUR +0.4 billion (December 31, 2010: EUR +0.1 billion) designated as hedging instruments in fair value hedges at December 31, 2011. The remeasurement of the hedged items resulted in losses of EUR 0.3 billion being recorded in other financial income/expense in the 2011 financial year (2010: losses of EUR 0.3 billion); the changes in the fair values of the hedging instruments resulted in gains of EUR 0.2 billion (2010: gains of EUR 0.3 billion) being recorded in other financial income/expense.

Cash flow hedges – interest rate risks. Deutsche Telekom entered into payer interest rate swaps and forward payer interest rate swaps (receive variable, pay fixed) to hedge the cash flow risk of variable-interest debt. The interest payments to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The changes in the cash flows of the hedged items resulting from changes in the Euribor and Libor rates are offset against the changes in the cash flows of the interest rate swaps. The aim of this hedging is to transform the variable-interest bonds into fixed-income debt, thus hedging the cash flows of the financial liabilities. The terms of the hedging relationships will end in the years 2012 through 2017. Credit risks are not part of the hedging.

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

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

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

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

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

As the list of the fair values of derivatives shows (please refer to table under “Derivatives”), Deutsche Telekom had interest rate derivatives with a fair value of EUR –0.5 billion (2010: EUR –0.3 billion) amounting to a nominal total of EUR 8.8 billion (2010: EUR 6.7 billion) designated as hedging instruments for the hedging of interest rate risks as part of cash flow hedges at December 31, 2011.

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

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

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

In the 2011 financial year, gains (before taxes) totaling EUR 130 million (2010: gains of EUR 238 million) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve) (excluding the cash flow hedge for the cash payment from AT&T totaling USD 3 billion). These changes constitute the effective portion of the hedging relationship. In the 2011 financial year, gains totaling EUR 61 million (2010: gains of EUR 98 million) recognized directly in equity were reclassified to other financial income/expense (excluding the cash flow hedge for the cash payment from AT&T totaling USD 3 billion). There was no material ineffectiveness of these hedges recorded as of the reporting date.

As the list of the fair values of derivatives shows (please refer to table under “Derivatives”), Deutsche Telekom had currency forwards of a net fair value of EUR 8 million (December 31, 2010: EUR –43 million) and a total volume of EUR 0.5 billion (December 31, 2010: EUR 0.3 billion), as well as cross-currency swaps of a net fair value of EUR +0.2 billion (December 31, 2010: EUR +0.1 billion) and a total volume of EUR 2.1 billion (December 31, 2010: EUR 2.1 billion) designated as hedging instruments for cash flow hedges as of December 31, 2011.

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

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

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

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

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

An important indicator of capital management is the gearing ratio of net debt to shareholders' equity as shown in the consolidated statement of financial position. Deutsche Telekom considers net debt to be an important measure for investors, analysts, and rating agencies. It is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. The gearing remained constant year-on-year at 1.0 as of December 31, 2011. The target corridor for this indicator is between 0.8 and 1.2.

Calculation of net debt; shareholders' equity.

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

38 Related party disclosures.

Federal Republic of Germany and other related parties. The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds approximately 32.0 percent (December 31, 2010: 32.0 percent) of the share capital of Deutsche Telekom AG. The Federal Republic usually represents a solid majority at the shareholders' meeting due to its high attendance rate, giving the Federal Republic control over Deutsche Telekom. Therefore, the Federal Republic and the companies controlled by the Federal Republic or companies over which the Federal Republic can exercise a significant influence are classified as related parties of Deutsche Telekom. Charges for services provided to the Federal Republic and its departments and agencies, and the individual companies are based on Deutsche Telekom's commercial pricing policies. Deutsche Telekom participates in the spectrum auctions of the Federal Network Agency. The acquisition of mobile communications spectrum though licenses may result in build-out requirements stipulated by the Agency.

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

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

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

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

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

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

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

Compensation of the Board of Management.

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

Changes in the composition of the Board of Management and contract extensions. On February 23, 2011, the Supervisory Board agreed to Guido Kerkhoff's request to resign from the Board of Management effective midnight on March 31, 2011.

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

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

Change in Board of Management compensation. On February 24, 2010, the Supervisory Board resolved on a new system for the compensation of the Board of Management members, taking into account the provisions specified in the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) that has been in effect since August 5, 2009. The shareholders' meeting of Deutsche Telekom AG on May 3, 2010 approved this new system. Pursuant to the VorstAG explanatory memorandum (document 16/13433), the contracts of the Board of Management members that were in existence before the Act entered into force enjoy vested rights protection. These Board of Management members nevertheless have the option of voluntarily changing over to the new compensation system. At December 31, 2011, Board of Management members René Obermann, Reinhard Clemens, Niek Jan van Damme, Timotheus Höttges, Claudia Nemat, and Edward R. Kozel had changed over to the new system while the other members remained with the old system, the vast majority of whose provisions have already been brought in line with the requirements of VorstAG. The new and old systems are explained on the following pages.

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

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

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

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

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

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

Variable performance-based remuneration (old system).

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

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

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

[a] Amounts relating to Board of Management members who left the Company in the course of 2010 are no longer included in the table.
[b] Fair value calculated using the Monte Carlo model.

Variable performance-based remuneration (new system).

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

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

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

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

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

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

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

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

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

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

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

Company pension plan.

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

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

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

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

In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In the event of a permanent inability to work (invalidity), the beneficiary is entitled to the pension fund.

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

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

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

An annual contribution of EUR 290,000 was credited to the pension accounts of Guido Kerkhoff and Niek Jan van Damme in accordance with the provisions of the new company pension plan; EUR 270,000 was credited to the account of Dr. Manfred Balz. Claudia Nemat and Edward R. Kozel each received an annual credit of EUR 250,000. The contributions for Claudia Nemat and Guido Kerkhoff for 2011 were defined pro rata temporis for the period of their office as a member of the Board. The pension benefit rights of Edward R. Kozel were not yet vested at his date of resignation and were therefore forfeited without replacement or compensation.

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

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

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

The stock options that have been granted can be exercised under the terms of the stock option plans. However, no options have yet been exercised.

The 2001 tranche of the 2001 Stock Option Plan expired in the 2011 financial year. The decrease in stock options in this tranche compared with the prior year exclusively results from the entitlements of the 2001 tranche that were forfeited.

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

		Number of options 2001 SOP 2001 tranche	Value of options on issue (2001) €	Number of options 2001 SOP 2002 tranche	Value of options on issue (2002) €	Weighted average exercise price of stock options €
René Obermann	2011	0		28,830	3.79	12.36
	2010	48,195	4.87	28,830	3.79	23.40
Dr. Manfred Balz	2011	0		17,360	3.79	12.36
	2010	32,130	4.87	17,360	3.79	23.81
Timotheus Höttges	2011	0		17,050	3.79	12.36
	2010	0		17,050	3.79	12.36
Guido Kerkhoff	2011	0		0		
	2010	0		4,650	3.79	12.36
	2011	**0**		**63,240**		
	2010	**80,325**		**67,890**		

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

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

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

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

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

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

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

All other remuneration is totally unrelated to performance.

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

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

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

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

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

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

Former members of the Board of Management. A total of EUR 5.0 million (2010: EUR 5.4 million) was recorded for payments to and entitlements for former members of the Board of Management and their surviving dependents.

Provisions (measured in accordance with IAS 19) totaling EUR 100.6 million (2010: EUR 99.3 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

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

Compensation of the Supervisory Board.

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation of Deutsche Telekom AG. Supervisory Board members receive fixed annual remuneration of EUR 40,000.00 plus variable, performance-related remuneration depending on the development of net profit per no par value share.

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

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

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

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

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

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

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

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

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

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

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

41 Events after the reporting period.

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

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

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

PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft.

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

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

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

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

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

Responsibility statement.

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

Bonn, February 6, 2012

Deutsche Telekom AG
Board of Management

René Obermann

Dr. Manfred Balz

Reinhard Clemens

Niek Jan van Damme

Timotheus Höttges

Claudia Nemat

Thomas Sattelberger

Independent auditor's report.

To Deutsche Telekom AG, Bonn.

Report on the consolidated financial statements.

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

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

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

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

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

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

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

Report on the Group management report.

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

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

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

Frankfurt/Main, February 6, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser
Wirtschaftsprüfer

Thomas Tandetzki
Wirtschaftsprüfer

Further information

We have the experience and expertise necessary for providing secure solutions from the cloud for consumers, small and medium-sized enterprises, and major corporations alike. No other competitor in Germany can match that.

253 Boards, seats, and further information

Members of the Supervisory Board of Deutsche Telekom AG in 2011

including seats on the supervisory boards of other companies.

Prof. Dr. Ulrich Lehner.
Member of the Supervisory Board since April 17, 2008
Chairman of the Supervisory Board since April 25, 2008
Member of the Shareholders' Committee
of Henkel AG & Co. KGaA, Düsseldorf
- Porsche Automobil Holding SE, Stuttgart (since 11/2007)
- E.ON AG, Düsseldorf (since 4/2003)
- Henkel Management AG, Düsseldorf (since 2/2008)
- HSBC Trinkaus & Burkhardt AG, Düsseldorf (from 6/2004 to 6/2011)
- ThyssenKrupp AG, Düsseldorf (since 1/2008)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Dr. August Oetker KG, Bielefeld, Member of the Advisory Board (since 3/2000)
- Novartis AG, Basle, Switzerland, Member of the Board of Directors (since 3/2002)

Lothar Schröder.
Member of the Supervisory Board since June 22, 2006
Deputy Chairman of the Supervisory Board since June 29, 2006
Member of the ver.di National Executive Board, Berlin
- Telekom Deutschland GmbH, Bonn (since 8/2003), Deputy Chairman of the Supervisory Board (since 9/2003)
- Vereinigte Postversicherung VVaG, Stuttgart (since 6/2011)

Hermann Josef Becker.
Member of the Supervisory Board since January 1, 2008
Member of the management of Deutsche Telekom Direct Sales and Consulting and Chairman of the Group Executive Staff Representation Committee and Executive Staff Representation Council at Deutsche Telekom AG, Bonn
– no other seats –

Dr. Wulf H. Bernotat.
Member of the Supervisory Board since January 1, 2010
Former Chairman of the Board of Management of E.ON AG, Düsseldorf
- Allianz SE, Munich (since 4/2003)
- Bertelsmann AG, Gütersloh (since 5/2006)
- Metro AG, Düsseldorf (since 5/2003)

Dr. Hans Bernhard Beus.
Member of the Supervisory Board since December 15, 2011
State Secretary, Federal Ministry of Finance, Berlin
- Deutsche Bahn AG, Berlin (since 3/2010)
- Deutsche Bahn Mobility Logistics AG, Berlin (since 3/2010)
- KfW IPEX-Bank GmbH, Frankfurt/Main (since 3/2010)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Institute for Federal Real Estate, Bonn, agency under public law (not a commercial enterprise within the meaning of § 100 (2), Sentence 1, no. 1 AktG (German Stock Corporation Act)), Chairman of the Board of Governors – purely advisory body (since 5/2011)

Monika Brandl.
Member of the Supervisory Board since November 6, 2002
Chairwoman of the Central Works Council at Deutsche Telekom AG, Bonn
– no other seats –

Hans Martin Bury.
Member of the Supervisory Board since May 15, 2008
Managing Partner, HERING SCHUPPENER Consulting Corporate Affairs & Public Strategies GmbH, Düsseldorf
– no other seats –

Dr. Hubertus von Grünberg.
Member of the Supervisory Board since May 25, 2000
Chairman of the Board of Directors of ABB Ltd., Zurich, Switzerland
- Allianz Versicherungs-AG, Munich (since 5/1998)

Member of comparable supervisory bodies of companies in Germany or abroad:
- ABB Ltd., Zurich, Switzerland, Chairman of the Board of Directors (since 5/2007)
- Schindler Holding AG, Hergiswil, Switzerland, Board of Directors (since 5/1999)
- Sapinda Holding B.V., Netherlands, Chairman of the Advisory Board (since 2/2011)

Lawrence H. Guffey.
Member of the Supervisory Board since June 1, 2006
Senior Managing Director, The Blackstone Group International Partners Ltd., London, United Kingdom

Member of comparable supervisory bodies of companies in Germany or abroad:
- Axtel S.A.B. de C.V., San Pedro Garza Garcia, Mexico, Member of the Consejo de Administración (Board of Directors) (since 4/2000)
- The Paris Review Foundation, Inc., New York, United States, Member of the Board of Directors (since 7/2006)
- TDC A/S, Copenhagen, Denmark, Member of the Bestyrelsen (Board of Directors) (since 2/2006)

Sylvia Hauke (née Kühnast).
Member of the Supervisory Board since May 3, 2007
Member of the Central Works Council's executive committee at Telekom Deutschland GmbH, Hanover
- Telekom Deutschland GmbH, Bonn (since 1/2011)

Ulrich Hocker.
Member of the Supervisory Board since October 14, 2006
President, Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), Düsseldorf since November 21, 2011
Manager-in-Chief, Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), Düsseldorf until November 20, 2011
- E.ON AG, Düsseldorf (since 6/2000)
- Feri Finance AG, Bad Homburg (since 12/2001), Deputy Chairman of the Supervisory Board (since 12/2005)
- Gildemeister AG, Bielefeld (since 5/2010)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Gartmore SICAV, Luxembourg, Luxembourg (from 5/2005 to 6/2011)
- Phoenix Mecano AG, Stein am Rhein, Switzerland (since 8/1988), President of the Administrative Board (since 7/2003)

Lothar Holzwarth.
Member of the Supervisory Board since November 6, 2002
Chairman of the Central Works Council at Telekom Deutschland GmbH, Bonn (since 6/2010)
– PSD Bank RheinNeckarSaar eG (since 1/1996), Deputy Chairman of the Supervisory Board (since 6/2008)
– Telekom Deutschland GmbH, Bonn (since 3/2010)

Hans-Jürgen Kallmeier.
Member of the Supervisory Board since October 15, 2008
Chairman of the Central Works Council at T-Systems International GmbH, Frankfurt/Main
– T-Systems International GmbH, Frankfurt/Main (since 12/2010)

Waltraud Litzenberger.
Member of the Supervisory Board since June 1, 1999
Chairwoman of the Group Works Council and the European Works Council at Deutsche Telekom AG, Bonn
– no other seats –

Michael Löffler.
Member of the Supervisory Board since January 1, 1995
Member of the Works Council at Deutsche Telekom Netzproduktion GmbH, Bonn, Technical Infrastructure Branch Office, Central/Eastern District
– no other seats –

Prof. h.c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelmann.
Member of the Supervisory Board since January 1, 2010
Former Vice Chairman of the Executive Board, ThyssenKrupp AG, Duisburg and Essen
– Commerzbank AG, Frankfurt/Main (since 4/2006)
– LANXESS AG, Leverkusen (since 3/2005)
– LANXESS Deutschland GmbH, Leverkusen (since 3/2005)
– ThyssenKrupp Materials International GmbH *, Düsseldorf (from 10/2009 to 12/2011)
– ThyssenKrupp Steel Europe AG *, Duisburg (from 9/1997 to 12/2011)

Member of comparable supervisory bodies of companies in Germany or abroad:
– Hoberg & Driesch GmbH, Düsseldorf (since 2/2001), Chairman of the Advisory Board (since 5/2004)

Dr. Ulrich Schröder.
Member of the Supervisory Board since October 1, 2008
Chairman of the Board of Managing Directors of KfW, Frankfurt/Main
– DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH *, Cologne (since 10/2009)
– Deutsche Post AG, Bonn (since 9/2008)
– KfW IPEX-Bank GmbH *, Frankfurt/Main (from 10/2009 to 03/2011)
– 2020 European Fund for Energy, Climate Change and Infrastructure ("Fonds Marguerite"), Luxembourg, Luxembourg (since 11/2009)

Michael Sommer.
Member of the Supervisory Board since April 15, 2000
Chairman of the German Confederation of Trade Unions (DGB), Berlin

Member of comparable supervisory bodies of companies in Germany or abroad:
– KfW, Frankfurt/Main, Board of Supervisory Directors (since 1/2003)

Sibylle Spoo.
Member of the Supervisory Board since May 4, 2010
Lawyer, Trade Union Secretary at the ver.di Federal Administration, Berlin
– no other seats –

Dr. h.c. Bernhard Walter.
Member of the Supervisory Board since May 27, 1999
Former Chairman of the Board of Managing Directors, Dresdner Bank AG, Frankfurt/Main
– Bilfinger Berger SE, Mannheim (since 7/1998), Chairman of the Supervisory Board (since 5/2006)
– Daimler AG, Stuttgart (since 5/1998)
– Henkel AG & Co. KGaA, Düsseldorf (since 5/1998)

The following individuals resigned from the Supervisory Board in 2011:

Jörg Asmussen.
Member of the Supervisory Board from July 1, 2008 to December 14, 2011
State Secretary, Federal Ministry of Finance, Berlin
– Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) (formerly Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (GTZ)), Frankfurt/Main (from 9/2008 to 12/2011)

* Supervisory board seats in companies that are part of the same group, as defined in § 100 (2), Sentence 2 AktG (German Stock Corporation Act).

Members of the Board of Management of Deutsche Telekom AG in 2011

including seats on the supervisory boards of other companies.

René Obermann.
Chairman of the Board of Management since November 13, 2006
– E.ON AG, Düsseldorf (since 5/2011)

Member of the supervisory boards of the following subsidiaries, associates and joint-ventures:
- T-Mobile USA Inc., Bellevue, United States (since 1/2003), Chairman of the Board of Directors (since 12/2006)
- T-Systems International GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 12/2006)

Dr. Manfred Balz.
Board member responsible for Data Privacy, Legal Affairs and Compliance since October 22, 2008
– Arcandor AG (insolvent), Essen (since 4/2009)

Reinhard Clemens.
Board member responsible for T-Systems since December 1, 2007
– no other seats –

Niek Jan van Damme.
Board member responsible for Germany since July 1, 2009
Acting Board member responsible for Europe
from April 1, 2010 to September 30, 2011

Member of the supervisory boards of the following subsidiaries, associates and joint-ventures:
- Deutsche Telekom Kundenservice GmbH, Bonn (since 8/2009)
- Deutsche Telekom Technischer Service GmbH, Bonn (since 9/2009), Chairman of the Supervisory Board (since 12/2009)
- Telekom Shop Vertriebsgesellschaft mbH, Bonn (since 8/2009), Chairman of the Supervisory Board (since 9/2009)

Timotheus Höttges.
Board member responsible for Finance since March 1, 2009
– FC Bayern München AG, Munich (since 2/2010)

Member of the supervisory boards of the following subsidiaries, associates and joint-ventures:
- Everything Everywhere Limited, Hatfield, United Kingdom, Chairman of the Board of Directors (since 4/2010)
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.), Maroussi, Athens, Greece (since 12/2011)
- Telekom Deutschland GmbH, Bonn (since 4/2005), Chairman of the Supervisory Board (since 7/2009)

Claudia Nemat.
Board member responsible for Europe since October 1, 2011

Member of the supervisory boards of the following subsidiaries, associates and joint-ventures:
- Everything Everywhere Limited, Hatfield, United Kingdom (since 10/2011)
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.), Maroussi, Athens, Greece (since 10/2011)

Thomas Sattelberger.
Board member responsible for Human Resources
from May 3, 2007 to May 2, 2012

Member of the supervisory boards of the following subsidiaries, associates and joint-ventures:
- Telekom Deutschland GmbH, Bonn (since 7/2009)
- T-Systems International GmbH, Frankfurt/Main (since 6/2007)

Board members who left during 2011:

Guido Kerkhoff.
Board member responsible for Europe
from April 1, 2010 to March 31, 2011

Member of the supervisory boards of the following subsidiaries, associates and joint-ventures:
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.), Maroussi, Athens, Greece (from 3/2009 to 3/2011)
- Hvratske Telekom d.d., Zagreb, Croatia, Chairman of the Supervisory Board (from 4/2009 to 3/2011)
- Magyar Telekom Nyrt., Budapest, Hungary, Board of Directors (from 4/2009 to 3/2011)
- PTC, Polska Telefonia Cyfrowa S.A., Warsaw, Poland (from 7/2010 to 3/2011)
- T-Mobile Austria GmbH, Vienna, Austria, Chairman of the Supervisory Board (from 4/2010 to 3/2011)
- T-Mobile Austria Holding GmbH, Vienna, Austria, Chairman of the Supervisory Board (from 4/2010 to 3/2011)
- Everything Everywhere Limited, Hatfield, United Kingdom, Board of Directors (from 7/2010 to 3/2011)

Edward R. Kozel.
Board member responsible for Technology and Innovation
from May 3, 2010 to December 31, 2011

Member of the supervisory boards of the following subsidiaries, associates and joint-ventures:
- BUYIN SA, Brussels, Belgium, Member of the Board of Directors (from 10/2011 to 1/2012)
- ChooChee Inc., Mountain View, California, United States, Member of the Board of Directors (from 9/2010 to 1/2012)
- Deutsche Telekom Venture Funds GmbH, Bonn (since 6/2010), Chairman of the Supervisory Board (since 9/2010)
- T-Venture Holding GmbH, Bonn (since 6/2010), Chairman of the Supervisory Board (since 9/2010)

Glossary.

3G. Third-generation mobile communications standard that supports higher transmission rates (see UMTS).

4G. Used to refer to the fourth-generation mobile communications standard (see LTE).

Access. Internet access.

ADSL. See DSL.

All-IP – all Internet Protocol. An all-IP network makes services such as VoIP, IPTV (Internet Protocol television), data transfer, etc. available to all users anywhere at all times. The data is transmitted in switched packets using the Internet Protocol (IP).

Android. Platform for mobile devices that is based largely on Linux and Java. Android is being developed by the Open Handset Alliance, a Google initiative that counts T-Mobile among its members. T-Mobile launched the T-Mobile G1, the first cell phone in the United States to use this platform, in October 2008 (launch in the United Kingdom in November 2008, in Germany in February 2009).

APM – Application Performance Management. With APM companies can analyze, monitor, and improve their global ICT infrastructure. Protocol optimization of the applications that are transmitted via a Wide Area Network allows data transmission speeds to be accelerated by a factor of up to 50. An end-to-end ICT monitoring function detects and eliminates any faults early on. This produces an optimized ICT infrastructure that is capable of supporting multinational companies' business processes.

App. Apps (short for applications) are programs, especially for smartphones. They are available via an online shop that is usually integrated into the smartphone's operating system and can be installed directly on the device.

ASP – Application Service Provision. An application service provider provides IT applications to business customers over the network. The advantage: Customers can always use the latest version that the provider maintains centrally, e.g., in a computing center, and do not have to worry about buying and maintaining software applications (licenses, updates) themselves.

Asymmetric rates. Denotes a situation where varying rates are billed to the various network operators, for instance for interconnection. If all operators are billed equally, the term used is symmetric rates.

Bandwidth. Denotes the width of the frequency band used to transmit data. The broader the bandwidth, the faster the connection.

Bitstream access. Wholesale service used by alternative telephone companies to provide broadband lines.

Carrier. A telecommunications network operator.

Cloud Computing. Cloud computing is the dynamic provision of infrastructure, software or platform services online. Apart from a high level of automation and virtualization, the services provided have to be multi-client-capable and include standardized hardware and software. Customers source these services on demand and pay based on actual usage. The communication infrastructure may be the Internet (public cloud), a corporate network (private cloud) or a mix of the two (hybrid cloud). Dynamic Services is a T-Systems product for the flexible procurement of ICT resources and services.

Connected life and work. Refers to the convenient management of all personal data and Internet services on any screen, whether PC, cell phone or TV set. Requires secure storage of data in the network, which can then be accessed by all devices via broadband networks.

Cross-selling. Marketing term denoting the sale of related or complementary products or services.

Customer relationship management (CRM). A strategy by which a company manages its interactions with its customers and systematically structures the associated processes.

Dark fiber. Unused ("dark") optical fiber. The decision on how much capacity to place on a single fiber lies with the operator.

De-Mail. The secure electronic counterpart to classic paper-based mail. With the new service, private individuals and companies can send and receive messages and documents securely, confidentially and verifiably over the Internet.

Desktop services. Global desktop services involve a variety of support services, including the outsourcing of entire IT networks. In this context Deutsche Telekom offers a full portfolio of corporate IT services, from server infrastructure and PC workstations through to application management and call center services that provide user support.

Digital Pioneering. Degree program offered by Zeppelin University in Friedrichshafen, Germany that focuses on the development of new business models in digital business areas.

Double play. Refers to service packages combining Internet and voice communication.

Download. Refers to the downloading of files from a remote server over networks such as the Internet or mobile communication connections onto a local computer or other device such as a smartphone.

DSL – Digital Subscriber Line. Appears in Deutsche Telekom's service portfolio as ADSL (Asymmetrical Digital Subscriber Line) for private end-customer lines. Denotes the technology used to transmit data at fast rates (between 16 kbit/s and 640 kbit/s upstream; up to 8 Mbit/s downstream) via standard copper wire pairs in the local loop within a radius of approximately three kilometers.

Dynamic Computing. A T-Systems product for the flexible procurement of ICT resources and services.

Embedded system. Refers to an electronic calculator or computer embedded in a technical system where the calculator either controls and monitors the system it is embedded in or is used for processing specific data or signals, for instance in connection with encryption/decryption, encoding/decoding, and filtering. Embedded systems perform functions – mostly unrecognized by users – in a variety of applications and devices such as medical equipment, washing machines, aircraft, automobiles, refrigerators, TVs, DVD players, set-top boxes, mobile phones, and other electronic entertainment devices. When used in complex systems, a wide range of otherwise autonomous embedded systems are usually combined in a network (e.g., in a vehicle or aircraft).

Enabling. Enabling services are a key component of our business model. We enable other companies or software developers to integrate our network and IT abilities into their own services via standard interfaces. For this purpose we bundle our products to create a toolkit of standard services, supporting the growth of our business partners and benefiting ourselves at the same time.

Enterprise resource planning (ERP). Refers to systems that help deploy an organization's resources such as capital, equipment and human resources as efficiently as possible in order to optimize business processes.

Entertain. Deutsche Telekom's Internet Protocol TV service (see also IPTV). The TV signals are transported over the digital subscriber line, facilitating interactive features such as time-shift TV or access to online video stores.

Flat rate. Rate plan for network access with unlimited online time and data volumes.

FTTH – Fiber To The Home. Optical-fiber technology involving fibers that are laid straight into the customer's home or premises. Provides bandwidths of one Gbit/s and more.

Gigabit. 1 billion bits. Unit of measurement for data transfer rates.

Gigabyte. 1 billion bytes. Unit of measurement for data storage.

GSM – Global System for Mobile Communications. Global standard for digital mobile communications.

Home gateway. Central device used for remotely controlling electronic household appliances.

Hosting. Denotes the provision of storage capacity via the Internet. An Internet service provider's most important services in relation to hosting are registering and operating domains, leasing web servers (in full or in part), and leasing space in a computing center, including Internet connections, regular and emergency power supply, etc.

Hotspot. The term denotes a public area where customers can access the Internet using WiFi (wireless fidelity) technology.

HR. Stands for Human Resources. Comprises all aspects of personnel management at all levels: employees, areas or units, and the company as a whole. Integral part of a company's efforts to achieve its business targets.

HSDPA – High Speed Downlink Packet Access. Packet-based protocol that enhances data rates in UMTS networks and lifts transmission speeds into the megabit range.

HSPA plus. Evolved HSPA offering higher bit rates/bandwidths. HSPA plus enhances the data transfer rates further, making it an ideal standard for use in data-intensive mobile applications.

ICT – Information and Communication Technology.

Infotainment. A contraction of the words “information” and “entertainment.”

Intelligent network. Denotes a service-oriented centralized system that piggybacks onto an existing communication network, adding intelligent network components and additional features in the process.

Internet/intranet. The Internet is a worldwide Internet Protocol (IP)-based computer network that has no central network management. By contrast, intranets are managed IP networks that can be accessed only by specific user groups.

Internet service provider (ISP). An Internet service provider offers various technical services that are required to use or operate Internet services, usually in return for a fee.

IP – Internet Protocol. Non-proprietary transport protocol in layer 3 of the OSI reference model for inter-network communications.

IPTV – Internet Protocol Television. A system whereby a digital television service is delivered using the Internet Protocol. Refers to the digital transfer of television programs and films over a digital data networkusing the Internet Protocol (IP).

IP VPN – Internet Protocol Virtual Private Network. A virtual private network or VPN – e.g., a company intranet – that uses the Internet Protocol. An IP VPN allows the connected Local Area Networks (LANs) of a company to swap data over a “secure” channel (IP tunneling). This makes it possible, for example, to provide secure access to a corporate network from any dial-up Internet access point in the world.

ISDN – Integrated Services Digital Network. ISDN integrates telecommunications services such as telephone, fax, and data communications in a single network. ISDN digitizes the data, which improves transmission quality, enhances transmission speed compared to the standard analog transmission system, and enables packet-switched transmission.

IT – Information Technology.

Joint venture. Two or more companies set up a joint enterprise for cooperation.

LAN – Local Area Network. Refers to a computer network that is restricted to company premises or a campus.

LTE – Long Term Evolution. New generation of 4G mobile communications technology using wireless spectrum that was previously reserved for TV broadcasting before digital TV was introduced. Powerful TV frequencies enable large areas to be covered with far fewer radio masts. LTE supports speeds of over 100 Mbit/s downstream and 50 Mbit/s upstream and facilitates new services for mobile phones, smartphones, and tablet PCs.

M2M – Machine-to-machine. Automatic exchange of information between machines. For example, in an emergency, alarm systems automatically send a signal to security or the police.

Mbit/s – Megabits per second. Unit of data transmission speed.

MVNO – Mobile Virtual Network Operator. Company that offers mobile minutes at relatively low prices without subsidized handsets. A mobile virtual network operator does not have its own wireless network, but uses the infrastructure of another mobile operator to provide its services.

Nearshore and offshore countries. Refers to foreign countries that are close by or far away.

NGA – Next Generation Access. Refers to access to next-generation networks such as IP networks, the optical fiber network (FTTH), and 4G mobile networks.

NGN – Next Generation Network. A communication network that reflects the convergence of conventional networks (telephone networks, mobile communications networks etc.) and IP-based networks. All services are based on the Internet Protocol. NGNs represent a fundamental shift in the architecture of public networks with packet-switched networks replacing the line-switched networks that were optimized for telephone services. They support voice, data, and multimedia and are closely linked to the spread of Voice over IP (VoIP).

One Company. Refers to the merger of Deutsche Telekom’s previously separate mobile communications and fixed-network operations to form a single company within the Group.

Optical fiber. Channel for optical data transmission.

Outsourcing. The assignment of corporate tasks and units to third parties.

Prepay/prepaid. In contrast to postpay contracts, prepay communication services are services for which credit has been purchased in advance with no fixed-term contractual obligations.

PSTN – Public Switched Telephone Network. Global public telephone network comprising elements such as telephones, connecting cables, and exchanges.

Quadruple play. Also referred to as quad play. A package comprising four services: TV, telephony, and Internet (triple play) plus mobile communications.

Rating. Assessment of the creditworthiness of securities or debtors by rating agencies.

Retail. The sale of goods and services to end users, as opposed to resale or wholesale.

Roaming. Denotes the use of a communication device or just a subscriber identity in a different network (visited network) rather than one's home network. This requires the operators of both networks to have reached a roaming agreement and switched the necessary signaling and data connections between their networks. Roaming comes into play when cell phones and smartphones are used across national boundaries.

Router. A coupling element that connects two or more sub-networks. Routers can also extend the boundaries of a network, monitor data traffic, and block any faulty data packets.

SIM card – Subscriber Identity Module card. Chip card that is inserted into a cell phone and contains all the data of the subscriber. Refers to the reading of power, water and other meters in industrial facilities and homes and the itemization and billing of consumption. Smart metering reduces costs considerably and paves the way for a mass-marketable service. In particular, it allows energy utilities, meter operators, and the housing sector to offer their customers innovative products and services, as it delivers consumption data virtually in real time.

Smartphone. Mobile handset that can be used as a cell phone, a web browser, and an e-mail reader simultaneously.

SMS and MMS. The Short Message Service (SMS) is a telecommunications service for the transmission of text messages. It was initially developed for GSM mobile communications and later also become available in the fixed network. The next step up from the SMS is the Multimedia Messaging Service (MMS), which allows the transmission of various media such as text, images, animations, video, and audio clips in a single message. The terms SMS and MMS refer not only to the services, but also to the messages themselves.

Stakeholder. The stakeholder approach is an extension of the shareholder value approach, a concept frequently used in business administration. In contrast to the shareholder value principle, which focuses on the needs and expectations of a company's shareholders, the stakeholder approach attempts to appreciate the company against its overall social background and reconcile the needs of the various stakeholders. In addition to shareholders, stakeholders include staff, customers, suppliers, the government, and the public at large.

Supply chain management (SCM). Refers to the planning and management of all aspects of supplier selection, procurement, and logistics.

Symmetric rates. See Asymmetrice rates.

Tablet PC. A flat portable computer with a touchscreen that can be operated with a finger or pen. These compact multimedia devices enable users to surf the Internet, check their e-mail, access photos and videos, listen to music, make phone calls, and read electronic books anytime, whether at home or on the move.

Triple play. Refers to packages combining fixed-network voice, data, and TV services. Broadband networks enable customers to use the IP-based services over a single line.

ULL – Unbundled Local Loop. Competitors whose own networks do not reach into customers' premises can rent unbundled local loop lines from Deutsche Telekom. Their networks end at the local exchanges. The ULL bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the "last mile."

UMTS – Universal Mobile Telecommunications System. Third-generation international mobile communications standard that unites mobile multimedia and telematics services in the 2 GHz frequency spectrum.

Unbundling. In a liberalized telecommunications market, unbundling refers to the regulatory obligation of incumbent network operators (mostly former monopolists) to give other operators access, for a charge, to those parts of the access network that lead from the local exchange to the subscriber.

USB stick. A data storage device that uses the USB (Universal Serial Bus) standard. It has an integrated data memory and can also be used as a removable data carrier.

VDSL –Very-high bit rate Digital Subscriber Line. VDSL is a new technology used to transmit very high data rates (10 Mbit/s upstream, 50 Mbit/s downstream) over a fiber-optic network.

VoIP – Voice over Internet Protocol. Technology used to make telephone calls via the Internet. Three methods are available: PC to PC, PC to fixed-network lines, and telephone calls via IP-based internal networks.

VPN – Virtual Private Network. A computer network that uses a public network to transmit private data. The data is “tunneled” through the public network and is usually encrypted in the process. However, the term “private” does not necessarily imply encrypted transmission. The variant commonly used today is the IP VPN that connects users via IP tunnels.

Wholesale. Refers to the business of selling services to third parties who sell them to their own end customers either directly or after further processing.

Wholesale bundled lines – IP-Bitstream Access (IP-BSA). Wholesale product for which Deutsche Telekom leases DSL lines to the competitor and transports the datastream via its concentrator network to the associated broadband point of presence (PoP), where the datastream is handed over to the competitor. In contrast to voluntary DSL resale, IP-BSA is a wholesale service required by the regulatory authority. This product is available either tied to a Deutsche Telekom PSTN line or as a DSL stand-alone option (see also Wholesale unbundled lines).

Wholesale unbundled lines (including **IP-BSA Stand Alone/ IP-BSA SA).** Wholesale product not bundled with a Deutsche Telekom PSTN line, which allows competitors to offer an all-IP product range to end customers.

WiFi – Wireless Fidelity. Popular name for the IEEE 802.11 protocol for wireless local area networks (wireless LANs) (see also WLAN).

WiMAX – Worldwide interoperability for Microwave Access. Technology that uses fixed, local radio cells to provide high-speed Internet access via the air interface.

WLAN – Wireless Local Area Network. Wireless networks for mobile Internet access. The network can also connect multiple computers to each other or to a central information system, a printer, or a scanner (often referred to as WiFi).

Disclaimer.

This Report (particularly the chapter titled "Development of revenue and profits") contains forward-looking statements that reflect the current views of Deutsche Telekom management with respect to future events. They are generally identified by the words "expect," "anticipate," "believe," "intend," "estimate," "aim," "goal," "plan," "will," "seek," "outlook" or similar expressions and include generally any information that relates to expectations or targets for revenue, adjusted EBITDA or other performance measures. Forward-looking statements are based on current plans, estimates and projections. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom's control, They include, for instance, the progress of Deutsche Telekom's workforce reduction initiative and the impact of other significant strategic or business initiatives, including acquisitions, dispositions, and business combinations. In addition, regulatory rulings, stronger than expected competition, technological change, litigation, and regulatory developments, among other factors, may have a material adverse effect on costs and revenue development. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, Deutsche Telekom's actual results may be materially different from those expressed or implied by such statements. Deutsche Telekom can offer no assurance that its expectations or targets will be achieved.

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Financial calendar.

Financial calendar 2012 *

Press conference on the 2011 financial statements and presentation of the 2011 Annual Report	February 23, 2012
Group report Jan. 1 to Mar. 31, 2012	May 10, 2012
2012 shareholders' meeting (Cologne)	May 24, 2012
Dividend payout	May 25, 2012
Group report Jan. 1 to June 30, 2012	August 9, 2012
Group report Jan. 1 to Sept. 30, 2012	November 8, 2012

* For more dates, an updated schedule, and information on webcasts please go to www.telekom.com/ir/.

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Deutsche Telekom worldwide.

For details of where we are, please refer to www.telekom.com/worldwide.

Deutsche Telekom Headquarters

Bonn

Selected international subsidiaries and associates

		Stake (directly/indirectly) held by Deutsche Telekom
Europe		
Albania	AMC (Albanian Mobile Communications Sh.A.)	97.21 % of shares held by Cosmote
Austria	Software Daten Service Gesellschaft m.b.H.	100.00 %
	T-Mobile Austria GmbH	100.00 %
	Deutsche Telekom Value Added Services Austria GmbH	100.00 %
	T-Systems Austria GmbH	100.00 %
Belgium	T-Systems Belgium NV	100.00 %
	BUYIN S.A.	50.00 %
Bulgaria	Globul (Cosmo Bulgaria Mobile EAD)	100.00 % of shares held by Cosmote
	Novatel EOOD	100.00 % of shares held by Magyar Telekom
	T-Systems Bulgaria EOOD	100.00 %
Croatia	Hrvatski Telekom d.d. [a]	51.00 %
Czech Republic	T-Mobile Czech Republic a.s.	60.77 %
	T-Systems Czech Republic a.s.	100.00 %
Denmark	T-Systems Nordic A/S	100.00 %
France	T-Systems France SAS	100.00 %
F.Y.R.O. Macedonia	Makedonski Telekom AD	51.00 % of shares held by Magyar Telekom
	T-Mobile Macedonia AD	100.00 % of shares held by Makedonski Telekom
Greece	OTE (Hellenic Telecommunications Organization S.A.)	40.00 % plus one share
	Cosmote (Cosmote Mobile Telecommunications S.A.)	100.00 % of shares held by OTE
	T-Systems Information and Communication Technology E.P.E.	100.00 %
Hungary	Magyar Telekom Nyrt. [a]	59.21 %
	IT Services Hungary Szolgáltató Kft.	100.00 %
	IQSYS Zrt.	100.00 % of shares held by Magyar Telekom
Italy	T-Systems Italia S.p.A.	100.00 %
Luxembourg	T-Systems Luxembourg S.A.	100.00 %
Montenegro	Crnogorski Telekom A.D. [a]	76.53 % of shares held by Magyar Telekom
Netherlands	T-Mobile Netherlands B.V.	100.00 %
	T-Systems Nederland B.V.	100.00 %
Poland	PTC (Polska Telefonia Cyfrowa S.A.) [a]	100.00 %
	T-Systems Polska Sp.z o.o.	100.00 %
Romania	Combridge S.R.L.	100.00 % of shares held by Magyar Telekom
	Cosmote Romanian Mobile Telecommunications S.A.	70.00 % of shares held by Cosmote
	Romtelecom S.A.	54.01 % of shares held by OTE
	T-Systems ICT Romania S.R.L.	100.00 %
Russia	T-Systems CIS	100.00 %
Slovakia	Slovak Telekom a.s. [a]	51.00 %
	T-Systems Slovakia s.r.o.	100.00 %
Slovenia	T-Systems, informacijski sistemi, d.o.o.	100.00 %
Spain	T-Systems ITC Iberia, S.A.	100.00 %
Switzerland	T-Systems Schweiz AG	100.00 %
Turkey	T SYSTEMS TELEKOMÜNIKASYON LIMITED SIRKETI	100.00 %
Ukraine	Novatel Ukraine LLC. i.l. [b]	100.00 % of shares held by Magyar Telekom
	TOB T-Systems Ukraine	100.00 %
United Kingdom	Everything Everywhere Limited	50.00 %
	T-Systems Limited	100.00 %
North America		
Canada	T-Systems Canada, Inc.	100.00 %
Mexico	T-Systems Mexico S.A. de C.V.	100.00 %
United States	T-Mobile USA, Inc.	100.00 %
	T-Systems North America, Inc.	100.00 %
South America		
Argentina	T-Systems Argentina S.A.	100.00 %
Brazil	T-Systems do Brasil Ltda.	100.00 %
Asia		
Hong Kong	T-Systems China Limited	100.00 %
India	T-Systems Information and Communication Technology India Private Limited	100.00 %
Japan	T-Systems Japan K.K.	100.00 %
Malaysia	T-Systems Malaysia Sdn. Bhd.	100.00 %
People's Republic of China	T-Systems P.R. China Ltd.	100.00 %
Singapore	T-Systems Singapore Pte. Ltd.	100.00 %
Africa		
South Africa	T-Systems South Africa (Pty) Limited	70.00 %

[a] Mobile communications services are marketed under the T-Mobile brand.
[b] Under voluntary winding up.

As of: January 2012

Index.

Key data of the Group's operating segments.

		2011	2010	2009	2008	2007
Key data of the Group's operating segments [a]	**millions**					
Fixed-network lines [b]		34.1	36.0	38.5	41.5	44.7
Retail broadband lines [c]		16.9	16.4	15.4	13.9	11.4
Mobile customers		129.3	128.5	134.5	130.9	118.4
Germany	**millions**					
Fixed network						
Fixed-network lines		23.4	24.7	26.2	28.3	30.8
Retail broadband lines		12.3	12.0	11.5	10.6	9.0
TV		1.6	1.2	0.8	0.4	0.1
Mobile customers [a, b]		35.4	34.7	39.1	39.1	36.0
Wholesale bundled lines		0.7	1.0	1.6	2.5	3.5
Unbundled local loop lines (ULLs)		9.6	9.5	9.1	8.3	6.4
Wholesale unbundled lines		1.2	1.0	0.6	0.2	–
Europe	**millions**					
Fixed network						
Fixed-network lines [a]		10.6	11.3	12.3	13.2	13.9
Retail broadband lines [b]		4.6	4.4	3.9	3.3	2.4
Wholesale bundled lines [b]		0.2	0.2	0.2	0.3	0.4
Unbundled local loop lines (ULLs) [c]		1.8	1.5	1.1	0.7	0.3
Mobile communications						
Mobile customers		60.3	60.1	61.6	59.0	52.6
United States	**millions**					
Mobile customers		33.2	33.7	33.8	32.8	29.8
Systems Solutions						
Computing & Desktop Services						
Number of servers managed and serviced	units	58,053	58,073	47,092	56,734	39,419
Number of workstations managed and serviced	millions	2.00	1.95	1.86	1.51	1.46
Systems Integration [a]						
Hours billed [b]	millions	9.7	9.2	9.6	10.7	11.4
Utilization rate [c]	%	84.1	84.0	81.3	80.9	80.2

Prior-year figures have been adjusted on a pro forma basis. Totals calculated on the basis of precise figures and rounded to millions.

Group
[a] Including business customers (corporate mobile customers and fixed-network lines) that were reclassified from the Europe to the Systems Solutions operating segment with effect from January 1, 2011.
[b] Lines in operation. Telephone lines including IP-based lines, excluding internal use and public telecommunications and including wholesale services and business customers.
[c] Broadband lines in operation.

Germany
[a] Since April 1, 2010, Telekom Deutschland GmbH has automatically terminated prepaid cards that have not been topped up for two years and have been inactive for three months.
[b] Stationary wireless solutions have been reported under mobile communications since October 1, 2011.

Europe
The Europe operating segment includes the following fixed-network and mobile communications subsidiaries: OTE Greece, Cosmote Greece, Romtelecom, Cosmote Romania, Zapp (Romania), Globul (Bulgaria), AMC (Albania), Magyar Telekom, Makedonski Telekom, Crnogorski Telekom, PTC, T-Mobile Czech Republic, T-Hrvatski Telekom, T-Mobile Netherlands, Slovak Telekom, and T-Mobile Austria.

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

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

Zapp (Romania) has been consolidated since November 1, 2009. Prior-year figures have not been adjusted.

The fixed-network and broadband lines in the Netherlands are included in the figures for all years shown.

[a] Lines in operation excluding internal use and public telecommunications, including IP-based lines.
[b] Wholesale bundled lines: sale of broadband lines based on DSL technology to alternative providers outside Deutsche Telekom, including bundled IP-BSA. In the case of IP-Bitstream Access (IP-BSA), Deutsche Telekom leases DSL lines to the competitor and transports the datastream carried over the lines.
[c] Unbundled local loop lines: Deutsche Telekom wholesale service that can be leased by alternative telecommunications operators without upstream technical equipment in order to offer their own customers a telephone or DSL line.

Systems Solutions
[a] Domestic: excluding changes in the composition of the Group.
[b] Cumulative figures as of the reporting date.
[c] Ratio of average number of hours billed to maximum possible hours billed per period.

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