



To our shareholders.

Dear shareholders,

Deutsche Telekom stands for stability and reliability in troubled times. While the financial and economic crisis left many companies and industries facing considerable volatility, our shareholders can still count on predictable, solid business results. We increased our revenue slightly in 2010 to EUR 62.4 billion – after adjustment for our UK operations, which were transferred to a joint venture “Everything Everywhere” in April 2010. At EUR 6.5 billion, free cash flow was higher than the EUR 6.2 billion we had forecasted. With regard to adjusted EBITDA, we reached our target for the year of EUR 19.5 billion.

And all this in spite of the fact that the general conditions were often less than optimal. Our business continues to be marked by intense pressure with regard to competition and prices. Also, regulatory decisions lead to shrinking revenues in many of Deutsche Telekom's core countries. Finally, unforeseen special taxes put a strain on results in some countries in Eastern Europe. We will have to continue to live with such outside influences. This is why a disciplined cost management will remain without alternative. Therefore we are continuing our successful Save for Service efficiency enhancement program.

To continue to be successful in the future, we must not only keep costs under control, but we also have to successfully develop growth initiatives and innovations. “Fix – Transform – Innovate” is our strategy for the next years. It is our response to the decisive trends in our industry: Data will flow in ever-increasing volumes and speeds through the networks. The Internet is becoming increasingly mobile.

For us, this means two different things. The operation of infrastructure and IT will remain the bedrock of our business. At the same time, we are focusing on new growth areas: the mobile Internet and the connected home, ICT solutions for corporate customers, our own online services, and intelligent network solutions for other industries, such as the health sector. We aim to increase our revenue from all of these growth areas by 2015 to approximately EUR 29 billion. In the long term, Deutsche Telekom shall again be on the level of the general economic growth. In view of the plunge in the former monopoly business, this will not be an easy effort. Therefore, a major transformation of our company is required. For that, we are concentrating on five strategic action areas:



We are building the networks and processes for the gigabit society.

Operating networks can remain an attractive business under the right conditions. Therefore we are planning to invest further into broadband expansion in fixed-network and mobile communications, but in order to do so, we need a modern regulation and an investment-friendly environment. Last year, we installed fiber to the home for our first pilot customers in Germany, achieving speeds of up to 1 gigabit per second. Nationwide roll-out starts in 2011. Simultaneously, in 2010, we purchased additional mobile spectrum, for instance in Germany, Austria and the Netherlands. We were the first network operator in Germany to put an LTE mobile base station into operation, a step toward improving broadband coverage in rural areas. In the United States, we operate the HSPA+ standard, offering our customers the biggest and currently fastest mobile communications network.

We connect our customers' lives across all screens.

We believe that the greatest opportunities for growth are in the mobile Internet. We expect to generate revenue of around EUR 10 billion in this sector in 2015. This growth will be driven by attractive Internet-enabled mobile devices and corresponding applications. More than eight million customers in the United States now use so-called smartphones. Accordingly, in 2010 our worldwide revenues from the mobile Internet shot up by almost 30 percent to EUR 4.4 billion. Another important cornerstone of our strategy is the European television business. By the end of 2010, more than 1.5 million customers in Germany have decided in favor of Entertain, while a total of 2.3 million customers in Southern and Eastern Europe already use our TV services.

We are connecting the working world with unique ICT solutions.

In 2010, T-Systems could once again increase its revenue with customers outside the Group and secured a series of new orders from companies such as Deutsche Post and E.ON. Cloud services – the renting of infrastructure, software and bandwidth at defined service conditions – are becoming increasingly important. At the same time, T-Systems is positioning itself with intelligent network solutions for the energy, healthcare, automotive, and media distribution sectors. At CeBIT 2010, we presented an infotainment system for the connected car together with Continental. And T-Systems is collaborating with ABB and others on the development of smart grids.

We leverage One Company in integrated assets.

The entry of Telekom Deutschland GmbH in the commercial register at the end of March legally completed the merger of our mobile communications and fixed-network operations in Germany. We can now serve our mobile and fixed-network customers from one source and thus generate additional revenue, further improve our service performance, and leverage synergies. We also view fixed-mobile integration as a model for other markets. In addition to Hungary, also Croatia and Slovakia followed this course last year – and others could follow.

We are improving the performance of mobile-centric assets.

Following the successful launch of the "Everything Everywhere" joint venture in the United Kingdom, our main focus in this action area has been on the U.S. market. We presented our new strategy for T-Mobile USA at the end of January 2011. By 2014 we aim to increase our revenue by USD 3 billion. A high-performance mobile communications network and an attractive device selection of smartphones and tablet computers will help us in doing so. We have now strategically set course to return to growth. Finally, we have reached an amicable conclusion to a long-running legal dispute in Poland. The settlement guarantees our rights to full ownership of PTC, giving us a powerful mobile communications subsidiary in the Polish market.

Dear shareholders, we are laying the foundations for economic success in the so-called gigabit society with our “Fix – Transform – Innovate” strategy. We have made a conscious decision in favor of a long-term perspective. And it is important to us to continue our balanced stakeholder policy and to provide reliability for all of Deutsche Telekom’s internal and external stakeholders. This applies first of all to our employees, without whom we could not carry out the transformation of the Company. We will continue to keep the necessary staff restructuring balanced in the future and shape it in a socially compatible way. Our goal is to offer a job perspective in the company to as many people as possible. In addition, we are also hiring new employees. We took on around 4,000 in 2010, half of them from the ranks of our own trainees.

The high environmental, social, and governance standards that guide our business practices are increasingly gaining the respect of the capital market. Nine percent of T-Shares are already held by investors who give priority to sustainable investment. And we know that many of our shareholders are value-oriented investors who are more interested in long-term stability and sustainable dividend payments than short-term growth. To specifically address this very group of investors, we decided a year ago to implement a medium-term shareholder remuneration policy with a projected fixed volume of EUR 3.4 billion for the years 2010 through 2012. Last year, we bought back shares for a total of EUR 400 million. The Board of Management and Supervisory Board will therefore propose to the shareholders’ meeting on May 12, 2011 to pay a dividend of EUR 0.70 per share for the 2010 financial year. Together with the share buy-backs, this brings the total remuneration to the level we had announced.

I would like to thank you for the trust you have placed in me and my team on the Board of Management in recent years and I hope our strategy convinces you to give Deutsche Telekom your continued support.

Bonn, February 2011

Sincerely,

René Obermann
Chairman of the Board of Management Deutsche Telekom AG