Development of business in the Group.

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

Statement on business development in 2010.

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

Effects of changes in the composition of the Group.

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

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

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

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

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

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

Results of operations of the Group.

Net revenue.

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

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

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

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

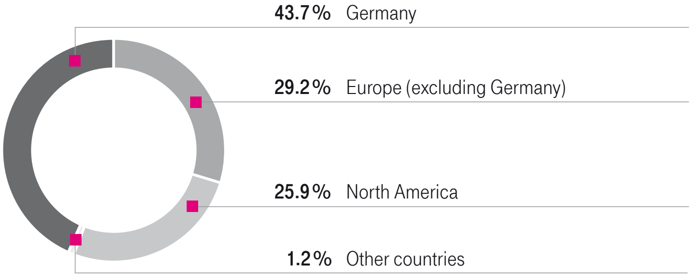
Translated into euros, revenue in the **United States** operating segment increased by 4.0 percent year-on-year. After adjustment for exchange rate effects of EUR 0.8 billion, however, operating segment revenue declined slightly by 1.0 percent.

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

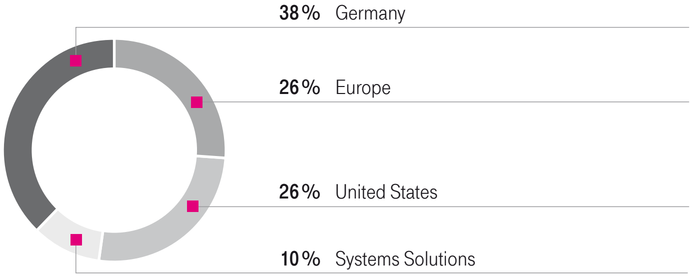
Contribution of the operating segments to net revenue.

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

Breakdown of revenue by region.



Contribution of the operating segments to net revenue.



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

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

EBITDA.

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

Consolidated income statement and effects of special factors.

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

Adjusted EBITDA.

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

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

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

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

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

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

Contribution of the operating segments to adjusted Group EBITDA.

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

EBIT.

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

Profit/loss before income taxes.

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

Net profit.

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

Save for Service program.

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

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

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

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

Financial position of the Group.

Consolidated statement of financial position.

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

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

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

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

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

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

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

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

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

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

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

Financial liabilities.

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

Reconciliation of gross debt.

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

Net debt.

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

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

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

The rating of Deutsche Telekom AG.

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

Financial flexibility.

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

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

Condensed consolidated statement of cash flows.

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

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

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

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

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

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

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

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