

Group organization.

Merger of the Europe and Southern and Eastern Europe operating segments

Business activities and organization.

Business activities.

We are one of the world's leading service providers in the telecommunications and information technology industry. We 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 2010 financial year, over half of our revenue, EUR 35.1 billion, was generated outside of our home market Germany. Overall, we employ 246,777 people (December 2010).

Our activities are guided by major 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 increasingly personalized, people are more mobile than ever before, and globalization is advancing, too. There is growing convergence among the various technologies. This is the reason we are focusing on an integrated product portfolio with which customers can access

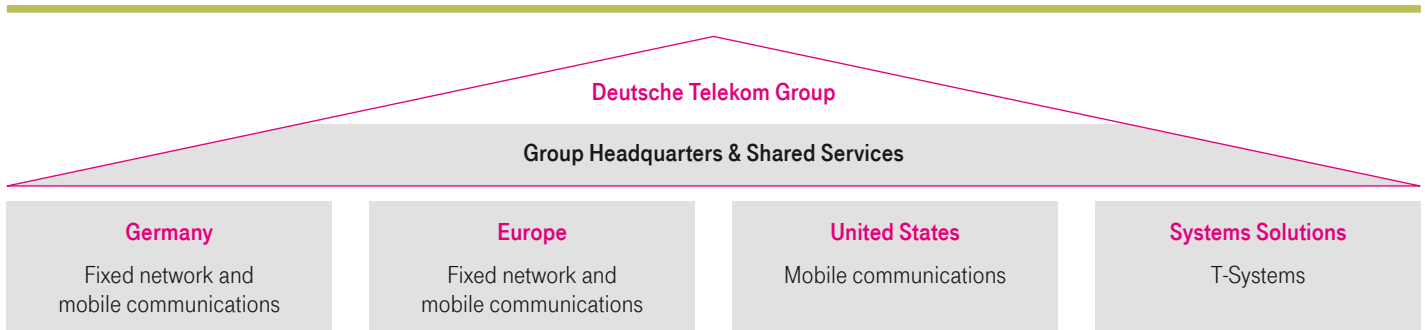
personalized data such as music, videos or addresses from any terminal device. Through fixed-network and mobile communications, we offer network access as well as communication and value-added services with ever-expanding bandwidths, thus promoting personal and social networking with innovative products and services. In addition to our core business (traditional fixed-network and mobile access business), we are specifically tapping new growth areas with investments in intelligent networks and our portfolio of IT, Internet and network services.

We provide customers in Germany with tailor-made products and services and top-quality networks from a single source. To make this possible, we have now merged the formerly independent business units for fixed-network (T-Home) and mobile communications (T-Mobile) to form a single legal entity. The "T" is our Group brand and will also be an integral part of the brand identity for our foreign shareholdings in the future.

T-Systems, our corporate customer arm, is focused on business involving network-centric ICT solutions – with offers combining IT and telecommunications services. T-Systems supplies complete solutions for companies with operations worldwide. In addition, it is focusing on services such as cloud computing and IT solutions for sectors that are undergoing major changes such as energy, healthcare, media distribution, and automotive.

Organization.

Organizational structure.



On February 24, 2010, the Supervisory Board resolved to realign the management structure of the Europe and Southern and Eastern Europe operating segments. These were merged on April 1, 2010 to form the new Europe operating segment. Since April 1, 2010 we have therefore broken down our reporting into the following four operating segments:

- Germany
- Europe
- United States
- Systems Solutions.

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. When marketing these services, we also sell mobile handsets and other hardware. In addition, we sell T-Mobile services to resellers and to companies that buy network services and market them independently to third parties (MVNOs).

Business in the four operating segments is divided as follows: in three segments by region and in one segment by customer and product.

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

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

The **United States** operating segment combines all our 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. The operating segment offers its customers information and communication technology from a single source. It develops and operates infrastructure and industry solutions for multinational corporations and public institutions. The products and services offered range from standard products and IP-based high-performance networks through to complete ICT solutions.

Group Headquarters & Shared Services comprises all Group units that cannot be allocated directly to one of the operating segments. Group Headquarters is responsible for strategic and cross-segment management functions. The Shared Services are responsible for all other operating functions not directly related to the operating segments' core business activities. In addition to Vivento, which is responsible for providing employees with new employment opportunities as part of the workforce restructuring program, Shared Services includes 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. The Shared Services unit primarily provides services in Germany.

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 capital stock in accordance with § 289 (4) No. 1 of the German Commercial Code (Handelsgesetzbuch – HGB) can be found in Note 15 in the notes to the financial statements.

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, 2010) and trust shares (around 19 million as of December 31, 2010). The trust shares are connected with the acquisition of VoiceStream and Powertel in 2001. As part of these acquisitions, Deutsche Telekom 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 waive voting rights and preemptive rights and, in general, dividend rights for the duration of the trusts' existence. The shares issued to the trusts can be sold on the stock exchange on the instruction of Deutsche Telekom if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom.



Buy-back of Deutsche Telekom shares. The shareholders' meeting resolved on May 3, 2010 to authorize the Board of Management to purchase shares in the Company by November 2, 2011, with the amount of share capital accounted for by these shares totaling up to EUR 1,116,497,918.20, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company which the Company has already purchased and still possesses or are to be assigned to it under § 71 d and § 71 e 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 in compliance with the principle of equal treatment (§ 53a AktG) through the stock exchange. Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

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

The buy-back program was completed on December 3, 2010. A total of 40,001 thousand shares were acquired for a total price of EUR 400 million (excluding transaction costs) with an average purchase price of EUR 9.99 per share. The Board of Management decided on December 14, 2010 to reduce the share capital of Deutsche Telekom AG accordingly and to retire the shares that had been bought back. This resulted in a decrease of EUR 102 million in issued capital (imputed value of EUR 2.56 per share) and EUR 400 million in the retained earnings of the Group as of December 31, 2010. EUR 102 million was transferred to capital reserves in accordance with § 237 (5) AktG.

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 noncash 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' preemptive rights when issuing new shares for business combinations or acquisitions of companies, parts thereof or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions, including receivables from 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 capital stock 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' preemptive rights are disappplied. 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, 2010, composed of up to 12,426,988 new no par value registered shares (**contingent capital II**). The contingent capital increase is exclusively for the purpose of meeting preemptive rights to shares from stock options granted in the period until December 31, 2003 to members of 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 EUR 1,100,000,000 as of December 31, 2010, 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 takeover, the individual lenders have the right to terminate the credit line and, if necessary, serve notice or demand repayment of the loans. A takeover is assumed when a third party, which can also be a group acting jointly, acquires control over Deutsche Telekom AG.

In addition, the other members of the Toll Collect consortium (Daimler Financial Services AG and Cofiroute SA) have a call option in the event that the ownership structure of Deutsche Telekom AG changes such that over 50 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. § 22 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) similarly applies to the allocation of voting rights.

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



Changes in the consolidated group.

■ 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.**” In addition to Deutsche Telekom AG, 64 German and 177 foreign subsidiaries are fully consolidated in Deutsche Telekom’s consolidated financial statements (December 31, 2009: 62 and 182). 13 associates (December 31, 2009: 12) and 5 joint ventures (December 31, 2009: 5) are also included using the equity method.

Business combinations and other transactions in the 2010 financial year are described in the following:

Acquisition of STRATO. On November 19, 2009, Deutsche Telekom signed an agreement with Freenet AG to take over 100 percent of the shares in the Web hosting provider STRATO AG and STRATO Rechenzentrum AG (hereinafter referred to as STRATO). Deutsche Telekom obtained control of STRATO as of January 1, 2010. The STRATO group is the second largest Web hosting provider in Germany and Europe. In addition to its German core market, it also operates in Spain, the Netherlands, France, the United Kingdom, and Italy.

Acquisition of a stake in Firstgate (ClickandBuy). On March 23, 2010, Deutsche Telekom signed an agreement with the former shareholders for the acquisition of the remaining shares in the Internet payment service provider Firstgate. Deutsche Telekom obtained control of the entity as of April 1, 2010 and, as a result, fully consolidated it for the first time as of that date. Via its venture capital company, T-Venture, Deutsche Telekom has held 20.2 percent of the shares in Firstgate, best known for the ClickandBuy brand, since 2006.

Everything Everywhere joint venture in the United Kingdom. Effective April 1, 2010, Deutsche Telekom AG and France Télécom S.A. merged the entities T-Mobile UK and Orange UK into a joint venture under the name Everything Everywhere. Each entity holds a 50 percent stake in the new company. Deutsche Telekom contributed T-Mobile UK to the new joint venture. As a result, the joint venture has been included in the consolidated financial statements under investments accounted for using the equity method.

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.

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

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


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

The Supervisory Board of Deutsche Telekom 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, 2010.

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)
Guido Kerkhoff	Europe
Edward R. Kozel	Technology and Innovation
Thomas Sattelberger	Human Resources

Basis of Board of Management compensation. On February 24, 2010, the Supervisory Board resolved 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 in the notes to the consolidated financial statements.

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

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

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

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

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