

Development of revenue and profits.¹

Economic outlook.

The positive trend in the global economy is expected to continue in 2011, albeit with slightly less momentum. Leading indicators, such as the OECD's composite leading indicators and the international purchasing managers indexes, continue to show a consistent and sustained upward trend. It will again be the emerging markets that will enjoy above-average growth, supported by the continued solid trend in Germany and slowly, but steadily improving growth in the United States.

For our core markets the economic outlook is varied: The German economy is currently expected to remain robust compared with other European economies and continue to develop positively in 2011. While the upturn in 2010 was primarily export-driven, increasing support is expected from domestic demand in 2011. In its 2010 Autumn Report for Germany, the Joint Economic Forecast Project Group (Projektgruppe Gemeinschaftsdiagnose) predicted an increase in real GDP of 2.0 percent for 2011. The Federal Ministry of Economics currently forecasts growth of 2.3 percent for 2011.

The latest forecasts for the United States are predicting a growth rate of between 3 and 3.5 percent for 2011. The most recent improvement in the outlook is due in particular to the tax relief passed at the end of 2010, which will have a positive knock-on effect on retail consumption. Nevertheless, economic developments in the United States are still distinctly uncertain, particularly with regard to the relatively high rate of unemployment and national debt.

We expect to see a moderate upward economic trend, which in some cases is gathering momentum, in our core markets of Poland, Austria, the Czech Republic, Hungary, the Netherlands, and Slovakia with annual growth rates of between 2 and 4 percent. In the core markets of Greece, Romania and Croatia, by contrast, the economic situation will continue to be challenging in 2011, although Croatia recorded marginally positive growth rates at the end of the 2010 for the first time since the crisis. The Romanian economy is expected to start growing again in the course of 2011. For Greece, the Joint Economic Forecast anticipates a decrease of 2.1 percent.

In view of the sustained high pressure to consolidate public finances in some countries, we cannot rule out the possibility of further austerity programs or tax rises in 2011, which would have a corresponding negative effect on consumption and on individual companies.

Market expectations.

The German mobile communications market once again began recording healthy growth in 2010, driven by the increasing penetration of smartphones and strong growth in mobile data traffic. This positive trend of growing mobile data and Internet use is set to continue in 2011, although the extensive regulatory intervention in the form of a cut of almost 50 percent in termination charges will have a negative impact on this positive underlying growth for the entire industry. We only expect a small increase in the number of broadband lines in the fixed network. Traditional voice revenues will continue to decline. Demand for telecommunications products from small and medium-sized enterprises is expected to continue to grow, especially in mobile data transmission and automated machine-to-machine data exchange.

In our European footprint markets, excluding Germany, price erosion in voice telephony resulting from regulation and competition will lead to stagnating market revenues. The growth in revenue from mobile data usage and from new telecommunications products will only partially compensate for the decline in revenue from voice telephony. The economic crisis will continue to impact our footprint markets in Southern and Eastern Europe in 2011. In some countries, governments will endeavor to improve the financial situation through fiscal policy intervention. Such action could negatively affect private consumption and consequently market volumes. We expect the macroeconomic situation in Greece to remain strained.

In the United States in the next two years, while the consumer climate improves and unemployment remains relatively high, the mobile communications market will continue to grow and, at the same time, be characterized by intense competition among the major mobile providers. Growth is expected to be driven primarily by the ever more successful marketing of data services. This additional revenue will probably offset falling revenue from voice telephony and text messaging. Price pressure will continue due to flat rate products. Prepay business is expected to continue to gain strength. Postpay business should maintain its moderate growth thanks to mobile broadband connections.

The economic recovery is expected to have a positive impact on the ICT business with corporate and business customers in the relevant domestic and foreign markets. We expect the continuous economic recovery and fast growing demand for cloud computing to result in sustained growth in corporate customer business in the next few years.



Expectations for the Group.

We aim to achieve organic revenue growth with a broader revenue mix. Revenue in the new growth areas is expected to increase sharply in the next few years; these areas are mobile Internet, the connected home, Internet services, T-Systems (external revenue), and intelligent network solutions. In order to achieve these targets, we will invest further in next-generation technologies. In 2011 and 2012, for instance, in addition to expanding the fast broadband network in Germany, we intend to acquire high-performance mobile spectrum in other countries in Europe. We have set ourselves ambitious targets that will have a positive effect on profitability: In the second phase of the Save for Service program, costs are to be cut by a further EUR 4.2 billion by 2012 compared with their 2009 level. Also by 2012, return on capital employed (ROCE) throughout the Group is to increase by around 150 basis points.

We expect our total capital expenditure in 2011 to amount to around EUR 9 billion overall (before any investments in spectrum). Based on 2010 figures (adjusted for T-Mobile UK in the first quarter), we expect adjusted EBITDA of around EUR 19.1 billion in 2011. Similarly, we expect free cash flow to remain stable or increase slightly in 2011 compared with 2010, at around EUR 6.5 billion (excluding the effects, totaling EUR 0.4 billion, from the PTC transaction completed in January 2011).

In 2012, we expect sustained high levels of adjusted EBITDA and free cash flow.

Despite high levels of investment in our future viability, we also want to remunerate our shareholders appropriately in 2011 and 2012, subject to the achievement of a corresponding level of unappropriated net income. A minimum dividend of EUR 0.70 per share is to be paid out to Deutsche Telekom AG shareholders. Including the share buy-backs to be carried out until 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.

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.

The general mood on the international finance markets in 2010 was dominated by the debt crisis, which meant that some countries had difficulties refinancing their due debts on the international capital markets. In 2011, the performance of the financial markets is expected to depend largely on the implementation of suitable measures to tackle the debt crisis.

We placed bonds, medium-term notes, and promissory notes worth EUR 3.1 billion in total on the international financial markets in 2010. In 2011, we expect the financial markets to be generally open to our financing measures.

As of the end of 2010, we had a comfortable liquidity reserve of around EUR 18 billion. We also plan to maintain a liquidity reserve in 2011 at a level that enables us to meet all maturities in the next 24 months.

At the end of 2010, 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, an equally solid investment-grade rating is part of our financial strategy for 2011.

As the parent company of the Group, Deutsche Telekom AG continues to expect positive income after taxes for 2011 and 2012.

Expectations for the operating segments.

Germany.

In the next few years, we will focus our strategy on areas that form the basis of our successful German operations:

- first-class product and service quality for our customers
- LTE and fiber-optic roll-out – investment in broadband in Germany
- Entertain – innovative television and entertainment platform of the future
- Save for Service – we are making our Company fit for the future.

We expect revenues in the Germany operating segment to decrease in 2011, mainly as a consequence of regulatory intervention. We intend to counter this decrease in the coming years by continuing the broadband roll-out, developing our mobile data business further, investing in intelligent and innovative network structures, developing our product portfolio further, and continually improving our service. All these activities are intended to contribute to stabilizing revenue from 2012. We expect adjusted EBITDA to continue to stabilize year-on-year, or even increase slightly in 2011 and 2012; and we expect the EBITDA margin to develop positively.

We will once again be able to assert our market leadership in fixed-network and broadband business in the next year. This market is almost saturated, however, and many lines will be lost. Competition in fixed-network and broadband business will become more and more intense in the coming years. We intend to further establish our television service Entertain in the mass market through an expanded 3D and HD offering, new functions, and new distribution channels, e.g., via satellite.

We are well prepared for intense competition in the German mobile communications market. Our new rate plans are geared to the needs of our customers even more than before. Our handset portfolio includes attractive smartphones from the Windows Phone and Android range and, as before, the Apple iPhone with exclusive applications for our customers. The mobile Internet as growth driver benefits from the rising sales of smartphones. The Federal Network Agency has decided to reduce mobile call termination charges by almost 50 percent to 3.36 eurocents per minute. This is likely to impact negatively on our mobile service revenues in the coming year. Overall, however, we expect our mobile service revenues to continue developing positively and that our data revenues will continue to grow.

We plan to invest more than EUR 10 billion in the Germany operating segment between 2010 and 2012, concentrating on our strategic growth and innovation areas, such as our fixed-network and mobile network infrastructures. As part of these activities, we have been establishing LTE sites in rural areas since June 2010 and intend to officially start marketing our LTE services in April 2011. Accordingly, we will extend our portfolio to include new offers, such as Wireless Call & Surf Comfort. The roll-out of optical fiber (FTTx) will also play a greater role in the next few years, following a number of successful pilot projects in Brandenburg among other places.

As part of the One Company initiative, we intend to align our business structure even more closely with the needs of customers. This is why in the first quarter of 2011 we will start classifying our total customer base according to consumer and business use, and no longer according to mobile communications and fixed network. This realignment will also be reflected in the financial reporting.

Europe.

In the Europe operating segment, we intend to continue to defend our strong market position, and expand our market shares in some countries. In line with our strategy of connected life, we aim to win over our consumers and business customers with new, intelligent handsets and attractive rate plans. Moreover, we intend to expand our range of innovative data and content services for smartphones and laptops. In the countries in which we have already successfully completed the integration of fixed-network and mobile operations, we will increasingly advertise our product portfolio with innovative bundled offers. In this regard, IPTV and television via satellite in particular will grow more important. Intelligent ICT solutions will also become more important in the Europe operating segment as part of our “connected work” strategy.

In order to strengthen our competitiveness, 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. Besides launching LTE on the market at T-Mobile Austria, promising initial live tests were carried out in Greece and Croatia. At the same time, additional investments are planned to build out the UMTS networks, introduce HSPA+, and upgrade the GSM networks. More investments are to be made in the fixed network in order to increase broadband coverage, for instance, by building out the fiber-optic infrastructure. Further investments are planned to improve customer service and make processes more efficient.

The overall economic situation in the Europe operating segment remains tense. In Greece and Romania in particular, we expect the economic situation to remain critical in the coming year. We will also have to hold our own against ongoing intense competition and the erosion of prices this brings with it. Our strategic initiatives and cost-cutting measures, including some of the elements of the Save for Service program, will continue to take effect and partially offset any negative effects. One example of such a strategic initiative is the Letter of Intent signed with PTK Centertel in December 2010 on shared use of network infrastructure and mobile spectrum in Poland. Regulatory measures and changes in legislation (e.g., as part of government austerity programs) could have a negative impact on revenue and earnings. In Hungary, for example, the special tax for large corporations in the trade, energy, and telecommunications sector passed in October 2010 will reduce revenue and earnings and limit investment potential in the country. The same applies in Croatia for the mobile communications tax levied since August 2009. In addition, exchange rate effects could adversely affect earnings on a euro basis.



Based on these general parameters, we expect revenue and adjusted EBITDA in the Europe operating segment – adjusted for the effect from the establishment of the Everything Everywhere joint venture in the United Kingdom – to decline year-on-year in 2011. In 2012, we expect the decline in revenue to slow compared with 2011 and adjusted EBITDA to remain stable.

United States.

In 2011, T-Mobile USA will focus on expanding its mobile broadband and other data service offerings as well as attracting and retaining a loyal customer base. Results are expected to be positively impacted primarily by growth in non-voice services, reinvention of the handset insurance program, and the impact of driving operational efficiencies.

Regulatory changes and competitive pressures may significantly affect expected revenues and adjusted EBITDA in local currency; in addition, exchange rates may significantly affect revenues and adjusted EBITDA in euros in 2011 and 2012. For 2011 and 2012, T-Mobile USA expects positive developments in revenues and adjusted EBITDA in local currency.

T-Mobile USA continues to focus on the enhancement of network quality and coverage, and in particular further expansion and upgrade of its mobile broadband communications network.

Systems Solutions.

T-Systems focuses on the growing ICT services market where it provides solutions for corporate customers. Demand for international ICT solutions is increasing – not least as a result of the further globalization of corporations. 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 laid the foundations for revenue growth in the next few years, especially through new large-scale contracts from renowned industry giants, such as Deutsche Post, Ergo-Versicherung, TUI, SBB, and E.ON. It nevertheless remains to be seen how the business of T-Systems' customers will develop in the current economic environment.


We will continue on the path we have taken to reduce our costs. After all, T-Systems' cost-cutting measures showed encouraging effects in the past financial year and will be continued. We expect revenue to increase slightly and adjusted EBITDA to be stable in 2011, and revenue and adjusted EBITDA to increase slightly in 2012 in this operating segment.

Group Headquarters & Shared Services.

In 2011 and 2012, we expect adjusted EBITDA at Group Headquarters & Shared Services to be at approximately the same level as in the prior year. Adjusted EBITDA will increasingly be impacted in particular by expenditure at Group Headquarters and staff restructuring activities at Vivovento. This will be contrasted by higher earnings from Shared Services.

Save for Service program.

We have set ourselves ambitious targets that have a positive effect on profitability: In the second phase of the Save for Service program, costs are to be cut by a further EUR 4.2 billion by 2012 compared with their 2009 level.

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 2012. 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 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.