

# Notes to the consolidated income statement.

## 16 Net revenue.

Net revenue breaks down into the following revenue categories:

	2010 millions of €	2009 millions of €	2008 millions of €
Revenue from the rendering of services	58,159	61,017	58,449
Revenue from the sale of goods and merchandise	4,067	3,442	3,036
Revenue from the use of entity assets by others	195	143	181
	<b>62,421</b>	<b>64,602</b>	<b>61,666</b>

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.

The decrease in cost of sales of EUR 0.5 billion was primarily attributable to consolidation effects from the deconsolidation of T-Mobile UK amounting to EUR 1.5 billion, which were partially offset by exchange rate effects totaling EUR 0.7 billion.

## 18 Selling expenses.

Selling expenses declined by EUR 1.2 billion, due in particular to effects of EUR 0.6 billion from changes in the composition of the Group and a reduction in customer acquisition and retention costs in the Germany operating segment. The decline was partially offset by exchange rate effects totaling EUR 0.3 billion, primarily from the translation of U.S. dollars.

## 19 General and administrative expenses.

The increase of EUR 0.6 billion in general and administrative expenses related mainly to EUR 0.2 billion higher expenses for early retirement arrangements. In addition, a provision of EUR 0.2 billion for the Civil Service Health Insurance Fund had been reversed in the prior year.

## 20 Other operating income.

	2010 millions of €	2009 millions of €	2008 millions of €
Income from reimbursements	381	344	272
Income from the reversal of impairment losses on non-current financial assets in accordance with IFRS 5	47	131	134
Income from disposal of non-current assets	70	104	100
Income from insurance compensation	42	49	50
Income from divestitures	3	20	505
Miscellaneous other operating income	955	856	910
	<b>1,498</b>	<b>1,504</b>	<b>1,971</b>

Other operating income did not change significantly compared to the prior year.

## 21 Other operating expenses.

	2010 millions of €	2009 millions of €	2008 millions of €
Impairment losses from the year-end impairment test			
Of which: goodwill	395	2,345	289
Of which: property, plant and equipment	285	-	-
Expenses in connection with the agreement with Vivendi (France) and Elektrim (Poland) concerning the stake in PTC	400	-	-
Losses from divestitures	350	1	62
Losses on disposal of non-current assets	159	154	170
Miscellaneous other operating expenses	1,228	819	711
	<b>2,817</b>	<b>3,319</b>	<b>1,232</b>

Other operating expenses decreased year-on-year by EUR 0.5 billion, due in part to lower depreciation, amortization and impairment losses posted in connection with the year-end impairment tests. In the prior year, other operating expenses included an impairment loss of EUR 1.8 billion that had been recognized on the goodwill of the cash-generating unit T-Mobile UK. For further details, please refer to Note 5. The decrease in other operating expenses was partially offset by expenses of EUR 0.4 billion incurred in connection with the agreement concerning the stake in PTC, and of EUR 0.4 billion from the deconsolidation of T-Mobile UK recognized in the second quarter of 2010 due to the establishment of the Everything Everywhere joint venture.

## 22 Finance costs.

	2010 millions of €	2009 millions of €	2008 millions of €
Interest income	349	341	408
Interest expense	(2,849)	(2,896)	(2,895)
	<b>(2,500)</b>	<b>(2,555)</b>	<b>(2,487)</b>
Of which: from financial instruments relating to categories in accordance with IAS 39:			
Loans and receivables	77	132	162
Held-to-maturity investments	2	3	23
Available-for-sale financial assets	15	42	32
Financial liabilities measured at amortized cost *	(2,490)	(2,637)	(2,668)

\* 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 (2010: interest income of EUR 155 million; 2009: interest income of EUR 107 million; 2008: interest income of EUR 68 million and interest expense of EUR 11 million).

EUR 69 million was recognized as part of acquisition costs in the financial year (2009: EUR 27 million). The amount was calculated on the basis of an average capitalization rate of 5.4 percent (2009: 5.9 percent) applied across the Group.

Interest payments of EUR 3.3 billion (2009: EUR 3.5 billion, 2008: EUR 3.4 billion) were made in the financial year.

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.

## 23 Share of profit/loss of associates and joint ventures accounted for using the equity method.

	2010 millions of €	2009 millions of €	2008 millions of €
Share of profit (loss) of joint ventures	(59)	9	31
Share of profit (loss) of associates	2	15	(419)
	<b>(57)</b>	<b>24</b>	<b>(388)</b>

The Everything Everywhere joint venture has been included in the consolidated statement of financial position under investments accounted for using the equity method since April 1, 2010. Since then the share of profit generated by the joint venture that is allocated to Deutsche Telekom (2010: EUR -49 million) has been shown under share of profit/loss of joint ventures.

## 24 Other financial income/expense.

	2010 millions of €	2009 millions of €	2008 millions of €
Income from investments	30	22	44
Gain (loss) from financial instruments	133	(171)	(254)
Interest component from measurement of provisions and liabilities	(416)	(677)	(503)
	<b>(253)</b>	<b>(826)</b>	<b>(713)</b>

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 -424 million (2009: EUR -22 million; 2008: EUR -587 million). The item includes EUR 557 million (2009: EUR -149 million, 2008: EUR 333 million) in gains from financial instruments that were used mainly to hedge against currency effects.

In addition to the change in gain/loss from financial instruments, the EUR 0.6 billion decrease in other financial expense compared with the prior year is mainly attributable to lower interest rate expenses on provisions and liabilities.

## 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:

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Current taxes</b>	<b>768</b>	<b>873</b>	<b>644</b>
Germany	87	163	88
International	681	710	556
<b>Deferred taxes</b>	<b>167</b>	<b>909</b>	<b>784</b>
Germany	197	353	515
International	(30)	556	269
	<b>935</b>	<b>1,782</b>	<b>1,428</b>

Deutsche Telekom's combined income tax rate for 2010 amounted to 30.5 percent. It consists of corporate income tax at a rate of 15 percent, the solidarity surcharge of 5.5 percent on corporate income tax, and trade income tax at an average multiplier of 419 percent. The combined income tax rate amounted to 30.5 percent for 2009 and 2008.

**Reconciliation of the effective tax rate.** Income taxes of EUR 935 million in the reporting year (2009: EUR 1,782 million; 2008: EUR 1,428 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:

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Profit (loss) before income taxes</b>	<b>2,695</b>	<b>2,655</b>	<b>3,452</b>
Expected income tax expense (income tax rate applicable to Deutsche Telekom AG: 2010: 30.5%; 2009: 30.5%, 2008: 30.5%)	822	810	1,053
<b>Adjustments to expected tax expense</b>			
Effect of changes in statutory tax rates	(113)	26	3
Tax effects from prior years	112	(26)	29
Tax effects from other income taxes	68	161	115
Non-taxable income	(85)	(106)	(86)
Tax effects from equity investments	16	(9)	124
Non-deductible expenses	130	136	110
Permanent differences	123	64	(47)
Goodwill impairment losses	106	702	71
Tax effects from loss carryforwards	(385)	51	(34)
Tax effects from additions to and reductions of local taxes	91	71	86
Adjustment of taxes to different foreign tax rates	52	(102)	3
Other tax effects	(2)	4	1
<b>Income tax expense (benefit) according to the consolidated income statement</b>	<b>935</b>	<b>1,782</b>	<b>1,428</b>
Effective income tax rate %	35	67	41

**Current income taxes in the consolidated income statement.** The following table provides a breakdown of current income taxes:

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Current income taxes</b>	<b>768</b>	<b>873</b>	<b>644</b>
Of which:			
Current tax expense	560	744	596
Prior-period tax expense (income)	208	129	48

**Deferred taxes in the consolidated income statement.** The following table shows the development of deferred taxes:

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Deferred tax expense (income)</b>	<b>167</b>	<b>909</b>	<b>784</b>
Of which:			
On temporary differences	21	692	409
On loss carryforwards	165	232	419
From tax credits	(19)	(15)	(44)

Income taxes decreased year-on-year despite the increase in profits before income taxes. This was due in part to the fact that, relative to the reporting year, in 2009 a high level of goodwill impairment losses was included in profit before income taxes and had no tax effect, and thus raised the tax rate in 2009. In addition, deferred taxes of EUR 466 million were recognized on temporary differences and loss carryforwards in the Europe operating segment in the reporting period, since it has become likely that these temporary differences and loss carryforwards will be used in the future. The Special Contribution Tax II introduced in Greece had the opposite effect, since it resulted in an increase in tax expense and the tax rate for the Group in the reporting period. The tax rate also increased due to the deconsolidation of T-Mobile UK which had no tax effect.

**Income taxes in the consolidated statement of financial position.**

**Current income taxes in the consolidated statement of financial position:**

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Recoverable taxes	224	144
Tax liabilities	(545)	(511)

**Deferred taxes in the consolidated statement of financial position:**

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Deferred tax assets	5,129	5,162
Deferred tax liabilities	(7,635)	(7,153)
	<b>(2,506)</b>	<b>(1,991)</b>
Of which: recognized in equity		
Actuarial gains and losses	175	151
Revaluation surplus	3	3
Cash flow hedges	(338)	(319)
Financial assets available for sale	3	3
	<b>(157)</b>	<b>(162)</b>

**Development of deferred taxes:**

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
Deferred taxes recognized in the statement of financial position	(2,506)	(1,991)
Difference to prior year	(515)	(1,117)
Of which:		
Recognized in income statement	(167)	(909)
Recognized in equity	5	138
Acquisitions/disposals	(63)	(482)
Currency translation adjustments	(290)	136

Deferred taxes relate to the following key items in the statement of financial position, loss carryforwards, and tax credits:

	Dec. 31, 2010		Dec. 31, 2009	
	Deferred tax assets millions of €	Deferred tax liabilities millions of €	Deferred tax assets millions of €	Deferred tax liabilities millions of €
<b>Current assets</b>	<b>895</b>	<b>(415)</b>	<b>788</b>	<b>(368)</b>
Trade and other receivables	699	(344)	339	(52)
Other financial assets	0	0	317	(251)
Inventories	86	(25)	13	(17)
Other assets	110	(46)	119	(48)
<b>Non-current assets</b>	<b>2,448</b>	<b>(11,315)</b>	<b>1,279</b>	<b>(9,739)</b>
Intangible assets	996	(7,216)	493	(6,802)
Property, plant and equipment	579	(2,844)	459	(2,588)
Investments accounted for using the equity method	0	0	0	0
Other financial assets	873	(1,255)	327	(349)
<b>Current liabilities</b>	<b>784</b>	<b>(741)</b>	<b>641</b>	<b>(405)</b>
Financial liabilities	326	(415)	267	(229)
Trade and other payables	146	(81)	29	(58)
Other provisions	119	(21)	176	(46)
Other liabilities	193	(224)	169	(72)
<b>Non-current liabilities</b>	<b>2,942</b>	<b>(630)</b>	<b>3,209</b>	<b>(998)</b>
Financial liabilities	1,464	(352)	1,572	(734)
Provisions for pensions and other employee benefits	491	(165)	542	(162)
Other provisions	287	(74)	393	(75)
Other liabilities	700	(39)	702	(27)
<b>Tax credits</b>	<b>224</b>	<b>-</b>	<b>196</b>	<b>-</b>
<b>Loss carryforwards</b>	<b>3,973</b>	<b>-</b>	<b>4,458</b>	<b>-</b>
<b>Total</b>	<b>11,266</b>	<b>(13,101)</b>	<b>10,571</b>	<b>(11,510)</b>
Of which: non-current	9,587	(11,946)	8,865	(10,737)
Allowance	(671)	-	(1,052)	-
Netting	(5,466)	5,466	(4,357)	4,357
<b>Recognition</b>	<b>5,129</b>	<b>(7,635)</b>	<b>5,162</b>	<b>(7,153)</b>

The allowances relate primarily to loss carryforwards.

The loss carryforwards are shown in the following table:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
<b>Loss carryforwards for corporate income tax purposes</b>	<b>11,972</b>	<b>13,516</b>
Expiry within		
1 year	88	38
2 years	119	1,403
3 years	76	165
4 years	29	128
5 years	32	157
After 5 years	3,873	5,051
Unlimited carryforward period	7,755	6,574

Loss carryforwards and temporary differences for which no deferred taxes were recorded amount to:

	Dec. 31, 2010 millions of €	Dec. 31, 2009 millions of €
<b>Loss carryforwards for corporate income tax purposes</b>	<b>1,669</b>	<b>3,295</b>
Expiry within		
1 year	7	18
2 years	67	1,127
3 years	57	46
4 years	10	43
5 years	15	81
After 5 years	300	202
Unlimited carryforward period	1,213	1,778
<b>Temporary differences in corporate income tax</b>	<b>348</b>	<b>477</b>

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 88 million (December 31, 2009: EUR 124 million) and on temporary differences for trade tax purposes in the amount of EUR 1 million (December 31, 2009: EUR 40 million). Apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 160 million (December 31, 2009: EUR 118 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 301 million (2009: EUR 12 million; 2008: EUR 12 million) attributable to the utilization of tax loss carryforwards on which deferred tax assets had not yet been recognized, was recorded.

No deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting to EUR 1,130 million (December 31, 2009: EUR 1,590 million) as it is unlikely that these differences will be reversed in the near future.

Differences between income tax rates on distributed and retained earnings may lead to a tax burden on the Group of up to EUR 160 million in future.

**Disclosure of tax effects relating to each component of other comprehensive income.**

	2010			2009			2008		
	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 €
Actuarial gains and losses on defined benefit pension plans	(32)	12	(20)	(461)	116	(345)	227	(64)	163
Revaluation due to business combinations	(2)	0	(2)	(38)	3	(35)	0	0	0
Exchange differences on translating foreign operations	3,698	0	3,698	(211)	0	(211)	(352)	0	(352)
Of which: recognized in income statement	2,151	0	2,151	0	0	0	0	0	0
Available-for-sale financial assets	(3)	1	(2)	(4)	0	(4)	1	0	1
Of which: recognized in income statement	0	0	0	0	0	0	0	0	0
Fair value measurement of hedging instruments	58	(18)	40	(48)	19	(29)	(41)	8	(33)
Of which: recognized in income statement	0	0	0	8	(1)	7	(101)	5	(96)
Share of profit (loss) of investments accounted for using the equity method	28	0	28	0	0	0	0	0	0
Other income and expense recognized directly in equity	0	0	0	11	0	11	(8)	3	(5)
<b>Other comprehensive income</b>	<b>3,747</b>	<b>(5)</b>	<b>3,742</b>	<b>(751)</b>	<b>138</b>	<b>(613)</b>	<b>(173)</b>	<b>(53)</b>	<b>(226)</b>
Profit (loss)			1,760			873			2,024
<b>Total comprehensive income</b>			<b>5,502</b>			<b>260</b>			<b>1,798</b>

## 26 Profit/loss attributable to non-controlling interests.

Profit attributable to non-controlling interests of EUR 65 million (2009: EUR 520 million; 2008: EUR 541 million) comprises gains of EUR 484 million (2009: EUR 527 million; 2008: EUR 859 million) and losses of EUR 419 million (2009: EUR 7 million; 2008: EUR 318 million).

The share in profit attributable to non-controlling interests in 2010 primarily related to T-Mobile CZ, Hrvatski Telekom, Magyar Telekom, Slovak Telekom and T-Mobile Macedonia.

The share in loss attributable to non-controlling interests in 2010 is mainly attributable to entities within the OTE group.

## 27 Earnings per share.

Basic and diluted earnings per share are calculated in accordance with IAS 33 as follows:


### Basic earnings per share.

		2010	2009	2008
Profit attributable to the owners of the parent (net profit)	millions of €	1,695	353	1,483
Adjustment	millions of €	-	-	-
<b>Adjusted net profit (basic)</b>	<b>millions of €</b>	<b>1,695</b>	<b>353</b>	<b>1,483</b>
Number of ordinary shares issued	millions	4,358	4,361	4,361
Treasury shares	millions	(5)	(2)	(2)
Shares reserved for outstanding options (T-Mobile USA/Powertel)	millions	(19)	(19)	(19)
<b>Adjusted weighted average number of ordinary shares outstanding (basic)</b>	<b>millions</b>	<b>4,334</b>	<b>4,340</b>	<b>4,340</b>
<b>Basic earnings per share</b>	<b>€</b>	<b>0.39</b>	<b>0.08</b>	<b>0.34</b>

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 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, each multiplied by the corresponding time weighting factor.

**Diluted earnings per share.**

		2010	2009	2008
Adjusted profit attributable to the owners of the parent (net profit) (basic)	millions of €	1,695	353	1,483
Dilutive effects on profit (loss) from stock options (after taxes)	millions of €	0	0	0
<b>Net profit (diluted)</b>	<b>millions of €</b>	<b>1,695</b>	<b>353</b>	<b>1,483</b>
Adjusted weighted average number of ordinary shares outstanding (basic)	millions	4,334	4,340	4,340
Dilutive potential ordinary shares from stock options and warrants	millions	0	0	0
<b>Weighted average number of ordinary shares outstanding (diluted)</b>	<b>millions</b>	<b>4,334</b>	<b>4,340</b>	<b>4,340</b>
<b>Diluted earnings per share</b>	<b>€</b>	<b>0.39</b>	<b>0.08</b>	<b>0.34</b>

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.  For further details on the equity instruments currently applicable, please refer to Notes 15 and 35.

**28 Dividend per share.**

For the 2010 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 3,011 million (2009: EUR 3,386 million) will be appropriated to the no par value shares carrying dividend rights at February 18, 2011.

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.**

		2010	2009	2008
<b>Group (total)</b>		<b>252,494</b>	<b>257,601</b>	<b>234,887</b>
Domestic		126,952	130,477	141,123
International		125,542	127,124	93,764
Non-civil servants		224,428	226,460	201,036
Civil servants (domestic)		28,066	31,141	33,851
Trainees and student interns		9,217	9,805	10,424
<b>Personnel costs</b>	<b>millions of €</b>	<b>15,071</b>	<b>14,333</b>	<b>14,078</b>

The number of employees decreased by 2.0 percent in the financial year. This development was caused by the following effects: In Germany, the decrease was primarily attributable to staff cuts in the fixed network operations of the Germany operating segment, although this was partially offset by the higher number of employees assigned to Vivento and at units integrated into Group Headquarters & Shared Services as part of the Group-wide realignment of the management structure.

Outside Germany, the number of employees decreased mainly as a result of staff restructuring measures in the Europe operating segment and the deconsolidation of T-Mobile UK. These effects were partially offset by a higher average number of employees in the Systems Solutions operating segment as a consequence of offshore activities and the fact that employees were taken over under the terms of large-scale contracts.

Personnel costs increased by 5.1 percent year-on-year, mainly as a result of increased expenses for civil-servant early retirement in Germany and increased personnel costs in the Germany operating segment and at Group Headquarters & Shared Services following collectively agreed pay rises. This increase was also a result of higher staff-related expenses in the United States operating segment which were mainly attributable to retail distribution growth and exchange rate effects, as well as the increase in international headcount in the Systems Solutions operating segment.

### 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:

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Amortization and impairment of intangible assets</b>	<b>3,743</b>	<b>5,657</b>	<b>3,397</b>
Of which:			
Goodwill impairment losses from the year-end impairment test	395	2,345	289
Amortization of mobile communications licenses	743	905	1,013
<b>Depreciation and impairment of property, plant and equipment</b>	<b>8,065</b>	<b>8,237</b>	<b>7,578</b>
Of which: impairment of property, plant and equipment from the year-end impairment test	285	-	-
	<b>11,808</b>	<b>13,894</b>	<b>10,975</b>

The following table provides a breakdown of impairment losses:

	2010 millions of €	2009 millions of €	2008 millions of €
<b>Intangible assets</b>	<b>399</b>	<b>2,354</b>	<b>340</b>
Of which:			
Goodwill from the year-end impairment test	395	2,345	289
U.S. mobile communications licenses	-	-	21
<b>Property, plant and equipment</b>	<b>450</b>	<b>217</b>	<b>140</b>
Land and buildings	159	193	123
Of which: from the year-end impairment test	27	-	-
Technical equipment and machinery	271	10	5
Of which: from the year-end impairment test	258	-	-
Other equipment, operating and office equipment	1	3	8
Advance payments and construction in progress	19	11	4
	<b>849</b>	<b>2,571</b>	<b>480</b>

Depreciation, amortization and impairment losses decreased by EUR 2.1 billion year-on-year, with the latter accounting for EUR 1.7 billion. The decline in depreciation and amortization is mainly due to lower depreciation of property, plant and equipment (technical equipment and machinery). This decrease, in turn, is mainly attributable to the fact that depreciation charges for T-Mobile UK's assets were no longer recognized in 2010.

The year-end impairment tests at the cash-generating units resulted in goodwill impairments of EUR 0.4 billion as well as impairment losses of EUR 0.3 billion on property, plant and equipment. By comparison, an impairment loss of EUR 2.3 billion on goodwill had to be recognized in the prior year. For further details on the impairment tests at the cash-generating units, please refer to Note 5.