Business combinations.

2008:
Deutsche Telekom took over full control of **SunCom Wireless Holdings, Inc., Berwyn, United States (SunCom)** on February 22, 2008 after the Group company T-Mobile USA Inc. acquired 100 percent of shares in the company. With the acquisition of SunCom, T-Mobile USA is expanding the coverage of its own mobile communications network to the Southeastern United States as well as the Caribbean. SunCom's customer base is spread over the U.S. states of North Carolina, South Carolina, Tennessee and Georgia, as well as Puerto Rico and the U.S. Virgin Islands. Like T-Mobile, the company operates its mobile communications network based on GSM/GPRS/EDGE. The T-Mobile group had been offering mobile communications services to its customers in these regions since 2004 under a roaming agreement with SunCom.

The acquisition cost of the business combination, including costs of USD 2 million directly attributable to it, as of the acquisition date was USD 1.6 billion (EUR 1.1 billion). Cash and cash equivalents in the amount of EUR 52 million were acquired in conjunction with the purchase of SunCom. On the basis of the final purchase price allocation, the business combination with SunCom resulted in goodwill of EUR 0.9 billion. This goodwill arises from synergies the merger of the two companies is expected to generate, particularly through the reduction of roaming costs, as well as marketing synergies. In addition, this goodwill reflects the overall growth opportunities for T-Mobile USA and Mobile Communications as a growth area created by the larger customer base and the expansion of the mobile communications network.

The fair values of SunCom's acquired assets, liabilities and contingent liabilities recognized at the date of acquisition and their carrying amounts immediately prior to the business combination are presented in the following table:

millions of €	SunCom	
	Fair value at the acquisition date	Carrying amounts immediately prior to the business combination
Assets	**2,057**	**1,097**
Current assets	**243**	**255**
Cash and cash equivalents	52	52
Financial assets	114	114
Trade and other receivables	54	55
Other assets	23	34
Non-current assets	**1,814**	**842**
Intangible assets	1,333	555
Of which: goodwill	883	60
Property, plant and equipment	146	274
Other assets	335	13
Liabilities	**977**	**925**
Current liabilities	**792**	**759**
Financial liabilities	678	655
Trade and other payables	36	36
Other liabilities	78	68
Non-current liabilities	**185**	**166**
Other liabilities	185	166

SunCom was included in Deutsche Telekom's consolidated financial statements for the first time as of February 22, 2008. Net revenue increased by EUR 462 million as a result of the acquisition of SunCom. Had the business combination already occurred on January 1, 2008, net revenue would have been EUR 84 million higher. Net profit of the Group for the 2008 financial year includes a net profit at SunCom of EUR 1 million. If the business combination had been executed effective January 1, 2008, the Group's net profit would have been reduced accordingly by EUR 6 million.

2007:
By acquiring 100 percent of the equity interests in **Orange Nederland N.V., The Hague, Netherlands (Orange Nederland)** and in **Orange Nederland Breedband B.V., Amsterdam, Netherlands (Online)** via its Group company T-Mobile Netherlands Holding B.V., Deutsche Telekom gained control of the entities as of October 1, 2007.

At the acquisition date, **Orange Nederland** provided mobile communications products and services based on GSM and UMTS technology.

Including agreed purchase price adjustments for net debt and expenses that were incurred prior to the acquisition date but resulted in cash outflow at a later date, and for advance payments for the use of the brand, the acquisition costs for Orange Nederland at the acquisition date amounted to EUR 1.2 billion.

The business combination with Orange Nederland resulted in goodwill of EUR 0.4 billion. The main factors resulting in the recognition of goodwill were anticipated savings through synergy effects of the combination and an expected improvement in Deutsche Telekom's market position in the Netherlands. Cash and cash equivalents in the amount of EUR 18 million were acquired in conjunction with the purchase of Orange Nederland.

The fair values of Orange Nederland's acquired assets, liabilities and contingent liabilities recognized at the date of acquisition and their carrying amounts immediately prior to the business combination are presented in the following table:

millions of €	**Orange Nederland ***	
	Fair value at the acquisition date	Carrying amounts immediately prior to the business combination
Assets	**968**	**752**
Current assets	**121**	**127**
Cash and cash equivalents	18	18
Other assets	103	109
Non-current assets	**847**	**625**
Intangible assets	398	250
Property, plant and equipment	259	375
Other assets	190	–
Liabilities	**214**	**218**
Current liabilities	**191**	**199**
Financial liabilities	–	–
Trade and other payables	70	78
Other liabilities	121	121
Non-current liabilities	**23**	**19**
Financial liabilities	–	–
Other liabilities	23	19

* Figures excluding goodwill.

Orange Nederland was included in Deutsche Telekom's consolidated financial statements as of October 1, 2007 for the first time. Net revenue increased by EUR 147 million as a result of the acquisition. Had the business combination taken place on January 1, 2007, the Group's net revenue would have been EUR 493 million higher than the level of net revenue actually generated. Net profit for the 2007 financial year included a net loss at Orange Nederland of EUR 37 million. Net profit would have been an additional EUR 30 million lower, had the business combination been executed effective January 1, 2007.

Online (formerly Orange Breedband) offered broadband Internet lines and other Internet-based services at the acquisition date. At the time of acquisition, the intention was to sell the acquired equity interest in Online; therefore the assets and liabilities were included in non-current assets and disposal groups held for sale. In the second quarter of 2008, Deutsche Telekom decided not to sell the acquired shares. Accordingly, the acquired assets and liabilities are no longer reported in the consolidated balance sheet as being held for sale. The differences resulting from the remeasurement of the assets and liabilities following this reclassification, as well as all other effects on profit and loss to be applied retroactively until the date of reclassification, are reported in the income statement under other operating expenses totaling EUR 6 million. The reclassification resulted in goodwill of EUR 54 million.

On October 24, 2007, Deutsche Telekom exercised its preemptive right through Group subsidiary Scout24 AG, Baar, Switzerland, to purchase a share of 66.22 percent in **Immobilien Scout GmbH, Berlin,** which was previously held by Aareal Bank, Wiesbaden, for the price of EUR 0.4 billion. The acquisition increased Scout24 AG's existing share of 33.11 percent to 99.33 percent. Immediately prior to the acquisition of the additional 66.22-percent share, the carrying amount of the existing 33.11-percent share in Immobilien Scout was EUR 7 million. Since the investment existed before Deutsche Telekom obtained control of the entity, the acquisition of the additional stake was treated as a business combination achieved in stages according to IFRS 3.

The business activities of Immobilien Scout comprise the operation of an Internet-based real estate marketing platform and associated products and services for the German market.

Immobilien Scout was included in Deutsche Telekom's consolidated financial statements as a fully consolidated subsidiary for the first time effective November 1, 2007. The existing 33.11-percent share in Immobilien Scout was carried at equity until October 31, 2007 and included in the consolidated financial statements as an associate.

The business combination resulted in total goodwill of EUR 0.3 billion. This includes around EUR 20 million from the existing 33.11-percent share that was realized in the course of the initial inclusion at equity of the Scout24 group in February 2004. The acquisition of the further 66.22-percent share resulted in goodwill of EUR 283 million. This amount was mainly attributable to positive future income effects and anticipated savings due to synergies. Cash and cash equivalents in the amount of EUR 1 million were acquired in conjunction with the purchase of Immobilien Scout.

The fair values of Immobilien Scout's acquired assets, liabilities and contingent liabilities recognized at the date of acquisition and their carrying amounts immediately prior to the business combination are presented in the following table:

millions of €	Immobilien Scout *	
	Fair value at the acquisition date	Carrying amounts immediately prior to the business combination
Assets	**168**	**35**
Current assets	**31**	**31**
Cash and cash equivalents	1	1
Other assets	30	30
Non-current assets	**137**	**4**
Intangible assets	133	1
Property, plant and equipment	3	3
Other assets	1	0
Liabilities	**53**	**13**
Current liabilities	**13**	**13**
Financial liabilities	–	–
Trade and other payables	–	–
Other liabilities	13	13
Non-current liabilities	**40**	**–**
Financial liabilities	–	–
Other liabilities	40	–

* Figures excluding goodwill.

The EUR 31 million change in fair value relating to the previously held interest (33.11 percent) resulting from the complete revaluation of Immobilien Scout's assets and liabilities was recognized in the revaluation reserve. The proportion of shareholders' equity attributable to third parties was approximately EUR 1 million.

From its acquisition date onwards, Immobilien Scout contributed EUR 16 million to the Group's net revenue in 2007. Net profit for the 2007 financial year included EUR 4 million in profit generated by Immobilien Scout since its acquisition date. Had the business combination taken place at the beginning of the 2007 financial year, its revenue contribution in 2007 would have been EUR 67 million and the contribution to 2007 net profit would have been EUR 20 million.

2006:
Effective March 31, 2006, T-Systems acquired the IT service provider **gedas** from Volkswagen AG for a purchase price of EUR 0.3 billion. The purchase price was paid in cash.

At the acquisition date, the information technology service provider gedas advised companies in the automotive and manufacturing industries on the development, systems integration, and operation of IT solutions. The technology expertise acquired in the company's core market and the understanding of business processes in the automotive sector also benefit numerous customers in other sectors and public administrations. The IT service provider developed a comprehensive thinking and working principle of its own – Intelligent Transformation – consisting of three elements: technological benefit, integrated view and creating an appropriate interface between people and technology.

The business combination resulted in goodwill of EUR 0.2 billion. Cash and cash equivalents in the amount of EUR 41 million were acquired in conjunction with the purchase of the gedas group.

The gedas group was included in Deutsche Telekom's consolidated financial statements as of March 31, 2006 for the first time. The gedas group contributed a total of EUR 495 million to the Group's net revenue since the acquisition date in the 2006 financial year. Net profit for the 2006 financial year included a net loss at the gedas group since the acquisition date in the amount of EUR 15 million. Had the business combination taken place at the beginning of the 2006 financial year, its revenue contribution in 2006 would have been EUR 639 million and the loss of the gedas group would have risen to EUR 26 million.

The fair values of the gedas group's acquired assets, liabilities and contingent liabilities recognized at the date of acquisition and their carrying amounts immediately prior to the business combination are presented in the following table:

millions of €	**gedas group** *	
	Fair value at the acquisition date	Carrying amounts immediately prior to the business combination
Assets	**434**	**341**
Current assets	**231**	**231**
Cash and cash equivalents	41	41
Other assets	190	190
Non-current assets	**203**	**110**
Intangible assets	112	20
Property, plant and equipment	73	73
Other assets	18	17
Liabilities	**341**	**308**
Current liabilities	**298**	**293**
Financial liabilities	119	119
Trade and other payables	69	69
Other liabilities	110	105
Non-current liabilities	**43**	**15**
Financial liabilities	6	6
Other liabilities	37	9

* Figures excluding goodwill.

Effective April 28, 2006, Deutsche Telekom – through the Group company T-Mobile Austria – acquired 100 percent of the shares and voting rights in the Austrian mobile communications company **tele.ring Telekom Service GmbH, Vienna, Austria (tele.ring).** At the acquisition date, tele.ring was an Austrian telecommunications company which primarily provided UMTS/GSM mobile communications services. The purchase price of EUR 1.3 billion was settled in cash. Cash and cash equivalents in the amount of EUR 23 million were acquired as part of the transaction. Incidental acquisition expenses of EUR 5 million were incurred primarily for financial and legal advisory services. The business combination resulted in goodwill of EUR 0.7 billion. The main factors resulting in the recognition of goodwill can be summarized as follows:

- A portion of the acquired intangible assets, such as the assembled workforce, could not be recognized as intangible assets since the recognition criteria were not fulfilled.
- Expected cost savings from synergy effects of the merger were taken into account in determining the purchase price.

In addition to providing services in the area of UMTS/GSM mobile communications, the tele.ring group generated a small amount of its revenues with fixed-network business at the acquisition date. Since this activity was not consistent with the strategic objectives of T-Mobile Austria, the latter intended to sell off the existing fixed-network customer base. The acquisition of the tele.ring group was further subject to certain regulatory conditions. Nearly all cell sites necessary for mobile communications operations as well as the frequency spectrum of the UMTS license of the tele.ring group were required to be sold to competitors. At the time of acquisition the relevant assets were classified as held for sale. These assets were sold in the 2007 financial year.

tele.ring was included in Deutsche Telekom's consolidated financial statements as of May 1, 2006 for the first time. The revenue generated by tele.ring in the 2006 financial year since its acquisition date was EUR 296 million. Had the business combination already taken place effective January 1, 2006, net revenue in the 2006 financial year would have been EUR 158 million higher. Net profit for the 2006 financial year included a net loss at tele.ring in the amount of EUR 117 million. Net profit in the 2006 financial year would have been lower by EUR 23 million – the amount of the net loss of tele.ring – had the business combination been executed effective January 1, 2006.

The fair values of tele.ring's acquired assets, liabilities and contingent liabilities recognized at the date of acquisition and their carrying amounts immediately prior to the business combination are presented in the following table:

millions of €	**tele.ring group** *	
	Fair value at the acquisition date	Carrying amounts immediately prior to the business combination
Assets	**785**	**666**
Current assets	**199**	**119**
Cash and cash equivalents	23	23
Assets held for sale	85	0
Other assets	91	96
Non-current assets	**586**	**547**
Intangible assets	461	230
Property, plant and equipment	118	304
Other assets	7	13
Liabilities	**138**	**145**
Current liabilities	**106**	**99**
Financial liabilities	17	17
Trade and other payables	47	47
Other liabilities	42	35
Non-current liabilities	**32**	**46**
Financial liabilities	0	0
Other liabilities	32	46

* Figures excluding goodwill.

The deferred tax effects of tax loss carryforwards of EUR 0.9 billion were not recognized, as it was not probable that taxable profit will be available in the near future, against which these tax loss carryforwards could be utilized.

The **merger of T-Online International AG into Deutsche Telekom AG** was entered into the commercial register on June 6, 2006. As such, the merger of T-Online International AG into Deutsche Telekom AG has taken effect. In connection with the merger, Deutsche Telekom acquired 9.86 percent of the remaining shares in T-Online by issuing 62.7 million new Deutsche Telekom shares. This transaction generated goodwill of EUR 0.2 billion.

In the third quarter of 2006, Deutsche Telekom bought back 62.7 million Deutsche Telekom shares for a purchase price of EUR 0.7 billion and subsequently retired them. This corresponded to the number of shares newly issued in the course of the merger of T-Online International AG into Deutsche Telekom AG. The buy-back program was implemented solely for the purpose of reducing the share capital of Deutsche Telekom AG so that the merger with **T-Online International AG** does not lead to a permanent increase in the number of Deutsche Telekom AG shares.

By acquiring a further 48.00 percent of the voting rights in **Polska Telefonia Cyfrowa Sp.z o.o., Warsaw, Poland (PTC)** (via T-Mobile Deutschland GmbH, Bonn), Deutsche Telekom obtained control of the entity as of October 26, 2006. PTC provides mobile communications products and services based on GSM and UMTS technology.

For reasons of simplicity, PTC was not fully consolidated until November 1, 2006. Due to the existence of a significant influence on the company, PTC was included as an associate in the consolidated financial statements of Deutsche Telekom until then. The carrying amount of the existing 49.00-percent stake in PTC was EUR 1.8 billion at October 31, 2006. Since the investment existed before Deutsche Telekom obtained control of the entity, the acquisition of the 48.00-percent stake was treated as a business combination achieved in stages according to IFRS 3.

Since Deutsche Telekom obtained control of the entity upon acquisition of the remaining 48.00 percent of the shares in PTC, PTC's assets and liabilities were included in the consolidated financial statements of Deutsche Telekom at fair value effective November 1, 2006. The voting rights were acquired by means of exercising a call option. Payments of EUR 0.6 billion have been made to date as consideration for the additional 48.00 percent of the shares in PTC. Any further payments will be made depending on future events. A subsequent adjustment of the purchase price as a result of the judicial determination of the final purchase price would have an impact on goodwill. Cash and cash equivalents in the amount of EUR 0.2 billion were acquired in conjunction with the purchase of PTC.

Including EUR 7 million in costs directly attributable to the business combination incurred for business and legal advisory services, the costs for the acquisition of the 48.00 percent of the shares amounted to EUR 1.6 billion. The business combination resulted in total goodwill of EUR 1.7 billion. Goodwill was mainly attributable to cost savings expected from synergy effects.

The fair values of PTC's acquired assets, liabilities and contingent liabilities recognized at the date of acquisition and their carrying amounts immediately prior to the business combination are presented in the following table:

millions of €	**Polska Telefonia Cyfrowa (PTC)***	
	Fair value at the acquisition date	Carrying amounts immediately prior to the business combination
Assets	**3,194**	**1,900**
Current assets	**558**	**558**
Cash and cash equivalents	185	185
Assets held for sale	2	2
Other assets	371	371
Non-current assets	**2,636**	**1,342**
Intangible assets	1,963	634
Property, plant and equipment	634	706
Other assets	39	2
Liabilities	**1,044**	**666**
Current liabilities	**432**	**421**
Financial liabilities	127	120
Trade and other payables	28	28
Other liabilities	277	273
Non-current liabilities	**612**	**245**
Financial liabilities	262	159
Other liabilities	350	86

* Figures excluding goodwill.

The change in fair value relating to the previously held interest (49.00 percent) resulting from the complete revaluation of PTC's assets and liabilities was approximately EUR 0.4 billion and was recognized in the revaluation reserve. The proportion of shareholders' equity attributable to third parties was approximately EUR 65 million.

The revenue generated by PTC in the 2006 financial year since the acquisition date was EUR 299 million. Had the business combination taken place on January 1, 2006, the Group's net revenue in the 2006 financial year would have been EUR 1,523 million higher than the level of net revenue actually generated. Net profit for the 2006 financial year included a net loss at PTC in the amount of EUR 116 million. Net profit would have been approximately EUR 380 million lower – the amount of the net loss of PTC – had the business combination been executed effective January 1, 2006.

Pro forma information.

The pro forma information shown in the table on the right presents the most important financial data of Deutsche Telekom, including its principal consolidated subsidiaries acquired in the financial years 2006 through 2008, as if they had been included in the consolidated financial statements from the beginning of each financial year in which they were acquired.

millions of €	2008	2007*	2006*
Net revenue			
Reported	61,666	62,516	61,347
Pro forma	61,750	63,060	63,172
Net profit			
Reported	1,483	571	3,173
Pro forma	1,477	557	2,759
Earnings per share/ADS (€)			
Reported	0.34	0.13	0.74
Pro forma	0.34	0.13	0.64

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

Principal subsidiaries.

The Group's principal subsidiaries are presented in the following table:

Name and registered office	Deutsche Telekom share % Dec. 31, 2008	Net revenue millions of € 2008	Employees average 2008
T-Mobile USA, Inc., Bellevue, Washington, United States [a, b]	100.00	14,957	36,076
T-Mobile Deutschland GmbH, Bonn [c]	100.00	7,770	5,474
T-Systems Enterprise Services GmbH, Frankfurt/Main [a]	100.00	5,048	16,215
T-Systems Business Services GmbH, Bonn [a]	100.00	4,707	11,270
T-Mobile Holdings Ltd., Hatfield, United Kingdom [a, b]	100.00	4,051	6,128
Magyar Telekom Nyrt., Budapest, Hungary [a, g]	59.30	2,678	10,679
PTC, Polska Telefonia Cyfrowa Sp.z o.o., Warsaw, Poland [c]	97.00	2,260	5,155
T-Mobile Netherlands Holding B.V., The Hague, Netherlands [a, b]	100.00	1,806	2,234
T-Mobile Czech Republic a.s., Prague, Czech Republic [e]	60.77	1,329	2,559
HT-Hrvatske telekomunikacije d.d., Zagreb, Croatia [a]	51.00	1,223	6,462
T-Mobile Austria Holding GmbH, Vienna, Austria [a, d]	100.00	1,085	1,539
Slovak Telekom a.s., Bratislava, Slovakia [a]	51.00	994	5,258
T-Systems GEI GmbH, Aachen [f]	100.00	351	2,405

[a] Consolidated subgroup financial statements.
[b] Indirect shareholding via T-Mobile Global Holding GmbH, Bonn (Deutsche Telekom AG's indirect share: 100 %).
[c] Indirect shareholding via T-Mobile International AG, Bonn (Deutsche Telekom AG's share: 100 %).
[d] Indirect shareholding via T-Mobile Global Holding Nr. 2 GmbH, Bonn (Deutsche Telekom AG's indirect share: 100 %).
[e] Indirect shareholding via CMobil B.V., Amsterdam (Deutsche Telekom AG's indirect share: 100 %).
[f] Indirect shareholding via T-Systems Enterprise Services GmbH, Frankfurt/Main (Deutsche Telekom AG's share: 100 %).
[g] Indirect shareholding via MagyarCom Holding GmbH, Bonn (Deutsche Telekom AG's share: 100 %).

In accordance with § 313 HGB, the full list of investment holdings, which is included in the notes to the consolidated financial statements, is published in the electronic Federal Gazette (Bundesanzeiger) together with the consolidated financial statements. The list is available upon request from Deutsche Telekom AG, Bonn, Investor Relations. Furthermore, the list of investment holdings includes a full list of all subsidiaries that exercise preparation and disclosure simplification options in accordance with § 264 (3) HGB as well as disclosure simplification options in accordance with § 264 b HGB.

Consolidation methods.

Under IFRS, all business combinations must be accounted for using the purchase method. The acquirer allocates the cost of a business combination by recognizing the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair value at the acquisition date. Non-current assets that are classified as held for sale are recognized at fair value less costs to sell. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of identifiable assets and of the liabilities and contingent liabilities taken over, regardless of the level of the investment held, is recognized as goodwill. Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities which exceeds the cost of a business combination is recognized in profit or loss.

When acquiring additional equity interests in companies that are already consolidated subsidiaries, the difference between the purchase price consideration and the proportionate acquired equity is recognized as goodwill.

Income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. Income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount, including the cumulative amount of any exchange differences that relate to the subsidiary recognized in equity, is recognized in the consolidated income statement as the gain or loss on the disposal of the subsidiary. Intercompany income and expenses, receivables and liabilities, and profits or losses are eliminated.

Investments in joint ventures and associates accounted for using the equity method are carried at the acquirer's interest in the identifiable assets (including any attributable goodwill), liabilities and contingent liabilities are remeasured to fair value upon acquisition. Goodwill from application of the equity method is not amortized. Unrealized gains and losses from transactions with these companies are eliminated in proportion to the acquirer's interest. The carrying amount of the investment accounted for using the equity method is tested for impairment whenever there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss must be recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs to sell and value in use.

Currency translation.

Foreign-currency transactions are translated into the functional currency at the exchange rate at the date of transaction. At balance sheet dates, monetary items are translated at the closing rate, and non-monetary items are translated at the exchange rate at the date of transaction. Exchange rate differences are recognized in profit or loss.

The assets and liabilities of Group entities whose functional currency is not the euro are translated into euros from the local currency using the middle rates at the reporting date. The middle rates are the average of the bid and ask rates at closing on the respective dates. The income statements and corresponding profit or loss of foreign-currency denominated Group entities are translated at average exchange rates for the period. Exchange rate differences are recognized as a separate component of equity.

The exchange rates of certain significant currencies changed as follows:

€	Annual average rate			Rate at balance sheet date	
	2008	2007	2006	**Dec. 31, 2008**	Dec. 31, 2007
100 Czech korunas (CZK)	4.00894	3.60154	3.52842	3.75561	3.76364
1 Pound sterling (GBP)	1.25601	1.46142	1.46671	1.04555	1.36130
100 Croatian kuna (HRK)	13.84420	13.62830	13.65320	13.57610	13.63840
1,000 Hungarian forints (HUF)	3.97687	3.97762	3.78398	3.77407	3.96178
100 Macedonian denars (MKD)	1.62523	1.62699	1.62490	1.64255	1.62538
100 Polish zlotys (PLN)	28.47930	26.42900	25.66560	23.94770	27.89210
100 Slovak korunas (SKK)	3.19913	2.96074	2.68559	3.31932	2.97801
1 U.S. dollar (USD)	0.67976	0.72974	0.79626	0.71617	0.67907

Accounting policies.

Intangible assets (excluding goodwill) with finite useful lives, including UMTS licenses, are measured at cost and amortized on a straight-line basis over their useful lives. Such assets are impaired if their recoverable amount, which is measured at the higher of fair value less costs to sell and value in use, is lower than the carrying amount. Indefinite-lived intangible assets (U.S. mobile communications licenses (FCC licenses)) are carried at cost. While FCC licenses are issued for a fixed time, renewals of FCC licenses have occurred routinely and at nominal costs. Moreover, Deutsche Telekom has determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of the FCC licenses and therefore, treats the FCC licenses as an indefinite-lived intangible asset. They are not amortized, but tested for impairment annually or whenever there are indications of impairment and, if necessary, written down to the recoverable amount. Impairment losses are reversed if the reasons for recognizing the original impairment loss no longer apply and the asset is recognized at a value that would have been applied if no impairment losses had been recognized in prior periods.

The useful lives and the amortization method of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8.

Amortization of mobile communications licenses begins as soon as the related network is ready for use. The useful lives of mobile communications licenses are determined based on several factors, including the term of the licenses granted by the respective regulatory body in each country, the availability and expected cost of renewing the licenses, as well as the development of future technologies. The remaining useful lives of the Company's mobile communications licenses are as follows:

Mobile communications licenses	Years
FCC licenses	Indefinite
UMTS licenses	6 to 16
GSM licenses	1 to 16

Development expenditures are capitalized if they meet the criteria for recognition as assets and are amortized over their useful lives. **Research expenditures** and borrowing costs are not capitalized and are expensed as incurred.

Goodwill is not amortized, but is tested for impairment based on the recoverable amount of the cash-generating unit to which the goodwill is allocated (impairment-only approach). For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment test must be performed annually, as well as whenever there are indications that the carrying amount of the cash-generating unit is impaired. If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit is impaired and must be reduced in the amount of the difference. Impairment losses for goodwill may not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro rata reduction of the carrying amounts of the assets allocated to the cash-generating unit. Deutsche Telekom determines the recoverable amount of a cash-generating unit based on its fair value less costs to sell. The fair value less costs to sell is usually determined based on discounted cash flow calculations. These discounted cash flow calculations use projections that are based on financial budgets approved by management covering a ten-year-period and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the ten-year period are extrapolated using appropriate growth rates. Key assumptions on which management has based its determination of fair value less costs to sell include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, growth rates and discount rates. Cash flow calculations are supported by external sources of information.

Property, plant and equipment is carried at cost less straight-line depreciation and impairment losses. The depreciation period is based on the expected useful life. Items of property, plant and equipment are depreciated pro rata in the year of acquisition. The residual values, useful lives and the depreciation method of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8. In addition to directly attributable costs, the costs of internally developed assets include proportionate indirect material and labor costs, as well as administrative expenses relating to production or the provision of services. In addition to the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, costs also include the estimated costs for dismantling and removing the asset, and restoring the site on which it is located. If an item of property, plant and equipment consists of several components with different estimated useful lives, the individual significant components are depreciated over their individual useful lives. Maintenance and repair costs are expensed as incurred. Borrowing costs are not capitalized. Investment grants received reduce the cost of the assets for which the grants were made.

On disposal of an item of property, plant and equipment or when no future economic benefits are expected from its use or disposal, the carrying amount of the item is derecognized. The gain or loss arising from the disposal of an item of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognized as other operating income or other operating expenses when the item is derecognized. The useful lives of material asset categories are presented in the following table:

	Years
Buildings	25 to 50
Telephone facilities and terminal equipment	3 to 10
Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment and technical equipment for broadband distribution networks	2 to 12
Broadband distribution networks, outside plant networks and cable conduit lines	8 to 35
Other equipment, operating and office equipment	2 to 23

Leasehold improvements are depreciated over the shorter of their useful lives or lease terms.

Impairment of intangible assets and items of property, plant and equipment is identified by comparing the carrying amount with the recoverable amount. If no future cash flows generated independently of other assets can be allocated to the individual assets, recoverability is tested on the basis of the cash-generating unit to which the assets can be allocated. At each reporting date Deutsche Telekom assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or cash-generating unit must be determined. Impairment losses are reversed if the reasons for recognizing the original impairment loss no longer apply and the asset is recognized at a value that would have been applied if no impairment losses had been recognized in prior periods.

The recoverable amount of the cash-generating units is generally determined using discounted cash flow calculations. Cash flows are projected over the estimated useful life of the asset or cash-generating unit. The discount rate used reflects the risk specific to the asset or cash-generating unit. The cash flows used reflect management assumptions and are supported by external sources of information.

Beneficial ownership of **leased assets** is attributed to the contracting party in the lease to which the substantial risks and rewards incidental to ownership of the asset are transferred. If substantially all risks and rewards are attributable to the lessor (operating lease), the leased asset is recognized in the balance sheet by the lessor. Measurement of the leased asset is then based on the accounting policies applicable to that asset. The lease payments are recognized in profit or loss. The lessee in an operating lease recognizes the lease payments made during the term of the lease in profit or loss.

If substantially all risks and rewards incidental to ownership of the leased asset are attributable to the lessee (finance lease), the lessee must recognize the leased asset in the balance sheet. At the commencement of the lease term, the leased asset is measured at the lower of fair value or present value of the future minimum lease payments and is depreciated over the shorter of the estimated useful life or the lease term. Depreciation is recognized as expense. The lessee recognizes a lease liability equal to the carrying amount of the leased asset at the commencement of the lease term. In subsequent periods, the lease liability is reduced using the effective interest method and the carrying amount adjusted accordingly. The lessor in a finance lease recognizes a receivable in the amount of the net investment in the lease. Lease income is classified into repayments of the lease receivable and finance income. The lease receivable is reduced using the effective interest method and the carrying amount is adjusted accordingly.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term.

Investment property consists of all property held to earn rentals or for capital appreciation and not used in production or for administrative purposes. Investment property is measured at cost less any accumulated depreciation and impairment losses.

Non-current assets and disposal groups held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of the carrying amount and fair value less costs to sell and are classified as non-current assets held for sale. Such assets are no longer depreciated. As a rule, impairment of such assets is only recognized if fair value less costs to sell is lower than the carrying amount. If fair value less costs to sell subsequently increases, the impairment loss previously recognized must be reversed. The reversal of impairment losses is limited to the impairment losses previously recognized for the assets concerned. If the requirements for the classification of assets as held for sale are no longer met, the assets may no longer be shown as held for sale. The assets are to be measured at the lower of the carrying amount that would have applied if the asset had not been classified as held for sale, and the recoverable amount at the date at which the requirements for the classification as held for sale are no longer met.

Inventories are carried at the lower of net realizable value or cost. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Borrowing costs are not capitalized. Cost is measured using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Deutsche Telekom sells handsets separately and in connection with service contracts. As part of the strategy to acquire new customers, it sometimes sells handsets, in connection with a service contract, at below its acquisition cost. As the handset subsidy is part of the Company's strategy for acquiring new customers, the loss on the sale of handsets is recognized at the time of the sale and, as a rule, shown under cost of sales.

Pension obligations and other employee benefits relate to obligations to non-civil servants. Liabilities for **defined benefit plans** are measured using the projected unit credit method, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future salary and benefit increases. The interest rate used to determine the present value of the obligations was set on the basis of the return on high-quality fixed-income corporate bonds in the respective currency area. In countries without a liquid market for such bonds, the return on government bonds is used instead. Actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognized in the period in which they occur outside profit or loss within equity (retained earnings). The return on plan assets is classified in interest income. Service costs are classified as operating expenses. Past service costs are recognized immediately to the extent that the benefits are vested; otherwise, they are recognized on a straight-line basis over the average remaining vesting period. The amounts payable under **defined contribution plans** are expensed when the obligation to pay the amounts is established, and classified as operating expenses. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

For active civil servants and those who have taken leave from civil-servant status and have an employment contract, Deutsche Telekom is obliged to make annual contributions to a special pension fund which makes pension payments to this group of people. The amounts of these contributions are set out by Postreform II, the legislation by which the former Deutsche Bundespost Telekom was legally transformed into a stock corporation, which came into force in 1995, and are therefore not subject to a separate actuarial calculation. The contributions are expensed in the period in which they are incurred and classified as operating expenses. The same applies to deferred compensation contributions to the Telekom Pension Fund and to contributions to defined contribution plans operated by Group entities outside Germany.

Part-time working arrangements for employees approaching retirement are largely based on the block model of the partial retirement arrangement (Altersteilzeit). Two types of obligations, both measured at their present value in accordance with actuarial principles, arise and are accounted for separately. The first type of obligation relates to the cumulative outstanding settlement amount, which is recorded on a pro rata basis during the active/working phase. The cumulative outstanding settlement amount is based on the difference between the employee's remuneration before entering partial retirement (including the employer's social security contributions) and the remuneration for the part-time service (including the employer's social security contributions, but excluding top-up payments). The second type of obligation relates to the employer's obligation to make top-up payments plus an additional contribution to the statutory pension scheme and is recognized in full when the obligation arises.

Provisions for voluntary redundancy and severance payments and in connection with early retirement arrangements for civil servants are recognized when Deutsche Telekom is demonstrably committed to granting those benefits. This is the case when Deutsche Telekom has a detailed formal plan for the termination of the employment relationship and is without realistic possibility of withdrawal. The termination benefits are measured based on the number of employees expected to be affected by the measures. Where termination benefits fall due more than twelve months after the balance sheet date, the expected amount to be paid is discounted to the balance sheet date.

Other provisions are recognized where Deutsche Telekom has legal or constructive obligations to third parties on the basis of past transactions or events that will probably require an outflow of resources to settle, and this outflow can be reliably measured. These provisions are carried at their expected settlement amount, taking into account all identifiable risks, and may not be offset against reimbursements. The settlement amount is calculated on the basis of a best estimate. Provisions are discounted when the effect of the time value of money is material. Changes in estimates of the amount and timing of payments or changes in the discount rate applied in measuring provisions for decommissioning, restoration, and similar obligations are recognized in accordance with the change in the carrying amount of the related asset. Where the decrease in the amount of a provision exceeds the carrying amount of the related asset, the excess is recognized immediately in profit or loss. Provisions are recognized for external legal fees related to expected losses from executory contracts.

Contingencies (contingent liabilities and assets) are potential liabilities or assets arising from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of Deutsche Telekom. Contingent liabilities can also be present obligations that arise from past events for which an outflow of resources embodying economic benefits is not probable or for which the amount of the obligation cannot be measured reliably. Contingent liabilities are only recognized at their fair value if they were assumed in the course of a business combination. Contingent liabilities not assumed in the course of a business combination are not recognized. Contingent assets are not recognized. However, when the realization of income is virtually certain, then the related asset is no longer a contingent asset, but it is recognized as an asset. Information on contingent liabilities is disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. The same applies to contingent assets where an inflow of economic benefits is probable.

A **financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade receivables and other originated loans and receivables, held-to-maturity investments, and derivative and non-derivative financial assets held for trading. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, liabilities to non-banks from promissory notes, and derivative financial liabilities. Financial instruments are generally recognized as soon as Deutsche Telekom becomes a party to the contractual regulations of the financial instrument. However, in the case of regular way purchase or sale (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned), the settlement date is relevant for the initial recognition and derecognition. This is the day on which the asset is delivered to or by Deutsche Telekom. In general, financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the entity currently has a right to set off the recognized amounts and intends to settle on a net basis. To the extent that contracts to buy or sell a non-financial item such as goods or electricity fall within the scope of IAS 39, they are accounted for in accordance with this standard.

Financial assets are measured at fair value on initial recognition. For all financial assets not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are taken into account. The fair values recognized in the balance sheet generally correspond to the market prices of the financial assets. If these are not immediately available, they must be calculated using standard valuation models on the basis of current market parameters. For this calculation, the cash flows already fixed or determined by way of forward rates using the current yield curve are discounted at the measurement date using the discount factors calculated from the yield curve applicable at the reporting date. Middle rates are used.

Cash and cash equivalents, which include cash accounts and short-term cash deposits at banks, have maturities of up to three months when initially recognized and are measured at amortized cost.

Trade and other current receivables are measured at the amount the item is initially recognized less any impairment losses using the effective interest method, if applicable. Impairments, which take the form of allowances, make adequate provision for the expected credit risk; concrete cases of default lead to the derecognition of the respective receivables. For allowances, financial assets that may need to be written down are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment and written down, if necessary. When the expected future cash flows of the portfolio are being calculated as required for this, previous cases of default are taken into consideration in addition to the cash flows envisaged in the contract. The cash flows are discounted on the basis of the weighted average of the original effective interest rates of the financial assets contained in the relevant portfolio.

Impairment losses on trade accounts receivable are recognized in some cases using allowance accounts. The decision to account for credit risks using an allowance account or by directly reducing the receivable will depend on the reliability of the risk assessment. As there is a wide variety of operating segments and regional circumstances, this decision is the responsibility of the respective portfolio managers.

Other non-current receivables are measured at amortized cost using the effective interest method.

Financial assets held for trading are measured at fair value. These mainly include derivatives that are not part of an effective hedging relationship as set out in IAS 39 and therefore have to be classified as held for trading. Any gains or losses arising from subsequent measurement are recognized in the income statement.

Certain types of investment are intended and expected to be **held to maturity** with reasonable economic certainty. These financial assets are measured at amortized cost using the effective interest method.

Other non-derivative financial assets are classified as **available for sale** and generally measured at fair value. The gains and losses arising from fair value measurement are recognized directly in equity, unless the impairment is permanent or significant, or the changes in the fair value of debt instruments resulting from currency fluctuations are recognized in profit or loss. The cumulative gains and losses arising from fair value measurement are only recognized in profit or loss on disposal of the related financial assets. If the fair value of unquoted equity instruments cannot be measured with sufficient reliability, these instruments are measured at cost (less any impairment losses, if applicable).

Deutsche Telekom has not yet made use of the option of designating financial assets upon initial recognition as **financial assets at fair value through profit or loss.**

The carrying amounts of the financial assets that are not measured at fair value through profit or loss are tested at each reporting date to determine whether there is objective, material evidence of **impairment** (e.g., a debtor is facing serious financial difficulties, it is highly probable that insolvency proceedings will be initiated against the debtor, an active market for the financial asset disappears, there is a substantial change in the technological, economic or legal environment and the market environment of the issuer, or there is a continuous decline in the fair value of the financial asset to a level below amortized cost). Any impairment losses caused by the fair value being lower than the carrying amount are recognized in profit or loss.

Where impairments of the fair values of available-for-sale financial assets were recognized directly in equity in the past, these must now be reclassified from equity in the amount of the impairment determined and reclassified to the income statement. If, in a subsequent period, the fair value of the financial asset increases and this increase can be related objectively to events occurring after the impairment was recognized, the impairment loss is reversed in the appropriate amount. In the case of debt instruments, these reversed impairment losses are recognized in profit or loss. Impairment losses on unquoted equity instruments that are classified as available for sale and carried at cost may not be reversed. Both the fair value of held-to-maturity securities to be determined by testing for impairment and the fair value of the loans and receivables measured at amortized cost, which are required for impairment testing, correspond to the present value of the estimated future cash flows, discounted using the original effective interest rate. The fair value of unquoted equity instruments measured at cost is calculated as the present value of the expected future cash flows, discounted using the current interest rate that corresponds to the investment's special risk position.

Financial liabilities are measured at fair value on initial recognition. For all financial liabilities not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are also recognized.

Trade payables and other non-derivative financial liabilities are generally measured at amortized cost using the effective interest method.

The Group has not yet made use of the option to designate financial liabilities upon initial recognition as **financial liabilities at fair value through profit or loss.**

Derivatives that are not part of an effective hedging relationship as set out in IAS 39 must be classified as held for trading and measured at fair value through profit or loss. If the fair values are negative, the derivatives are recognized as financial liabilities.

Deutsche Telekom uses **derivatives** to hedge the interest rate and currency risks resulting from its operating, financing, and investing activities.

The Company does not hold or issue derivatives for speculative trading purposes.

Derivatives are carried at their fair value upon initial recognition. The fair values are also relevant for subsequent measurement. The fair value of traded derivatives is equal to their market value, which can be positive or negative. If there is no market value available, the fair value must be calculated using standard financial valuation models.

The fair value of derivatives is the value that Deutsche Telekom would receive or have to pay if the financial instrument were discontinued at the reporting date. This is calculated on the basis of the contracting parties' relevant exchange rates, interest rates, and credit ratings at the reporting date. Calculations are made using middle rates. In the case of interest-bearing derivatives, a distinction is made between the "clean price" and the "dirty price." In contrast to the clean price, the dirty price also includes the interest accrued. The fair values carried correspond to the full fair value or the dirty price.

Recording the changes in the fair values – in either the income statement or directly in equity – depends on whether or not the derivative is part of an effective hedging relationship as set out in IAS 39. If **hedge accounting** pursuant to IAS 39 is not employed, the changes in the fair values of the derivatives must be recognized in profit or loss. If, on the other hand, an effective hedging relationship as set out in IAS 39 exists, the hedge will be recognized as such.

Deutsche Telekom applies hedge accounting to hedge balance sheet items and future cash flows, thus reducing income statement volatility. A distinction is made between fair value hedges, cash flow hedges, and hedges of a net investment in a foreign operation depending on the nature of the hedged item.

Fair value hedges are used to hedge the fair values of assets recognized in the balance sheet, liabilities recognized in the balance sheet, or firm commitments not yet recognized in the balance sheet. Any change in the fair value of the derivative designated as the hedging instrument is recognized in profit or loss; the carrying amount of the hedged item is adjusted by the profit or loss to the extent of the hedged risk (basis adjustment). The adjustments to the carrying amount are not amortized until the hedging relationship has been discontinued.

Cash flow hedges are used to hedge against fluctuations in future cash flows from assets and liabilities recognized in the balance sheet, from firm commitments (in the case of currency risks), or from highly probable forecast transactions. To hedge the currency risk of an unrecognized firm commitment, Deutsche Telekom makes use of the option to recognize this as a cash flow hedge rather than a fair value hedge. If a cash flow hedge is employed, the effective portion of the change in the fair value of the hedging instrument is recognized in equity (hedging reserve) until the gain or loss on the hedged item is realized; the ineffective portion of the hedging instrument is recognized in profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial or non-financial asset or liability, the associated cumulative gains and losses that were recognized directly in equity are reclassified into profit or loss in the same periods during which the financial asset acquired or the financial liability assumed affects profit or loss for the period. In doing so, Deutsche Telekom has decided not to make use of the basis adjustment option for hedging forecast transactions when non-financial balance sheet items arise.

If **hedges of a net investment in a foreign operation** are employed, all gains or losses on the effective portion of the hedging instrument, together with any gains or losses on the foreign-currency translation of the hedged investment, are taken directly to equity. Any gains or losses on the ineffective portion are recognized immediately in profit or loss. The cumulative remeasurement gains and losses on the hedging instrument that had previously been recognized directly in equity and the gains and losses on the currency translation of the hedged item are recognized in profit or loss only on disposal of the investment.

IAS 39 sets out strict requirements on the use of hedge accounting. These are fulfilled at Deutsche Telekom by documenting, at the inception of a hedge, both the relationship between the financial instrument used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This involves concretely assigning the hedging instruments to the corresponding assets or liabilities or (firmly agreed/expected) future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis; ineffective hedges are discontinued immediately.

Deutsche Telekom also employs hedges that do not satisfy the strict hedge accounting criteria of IAS 39 but which make an effective contribution to hedging the financial risk in accordance with the principles of risk management. Furthermore, Deutsche Telekom does not use hedge accounting in accordance with IAS 39 to hedge the foreign-currency exposure of recognized monetary assets and liabilities, because the gains and losses on the hedged item from currency translation that are recognized in profit or loss in accordance with IAS 21 are shown in the income statement together with the gains and losses on the derivatives used as hedging instruments.

Stock options (equity-settled share-based payment transactions) are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Obligations arising from cash-settled share-based payment transactions are recognized as a liability and measured at fair value at the balance sheet date. The expenses are recognized over the vesting period. For both cash-settled and equity-settled share-based payment transactions, the fair value is determined using internationally accepted valuation techniques, such as the Black-Scholes model or the Monte Carlo model.

Revenues include all revenues from the ordinary business activities of Deutsche Telekom. Revenues are recorded net of value-added tax and other taxes collected from customers that are remitted to governmental authorities. They are recognized in the accounting period in which they are earned in accordance with the realization principle. Customer activation fees are deferred and amortized over the estimated average period of customer retention, unless they are part of a multiple-element arrangement, in which case they are a component of the arrangement consideration to be paid by the customer. Activation costs and costs of acquiring customers are deferred, up to the amount of deferred customer activation fees, and recognized over the average customer retention period.

For **multiple-element arrangements,** revenue recognition for each of the elements identified must be determined separately. The framework of the Emerging Issues Task Force Issue No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables" (EITF 00-21) was applied to account for multiple-element revenue agreements entered into after January 1, 2003, as permitted by IAS 8.12. EITF 00-21 requires in principle that arrangements involving the delivery of bundled products or services be separated into individual units of accounting (components), each with its own separate earnings process. Total arrangement consideration relating to the bundled contract is allocated among the different units based on their relative fair values (i.e., a ratio of the relative fair value of each of the accounting units to the aggregated fair value of the bundled deliverables is generated). If the fair value of the delivered elements cannot be determined reliably but the fair value of the undelivered elements can be determined reliably, the residual value method is used to allocate the arrangement consideration. The fair value of the elements delivered is determined as the difference between the total arrangement consideration to be provided by the customer and the fair value of the undelivered elements.

Payments to customers, including payments to dealers and agents (discounts, provisions) are generally recognized as a decrease in revenue. If the consideration provides a benefit in its own right and can be reliably measured, the payments are recognized as expenses.

Revenue from systems integration contracts requiring the delivery of customized products is recognized by reference to the stage of completion, as determined by the ratio of project costs incurred to date to estimated total contract costs, with estimates regularly revised during the life of the contract. A group of contracts, whether with a single customer or with several customers, is treated as a single contract when the group of contracts is negotiated as a single package, the contracts are closely interrelated and the contracts are performed concurrently or in a continuous sequence. When a contract covers a number of assets, the construction of each asset is treated separately when separate proposals have been submitted for each asset, each asset has been negotiated separately and can be accepted or rejected by the customer separately, and the costs and revenues of each asset can be identified. Receivables from these contracts are classified in the balance sheet item "trade and other receivables." Receivables from these contracts are calculated as the balance of the costs incurred and the profits recognized, less any discounts and recognized losses on the contract; if the balance for a contract is negative, this amount is reported in liabilities. If the total actual and estimated expenses exceed revenues for a particular contract, the loss is immediately recognized.

Revenue recognition in Deutsche Telekom's operating segments is as follows:

Mobile Communications Europe and Mobile Communications USA. Revenue generated by the operating segments Mobile Communications Europe and Mobile Communications USA include revenues from the provision of mobile services, customer activation fees, and sales of mobile handsets and accessories. Mobile services revenues include monthly service charges, charges for special features, call charges, and roaming charges billed to T-Mobile customers, as well as other mobile operators. Mobile services revenues are recognized based upon minutes of use and contracted fees less credits and adjustments for discounts. The revenue and related expenses associated with the sale of mobile phones, wireless data devices, and accessories are recognized when the products are delivered and accepted by the customer.

Broadband/Fixed Network. The Broadband/Fixed Network operating segment provides its customers with narrow and broadband access to the fixed network as well as Internet access. It also sells, leases, and services telecommunications equipment for its customers and provides additional telecommunications services. The Broadband/Fixed Network operating segment also conducts business with national and international network operators and with resellers (wholesale including resale). Service revenues are recognized when the services are provided in accordance with contractual terms and conditions. Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Revenue from rentals and operating leases is recognized monthly as the entitlement to the fees accrues. Revenues from customer activation fees are deferred over the average customer retention period. Revenues also result from charges for advertising and e-commerce. Advertising revenues are recognized in the period that the advertisements are exhibited. Transaction revenues are recognized upon notification from the customer that qualifying transactions have occurred and collection of the resulting receivable is reasonably assured.

Business Customers. The Business Customers operating segment derives revenues from Computing & Desktop Services, Systems Integration and Telecommunications Services. Revenue is recognized when persuasive evidence of a sales arrangement exists, products are delivered or services are rendered, the sales price or fee is fixed or determinable and collectibility is reasonably assured.

Revenue from Computing & Desktop Services is recognized as the services are provided using a proportional performance model. Revenue is recognized ratably over the contractual service period for fixed-price contracts and on an output or consumption basis for all other service contracts. Revenue from service contracts billed on the basis of time and material used is recognized at the contractual hourly rates as labor hours are delivered and direct expenses are incurred.

Revenue from hardware sales or sales-type leases is recognized when the product is shipped to the customer, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

Revenue from rentals and leases is recognized on a straight-line basis over the rental period.

Revenue from systems integration contracts requiring the delivery of customized products is generally recognized by reference to the stage of completion, as determined by the ratio of project costs incurred to date to estimated total contract costs, with estimates regularly revised during the life of the contract. For contracts including milestones, revenues are recognized only when the services for a given milestone are provided and accepted by the customer, and the billable amounts are not contingent upon providing remaining services.

Telecommunication services include network services and hosting & ASP services. Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of approximately three years. Customer activation fees and related costs are deferred and amortized over the estimated average period of customer retention. Revenues for voice and data services are recognized under such contracts when used by the customer. When an arrangement contains a lease, the lease is accounted for separately in accordance with IFRIC 4 and IAS 17. Revenues from hosting & ASP services are recognized as the services are provided.

Income taxes include current income taxes as well as deferred taxes. Tax liabilities/tax receivables mainly comprise liabilities/receivables relating to domestic and foreign income taxes. They include liabilities/receivables for the current period as well as for prior periods. The liabilities/receivables are measured based on the applicable tax law in the countries Deutsche Telekom operates in and include all facts the Company is aware of.

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts in the consolidated balance sheet and the tax base, as well as for tax loss carryforwards. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided on temporary differences arising on the investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is not recognized if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or loss (before income taxes) under IFRS nor taxable profit or loss. Currently enacted tax laws and tax laws that have been substantively enacted as of the balance sheet date are used as the basis for measuring deferred taxes.

Change in accounting policies.

Deutsche Telekom adopted a change to the accounting policies for service concessions under IAS 8 in the 2008 financial year. They are now accounted for in accordance with the regulations in the interpretation **IFRIC 12 "Service Concession Arrangements."** Service concessions are arrangements whereby a government or other public sector entity as the grantor grants contracts for the supply of public services to private sector entities as operators. Depending on the consideration the operator receives from the grantor, the operator recognizes a financial asset or an intangible asset. A financial asset is recognized if the operator has an unconditional contractual right to receive cash or another financial asset from the grantor. If, however, the consideration the operator receives from the grantor is a right to impose charges upon users, which does not represent an absolute right to receive payments, an intangible asset is recognized. Depending on the contractual arrangements, recognition of both a financial asset and an intangible asset is also possible. For Deutsche Telekom's consolidated financial statements, this change in accounting policies is relevant to the operations of the Toll Collect group. Toll Collect is a joint venture accounted for using the equity method. This change in accounting policy is applied retrospectively. The prior-year comparatives have been adjusted accordingly. This change in accounting policies has no material effect on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

In October 2008, the IASB amended **IAS 39 "Financial Instruments: Recognition and Measurement"** and **IFRS 7 "Financial Instruments: Disclosures."** The European Union endorsed the amendments to "Reclassification of Financial Assets" in October 2008. The amendments to IAS 39 allow an entity to reclassify certain non-derivative financial instruments measured at fair value to another measurement category. The amended IFRS 7 requires additional disclosures for any financial asset reclassified. The amendments were effective retroactively from July 1, 2008. In the reporting period, Deutsche Telekom did not hold any financial assets eligible for reclassification under the amendment to IAS 39 in its portfolio. The application of the amended IAS 39 and IFRS 7 therefore has no effect on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

Measurement uncertainties.

The presentation of the results of operations, financial position or cash flows in the consolidated financial statements is dependent upon and sensitive to the accounting policies, assumptions and estimates. The actual amounts may differ from those estimates. The following critical accounting estimates and related assumptions and uncertainties inherent in accounting policies applied are essential to understand the underlying financial reporting risks and the effects that these accounting estimates, assumptions and uncertainties have on the consolidated financial statements.

Measurement of **property, plant and equipment, and intangible assets** involves the use of estimates for determining the fair value at the acquisition date, provided they were acquired in a business combination. Furthermore, the expected useful lives of these assets must be estimated. The determination of the fair values of assets and liabilities, as well as of the useful lives of the assets is based on management's judgment.

The determination of **impairments of property, plant and equipment, and intangible assets** involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the mobile communications industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using the discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Specifically, the estimation of cash flows underlying the fair values of the mobile businesses considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for these products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment to write down these investments to their fair values, which could adversely affect future operating results.

The **determination of the recoverable amount of a cash-generating unit** involves the use of estimates by management. Methods used to determine the fair value less costs to sell include discounted cash flow-based methods and methods that use quoted stock market prices as a basis. Key assumptions on which management has based its determination of fair value less costs to sell include revenue, customer acquisition and retention costs, churn rates, capital expenditure and market share. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any goodwill impairment.

Financial assets include equity investments in foreign telecommunications service providers that are principally engaged in the mobile, fixed-network, Internet and data communications businesses, some of which are publicly traded and have highly volatile share prices. As a rule, an investment impairment loss is recorded when an investment's carrying amount exceeds the present value of its estimated future cash flows. The calculation of the present value of estimated future cash flows and the determination of whether an impairment is permanent involve judgment and rely heavily on an assessment by management regarding the future development prospects of the investee. In measuring impairments, quoted market prices are used, if available, or other valuation parameters, based on information available from the investee. To determine whether an impairment is permanent, the Company considers the ability and intent to hold the investment for a reasonable period of time sufficient for a forecasted recovery of fair value up to (or beyond) the carrying amount, including an assessment of factors such as the length of time and magnitude of the excess of carrying value over market value, the forecasted results of the investee, the regional geographic economic environment and state of the industry. Future adverse changes in market conditions, particularly a downturn in the telecommunications industry, or poor operating results of investees, could result in losses or an inability to recover the carrying amount of the investments that may not be reflected in an investment's current carrying amount. This could result in impairment losses, which could adversely affect future operating results.

Management maintains an **allowance for doubtful accounts** to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

Income taxes must be estimated for each of the jurisdictions in which the Group operates, involving a specific calculation of the expected actual income tax exposure for each tax object and an assessment of temporary differences resulting from the different treatment of certain items for IFRS consolidated financial and tax reporting purposes. Any temporary differences will generally result in the recognition of deferred tax assets and liabilities in the consolidated financial statements. Management judgment is required for the calculation of actual and deferred taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction, taking into account any legal restrictions on the length of the loss-carryforward period. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, loss-carryforward periods, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, results of operations, the financial position, and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets changes, the recognized deferred tax assets must be reduced in profit or loss or directly in equity, or the impaired deferred tax assets must be recognized in profit or loss or directly in equity, depending on how the deferred tax assets were originally recognized.

Pension obligations for benefits to non-civil servants are generally satisfied by defined benefit plans. Pension benefit costs for non-civil servants are determined in accordance with actuarial valuations, which rely on assumptions including discount rates, life expectancies and, if applicable, expected return on plan assets. Estimations of the expected return on plan assets have a limited impact on pension cost. Other key assumptions for pension costs are based in part on actuarial valuations, which rely on assumptions, including discount rates used to calculate the amount of the pension obligation. The assumptions concerning the expected return on plan assets are determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. In the event that further changes in assumptions are required with respect to discount rates and expected returns on invested assets, the future amounts of the pension benefit costs may be affected materially.

Deutsche Telekom is obligated, under the German Federal Posts and Telecommunications Agency Reorganization Act (Gesetz zur Reorganisation der Bundesanstalt für Post und Telekommunikation Deutsche Bundespost), to pay for its share of any operating cost shortfalls between the income of the **Civil Service Health Insurance Fund** (Postbeamtenkrankenkasse) and benefits paid. The Civil Service Health Insurance Fund provides services mainly in cases of illness, birth, or death for its members, who are civil servants employed by or retired from Deutsche Telekom AG, Deutsche Post AG and Deutsche Postbank AG, and their relatives. When Postreform II came into effect, participation in the Civil Service Health Insurance Fund was closed to new members. The insurance premiums collected by the Civil Service Health Insurance Fund may not exceed the insurance premiums imposed by alternative private health insurance enterprises for comparable insurance benefits, and, therefore, do not reflect the changing composition of ages of the participants in the fund. Deutsche Telekom recognizes provisions in the amount of the actuarially determined present value of Deutsche Telekom's share in the fund's future deficit, using a discount rate and making assumptions about life expectancies and projections for contributions and future increases in general health care costs in Germany. Since the calculation of these provisions involves long-term projections over periods of more than 50 years, the present value of the liability may be highly sensitive even to small variations in the underlying assumptions.

Deutsche Telekom exercises considerable judgment in measuring and recognizing **provisions** and the exposure to **contingent liabilities** related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are expected from executory contracts, a loss is considered probable and can be reasonably estimated. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. In addition, significant estimates are involved in the determination of provisions related to taxes, environmental liabilities and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates of these losses from executory contracts may significantly affect future operating results.

Revenue recognition.

Customer activation fees. The operating segments Mobile Communications Europe, Mobile Communications USA and Broadband/Fixed Network receive installation and activation fees from new customers. These fees (and related directly attributable external costs) are deferred and amortized over the expected duration of the customer relationship. The estimation of the expected average duration of the relationship is based on historical customer turnover. If management's estimates are revised, material differences may result in the amount and timing of revenue for any period.

Service contracts. The Business Customers operating segment conducts a portion of its business under long-term contracts with customers. Under these contracts, revenue is recognized as performance progresses. Contract progress is estimated. Depending on the methodology used to determine contract progress, these estimates may include total contract costs, remaining costs to completion, total contract revenues, contract risks and other judgments. All estimates involved in such long-term contracts are subject to regular reviews and adjusted as necessary.

Multiple-element arrangements. The framework of the Emerging Issues Task Force Issue No. 00-21 was adopted to account for multiple-element arrangements in accordance with IAS 8.12. EITF 00-21 requires that arrangements involving the delivery of bundled products or services be separated into individual units of accounting, each with its own separate earnings process. Total arrangement consideration relating to the bundled contract is allocated among the different units based on their relative fair values (i.e., a ratio of the relative fair value of each of the accounting units to the aggregated fair value of the bundled deliverables is generated). The determination of fair values is complex, because some of the elements are price sensitive and, thus, volatile in a competitive marketplace. Revisions to the estimates of these relative fair values may significantly affect the allocation of total arrangement consideration among the different accounting units, affecting future operating results.

Notes to the consolidated income statement.

1 Net revenue.

Net revenue breaks down into the following revenue categories:

millions of €	2008	2007	2006
Revenue from the rendering of services	58,449	59,125	57,730
Revenue from the sale of goods and merchandise	3,036	3,174	3,240
Revenue from the use of entity assets by others	181	217	377
	61,666	**62,516**	**61,347**

Net revenue decreased by EUR 0.9 billion to EUR 61.7 billion in the 2008 financial year. Revenue was positively impacted by changes in the composition of the Group and customer growth in the mobile communications business. These positive effects were offset by lower revenue in the Broadband/Fixed Network operating segment as well as by exchange rate effects that resulted primarily from the translation of U.S. dollars (USD).

2 Cost of sales.

Cost of sales decreased by EUR 0.7 billion in 2008 to EUR 34.6 billion (2007: EUR 35.3 billion; 2006: EUR 34.8 billion) as a result of cost cuts, exchange rate effects and changes in the composition of the Group. Cost of sales in the Mobile Communications USA operating segment, by contrast, increased due to customer additions and the acquisition of SunCom.

3 Selling expenses.

Selling expenses in the reporting year decreased by EUR 0.6 billion to EUR 16.0 billion (2007: EUR 16.6 billion; 2006: EUR 16.4 billion). This reduction was attributable in particular to cost cuts, lower marketing expenses and exchange rate effects.

4 General and administrative expenses.

The year-on-year reduction in general and administrative expenses by EUR 0.3 billion to EUR 4.8 billion in 2008 (2007: EUR 5.1 billion; 2006: EUR 5.3 billion) was primarily attributable to the year-on-year decrease in expenses in the Group Headquarters & Shared Services operating segment.

5 Other operating income.

millions of €	2008	2007	2006
Income from divestitures	505	388	21
Income from reimbursements	272	226	250
Income from disposal of non-current assets	100	300	227
Income from reversal of provisions	71	39	38
Miscellaneous other operating income	1,023	692	721
	1,971	**1,645**	**1,257**

Other operating income increased by EUR 0.3 billion to EUR 2.0 billion in the 2008 financial year, which is primarily attributable to the increase in miscellaneous other operating income and in income from divestitures.

The increase in miscellaneous other operating income is a result of income from the sale of an asset (EUR 0.1 billion) and from the reclassification of real estate from assets held for sale to non-current assets (EUR 0.1 billion).

The higher income from divestitures is essentially due to the gain on the disposal of Media & Broadcast. The gains recorded in the prior-year period from the disposals of T-Online France and T-Online Spain, by contrast, had been lower.

Furthermore, miscellaneous other operating income encompasses a variety of income items for which the individually recognized amounts are not material.

6 Other operating expenses.

millions of €	2008	2007	2006
Goodwill impairment losses	289	327	10
Loss on disposal of non-current assets	170	257	155
Miscellaneous other operating expenses	773	1,177	723
	1,232	**1,761**	**888**

Other operating expenses decreased by EUR 0.5 billion to EUR 1.2 billion in the 2008 financial year, comprising goodwill from impairment losses of EUR 0.3 billion in the reporting year.

For further details, please refer to Note 21 “Intangible assets.” By comparison, impairment losses of EUR 0.3 billion were also recognized in the 2007 financial year and related to the reduction in the carrying amount of goodwill of T-Mobile Netherlands (formerly Ben Nederland). This, however, was not the result of an impairment test, but of the recognition of deferred tax assets for tax loss carryforwards that were acquired by the Group in connection with the acquisition of Ben Nederland but were not considered to meet the criteria for recognition at the time. Based on an assessment of all available evidence, Deutsche Telekom determined in 2007 that it had become probable that these previously unrecognized loss carryforwards would be realizable in the near term. As a result of these findings, it was required that deferred taxes be recognized, and according to IFRS 3.65 in conjunction with IAS 12.68, also taking the accounting interpretation IDW RS HFA 19 of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) into account, that the carrying amount of goodwill be reduced accordingly.

Miscellaneous other operating expenses included expenses relating to the disposal of DeTe Immobilien in the reporting year, whereas in the prior year they related to the sale of call centers and the transfer of operations of Vivento Technical Services. Furthermore, miscellaneous other operating expenses encompass a variety of expense items for which the individually recognized amounts are not material.

7 Finance costs.

millions of €	2008	2007	2006
Interest income	408	261	297
Interest expense	(2,895)	(2,775)	(2,837)
	(2,487)	**(2,514)**	**(2,540)**
Of which: from financial instruments relating to categories in accordance with IAS 39:			
Loans and receivables	162	152	202
Held-to-maturity investments	23	9	14
Available-for-sale financial assets	32	31	27
Financial liabilities measured at amortized cost *	(2,668)	(2,612)	(2,636)

* 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 (2008: interest income of EUR 68 million, interest expense of EUR 11 million; 2007: interest expense of EUR 42 million; 2006: interest income of EUR 29 million, interest expense of EUR 13 million).

Finance costs remained almost unchanged year-on-year, in particular with substantially lower U.S. dollar interbank rates having a positive effect. This had a positive impact on non-derivative instruments and on interest rate derivatives used as part of interest rate management, affecting both interest income and interest expense. This positive effect was partially offset by the downgrade of Deutsche Telekom’s rating to BBB+/Baa1 in the second quarter of 2008 and the resulting adjustment to the carrying amounts for a number of bonds with rating-linked coupons. These adjustments increased interest expense.

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.

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

millions of €	2008	2007*	2006*
Share of profit (loss) of joint ventures	31	25	(81)
Share of profit (loss) of associates	(419)	30	113
	(388)	**55**	**32**

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to “Summary of accounting policies/Change in accounting policies.”

The downward trend of the share of profit/loss of associates and joint ventures accounted for using the equity method is primarily attributable to the share in OTE. In addition to the proportionate share of profit of EUR 0.1 billion, this item also included an impairment loss on the carrying amount of the OTE equity interest in the amount of EUR 0.5 billion recognized as of December 31, 2008. For further details, please refer to Note 23 “Investments accounted for using the equity method.”

9 Other financial income/expense.

millions of €	2008	2007	2006
Income from investments	44	25	6
Gain (loss) from financial instruments	(254)	(3)	136
Interest component from measurement of provisions and liabilities	(503)	(396)	(309)
	(713)	**(374)**	**(167)**

All income 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.

Other financial expense increased by EUR 0.3 billion in comparison with the previous year. This is primarily due to the higher loss from financial instruments. This increase in loss from financial instruments is mainly due to effects from cross-currency swaps used by Deutsche Telekom to convert financial liabilities into one of the Group's main currencies. Different trends in interest level and liquidity of the currencies involved in these swaps contributed to the increase in other financial expense.

10 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:

millions of €	2008	2007*	2006*
Current taxes	**644**	**212**	**249**
Germany	88	(259)	(54)
International	556	471	303
Deferred taxes	**784**	**1,161**	**(1,219)**
Germany	515	1,121	(666)
International	269	40	(553)
	1,428	**1,373**	**(970)**

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

Deutsche Telekom's combined income tax rate for 2008 amounted to 30.5 percent, comprising 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 for 2007 and 2006 amounted to 39 percent.

Reconciliation of the effective tax rate. Income taxes of EUR 1,428 million in the reporting year (2007: EUR 1,373 million; 2006: EUR (970) 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 before income taxes:

millions of €	2008	2007*	2006*
Profit before income taxes	**3,452**	**2,453**	**2,612**
Expected income tax expense (income tax rate applicable to Deutsche Telekom AG: 2008: 30.5 %; 2007: 39 %; 2006: 39 %)	1,053	957	1,019
Adjustments to expected tax expense			
Effect of changes in statutory tax rates	3	734	(8)
Tax effects from prior years	29	65	(517)
Tax effects from other income taxes	115	42	7
Non-taxable income	(86)	(217)	(151)
Tax effects from equity investments	124	(23)	(63)
Non-deductible expenses	110	63	78
Permanent differences	(47)	28	(270)
Impairment of goodwill or negative excess from capital consolidation	71	130	4
Tax effects from loss carryforwards	(34)	(306)	(975)
Tax effects from additions to and reductions of local tax	86	92	109
Adjustment of taxes to different foreign tax rates	3	(182)	(190)
Other tax effects	1	(10)	(13)
Income tax expense (benefit) according to the consolidated income statement	**1,428**	**1,373**	**(970)**
Effective income tax rate (%)	41	56	(37)

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

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

millions of €	2008	2007	2006
Current income taxes	**644**	**212**	**249**
Of which:			
Current tax expense	596	579	841
Prior-period tax expense (income)	48	(367)	(592)

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

millions of €	2008	2007*	2006*
Deferred tax expense (income)	**784**	**1,161**	**(1,219)**
Of which:			
On temporary differences	409	324	89
On loss carryforwards	419	852	(1,275)

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

Despite significantly higher profit before income taxes, income tax expense only increased to a minor extent, since deferred tax assets and liabilities had to be adjusted resulting in a negative effect on income in the previous year to reflect the tax rate reduction in connection with the 2008 corporate tax reform. This resulted in a one-time increase in income tax expense of EUR 0.7 billion in 2007.

Goodwill impairment losses and a negative at equity result in the reporting year, both not to be considered for tax purposes, resulted in a relatively high income tax expense when compared with the profit before income taxes.

Income taxes in the consolidated balance sheet.

Current income taxes in the consolidated balance sheet:

millions of €	Dec. 31, 2008	Dec. 31, 2007
Recoverable taxes	273	222
Tax liabilities	(585)	(437)

Deferred taxes in the consolidated balance sheet:

millions of €	Dec. 31, 2008	Dec. 31, 2007*
Deferred tax assets	6,234	6,610
Deferred tax liabilities	(7,108)	(6,675)
	(874)	**(65)**
Of which: recognized in equity	(300)	(246)

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

Development of deferred taxes:

millions of €	Dec. 31, 2008	Dec. 31, 2007*
Deferred taxes recognized in balance sheet	(874)	(65)
Difference to prior year	(809)	(934)
Of which:		
Recognized in income statement	(784)	(1,160)
Recognized in equity	(53)	(228)
Acquisitions/disposals	215	157
Currency translation adjustments	(187)	297

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

Deferred taxes relate to the following key balance sheet items, loss carryforwards, and tax credits:

millions of €	Dec. 31, 2008		Dec. 31, 2007*	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Current assets	**661**	**(1,146)**	**622**	**(374)**
Trade and other receivables	498	(133)	443	(81)
Other financial assets	42	(961)	30	(247)
Inventories	13	(5)	39	(5)
Other assets	108	(47)	110	(41)
Non-current assets	**2,391**	**(9,748)**	**1,642**	**(8,145)**
Intangible assets	888	(6,755)	757	(6,187)
Property, plant and equipment	507	(2,135)	487	(1,632)
Investments accounted for using the equity method	0	(3)	0	0
Other financial assets	651	(487)	258	(294)
Other assets	345	(368)	140	(32)
Current liabilities	**1,713**	**(748)**	**1,090**	**(654)**
Financial liabilities	117	(212)	71	(102)
Trade and other payables	1,175	(394)	591	(340)
Other provisions	305	(40)	306	(77)
Other liabilities	116	(102)	122	(135)
Non-current liabilities	**2,572**	**(605)**	**2,598**	**(826)**
Financial liabilities	864	(300)	848	(549)
Provisions for pensions and other employee benefits	393	(217)	417	(186)
Other provisions	664	(44)	798	(58)
Other liabilities	651	(44)	535	(33)
Tax credits	**188**	**–**	**122**	**–**
Loss carryforwards	**5,062**	**–**	**5,143**	**–**
Total	**12,587**	**(12,247)**	**11,217**	**(9,999)**
Of which: non-current	11,327	(9,982)	9,002	(8,972)
Netting	(5,139)	5,139	(3,324)	3,324
Allowance	(1,214)		(1,283)	
Recognition	**6,234**	**(7,108)**	**6,610**	**(6,675)**

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

The allowances relate primarily to loss carryforwards.

The loss carryforwards are shown in the following table:

millions of €	Dec. 31, 2008	Dec. 31, 2007
Loss carryforwards for corporate income tax purposes	**15,293**	**15,581**
Expiry within		
1 year	4	50
2 years	2	24
3 years	1,390	8
4 years	87	2,207
5 years	28	178
After 5 years	6,291	5,785
Unlimited carryforward period	7,491	7,329

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

millions of €	Dec. 31, 2008	Dec. 31, 2007
Loss carryforwards for corporate income tax purposes	**3,952**	**4,230**
Expiry within		
1 year	4	50
2 years	2	20
3 years	1,146	8
4 years	34	1,091
5 years	22	2
After 5 years	117	6
Unlimited carryforward period	2,627	3,053
Temporary differences in corporate income tax	**289**	**332**

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 220 million (December 31, 2007: EUR 183 million) and on temporary differences for trade tax purposes in the amount of EUR 75 million (December 31, 2007: EUR 5 million). Apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 106 million (December 31, 2007: EUR 86 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 near future against which these tax loss carryforwards can be utilized.

A positive tax effect in the amount of EUR 12 million (2007: EUR 14 million; 2006: EUR 8 million) was recorded, attributable to the utilization of loss carryforwards on which deferred tax assets had not yet been recognized.

Despite losses in the current and the prior year, deferred tax assets in the amount of EUR 2,878 million were recognized on loss carryforwards and temporary differences for 2008 (December 31, 2007: EUR 3,002 million; December 31, 2006: EUR 4,684 million), as the Company expects to generate future taxable profits. Furthermore, the impairment test of deferred tax assets also takes potential structural improvements into consideration.

Having streamlined T-Mobile UK's corporate structure in 2006, Deutsche Telekom believes that a capital loss has become available for tax purposes. However, as it is unlikely that the resulting loss carryforward of EUR 7,558 million, which can only be offset against certain types of profit, can be utilized, it is not included in the loss carryforwards above.

No deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting to EUR 1,485 million (December 31, 2007: EUR 627 million) as it is unlikely that these differences will be reversed in the near future.

11 Profit/loss attributable to minority interests.

Profit attributable to minority interests of EUR 541 million (2007: EUR 509 million; 2006: EUR 409 million) comprises gains of EUR 859 million (2007: EUR 549 million; 2006: EUR 430 million) and losses of EUR 318 million (2007: EUR 40 million; 2006: EUR 21 million).

These amounts are mainly attributable to Magyar Telekom, T-Mobile Czech Republic a.s., T-Mobile Hrvatska d.o.o. and HT-Hrvatske telekomunikacije d.d.

12 Earnings per share.

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

Basic earnings per share.

	2008	2007*	2006*
Net profit (millions of €)	1,483	571	3,173
Adjustment for the financing costs of the mandatory convertible bond (after taxes) (millions of €)	–	–	38
Adjusted net profit (basic) (millions of €)	**1,483**	**571**	**3,211**
Number of ordinary shares issued (millions)	4,361	4,361	4,309
Treasury shares (millions)	(2)	(2)	(2)
Shares reserved for outstanding options (T-Mobile USA/Powertel) (millions)	(19)	(20)	(22)
Effect from the potential conversion of the mandatory convertible bond (millions)	–	–	68
Adjusted weighted average number of ordinary shares outstanding (basic) (millions)	**4,340**	**4,339**	**4,353**
Basic earnings per share/ADS (€)	**0.34**	**0.13**	**0.74**

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

Net profit is calculated as the profit/loss after income taxes less profit/loss attributable to minority interests. The calculation of basic earnings per share is based on the time-weighted total number of all ordinary shares outstanding. The number of ordinary shares issued already includes all shares newly issued in the reporting period in line with their time weighting. 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 and/or American depositary shares (ADS), each multiplied by the corresponding time weighting factor.

In addition, for the purpose of calculating basic earnings per share, the number of ordinary shares outstanding was increased in 2006 by the total number of shares that would potentially be issued upon conversion of the mandatory convertible bond issued in February 2003. Likewise, net profit was adjusted for all costs (after taxes) – costs for financing the mandatory convertible bond, interest expense and bank fees – as these cease to apply when the bond is converted, and therefore no longer have an effect on net profit. The mandatory convertible bond was converted into 163 million shares of Deutsche Telekom AG on June 1, 2006. The conversion was taken into account for the 2006 financial year in line with its time weighting.

Diluted earnings per share.

	2008	2007*	2006*
Adjusted net profit (basic) (millions of €)	1,483	571	3,211
Dilutive effects on profit (loss) from stock options (after taxes) (millions of €)	0	0	0
Net profit (diluted) (millions of €)	**1,483**	**571**	**3,211**
Adjusted weighted average number of ordinary shares outstanding (basic) (millions)	4,340	4,339	4,353
Dilutive potential ordinary shares from stock options and warrants (millions)	0	1	1
Weighted average number of ordinary shares outstanding (diluted) (millions)	**4,340**	**4,340**	**4,354**
Diluted earnings per share/ADS (€)	**0.34**	**0.13**	**0.74**

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

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. The 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 32 "Issued capital" and 42 "Stock-based compensation plans."

13 Dividend per share.

For the 2008 financial year, the Board of Management proposes a dividend of EUR 0.78 for each no par value share carrying dividend rights. On the basis of this proposed appropriation, total dividends in the amount of EUR 3,386 million (2007: EUR 3,386 million) will be appropriated to the no par value shares carrying dividend rights at February 9, 2009.

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.

14 Goods and services purchased.

The following table provides a breakdown of the costs for goods and services purchased included in the functional costs:

millions of €	2008	2007	2006
Goods purchased	7,080	6,897	7,017
Services purchased	12,342	12,418	11,207
	19,422	**19,315**	**18,224**

15 Personnel costs.

The following table provides a breakdown of the personnel costs included in the functional costs:

millions of €	2008	2007	2006
Wages and salaries	11,383	12,609	13,436
Social security contributions and expenses for pension plans and benefits:			
Social security costs	1,503	1,588	1,598
Expenses for pension plans	1,056	1,056	1,351
Expenses for benefits	136	134	157
	14,078	**15,387**	**16,542**

The year-on-year decrease of EUR 1.3 billion in personnel costs to EUR 14.1 billion is due to lower expenses for staff-related measures (early retirement arrangements, voluntary redundancy and severance payments as well as compensation payments) and lower headcounts as a result of the restructuring program in Germany, in particular. This decrease was partially offset by the effect of changes in the composition of the Group and a staff increase at T-Mobile USA.

Average number of employees.

	2008	2007	2006
Deutsche Telekom Group	**234,887**	**243,736**	**248,480**
Germany	141,123	154,101	166,563
International	93,764	89,635	81,917
Non-civil servants	201,036	205,471	205,511
Civil servants	33,851	38,265	42,969
Trainees and student interns	10,424	10,708	10,346

Number of employees at balance sheet date.

	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Deutsche Telekom Group	**227,747**	**241,426**	**248,800**
Germany	131,713	148,938	159,992
International	96,034	92,488	88,808
Non-civil servants	195,634	205,867	208,420
Civil servants	32,113	35,559	40,380
Trainees and student interns	11,668	11,932	11,840

The decrease in the average number of employees is mainly attributable to staff reductions in Germany and Eastern Europe as well as the sale of the business operations of Vivento Technical Services and the sale of call center sites. This trend was partially offset by an increase in headcount at T-Mobile USA as well as effects of changes in the composition of the Group. Furthermore, the sale of DeTe Immobilien in particular impacted headcount figures as of the balance sheet date.

16 Depreciation, amortization and impairment losses.

The following table provides a breakdown of depreciation, amortization and impairment losses included in the functional costs:

millions of €	2008	2007	2006
Amortization and impairment of intangible assets	**3,397**	**3,490**	**2,840**
Of which:			
Goodwill impairment losses	289	327	10
Amortization of mobile communications licenses	1,013	1,017	994
Depreciation and impairment of property, plant and equipment	**7,578**	**8,121**	**8,194**
	10,975	**11,611**	**11,034**

Amortization and impairment of intangible assets mainly relate to mobile communications licenses, software, customer bases and brand names as well as goodwill. The decline in the 2008 financial year is due in particular to lower amortization of acquired intangible assets as well as reduced goodwill impairment losses.

Goodwill impairment losses account for EUR 0.3 billion. For further details, please refer to Note 21 "Intangible assets." In the 2007 financial year, the carrying amount of the goodwill of T-Mobile Netherlands (formerly Ben Nederland) was reduced by EUR 0.3 billion. This reduction of the carrying amount of goodwill was not related to the result of an impairment test, but to the recognition of deferred tax assets for tax loss carryforwards that were acquired by the Group in connection with the acquisition of Ben Nederland but were not considered to meet the criteria for recognition at the time. Since, based on an assessment of all available evidence, Deutsche Telekom determined in 2007 that it had become probable that these previously unrecognized loss carryforwards would be realizable in the near term and deferred taxes would have to be recognized correspondingly, it was required by IFRS 3.65 in conjunction with IAS 12.68, also taking the accounting interpretation IDW RS HFA 19 of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) into account, that the carrying amount of goodwill had to be reduced accordingly.

Depreciation of property, plant and equipment decreased by EUR 0.5 billion in the reporting year, mainly as a result of lower depreciation of technical equipment and machinery as well as of lower impairment of land and buildings.

The following table provides a breakdown of impairment losses:

millions of €	2008	2007	2006
Intangible assets	**340**	**378**	**123**
Of which:			
Goodwill	289	327	10
U.S. mobile communications licenses	21	9	33
Property, plant and equipment	**140**	**300**	**287**
Land and buildings	123	238	228
Technical equipment and machinery	5	54	13
Other equipment, operating and office equipment	8	4	26
Advance payments and construction in progress	4	4	20
	480	**678**	**410**

The impairment losses on land and buildings mainly result from the fair value measurement of land and buildings intended for sale less costs to sell. The amounts are reported in other operating expenses.

Notes to the consolidated balance sheet.

17 Cash and cash equivalents.

The assets reported under this category have an original maturity of less than three months and mainly comprise fixed-term bank deposits. They also include small amounts of cash-in-hand and checks. Deutsche Telekom obtained cash collateral of EUR 515 million on the basis of collateral contracts as surety for potential credit risks arising from derivative transactions.

In the reporting period, cash and cash equivalents increased by EUR 0.8 billion to EUR 3.0 billion. This was attributable to an increase in proceeds from the issue of financial liabilities, to free cash flow and to proceeds from the sale of Media & Broadcast. The payment of dividends, the acquisition of shares in OTE and the acquisition of SunCom had an offsetting effect.

For further details, please refer to the consolidated cash flow statement.

As of December 31, 2008, the Group reported cash and cash equivalents of EUR 0.8 billion held by subsidiaries in Croatia, Macedonia and Montenegro. These countries are subject to foreign exchange controls or other legal restrictions. As a result, the cash balances are not fully available for use by the parent or other Group companies.

18 Trade and other receivables.

millions of €	**Dec. 31, 2008**	Dec. 31, 2007
Trade receivables	7,224	7,530
Receivables from construction contracts	169	166
	7,393	**7,696**

Of the total amount of trade receivables and receivables from construction contracts, EUR 7,391 million (December 31, 2007: EUR 7,693 million) is due within one year.

millions of €	**Carrying amount**	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
Trade receivables			Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
as of Dec. 31, 2008	7,224	4,029	730	135	40	73	37	117
as of Dec. 31, 2007	7,530	4,039	1,048	162	78	165	39	31

With respect to the trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The following table shows the development of allowances on trade receivables:

millions of €	2008	2007
Allowances as of January 1	**1,071**	**1,148**
Currency translation adjustments	(7)	(8)
Additions (allowances recognized as expense)	547	662
Use	(437)	(510)
Reversal	(151)	(221)
Allowances as of December 31	**1,023**	**1,071**

The total additions of EUR 547 million (2007: EUR 662 million) relate to allowances for individual impairments of EUR 87 million (2007: EUR 144 million) and allowances for collective impairments of EUR 460 million (2007: EUR 518 million). Reversals were made of allowances for individual impairments of EUR 58 million (2007: EUR 85 million) and of allowances for collective impairments of EUR 84 million (2007: EUR 106 million).

The following table presents expenses for the full write-off of trade receivables as well as income from recoveries on trade receivables written off:

millions of €	2008	2007
Expenses for full write-off of receivables	424	378
Income from recoveries on receivables written off	55	52

All income and expenses relating to allowances and write-offs of trade receivables are reported under selling expenses.

19 Inventories.

millions of €	Dec. 31, 2008	Dec. 31, 2007
Raw materials and supplies	118	138
Work in process	27	66
Finished goods and merchandise	1,147	1,255
Advance payments	2	4
	1,294	**1,463**

Of the inventories reported as of December 31, 2008, write-downs of EUR 53 million (2007: EUR 55 million; 2006: EUR 93 million) on the net realizable value were recognized in profit or loss.

The carrying amount of inventories recognized as expense amounted to EUR 6,188 million (2007: EUR 5,713 million).

20 Non-current assets and disposal groups held for sale.

As of December 31, 2008, current assets and current liabilities included EUR 339 million in non-current assets and disposal groups held for sale, EUR 434 million of which are presented as current assets and EUR 95 million as current liabilities in the consolidated balance sheet. They mainly relate to land and buildings intended for sale by Deutsche Telekom and not required for operations within the Group Headquarters & Shared Services operating segment.

The assets and liabilities shown here that are classified as held for sale, and the assets and liabilities associated with disposal groups, are not included in the explanations on other balance sheet items.

The non-current assets and disposal groups held for sale in the amount of EUR 921 million (assets: EUR 1,103 million; liabilities: EUR 182 million) were shown as current assets in the prior year. These primarily related to assets in connection with real estate of Deutsche Telekom (EUR 462 million), T-Systems Media & Broadcast (EUR 247 million) and Online (formerly Orange Breedband) (EUR 133 million).

The main changes since December 31, 2007 are described below:

Given the current difficult market environment for **real estate,** Deutsche Telekom does not anticipate disposal of certain land and buildings intended for sale in the near future. According to the relevant accounting regulations (IFRS 5), this real estate in the operating segment Group Headquarters & Shared Services was no longer permitted to be recognized on the consolidated balance sheet as held for sale and had to be reclassified as non-current assets and measured at the lower of amortized cost and recoverable amount. The resulting measurement differences of EUR 0.1 billion were recognized in the income statement under other operating income.

Deutsche Telekom AG sold the subsidiary **T-Systems Media & Broadcast** to the French TDF (Télédiffusion de France) group effective January 1, 2008. The net proceeds of the disposal amounted to EUR 0.7 billion. The TDF group acquired all shares in the subsidiary, which installs and operates multimedia TV and radio broadcasting platforms and was previously assigned to the Business Customers operating segment. The gain resulting from the entity's sale and deconsolidation in the amount of EUR 0.5 billion is included in other operating income.

In the second quarter of 2008, Deutsche Telekom decided not to sell the acquired shares in **Online** (formerly Orange Breedband). Accordingly, the acquired assets and liabilities were no longer reported in the consolidated balance sheet as being held for sale. The differences resulting from the remeasurement of the assets and liabilities following this reclassification, as well as all other effects on profit and loss to be applied retroactively until the date of reclassification, were recorded under other operating expenses totaling EUR 6 million.

21 Intangible assets.

millions of €	**Internally generated intangible assets**
Cost	
At December 31, 2006	**1,745**
Currency translation	(60)
Changes in the composition of the Group	(12)
Additions	348
Disposals	273
Reclassifications	335
At December 31, 2007	**2,083**
Currency translation	(23)
Changes in the composition of the Group	0
Additions	414
Disposals	361
Held-for-sale changes	2
Reclassifications	105
At December 31, 2008	**2,220**
Accumulated amortization	
At December 31, 2006	**1,009**
Currency translation	(31)
Changes in the composition of the Group	(3)
Additions (amortization)	486
Additions (impairment)	0
Disposals	270
Reclassifications	32
At December 31, 2007	**1,223**
Currency translation	(6)
Changes in the composition of the Group	0
Additions (amortization)	459
Additions (impairment)	14
Disposals	370
Held-for-sale changes	0
Reclassifications	(10)
At December 31, 2008	**1,310**
Net carrying amount	
At December 31, 2007	860
At December 31, 2008	910

Acquired intangible assets						Goodwill	Advance payments	Total
Total	Acquired concessions, industrial and similar rights and assets	UMTS licenses	GSM licenses	FCC licenses (T-Mobile USA)	Other acquired intangible assets			
44,080	**1,012**	**15,593**	**1,146**	**18,176**	**8,153**	**31,151**	**125**	**77,101**
(2,507)	23	(491)	19	(1,910)	(148)	(1,402)	3	(3,966)
441	141	56	106	0	138	(224)	(7)	198
764	5	3	16	116	624	733	343	2,188
593	16	0	0	25	552	6	8	880
194	(123)	0	0	0	317	22	(187)	364
42,379	**1,042**	**15,161**	**1,287**	**16,357**	**8,532**	**30,274**	**269**	**75,005**
(736)	18	(1,301)	(28)	907	(332)	(1,421)	(8)	(2,188)
436	2	0	0	276	158	(1)	0	435
692	15	10	0	159	508	884	750	2,740
538	(12)	0	18	0	532	2	(2)	899
44	0	0	0	(33)	77	54	0	100
663	91	0	39	0	533	0	(141)	627
42,940	**1,180**	**13,870**	**1,280**	**17,666**	**8,944**	**29,788**	**872**	**75,820**
7,882	**338**	**2,492**	**468**	**0**	**4,584**	**10,196**	**0**	**19,087**
(254)	9	(95)	5	0	(173)	(892)	0	(1,177)
(54)	(8)	0	0	0	(46)	0	0	(57)
2,626	163	908	100	0	1,455	0	0	3,112
51	6	0	0	9	36	327	0	378
547	12	0	0	9	526	0	0	817
40	(59)	0	0	0	99	3	0	75
9,744	**437**	**3,305**	**573**	**0**	**5,429**	**9,634**	**0**	**20,601**
(548)	(11)	(308)	(11)	0	(218)	(761)	0	(1,315)
(18)	0	0	0	0	(18)	0	0	(18)
2,598	134	868	124	0	1,472	0	0	3,057
37	0	0	0	21	16	289	0	340
508	(19)	0	18	0	509	0	0	878
(21)	0	0	0	(21)	0	0	0	(21)
137	67	0	1	0	69	0	0	127
11,421	**646**	**3,865**	**669**	**0**	**6,241**	**9,162**	**0**	**21,893**
32,635	605	11,856	714	16,357	3,103	20,640	269	54,404
31,519	534	10,005	611	17,666	2,703	20,626	872	53,927

The net carrying amount of the UMTS licenses of EUR 10,005 million mainly comprises EUR 6,150 million for the license of T-Mobile Deutschland (December 31, 2007: EUR 6,662 million) and EUR 3,110 million for the license of T-Mobile UK (December 31, 2007: EUR 4,360 million).

Deutsche Telekom had commitments for the acquisition of intangible assets in the amount of EUR 0.3 billion as of the reporting date. These are largely related to network expansion at T-Mobile USA and T-Mobile Deutschland.

The **carrying amounts of the goodwill assets** are mainly allocated to the following cash-generating units:

millions of €	Dec. 31, 2008	Dec. 31, 2007
T-Mobile USA	4,604	3,476
Business Customers *	3,720	4,542
T-Home Germany	2,889	2,070
T-Mobile UK	2,073	2,700
PTC	1,580	1,840
T-Mobile Netherlands	1,317	1,263
T-Mobile Austria	1,249	1,377
Other	3,194	3,372
Total	**20,626**	**20,640**

* Business Customers – Enterprise Services in the prior year.

The goodwill of the cash-generating unit T-Mobile USA increased, primarily due to the acquisition of SunCom and exchange rate effects from the translation of U.S. dollars. The goodwill of the Business Customers cash-generating unit declined as a result of the transfer of ActiveBilling from the Business Customers operating segment to the Broadband/Fixed Network operating segment. The goodwill allocable to ActiveBilling has now been assigned to the cash-generating unit T-Home Germany. The goodwill of the T-Mobile Netherlands cash-generating unit increased as a result of the reclassification of Online (formerly Orange Breedband) in the second quarter of 2008.

Apart from the impairment losses described below, the remaining changes in goodwill are primarily attributable to exchange rate effects.

Deutsche Telekom performed its annual goodwill impairment tests at September 30, 2008. These tests did not result in the recognition of impairment losses. Macroeconomic assumptions, such as discount rates, were rather volatile in 2008. Against the background of issues that emerged in the fourth quarter of 2008, Deutsche Telekom again carried out all impairment tests at the end of the year which resulted in the recognition of goodwill impairment losses at some cash-generating units.

The **impairments resulting from the impairment tests** as of December 31, 2008 are attributable to the following cash-generating units:

millions of €	Dec. 31, 2008	Assigned to segment
T-Mobile Austria	128	Mobile Communications Europe
T-Mobile Macedonia	97	Mobile Communications Europe
MT fixed-line Hungary	40	Broadband/Fixed Network
T-Mobile Hungary	24	Mobile Communications Europe
Total	**289**	

Events or circumstances which resulted in an impairment loss to be recognized at the cash-generating unit T-Mobile Austria, primarily include unfavorable regulatory decisions regarding future income from roaming charges in Austria.

Events or circumstances which resulted in an impairment loss to be recognized at the cash-generating unit T-Mobile Macedonia, primarily include higher discount rates in Macedonia.

Events or circumstances which resulted in an impairment loss to be recognized at the cash-generating units MT fixed-line und T-Mobile Hungary, primarily include the granting of two new mobile communication licenses. In the case of one of these licenses, however, providers already operating in the market were excluded from the award process, and this is expected to lead to an overall intensification of competition in Hungary.

The measurements of the cash-generating units are founded on projections that are based on ten-year financial plans that have been approved by management and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the ten-year period are extrapolated using appropriate growth rates. Key assumptions on which management has based its determination of fair value less costs to sell include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, growth rates and discount rates. Any significant future changes in these assumptions could have an adverse effect on the value of the cash-generating units.

On the basis of information available at the balance sheet date and expectations with respect to the market and competitive environment, the figures for all but the aforementioned cash-generating units fall within the general range of acceptable values.

22 Property, plant and equipment.

millions of €	Land and equivalent rights, and buildings including buildings on land owned by third parties	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and construction in progress	Total
Cost					
At December 31, 2006	**16,453**	**91,774**	**7,141**	**2,813**	**118,181**
Currency translation	(79)	(1,324)	(141)	(126)	(1,670)
Changes in the composition of the Group	19	(47)	(71)	16	(83)
Additions	114	2,486	544	3,745	6,889
Disposals	967	3,935	703	194	5,799
Reclassifications	291	2,727	24	(3,387)	(345)
At December 31, 2007	**15,831**	**91,681**	**6,794**	**2,867**	**117,173**
Currency translation	15	(533)	(65)	(24)	(607)
Changes in the composition of the Group	12	122	(51)	18	101
Additions	112	2,171	566	4,528	7,377
Disposals	88	2,052	876	63	3,079
Held-for-sale changes	62	16	0	(1)	77
Reclassifications	234	2,939	333	(4,133)	(627)
At December 31, 2008	**16,178**	**94,344**	**6,701**	**3,192**	**120,415**
Accumulated depreciation					
At December 31, 2006	**6,245**	**61,295**	**4,723**	**49**	**72,312**
Currency translation	(36)	(628)	(95)	(1)	(760)
Changes in the composition of the Group	0	(124)	(28)	(2)	(154)
Additions (depreciation)	675	6,400	735	11	7,821
Additions (impairment)	221	54	4	4	283
Disposals	598	3,563	545	52	4,758
Reclassifications	22	127	(220)	(1)	(72)
Reversal of impairment losses	(27)	0	(3)	0	(30)
At December 31, 2007	**6,502**	**63,561**	**4,571**	**8**	**74,642**
Currency translation	17	(424)	(30)	0	(437)
Changes in the composition of the Group	23	(5)	(54)	0	(36)
Additions (depreciation)	678	6,031	729	0	7,438
Additions (impairment)	110	5	8	4	127
Disposals	51	1,888	737	3	2,679
Held-for-sale changes	64	(1)	0	(2)	61
Reclassifications	(16)	(118)	10	(2)	(126)
Reversal of impairment losses	(134)	0	0	0	(134)
At December 31, 2008	**7,193**	**67,161**	**4,497**	**5**	**78,856**
Net carrying amount					
At December 31, 2007	9,329	28,120	2,223	2,859	42,531
At December 31, 2008	8,985	27,183	2,204	3,187	41,559

Restoration obligations of EUR 168 million were recognized as of December 31, 2008 (December 31, 2007: EUR 168 million).

Deutsche Telekom had commitments for the acquisition of property, plant and equipment in the amount of EUR 1.2 billion as of the reporting date. These are largely related to network expansion at T-Mobile UK and T-Mobile USA.

23 Investments accounted for using the equity method.

Significant investments in entities accounted for using the equity method are as follows:

Name	Dec. 31, 2008 Deutsche Telekom share %	Dec. 31, 2008 Net carrying amount millions of €	Dec. 31, 2007[a] Deutsche Telekom share %	Dec. 31, 2007[a] Net carrying amount millions of €
Hellenic Telecommunications Organization S.A. (OTE)[b]	30.00[e]	3,407	n.a.	–
HT Mostar[c, d]	39.10	49	39.10	47
Toll Collect[c]	45.00	39	45.00	9
Iowa Wireless Services LCC	39.74	14	39.74	10
CTDI Nethouse Services GmbH	49.00	12	49.00	9
DETECON AL SAUDIA CO. Ltd.	46.50	7	46.50	9
SEARCHTEQ GmbH (formerly t-info)	25.10	–	25.10	2
Other		29		32
		3,557		**118**

a Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."
b Fair value (share value): EUR 1,750 million.
c Joint venture.
d Indirect shareholding via HT-Hrvatske telekomunikacije d.d., Croatia (Deutsche Telekom AG's share: 51.00 %).
e Including the shares of the first put option.

On May 16, 2008, Deutsche Telekom acquired just under 20 percent of the shares in Hellenic Telecommunications Organization S.A., Athens, Greece (OTE) from Marfin Investment Group at a price of EUR 2.6 billion. On May 14, 2008, Deutsche Telekom also entered into a shareholders' agreement with the Hellenic Republic providing for an increase in this holding to 25 percent plus one vote and granting Deutsche Telekom the possibility of controlling OTE's financial and operating policies (as defined by IAS 27) following the completion of all necessary steps of the transaction.

To this end, Deutsche Telekom and the Hellenic Republic entered into a share purchase agreement on May 14, 2008 for the acquisition of an additional 3 percent of the shares at a price of EUR 0.4 billion. Under the share purchase agreement, Deutsche Telekom has additionally granted the Hellenic Republic two put options for an additional 5 percent (first put option) and 10 percent (second put option) of the shares. The first put option can be exercised by the Hellenic Republic at a total price of EUR 0.7 billion for a period of twelve months beginning in October 2008 at the earliest or upon execution of the share purchase agreement. Subsequently, the second put option can be exercised at market price plus a premium initially of 20 percent for a period of twelve months, after which it can be exercised at market price plus a premium of 15 percent until December 31, 2011. The second put option also includes shares which were not sold to Deutsche Telekom during the term of the first option. The consummation of the shareholders' agreement and the share purchase agreement was also contingent upon the acquisition of an additional 2 percent of the shares in OTE by Deutsche Telekom from the market, which was executed on July 17, 2008 at a total value of EUR 0.1 billion.

The share purchase agreement became legally valid following full approval given by the responsible national and international supervisory authorities by the beginning of November 2008. Consequently, Deutsche Telekom acquired an additional 3 percent of OTE's shares from the Hellenic Republic on November 5, 2008, thus effecting the legal validity of the shareholders' agreement. Deutsche Telekom holds a stake in OTE of 25 percent plus one vote as a result of the aforementioned transactions.

Furthermore, Deutsche Telekom has assumed present ownership of the shares of the first put option after the share purchase agreement became effective, i.e., it recognized the agreed purchase price of EUR 0.7 billion as costs for the acquisition of an additional 5-percent share. The changes to OTE's Articles of Incorporation necessary for full implementation of the shareholders' agreement were approved at the extraordinary shareholders' meeting of OTE on February 6, 2009. It cannot be ruled out that this resolution by the shareholders may be declared invalid by a court, in the event that other shareholders successfully file rescission suit against this resolution.

Following the developments in the economy overall during the fourth quarter of 2008 and the associated increase in the volatility of the discount rates, Deutsche Telekom tested the OTE investment for impairment at the end of the year. This test resulted in Deutsche Telekom recognizing an impairment loss of EUR 0.5 billion on the carrying amount of OTE. The impairment of the investment is attributable to an increase in discount rates.

Aggregated key financial figures for the associates accounted for using the equity method are shown in the following overview. The data is not based on the portions attributable to the Deutsche Telekom Group, but represents the shareholdings on a 100-percent basis. This table does not include figures for OTE, since OTE as a listed company had not yet published its financial statements as of December 31, 2008 when Deutsche Telekom's consolidated financial statements were prepared.

Aggregated key financial figures for the associates accounted for using the equity method.

billions of €	Dec. 31, 2008	Dec. 31, 2007
Total assets	0.3	0.5
Total liabilities	0.2	0.2
	2008	2007
Net revenue	0.4	0.4
Profit/loss	0.0	0.0

The figures for the OTE group are based on the most recent interim financial statements as of September 30, 2008 and the most recent consolidated financial statements as of December 31, 2007. Net revenue and profit/loss relate to the 12-month period prior to the interim financial statements and the 2007 financial year.

billions of €	Sept. 30, 2008	Dec. 31, 2007
Total assets	11.2	11.5
Total liabilities	9.0	8.5
	10/2007–9/2008	2007
Net revenue	6.4	6.3
Profit/loss	0.7	0.8

The following table is a summary presentation of aggregated key financial figures – pro-rated according to the relevant percentage of shares held – for the joint ventures of Deutsche Telekom accounted for using the equity method:

Aggregated key financial figures for the joint ventures accounted for using the equity method.

billions of €	Dec. 31, 2008	Dec. 31, 2007*
Total assets	**0.5**	**0.5**
Current	0.3	0.3
Non-current	0.2	0.2
Total liabilities	**0.4**	**0.4**
Current	0.4	0.2
Non-current	0.0	0.2
	2008	2007*
Net revenue	0.2	0.2
Profit/loss	0.0	0.0

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

24 Other financial assets.

millions of €	Dec. 31, 2008		Dec. 31, 2007	
	Total	**Of which: current**	Total	Of which: current
Originated loans and receivables	1,267	1,034	1,588	1,348
Available-for-sale financial assets	406	17	276	79
Derivative financial assets	1,601	851	457	305
Miscellaneous assets	281	267	297	287
	3,555	**2,169**	**2,618**	**2,019**

millions of €	**Carrying amount**	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
Originated loans and receivables			Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
as of Dec. 31, 2008								
Due within one year	1,034	1,007	13	3			1	
Due after more than one year	233	232						1
as of Dec. 31, 2007								
Due within one year	1,348	1,330	7	1				1
Due after more than one year	240	240						

With respect to the originated loans and receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Receivables of EUR 28 million (December 31, 2007: EUR 54 million) were used in connection with collateral agreements as surety for potential credit risks arising from derivative transactions.

The available-for-sale financial assets include unquoted equity instruments whose fair values could not be reliably measured, and which were therefore recognized at cost in the amount of EUR 288 million as of December 31, 2008 (December 31, 2007: EUR 182 million).

In the 2008 financial year, EUR 12 million (2007: EUR 19 million) in impairment losses on available-for-sale financial assets were recognized in profit or loss because the impairment was permanent or significant.

At the balance sheet date, T-Mobile Venture Fund GmbH & Co. KG and Deutsche Telekom Asia Pte Ltd were recognized at cost. No market prices were available for the investments. Neither was it possible to derive the respective fair value in the period in question using comparable transactions. The Company did not measure the investments by discounting the expected cash flows because the cash flows could not be reliably determined. At December 31, 2008, the carrying amount of T-Mobile Venture Fund GmbH & Co. KG was EUR 83 million and that of Deutsche Telekom Asia Pte Ltd was EUR 51 million (December 31, 2007: EUR 83 million and EUR 1 million, respectively). At the preparation date of the financial statements, there was no intention to sell the investments.

25 Financial liabilities.

millions of €	Dec. 31, 2008				Dec. 31, 2007			
	Total	Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years	Total	Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years
Bonds and other securitized liabilities								
Non-convertible bonds	23,272	717	13,452	9,103	21,786	2,564	10,571	8,651
Commercial papers, medium-term notes, and similar liabilities	11,030	4,375	2,893	3,762	10,508	1,518	6,509	2,481
Liabilities to banks	4,222	319	1,752	2,151	4,260	1,848	1,522	890
	38,524	**5,411**	**18,097**	**15,016**	**36,554**	**5,930**	**18,602**	**12,022**
Lease liabilities	2,009	129	436	1,444	2,139	162	422	1,555
Liabilities to non-banks from promissory notes	887	–	50	837	690	–	10	680
Other interest-bearing liabilities	541	196	211	134	527	135	244	148
Other non-interest-bearing liabilities	3,545	3,450	94	1	1,994	1,897	91	6
Derivative financial liabilities	1,088	1,022	50	16	1,002	951	16	35
	8,070	**4,797**	**841**	**2,432**	**6,352**	**3,145**	**783**	**2,424**
Financial liabilities	**46,594**	**10,208**	**18,938**	**17,448**	**42,906**	**9,075**	**19,385**	**14,446**

Bonds and other securitized liabilities are mainly issued by Deutsche Telekom International Finance B.V., a wholly-owned subsidiary of Deutsche Telekom AG. Deutsche Telekom AG provides a full and irrevocable guarantee for all liabilities issued by Deutsche Telekom International Finance B.V.

To guarantee the solvency and financial flexibility of Deutsche Telekom at all times, a liquidity reserve in the form of credit lines and, where necessary, cash is maintained. For this purpose, the Company has entered into standardized bilateral credit agreements with 28 banks amounting to a total of EUR 16.8 billion. The Company paid an average commitment fee of 0.092 percent in 2008 (2007: 0.075 percent) for credit lines not drawn and the average Euribor + 0.19 percent (2007: + 0.15 percent) for credit lines drawn. The terms and conditions depend on Deutsche Telekom's credit rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of 12 months, be extended by a further 12 months to renew the maturity of 36 months. The financial market crisis is impacting on the extension of bilateral lines. Especially institutions that are being split up, taken over by other banks or do not have sufficient equity are not likely to extend their lines. As a result, the number of facilities available to Deutsche Telekom will decrease over time. Nevertheless, each of these lines will continue to be available to Deutsche Telekom for another two years, from the time they are not extended any further. Of the original 29 bilateral lines only the line provided by the now insolvent Lehman Brothers Commercial Paper Inc. no longer exists.

The following table shows Deutsche Telekom's contractually agreed (undiscounted) interest payments and repayments of the non-derivative financial liabilities and the derivatives with positive and negative fair values:

millions of €	Carrying amount Dec. 31, 2008	Cash flows 2009		
		Fixed interest rate	Variable interest rate	Repayment
Non-derivative financial liabilities:				
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(39,411)	(1,860)	(262)	(5,744)
Finance lease liabilities	(1,514)	(119)		(131)
Other interest-bearing liabilities	(1,036)	(35)		(270)
Other non-interest-bearing liabilities	(3,545)			(3,523)
Derivative financial liabilities and assets:				
Derivative financial liabilities:				
– Currency derivatives without a hedging relationship	(277)			(271)
– Currency derivatives in connection with cash flow hedges	(47)			(42)
– Interest rate derivatives without a hedging relationship	(662)	(17)	(78)	(36)
– Interest rate derivatives in connection with cash flow hedges	(67)	(86)	77	
Derivative financial assets:				
– Currency derivatives without a hedging relationship	261			262
– Currency derivatives in connection with cash flow hedges	34			31
– Interest rate derivatives without a hedging relationship	553	75	(27)	58
– Interest rate derivatives in connection with fair value hedges	660	346	(256)	
– Interest rate derivatives in connection with cash flow hedges	90	(26)		

All instruments held at December 31, 2008 and for which payments were already contractually agreed are included. Planning data for future, new liabilities is not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2008. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period. In accordance with § 2 (4) of the German Act on the Transformation of the Deutsche Bundespost Enterprises into the Legal Structure of Stock Corporation (Stock Corporation Transformation Act – Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were outstanding at January 1, 1995. At December 31, 2008, this figure was a nominal EUR 2.1 billion.

Cash flows 2010			Cash flows 2011–2013			Cash flows 2014–2018			Cash flows 2019 and thereafter		
Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
(1,781)	(177)	(5,138)	(3,786)	(360)	(12,852)	(3,072)	(31)	(9,728)	(4,263)		(6,603)
(113)		(91)	(267)		(281)	(314)		(516)	(266)		(496)
(36)		(98)	(109)		(98)	(190)		(526)	(86)		(44)
		(12)			(9)			(1)			(1)
					(2)						
		(2)									
(30)	(53)	(128)	15	(176)	(276)	43	(162)	(39)	121	(366)	(46)
(46)	55		(170)	118		(24)	5				
		1									
91	(9)	3	(16)	80	184		26	242			
318	(244)		775	(632)		459	(334)		473	(289)	
18		94									

26 Trade and other payables.

millions of €	Dec. 31, 2008	Dec. 31, 2007
Trade payables	7,055	6,811
Liabilities from construction contracts	18	12
	7,073	**6,823**

Of the total of trade and other payables, EUR 7,064 million (December 31, 2007: EUR 6,810 million) is due within one year.

27 Additional disclosures on financial instruments.

Carrying amounts, amounts recognized, and fair values by measurement category.

millions of €	Category in accordance with IAS 39	Carrying amount Dec. 31, 2008	Amounts recognized in balance sheet according to IAS 39			
			Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
Assets						
Cash and cash equivalents	LaR	3,026	3,026			
Trade receivables	LaR	7,224	7,224			
Other receivables	LaR/n.a.	1,267	984			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	281	281			
Available-for-sale financial assets	AfS	406		288	118	
Derivative financial assets						
Derivatives without a hedging relationship	FAHfT	814				814
Derivatives with a hedging relationship	n.a.	787			127	660
Liabilities						
Trade payables	FLAC	7,055	7,055			
Bonds and other securitized liabilities	FLAC	34,302	34,302			
Liabilities to banks	FLAC	4,222	4,222			
Liabilities to non-banks from promissory notes	FLAC	887	887			
Other interest-bearing liabilities	FLAC	1,036	1,036			
Other non-interest-bearing liabilities	FLAC	3,545	3,545			
Finance lease liabilities	n.a.	1,514				
Derivative financial liabilities						
Derivatives without a hedging relationship (held for trading)	FLHfT	974				974
Derivatives with a hedging relationship (hedge accounting)	n.a.	114			114	
Of which: aggregated by category in accordance with IAS 39						
Loans and receivables (LaR)		11,234	11,234			
Held-to-maturity investments (HtM)		281	281			
Available-for-sale financial assets (AfS)		406		288	118	
Financial assets held for trading (FAHfT)		814				814
Financial liabilities measured at amortized cost (FLAC)		51,047	51,047			
Financial liabilities held for trading (FLHfT)		974				974

* For details, please refer to Note 24.

Cash and cash equivalents and trade and other receivables mainly have short-term maturities. For this reason, their carrying amounts at the reporting date approximate their fair values.

The fair values of other non-current receivables and held-to-maturity financial investments due after more than one year correspond to the present values of the payments related to the assets, taking into account the current interest rate parameters that reflect market- and partner-based changes to terms and conditions, and expectations.

Amounts recognized in balance sheet according to IAS 17	Fair value Dec. 31, 2008	Category in accordance with IAS 39	Carrying amount Dec. 31, 2007	Amounts recognized in balance sheet according to IAS 39				Amounts recognized in balance sheet according to IAS 17	Fair value Dec. 31, 2007
				Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss		
	3,026	LaR	2,200	2,200					2,200
	7,224	LaR	7,530	7,530					7,530
283	1,267	LaR/n.a.	1,588	1,318				270	1,588
	281	HtM	297	297					297
	118 *	AfS	276		182	94			94 *
	814	FAHfT	277				277		277
	787	n.a.	180			49	131		180
	7,055	FLAC	6,811	6,811					6,811
	35,657	FLAC	32,294	32,294					33,644
	4,155	FLAC	4,260	4,260					4,336
	919	FLAC	690	690					743
	1,042	FLAC	1,030	1,030					1,046
	3,545	FLAC	1,994	1,994					1,994
1,514	1,616	n.a.	1,636					1,636	1,821
	974	FLHfT	861				861		861
	114	n.a.	141			92	49		141
	11,234		11,048	11,048					11,048
	281		297	297					297
	118 *		276		182	94			94 *
	814		277				277		277
	52,372		47,079	47,079					48,574
	974		861				861		861

Trade and other payables, as well as other liabilities, generally have short times to maturity; the values reported approximate the fair values.

The fair values of the quoted bonds and other securitized liabilities equal the nominal amounts multiplied by the price quotations at the reporting date.

The fair values of unquoted bonds, liabilities to banks, liabilities to non-banks from promissory notes, and other financial liabilities are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and Deutsche Telekom's credit spread curve for specific currencies.

Net gain/loss by measurement category.

millions of €	From interest, dividends	From subsequent measurement			From derecognition	Net gain (loss)	
		At fair value	Currency translation	Impairment/ reversal of impairment		2008	2007
Loans and receivables (LaR)	162	n.a.	(956)	(782)	(1)	(1,577)	(2,083)
Held-to-maturity investments (HtM)	23	n.a.		(18)		5	9
Available-for-sale financial assets (AfS)	76			(11)	3	68	65
Financial instruments held for trading (FAHfT and FLHfT)	n.a.	383	n.a.	n.a.		383	(393)
Financial liabilities measured at amortized cost (FLAC)	(2,757)		374	n.a.	(4)	(2,387)	(746)
	(2,496)	**383**	**(582)**	**(811)**	**(2)**	**(3,508)**	**(3,148)**

Interest from financial instruments is recognized in finance costs, dividends in other financial income (please refer to Notes 7 and 9). Deutsche Telekom recognizes the other components of net gain/loss in other financial income/expense, except for impairments/reversal of impairments of trade receivables (please refer to Note 18) that are classified as loans and receivables which are reported under selling expenses. The net gain from the subsequent measurement for financial instruments held for trading (EUR 383 million) also includes interest and currency translation effects. The net currency translation losses on financial assets classified as loans and receivables (EUR 956 million) are primarily attributable to the Group-internal transfer of foreign-currency loans taken out by Deutsche Telekom's financing company, Deutsche Telekom International Finance B.V., on the capital market. These were offset by corresponding currency translation gains on capital market liabilities of EUR 374 million. Finance costs from financial liabilities measured at amortized cost (EUR 2,757 million) primarily consist of interest expense on bonds and other (securitized) financial liabilities. The item also includes interest expenses from interest added back and interest income from interest discounted from trade payables. However, it does not include the interest expense and interest income from interest rate derivatives Deutsche Telekom used in the reporting period to hedge the fair value risk of financial liabilities (please refer to Note 7).

28 Other liabilities.

millions of €	Dec. 31, 2008	Dec. 31, 2007
Deferred revenues	1,910	1,909
Other liabilities	4,765	4,112
	6,675	**6,021**

Other liabilities increased by EUR 0.7 billion to EUR 6.7 billion. This is primarily attributable to increased liabilities in connection with the early retirement scheme for civil servants and higher liabilities for voluntary redundancy and severance payments for salaried employees.

In addition, other liabilities encompass liabilities from other taxes and social security liabilities.

29 Provisions for pensions and other employee benefits.

The company pension scheme can generally be divided into defined benefit and defined contribution plans.

Defined benefit plans.

In addition to the Group's pension obligations for non-civil servants based on direct and indirect pension commitments, there are further obligations under Article 131 of the Basic Law (Grundgesetz – GG). Deutsche Telekom's indirect pension commitments were made to its employees via Versorgungsanstalt der Deutschen Bundespost (VAP) and Deutsche Telekom Betriebsrenten-Service e.V. (DTBS).

VAP provides pension services for pensioners who were employed by Deutsche Telekom. The VAP benefits, which supplement statutory pension benefits up to the level specified by the pension benefits formula, are generally calculated on the basis of the level of employee compensation during specific periods of their employment. Within the scope of negotiations on the realignment of the company pension plan, the employer and the trade unions agreed in 1997 on arrangements for the protection of vested VAP benefits. Pursuant to this agreement, the benefit obligations due to retirees and employees approaching retirement will remain unchanged. For younger employees with vested benefits, the obligations have been converted into an initial amount based on the number of years of coverage to date, which was then credited to a capital account held by the employer (cash balance plan). Deutsche Telekom credits this account on an annual basis; when the insured event occurs, the account balance is paid out in full or in installments, or converted into a pension. If these employees have not yet reached the age of 35 and had been insured for less than ten years, their benefit obligations are due directly from Deutsche Telekom. The DTBS was founded for processing the remaining obligations.

A new regulation of VAP benefits was made by collective agreement in the year 2000 without affecting obligations. Since November 2000, the pensioners covered by this collective agreement no longer receive their pension payments from VAP as the indirect provider of pension services, but directly and with a legal claim from Deutsche Telekom. VAP's obligations are therefore suspended (parallel obligation). Those pensioners remaining in VAP continue to receive their benefits directly from VAP as the provider of pension services. Pursuant to VAP's business plan, Deutsche Telekom will, to a certain extent, continue to be assigned additional obligations and the corresponding assets on a pro rata basis.

Pursuant to the change to the articles of association of VAP in 2004, the future annual adjustments to pensions has been defined in percentage points, in accordance with the articles of association of VAP.

As a result of the harmonization of the company pension plan in 2005 within the Deutsche Telekom Group, as of October 2005 obligations (primarily employment relationships existing at Deutsche Telekom AG as of October 1, 2005) that were previously processed through DTBS have been handled directly by Deutsche Telekom AG and with a legal claim on the part of the employees.

Benefits relating to other direct pension plans are generally determined on the basis of salary levels and years of service; these benefit obligations are also usually determined by the amounts credited by Deutsche Telekom to its capital accounts.

Calculation of net defined benefit liability (+)/defined benefit asset (–):

millions of €	Dec. 31, 2008	Dec. 31, 2007
Present value of funded obligations	1,270	1,368
Plan assets at fair value	(952)	(986)
Defined benefit obligations in excess of plan assets	**318**	**382**
Present value of non-funded obligations	4,831	4,959
Unrecognized past service cost	(8)	(3)
Defined benefit liability (+)/defined benefit asset (–) according to IAS 19.54	**5,141**	**5,338**
Additional provision recognized due to a minimum funding requirement	3	0
Net defined benefit liability (+)/ defined benefit asset (–)	**5,144**	**5,338**

Pension provisions break down into defined benefit liability and defined benefit asset as follows:

millions of €	Dec. 31, 2008	Dec. 31, 2007
Defined benefit asset presented on the balance sheet	(13)	(16)
Defined benefit liability presented on the balance sheet	5,157	5,354
Net defined benefit liability (+)/ defined benefit asset (–)	**5,144**	**5,338**

The defined benefit asset is recognized under other assets in the consolidated balance sheet.

The following table shows the composition of pension obligations:

millions of €	Dec. 31, 2008	Dec. 31, 2007
Pension obligations		
– Direct	4,826	4,955
– Indirect	315	380
Obligations in accordance with Article 131 GG	3	3
Net defined benefit liability (+)/ defined benefit asset (–)	**5,144**	**5,338**

The amount of the pension obligations was determined using actuarial principles that are consistent with IAS 19.

The calculations were based on the following assumptions at the respective balance sheet dates:

Assumptions for the measurement of defined benefit obligations as of December 31:

%	2008	2007
Discount rate	5.80 [a]	5.50 [a]
	3.00 [b]	3.25 [b]
	5.80 [c]	5.40 [c]
Projected salary increase	3.50 [a]	2.50 [a]
	4.25 [d]	3.25 [d]
	1.50 [b]	1.50 [b]
	4.20 [c]	4.20 [c]
Projected pension increase	1.00 [a]	1.00 [a]
	2.00 [a]	1.70 [a]
	0.30 [b]	0.60 [b]
	3.20 [c]	3.20 [c]

[a] Germany.
[b] Switzerland (T-Systems).
[c] United Kingdom (T-Mobile UK).
[d] For non-civil servants in Germany not covered by collective agreements.

For calculating the present value of pension obligations in Germany, taking into account future salary increases (defined benefit obligation), Deutsche Telekom used a rate of 5.8 percent as of December 31, 2008. This interest rate was determined based on a weighted average term of the obligation of approximately 14.6 years. As the obligations are denominated in euros, the discount rate is based on the rate of return of high-quality European corporate bonds with AA rating for which a yield curve is prepared based on spot rates. The discount rate is determined in the same way for the entire Group.

Assumptions for determining the pension expense for years ending December 31:

%	2008	2007	2006
Discount rate	5.50 [a]	4.45 [a]	4.10 [a]
	3.25 [b]	3.25 [b]	3.25 [b]
	5.40 [c]	4.80 [c]	4.75 [c]
Projected salary increase	2.50 [a]	2.50 [a]	2.75 [a]
	3.25 [d]	3.25 [d]	3.50 [d]
	1.50 [b]	1.50 [b]	1.00 [b]
	4.20 [c]	4.00 [c]	3.90 [c]
Return on plan assets	4.30 [a]	4.00 [a]	4.00 [a]
	4.50 [b]	4.50 [b]	4.50 [b]
	7.00 [c]	6.47 [c]	6.60 [c]
Projected pension increase	1.00 [a]	1.00 [a]	1.00 [a]
	1.70 [a]	1.50 [a]	1.50 [a]
	0.60 [b]	0.60 [b]	1.00 [b]
	3.20 [c]	3.00 [c]	2.90 [c]

[a] Germany.
[b] Switzerland (T-Systems).
[c] United Kingdom (T-Mobile UK).
[d] For non-civil servants in Germany not covered by collective agreements.

Development of defined benefit obligations in the reporting year:

millions of €	2008	2007
Present value of the defined benefit obligations as of January 1	**6,327**	**7,134**
Current service cost	204	217
Interest cost	331	307
Contributions by plan participants	4	4
Change in obligations	(132)	(5)
Curtailments	0	(1)
Settlements	0	(34)
Actuarial (gains) losses	(232)	(947)
Total benefits actually paid	(301)	(296)
Plan amendments	4	2
Exchange rate fluctuations for foreign-currency plans	(104)	(54)
Present value of the defined benefit obligations as of December 31	**6,101**	**6,327**

Taking the plan assets into consideration, the pension obligations were accounted for in full.

Development of plan assets at fair value in the respective reporting year:

millions of €	2008	2007
Plan assets at fair value as of January 1	**986**	**966**
Expected return on plan assets	52	50
Actuarial (losses) gains	(2)	(24)
Contributions by employer	54	43
Contributions by plan participants	4	4
Benefits actually paid through pension funds	(57)	(56)
Change in obligations	3	44
Curtailments	0	0
Settlements	0	(3)
Exchange rate fluctuations for foreign-currency plans	(88)	(38)
Plan assets at fair value as of December 31	**952**	**986**

Breakdown of plan assets at fair value by investment category:

%	Dec. 31, 2008	Dec. 31, 2007
Equity securities	24	35
Debt securities	40	48
Real estate	7	10
Other	29 *	7

* Of which T-Mobile UK holds a 70-% share which breaks down as follows: interest rate swaps (56 %), money market securities (33 %) and cash and cash equivalents (11 %).

The investment structure is defined, managed and regularly reviewed using asset/liability studies. The resulting target allocations for the plan assets of the respective pension plans therefore reflect the duration of the obligations, the defined benefit obligation, the minimum requirements for the policy reserve, and other factors. To improve the financing status of the plans to the best possible extent, a certain portion of the funds has been invested in investment categories the return of which exceeds that of fixed-rate investments. The remaining target allocation risk is monitored and managed on a regular basis using downside risk management.

At December 31, 2008, the plan assets include shares amounting to EUR 1.7 million (December 31, 2007: no shares) issued by Deutsche Telekom. No other own financial instruments were included in the years shown.

Determination of the expected return on essential plan assets:

The expected return on essential plan assets for 2009 is 3.5 percent in Germany (DTBS and VAP), 4.5 percent (T-Systems Switzerland) and 6.9 percent (T-Mobile UK).

These expectations are based on consensus forecasts for each asset class as well as on banks' estimates. The forecasts are based on historical figures, economic data, interest rate forecasts, and anticipated stock market developments.

The pension expense for each period is composed of the following items and is reported in the indicated accounts of the income statement:

millions of €	Presentation in the income statement	2008	2007	2006
Current service cost	Functional costs *	204	217	389
Interest cost	Other financial income (expense)	331	307	285
Expected return on plan assets	Other financial income (expense)	(52)	(50)	(46)
Past service cost	Functional costs *	0	0	(18)
Pension expense before curtailments/settlements		**483**	**474**	**610**
Curtailments	Functional costs *	0	1	0
Settlements	Functional costs *	0	32	12
Pension expense		**483**	**507**	**622**
Actual return on plan assets		50	26	57

* Including other operating expenses.

The statement of income and expenses recognized directly in equity includes the following amounts:

millions of €	2008	2007	2006
Cumulative (gains) losses recognized directly in equity as of January 1	342	1,265	1,579
Change due to business combinations/disposals	3	0	0
Actuarial (gains) losses as shown in the statement of recognized income and expense	(227)	(923)	(314)
Of which: recognition directly in equity of actuarial (gains) losses in the reporting period	(230)	(923)	(314)
Of which: change in the additional provision recognized due to a minimum funding requirement	3	0	0
Cumulative (gains) losses recognized directly in equity as of December 31	**118**	**342**	**1,265**

Expected employer contributions for the subsequent year are estimated as follows:

millions of €	2009
Expected contributions by employer	46

Amounts for the current year and four preceding years of pension obligations, plan assets, benefit obligations in excess of the assets, and experience-based adjustments:

millions of € as of Dec. 31	2008	2007	2006	2005	2004
Defined benefit obligations	6,101	6,327	7,134	7,016	5,311
Plan assets at fair value	(952)	(986)	(966)	(901)	(623)
Defined benefit obligations in excess of plan assets (funded status)	**5,149**	**5,341**	**6,168**	**6,115**	**4,688**

Adjustment in %	2008	2007	2006
Experience-based increase (decrease) of pension obligations	(0.1)	(0.8)	(0.4)
Experience-based increase (decrease) of plan assets	(0.2)	(2.5)	1.1

Defined contribution plans.

Individual Group entities grant defined contribution plans to their employees. Under defined contribution plans, the employer does not assume any other obligations above and beyond the payment of contributions to an external fund. The amount of the future pension payments will exclusively depend on the contribution made by the employer (and their employees, if applicable) to the external fund, including income from the investment of such contributions. Current contributions are reported as an expense in the consolidated income statement of the respective year. In 2008, they amounted to EUR 160 million (2007: EUR 103 million). Of this amount, EUR 3 million (2007: EUR 1 million) were pledged to commitments to members of staff in key positions.

Civil-servant retirement arrangements.

In accordance with the provisions of the German Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz), the Federal Pension Service for Post and Telecommunications (Bundes-Pensions-Service für Post und Telekommunikation e.V. for current and former employees with civil servant status – BPS-PT) makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil-servant status. The level of Deutsche Telekom's payment obligations to its special pension fund is defined under § 16 of the German Act Concerning the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz – PostPersRG). Since 2000, Deutsche Telekom AG has been legally obliged to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. This contribution of EUR 762 million was recognized as an ongoing expense in 2008 (2007: EUR 772 million; 2006: EUR 842 million). The present value to the total obligation arising from payment obligations to this special pension fund was EUR 6.9 billion as of the balance sheet date (December 31, 2007: EUR 7.3 billion).

30 Other provisions.

millions of €	Personnel	Restoration obligations	Litigation risks	Reimburse-ments	Other	Total
At December 31, 2006	**3,889**	**713**	**330**	**155**	**1,180**	**6,267**
Of which: current	1,954	6	113	149	871	3,093
Changes in the composition of the Group	(2)	19	0	0	2	19
Currency translation adjustments	(25)	(11)	0	(2)	(21)	(59)
Addition	3,708	45	148	148	1,319	5,368
Use	(2,836)	(95)	(71)	(123)	(698)	(3,823)
Reversal	(302)	(14)	(61)	(37)	(188)	(602)
Interest effect	94	27	0	0	2	123
Other changes	84	(20)	5	12	(344)	(263)
At December 31, 2007	**4,610**	**664**	**351**	**153**	**1,252**	**7,030**
Of which: current	2,167	10	165	138	885	3,365
Changes in the composition of the Group	(59)	3	1	0	25	(30)
Currency translation adjustments	(24)	(24)	(1)	0	(18)	(67)
Addition	2,424	113	202	164	1,028	3,931
Use	(2,714)	(49)	(63)	(113)	(696)	(3,635)
Reversal	(261)	(26)	(22)	(26)	(245)	(580)
Interest effect	135	19	0	0	3	157
Other changes	15	0	4	2	(86)	(65)
At December 31, 2008	**4,126**	**700**	**472**	**180**	**1,263**	**6,741**
Of which: current	2,161	26	170	167	913	3,437

Provisions for personnel costs include a variety of individual issues such as provisions for deferred compensation and allowances, as well as for anniversary gifts. Moreover, the expenses associated with staff restructuring measures are also included here. The expenses are allocated to functional costs or to other operating expenses based on actual cost generation.

Provisions for staff restructuring included in provisions for personnel developed as follows in 2008:

billions of €	Jan. 1, 2008	Addition	Use	Reversal	Other changes	Dec. 31, 2008
Early retirement	1.6	0.3	(0.7)	(0.1)	0.1	1.2
Severance and voluntary redundancy models	0.6	0.5	(0.4)	(0.1)	0.1	0.7
Partial retirement	0.3	0.0	(0.1)	0.0	0.0	0.2
Total	**2.5**	**0.8**	**(1.2)**	**(0.2)**	**0.2**	**2.1**
Of which: current	0.7					0.6

Deutsche Telekom continued its staff restructuring program. Part of this program in Germany is socially responsible staff adjustment on a voluntary basis and largely without the need for compulsory redundancies. Socially responsible HR tools such as severance and redundancy models as well as partial and early retirement arrangements contribute substantially to the achievement of this aim. Some of these HR measures are covered by law and will apply beyond 2009. The deadline for civil servants to apply for early retirement, for example, was originally the end of 2010. For civil servants employed at Deutsche Telekom, the law provides the opportunity under certain conditions to retire early from the age of 55. When the reform of civil-service law came into effect, the provisions for early retirement for civil servants was extended until December 31, 2012. Exercise of the early retirement option in 2011 and 2012 will be subject to a decision by the Board of Management, however. In the reporting year, provisions totaling EUR 0.1 billion were recognized for compulsory redundancies that have not been ruled out. The underlying measures for these provisions relate to the 2010 and 2011 financial years.

Restoration obligations include the estimated costs for dismantling and removing an asset, and restoring the site on which it is located. The estimated costs are included in the costs of the relevant asset.

The provisions for litigation risks include possible settlements attributable to pending lawsuits.

Provisions for reimbursements are established for discounts that are to be granted but had not yet been granted as of the reporting date.

Other provisions include provisions for environmental damage and risks, other taxes, warranties, advertising cost allowances, premiums and commissions as well as a variety of other items for which the individually recognized amounts are largely not material.

31 Shareholders' equity.

Statement of changes in shareholders' equity from January 1, 2006 to December 31, 2008:

Changes in shareholders' equity	Equity attributable to equity holders of the parent				
	Equity contributed			Consolidated shareholders' equity generated *	
	Number of shares thousands	Issued capital millions of €	Capital reserves millions of €	Retained earnings incl. carryforwards millions of €	Net profit (loss) millions of €
Balance at January 1, 2006	**4,198,078**	**10,747**	**49,561**	**(19,748)**	**5,589**
Changes in the composition of the Group					
Profit after income taxes					3,173
Unappropriated net profit (loss) carried forward				5,589	(5,589)
Dividends				(3,005)	
Mandatory convertible bond	162,988	417	1,793	(71)	
T-Online merger	62,730	161	631		
Share buy-back/retirement	(62,730)	(161)	(548)		
Sale of treasury shares			(1)		
Proceeds from the exercise of stock options	53		62		
Actuarial gains and losses				187	
Change in other comprehensive income (not recognized in income statement)				71	
Recognition of other comprehensive income in income statement					
Balance at December 31, 2006	**4,361,119**	**11,164**	**51,498**	**(16,977)**	**3,173**
Balance at January 1, 2007	**4,361,119**	**11,164**	**51,498**	**(16,977)**	**3,173**
Changes in the composition of the Group				(5)	
Profit after income taxes					571
Unappropriated net profit (loss) carried forward				3,173	(3,173)
Dividends				(3,124)	
Proceeds from the exercise of stock options	179	1	26		
Actuarial gains and losses				559	
Change in other comprehensive income (not recognized in income statement)				156	
Recognition of other comprehensive income in income statement					
Balance at December 31, 2007	**4,361,298**	**11,165**	**51,524**	**(16,218)**	**571**
Balance at January 1, 2008	**4,361,298**	**11,165**	**51,524**	**(16,218)**	**571**
Changes in the composition of the Group					
Profit after income taxes					1,483
Unappropriated net profit (loss) carried forward				571	(571)
Dividends				(3,386)	
Proceeds from the exercise of stock options	22		2		
Actuarial gains and losses				166	
Change in other comprehensive income (not recognized in income statement)				106	
Recognition of other comprehensive income in income statement					
Balance at December 31, 2008	**4,361,320**	**11,165**	**51,526**	**(18,761)**	**1,483**

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

			Minority interests			
Other comprehensive income	Treasury shares	**Total** (equity attributable to equity holders of the parent)	Minority interest capital	Other comprehensive income	**Total** (minority interests)	**Total (consolidated shareholders' equity)**
millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
(1,055)	**(6)**	**45,088**	**3,408**	**103**	**3,511**	**48,599**
		0	(44)		(44)	(44)
		3,173	409		409	3,582
		0			0	0
		(3,005)	(277)		(277)	(3,282)
		2,139			0	2,139
		792	(607)		(607)	185
		(709)			0	(709)
	1	0			0	0
		62			0	62
		187	(3)		(3)	184
(1,214)		(1,143)	9	102	111	(1,032)
(6)		(6)			0	(6)
(2,275)	**(5)**	**46,578**	**2,895**	**205**	**3,100**	**49,678**
(2,275)	**(5)**	**46,578**	**2,895**	**205**	**3,100**	**49,678**
		(5)			0	(5)
		571	509		509	1,080
		0			0	0
		(3,124)	(497)		(497)	(3,621)
		27			0	27
		559			0	559
(2,632)		(2,476)	4	(1)	3	(2,473)
		0			0	0
(4,907)	**(5)**	**42,130**	**2,911**	**204**	**3,115**	**45,245**
(4,907)	**(5)**	**42,130**	**2,911**	**204**	**3,115**	**45,245**
		0	(2)		(2)	(2)
		1,483	541		541	2,024
		0			0	0
		(3,386)	(545)		(545)	(3,931)
		2			0	2
		166	1		1	167
(400)		(294)	12	(7)	5	(289)
(104)		(104)			0	(104)
(5,411)	**(5)**	**39,997**	**2,918**	**197**	**3,115**	**43,112**

32 Issued capital.

As of December 31, 2008, the **share capital** of Deutsche Telekom totaled approximately EUR 11.2 billion. The share capital is divided into 4,361,319,993 no par value registered shares.

	2008		2007	
	thousands	**%**	thousands	%
Federal Republic of Germany	646,575	14.8	646,575	14.8
KfW Bankengruppe	735,662	16.9	735,667	16.9
Free float	2,979,083	68.3	2,979,056	68.3
Of which: Blackstone Group	191,700	4.4	192,000	4.4
Total	**4,361,320**	**100.0**	**4,361,298**	**100.0**

Each share entitles the holder to one vote. The voting rights are nevertheless restricted in relation to the treasury shares (around 2 million as of December 31, 2008) and the trust shares (around 19 million as of December 31, 2008). The trust shares are connected with the acquisitions 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 waived voting rights and subscription 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. As of December 31, 2008, the number of Deutsche Telekom shares reserved for the stock options still outstanding was 6,060,293.

Authorized capital and contingent capital. Authorized capital and contingent capital comprised the following components as of December 31, 2008:

	Amount (€)	No par value shares	Purpose
2004 Authorized capital *	2,399,410,734.08	937,269,818	Increasing share capital (until May 17, 2009)
2006 Authorized capital *	38,400,000.00	15,000,000	Employee shares (through May 2, 2011)
Contingent capital II	31,813,089.28	12,426,988	Meeting preemptive rights to shares from stock options under the 2001 Stock Option Plan
Contingent capital IV	600,000,000.00	234,375,000	Servicing guaranteed convertible bonds or bonds with warrants issued on or before April 25, 2010

* The Supervisory Board's approval is required.

33 Capital reserves.

The capital reserves of the Group primarily encompass the capital reserves of Deutsche Telekom AG. Differences to the capital reserves of Deutsche Telekom AG result from the recognition at fair value of the Deutsche Telekom AG shares newly issued in the course of the acquisition of T-Mobile USA Inc., Bellevue (United States)/Powertel Inc., Bellevue (United States) instead of at their par value, which is permissible in the consolidated financial statements, and from the related treatment of the issuing costs, which are deducted from capital reserves.

34 Retained earnings including carryforwards.

Retained earnings were impacted in particular by Deutsche Telekom AG's payment of EUR 3.4 billion in dividends for the 2007 financial year, the appropriation of an amount of EUR 0.6 billion in net profit for the prior year, and the 2008 actuarial gains and losses of EUR 0.2 billion.

35 Other comprehensive income.

Other comprehensive income declined year-on-year by EUR 0.5 billion to EUR – 5.4 billion, impacted in particular by negative exchange rate effects from the currency translation of financial statements prepared in foreign currencies totaling EUR 0.4 billion.

36 Treasury shares.

The shareholders' meeting on May 15, 2008 authorized the Board of Management to purchase up to 436,131,999 no par value shares in the Company by November 14, 2009, with the amount of share capital accounted for by these shares totaling up to EUR 1,116,497,917.44, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company which it has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's share capital.

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 as defined in § 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 pursuant to § 17 AktG are also entitled to purchase the shares. The purchase may take place without prejudice to the principle of equal treatment through the stock exchange or a public purchase offer addressed to all shareholders. By resolution of the shareholders' meeting of May 15, 2008, the Board of Management is authorized to redeem Deutsche Telekom AG's shares purchased on the basis of the aforementioned authorization, without such redemption or its implementation requiring a further resolution of the shareholders' meeting.

The total of 1,881,508 treasury shares remained unchanged year-on-year. These are carried at cost of EUR 5 million and correspond to 0.04 percent of the Company's share capital. All treasury shares are held by Deutsche Telekom AG.

37 Minority interests.

Minority interests remained at the prior-year level as a result of offsetting effects. While pro rata profit after income taxes had a positive effect, minority interests decreased due to the payment of dividends.

Other disclosures.

38 Notes to the consolidated cash flow statement.

Net cash from operating activities. Net cash from operating activities amounted to EUR 15.4 billion in the reporting period, compared with EUR 13.7 billion in the prior year. The increase was primarily attributable to favorable changes in working capital and lower interest payments. Income tax payments had an offsetting effect; payments of EUR 0.5 billion were recorded in 2008, and receipts of EUR 0.2 billion in the prior year.

Net cash used in investing activities. Net cash used in investing activities totaled EUR 11.4 billion in 2008 as compared with EUR 8.1 billion in the previous year. The main factors contributing to this change were outflows for the acquisition of SunCom in the amount of EUR 1.0 billion and for the acquisition of shares in OTE in the amount of EUR 3.1 billion as compared with outflows totaling EUR 1.5 billion for Orange Nederland and Immobilien Scout in the prior year. In addition, cash outflows for intangible assets and property, plant and equipment increased by EUR 0.7 billion, primarily as a result of the 2G and 3G network roll-out in the United States, while inflows for property, plant and equipment decreased by EUR 0.4 billion, in particular as a result of lower real estate disposals.

Net cash used in financing activities. Net cash used in financing activities in 2008 totaled EUR 3.1 billion, compared with EUR 6.1 billion in 2007.

This change was mostly attributable to higher proceeds from the issue of non-current financial liabilities of EUR 4.9 billion, while repayments decreased by EUR 0.9 billion. Current financial liabilities, on the other hand, included a year-on-year net increase in repayments amounting to EUR 2.6 billion. In addition, dividend payments increased by EUR 0.2 billion year-on-year, mainly as a result of an increase in dividend payments of Deutsche Telekom AG.

The issue of financial liabilities in 2008 was largely the result of the issue of medium-term notes totaling EUR 1.8 billion, the issue of a Eurobond totaling EUR 1.5 billion, the issue of a U.S. dollar bond totaling EUR 1.0 billion, and the issue of a Samurai bond totaling EUR 0.3 billion. In addition, promissory notes (shown as liabilities to banks) were issued for an amount of EUR 1.4 billion, commercial papers were taken out for a net amount of EUR 0.6 billion, and a loan of EUR 0.5 billion was taken out with the European Investment Bank. A benchmark bond in the amount of EUR 2.0 billion, medium-term notes for an amount of EUR 1.5 billion, a U.S. dollar bond amounting to EUR 0.5 billion, as well as bonds issued and credit lines drawn by SunCom amounting to EUR 0.7 billion were repaid during the same period. Net repayments of drawdowns under short-term credit lines amounting to EUR 1.4 billion were also made, and a loan of EUR 0.2 billion from Kreditanstalt für Wiederaufbau was repaid.

39 Segment reporting.

Deutsche Telekom reports on five operating segments, which are independently managed by bodies responsible for the respective segments depending on the nature of products and services offered, brands, sales channels, and customer profiles. The identification of Company components as business segments is based in particular on the existence of segment managers who report directly to the Board of Management of Deutsche Telekom AG and who are responsible for the performance of the segment under their charge.

Information on the Group's segments is presented below.

The **Mobile Communications Europe** operating segment bundles all activities of T-Mobile International AG in Germany, the United Kingdom, the Netherlands, Austria, Poland, and the Czech Republic, as well as Deutsche Telekom's other mobile communications activities in Slovakia, Croatia, Macedonia, Montenegro, and Hungary.

The **Mobile Communications USA** operating segment combines all activities of T-Mobile International AG in the U.S. market.

All entities in the two Mobile Communications segments Europe and USA offer mobile voice and data services to consumers and business customers. The T-Mobile subsidiaries also market mobile devices and other hardware in connection with the services offered. In addition, T-Mobile services are sold to resellers and to companies that buy network services and market them independently to third parties (mobile virtual network operators, or MVNOs).

The **Broadband/Fixed Network** operating segment offers consumers and small business customers traditional fixed-network services, broadband Internet access, and multimedia services on the basis of a state-of-the-art telecommunications infrastructure. This segment also conducts business with national and international network operators and with resellers (wholesale including resale). In addition, it provides wholesale telecommunications services for Deutsche Telekom's other operating segments. Outside Germany, the Broadband/Fixed Network operating segment has a presence in Central and Eastern Europe, namely in Hungary, Croatia, Slovakia, Macedonia, Bulgaria, Romania, and Montenegro.

At the start of 2008, Deutsche Telekom realigned the business model for its **Business Customers** operating segment to create a clear, functional structure. A key element of the current business model is the separation of the sales and production functions, each assuming global responsibility. One area will provide ICT products and solutions for large multinational enterprises (corporate customers), the other will resell telecommunications and IT products to around 160,000 medium-sized enterprises (business customers). The production function is subdivided into the two core areas of ICT Operations (ICTO) and Systems Integration (SI). Deutsche Telekom has considerably expanded its offshore resources through the partnership concluded with Cognizant in March 2008. T-Systems is represented by subsidiaries in more than 20 countries, with a particular focus on the European countries of Austria, Belgium, France, Germany, Italy, Spain, Switzerland, the Netherlands and the United Kingdom. Outside Europe, T-Systems grew above all in the United States, Brazil and South Africa in 2008. The service provider offers its customers a full range of information and communication technology from a single source. T-Systems realizes integrated ICT solutions on the basis of its extensive expertise in these two technological areas. It develops and operates infrastructure and industry solutions for its corporate customers. Products and services offered to medium-sized enterprises range from low-cost standard products and high-performance networks based on the Internet Protocol (IP) to complete ICT solutions.

The **Group Headquarters & Shared Services** operating segment comprises all Group units and subsidiaries that cannot be allocated directly to one of the four aforementioned operating segments. Group Headquarters is responsible for strategic and cross-segment management functions. The Shared Services unit is responsible for all other operating functions not directly related to the aforementioned segments' core business. These include Vivento, which is responsible for providing employees with new employment opportunities as part of the workforce restructuring program, as well as Real Estate Services, whose activities include the management of Deutsche Telekom AG's real estate portfolio, and DeTeFleetServices GmbH, a full-service provider of fleet management and mobility services. Shared Services primarily has activities in Germany. Real Estate Services also had operations offering facility management services in Hungary and in Slovakia. These stakes were sold to Strabag SE on September 30, 2008. The main Shared Services subsidiaries include DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH (sold to Strabag SE as of September 30, 2008), GMG Generalmietgesellschaft mbH, DFMG Deutsche Funkturm GmbH, PASM Power and Air Condition Solution Management GmbH & Co. KG, DeTeFleetServices GmbH, and Vivento Customer Services GmbH. In addition, Group Headquarters & Shared Services includes the shared services and headquarters functions of Magyar Telekom.

The reconciliation summarizes the elimination of intersegment transactions.

The measurement principles for Deutsche Telekom's segment reporting structure are based on the IFRSs adopted in the consolidated financial statements. Deutsche Telekom evaluates the segments' performance based on their profit/loss from operations (EBIT), among other factors. Revenue generated and goods and services exchanged between segments are calculated on the basis of market prices.

Segment assets and liabilities include all assets and liabilities that are attributable to operations and whose positive or negative results determine profit/loss from operations (EBIT). Segment assets include in particular intangible assets; property, plant and equipment; trade and other receivables; and inventories. Segment liabilities include in particular trade and other payables, and significant provisions. Segment investments include additions to intangible assets and property, plant and equipment.

Where entities accounted for using the equity method are directly allocable to a segment, their share of profit/loss after income taxes and their carrying amount is reported in this segment's accounts.

The Group's non-current assets and net revenue are shown by region. These are the regions in which Deutsche Telekom is active: Germany, Europe (excluding Germany), North America and Other countries. The Europe (excluding Germany) region covers the entire European Union (excluding Germany) and the other countries in Europe. The North America region comprises the United States and Canada. The "Other countries" region includes all countries that are not Germany or in Europe (excluding Germany) or North America. Non-current assets are allocated to the regions according to the location of the assets in question. Non-current assets encompass intangible assets; property, plant and equipment; investments accounted for using the equity method as well as other non-current assets. Net revenue is allocated according to the location of the respective customers' operations.

millions of €		Net revenue	Intersegment revenue	Total revenue	Profit (loss) from operations (EBIT)	Interest income	Interest expense	Share of profit (loss) of associates and joint ventures accounted for using the equity method *	Income taxes *
Mobile Communications Europe	2008	19,978	685	20,663	3,188	435	(500)	0	(146)
	2007	20,000	713	20,713	2,436	208	(495)	0	635
	2006	17,700	755	18,455	2,746	168	(514)	77	13
Mobile Communications USA	2008	14,942	15	14,957	2,299	81	(577)	6	(694)
	2007	14,050	25	14,075	2,017	99	(457)	6	(518)
	2006	13,608	20	13,628	1,756	68	(408)	3	651
Broadband/ Fixed Network	2008	17,691	3,640	21,331	2,914	643	(57)	6	(48)
	2007	19,072	3,618	22,690	3,250	522	(62)	46	(84)
	2006	20,366	4,149	24,515	3,356	256	(41)	31	(241)
Business Customers	2008	8,456	2,554	11,010	(6)	117	(60)	41	(10)
	2007	8,971	3,016	11,987	(323)	91	(99)	1	(47)
	2006	9,301	3,568	12,869	(835)	61	(99)	(78)	(50)
Group Headquarters & Shared Services	2008	599	2,974	3,573	(1,198)	1,341	(3,833)	(441)	(574)
	2007	423	3,445	3,868	(1,973)	1,015	(3,309)	2	(1,361)
	2006	372	3,386	3,758	(2,138)	1,055	(3,043)	(2)	342
Total	**2008**	**61,666**	**9,868**	**71,534**	**7,197**	**2,617**	**(5,027)**	**(388)**	**(1,472)**
	2007	**62,516**	**10,817**	**73,333**	**5,407**	**1,935**	**(4,422)**	**55**	**(1,375)**
	2006	**61,347**	**11,878**	**73,225**	**4,885**	**1,608**	**(4,105)**	**31**	**715**
Reconciliation	2008	–	(9,868)	(9,868)	(157)	(2,209)	2,132	0	44
	2007	–	(10,817)	(10,817)	(121)	(1,674)	1,647	0	2
	2006	–	(11,878)	(11,878)	402	(1,311)	1,268	1	255
Group	2008	61,666	–	61,666	7,040	408	(2,895)	(388)	(1,428)
	2007	62,516	–	62,516	5,286	261	(2,775)	55	(1,373)
	2006	61,347	–	61,347	5,287	297	(2,837)	32	970

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

		Segment assets millions of €	Segment liabilities millions of €	Segment investments millions of €	Investments accounted for using the equity method* millions of €	Depreciation and amortization millions of €	Impairment losses millions of €	Employees (average)
Mobile Communications Europe	2008	30,441	4,879	1,882	3	(3,626)	(249)	29,237
	2007	35,151	5,263	2,249	0	(3,903)	(338)	30,802
	2006	36,950	5,187	3,231	0	(3,342)	(25)	25,345
Mobile Communications USA	2008	34,302	4,001	3,615	14	(1,863)	(21)	36,076
	2007	30,146	3,441	2,203	10	(1,883)	(9)	31,655
	2006	33,162	3,070	5,200	6	(1,958)	(33)	28,779
Broadband/ Fixed Network	2008	25,939	7,943	3,390	83	(3,545)	(67)	94,287
	2007	25,668	7,235	3,176	86	(3,605)	(70)	97,690
	2006	26,913	8,106	3,251	157	(3,744)	(95)	107,006
Business Customers	2008	7,860	4,799	866	46	(789)	(16)	52,479
	2007	9,352	4,699	987	18	(882)	(25)	56,566
	2006	9,333	4,869	1,223	31	(939)	(7)	56,595
Group Headquarters & Shared Services	2008	11,676	7,994	603	3,411	(704)	(127)	22,808
	2007	11,946	8,536	565	4	(708)	(259)	27,023
	2006	11,882	7,608	594	2	(710)	(237)	30,755
Total	**2008**	**110,218**	**29,616**	**10,356**	**3,557**	**(10,527)**	**(480)**	**234,887**
	2007	**112,263**	**29,174**	**9,180**	**118**	**(10,981)**	**(701)**	**243,736**
	2006	**118,240**	**28,840**	**13,499**	**196**	**(10,693)**	**(397)**	**248,480**
Reconciliation	2008	(3,551)	(3,719)	(239)	0	32	0	–
	2007	(3,201)	(3,619)	(103)	0	48	23	–
	2006	(2,963)	(3,142)	(84)	1	69	(13)	–
Group	2008	106,667	25,897	10,117	3,557	(10,495)	(480)	234,887
	2007	109,062	25,555	9,077	118	(10,933)	(678)	243,736
	2006	115,277	25,698	13,415	197	(10,624)	(410)	248,480

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

millions of €		Net cash from (used in) operating activities	Net cash (used in) from investing activities	Of which: cash capex*	Net cash (used in) from financing activities
Mobile Communications Europe	2008	6,711	(2,313)	(1,897)	(6,193)
	2007	6,494	(3,537)	(1,938)	447
	2006	4,882	(3,166)	(1,950)	(3,049)
Mobile Communications USA	2008	3,740	(2,892)	(2,540)	(852)
	2007	3,622	(2,714)	(1,958)	(831)
	2006	3,388	(5,291)	(5,297)	1,904
Broadband/ Fixed Network	2008	7,847	(2,405)	(3,134)	(3,350)
	2007	6,673	909	(2,805)	(2,895)
	2006	8,812	(2,575)	(3,250)	(4,802)
Business Customers	2008	782	(10)	(839)	(955)
	2007	553	(854)	(921)	1,191
	2006	816	(1,523)	(795)	475
Group Headquarters & Shared Services	2008	6,096	(3,337)	(435)	(1,397)
	2007	854	(3,766)	(471)	(6,933)
	2006	3,208	(3,952)	(508)	(1,866)
Total	**2008**	**25,176**	**(10,957)**	**(8,845)**	**(12,747)**
	2007	**18,196**	**(9,962)**	**(8,093)**	**(9,021)**
	2006	**21,106**	**(16,507)**	**(11,800)**	**(7,338)**
Reconciliation	2008	(9,808)	(427)	138	9,650
	2007	(4,482)	1,908	78	2,896
	2006	(6,884)	2,202	(6)	5,277
Group	2008	15,368	(11,384)	(8,707)	(3,097)
	2007	13,714	(8,054)	(8,015)	(6,125)
	2006	14,222	(14,305)	(11,806)	(2,061)

* Cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment, as shown in the cash flow statement.

Reconciliation of the total of the segments' profit or loss to profit after income taxes.

millions of €	2008	2007*	2006*
Total profit (loss) of reportable segments	**7,197**	**5,407**	**4,885**
Reconciliation to the Group	(157)	(121)	402
Profit from operations (EBIT) of the Group	**7,040**	**5,286**	**5,287**
Profit (loss) from financial activities	(3,588)	(2,833)	(2,675)
Income taxes	(1,428)	(1,373)	970
Profit after income taxes	**2,024**	**1,080**	**3,582**

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

Reconciliation of segment assets and segment liabilities.

millions of €	Dec. 31, 2008	Dec. 31, 2007*	Dec. 31, 2006*
Total assets of reportable segments	**110,218**	**112,263**	**118,240**
Reconciliation to the Group	(3,551)	(3,201)	(2,963)
Segment assets of the Group	**106,667**	**109,062**	**115,277**
Cash and cash equivalents	3,026	2,200	2,765
Current recoverable income taxes	273	222	643
Other current financial assets (excluding receivables from suppliers)	1,997	1,862	1,677
Investments accounted for using the equity method	3,557	118	197
Other non-current financial assets (excluding receivables from suppliers)	1,386	599	657
Deferred tax assets	6,234	6,610	8,952
Assets in accordance with the consolidated balance sheet	**123,140**	**120,673**	**130,168**
Total liabilities of reportable segments	**29,616**	**29,174**	**28,840**
Reconciliation to the Group	(3,719)	(3,619)	(3,142)
Segment liabilities of the Group	**25,897**	**25,555**	**25,698**
Current financial liabilities (excluding liabilities to customers)	10,052	8,930	7,374
Income tax liabilities	585	437	536
Non-current financial liabilities	36,386	33,831	38,799
Deferred tax liabilities	7,108	6,675	8,083
Other liabilities	–	–	–
Liabilities in accordance with the consolidated balance sheet	**80,028**	**75,428**	**80,490**

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

Information by geographic area.

millions of €	Non-current assets			Net revenue		
	Dec. 31, 2008	Dec. 31, 2007*	Dec. 31, 2006*	2008	2007	2006
Germany	44,385	44,817	47,457	28,885	30,694	32,460
International	55,227	52,702	57,151	32,781	31,822	28,887
Of which:						
Europe (excluding Germany)	23,854	25,238	26,786	17,324	17,264	14,823
North America	31,298	27,407	30,344	14,931	14,159	13,700
Other countries	75	57	21	526	399	364
Group	**99,612**	**97,519**	**104,608**	**61,666**	**62,516**	**61,347**

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

40 Contingencies.

millions of €	Dec. 31, 2008	Dec. 31, 2007
Contingent liabilities relating to lawsuits and other proceedings	565	350
Other contingent liabilities	26	25
	591	**375**

Contingent liabilities relating to lawsuits and other proceedings include liabilities that on the basis of the information and estimates available, do not fulfill the requirements for recognition as liabilities in the balance sheet. Deutsche Telekom is involved in a number of court and arbitration proceedings in connection with its regular business activities. Litigation provisions include legal counsel services and any probable losses. Deutsche Telekom does not believe that any additional costs arising from legal counsel services or the results of proceedings will have a material adverse effect on the results of operations and financial position of the Group.

Toll Collect. In order to fulfill their obligations as set out in the agreement (operating agreement) with the Federal Republic of Germany, Deutsche Telekom AG, Daimler Financial Services AG and Compagnie Financière et Industrielle des Autoroutes S.A. (Cofiroute) have concluded a consortium agreement on the development and setup of an electronic system for collecting toll charges for the use of German autobahns by commercial vehicles with a permissible total weight of more than 12 tons, and on the operation of this system via a joint venture company. Deutsche Telekom AG and Daimler Financial Services AG each hold a 45-percent stake in both the consortium (Toll Collect GbR) and the joint venture company (Toll Collect GmbH) (together Toll Collect), while Cofiroute holds the remaining 10-percent stake in each.

Under the operating agreement, the toll collection system had to be operational no later than August 31, 2003. Following a delay in launching the system, which resulted in revenue losses at Toll Collect and the payment of contractual penalties, the toll collection system was launched on January 1, 2005 using on-board units that allowed for slightly less than full technical performance in accordance with the original specifications (phase 1). On January 1, 2006, the fully functioning toll collection system was installed and put into operation as required in the operating agreement (phase 2). On December 20, 2005, Toll Collect GmbH received the preliminary operating permit in accordance with the operating agreement. Toll Collect GmbH anticipates receiving the final operating permit and has been operating the toll collection system in the interim period using the preliminary operating permit.

On August 2, 2005, the Federal Republic of Germany initiated arbitration proceedings against Deutsche Telekom AG, Daimler Financial Services AG and Toll Collect GbR. The Federal Republic claims to have lost toll revenues of approximately EUR 3.5 billion plus interest (5 percent per year above the applicable base interest rate since the arbitration proceedings were initiated), alleging – among other things – that it was deceived as to the likelihood of operations commencing on September 1, 2003. In May 2008, the Federal Republic of Germany slightly reduced its claim to around EUR 3.3 billion plus interest (5 percent per year above the applicable base interest rate since the arbitration proceedings were initiated). The asserted claims for contractual penalties total approximately EUR 1.7 billion plus interest (5 percent per year above the applicable base interest rate since the arbitration proceedings were initiated). The contractual penalties are based on alleged violations of the operating agreement (lack of consent to subcontracting, delayed provision of on-board units and monitoring equipment). Deutsche Telekom AG believes the claims of the Federal Republic are unfounded and is contesting them. The statement of defense was submitted to the arbitration court on June 30, 2006. The plaintiff's reply was submitted to the arbitration court on February 15, 2007. The defendant's rejoinder was submitted to the arbitration court on October 1, 2007. Further declarations were received from the Federal Republic of Germany on January 7, 2008 and February 6, 2008. The initial hearing took place in June 2008 during which the arbitration court discussed legal issues with the parties. No arbitrational ruling was made on the claims asserted. Under orders from the arbitration court, each party submitted documents to the other party at the end of September 2008. Furthermore, the arbitration court ordered each party to prepare another written statement by the end of November 2008 addressing the legal issues discussed during the hearing and in the submitted documents. Each party also has the opportunity to submit a further written response to the relevant statement from the other party, by April 3, 2009.

Toll Collect GmbH filed for arbitration against the Federal Republic of Germany on May 25, 2007, requesting, among other things, the granting of a final operating permit and the payment of outstanding claims. Following an increase in the claim by Toll Collect GmbH on May 16, 2008, the asserted claims for payment total around EUR 560 million plus interest.

Each consortium member has submitted guarantees for Toll Collect GmbH's obligations to the Federal Republic of Germany in connection with the completion and operation of the toll system. In addition, Deutsche Telekom AG has given a guarantee for bank loans to Toll Collect GmbH. These guarantees, which are subject to certain terms and conditions, are described below:

- **Bank loans guarantee.** Deutsche Telekom AG guarantees to third parties bank loans of up to a maximum amount of EUR 230 million granted to Toll Collect GmbH; this amount corresponds to Deutsche Telekom's 50-percent stake in Toll Collect GmbH's borrowing volume guaranteed by shareholders.
- **Equity maintenance undertaking.** The consortium partners have the obligation, on a joint and several basis, to provide Toll Collect GmbH with additional equity in order to ensure a minimum equity ratio of 15 percent (in the single-entity financial statements prepared in accordance with German GAAP) (equity maintenance undertaking). This obligation ends when the operating agreement expires on August 31, 2015, or earlier if the operating agreement is terminated early.

In June 2006, the Federal Republic of Germany began to partially offset its monthly advance payments for operating fees to Toll Collect GmbH of EUR 8 million against the contractual penalty claims that are already subject of the aforementioned arbitration proceedings. As a result, it may become necessary for the consortium members to provide Toll Collect GmbH with further liquidity.

Cofiroute's risks and obligations are limited to EUR 70 million. Deutsche Telekom AG and Daimler Financial Services AG have the obligation, on a joint and several basis, to indemnify Cofiroute against further claims.

Deutsche Telekom believes the claims of the Federal Republic of Germany are unfounded. Furthermore, the amount of a possible settlement attributable to the equity maintenance undertaking or the arbitration proceedings described, which may be material, cannot be estimated because of the aforementioned uncertainties.

Year-end bonus for civil servants. In November 2004, the Federal Republic of Germany passed the first Act to amend the Act on the Legal Provisions for the Former Deutsche Bundespost Staff (PostPersRG), which abolished the obligation on Deutsche Telekom and other private companies to pay active civil servants an annual year-end bonus under the German Federal Act on Bonus Payments (Bundessonderzahlungsgesetz). This Act was reviewed at several court instances. In December 2008, the Federal Administrative Court ruled to refer the question as to whether § 10 PostPersRG is constitutional to the Federal Constitutional Court for a judicial review pursuant to Article 100 of the Basic Law. The Federal Administrative Court has not yet drafted its written submission to the Federal Constitutional Court. It is therefore uncertain when the Federal Constitutional Court will announce its ruling. If the Court rules that all civil servants who are or were active at Deutsche Telekom between 2004 and 2008 are entitled to receive year-end bonus payments for the relevant years, this could result in expenses of up to EUR 0.2 billion.

41 Disclosures on leases.

Deutsche Telekom as lessee.

Finance leases. When a lease transfers substantially all risks and rewards to Deutsche Telekom, Deutsche Telekom initially recognizes the leased assets in the balance sheet at the lower of fair value or present value of the future minimum lease payments. Most of the leased assets carried in the balance sheet as part of a finance lease relate to long-term rental and lease agreements for office buildings with a typical lease term of up to 25 years. The agreements include extension and purchase options. The following table shows the net carrying amounts of leased assets capitalized in connection with a finance lease as of the balance sheet date:

millions of €	Dec. 31, 2008	Of which: sale and leaseback transactions	Dec. 31, 2007	Of which: sale and leaseback transactions
Land and buildings	1,116	649	1,207	692
Technical equipment and machinery	57	–	102	–
Other	24	1	35	2
Net carrying amounts of leased assets capitalized	**1,197**	**650**	**1,344**	**694**

At the commencement of the lease term, Deutsche Telekom recognizes a lease liability equal to the carrying amount of the leased asset. In subsequent periods, the liability decreases by the amount of lease payments made to the lessors using the effective interest method. The interest component of the lease payments is recognized in the income statement.

The following table provides a breakdown of these amounts:

millions of €	Minimum lease payments		Interest component		Present values	
	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback
December 31, 2008						
Maturity						
Within 1 year	236	116	116	68	120	48
In 1 to 3 years	404	210	215	128	189	82
In 3 to 5 years	367	212	170	113	197	99
After 5 years	1,586	967	578	384	1,008	583
	2,593	**1,505**	**1,079**	**693**	**1,514**	**812**
December 31, 2007						
Maturity						
Within 1 year	275	117	121	71	154	46
In 1 to 3 years	431	206	229	131	202	75
In 3 to 5 years	372	209	196	119	176	90
After 5 years	1,765	1,069	661	436	1,104	633
	2,843	**1,601**	**1,207**	**757**	**1,636**	**844**

Operating leases. Beneficial ownership of a lease is attributed to the lessor if this is the party to which all the substantial risks and rewards incidental to ownership of the asset are transferred. The lessor recognizes the leased asset in their balance sheet. Deutsche Telekom recognizes the lease payments made during the term of the operating lease in profit or loss. Deutsche Telekom's obligations arising from non-cancelable operating leases are mainly related to long-term rental or lease agreements for network infrastructure, radio towers and real estate. Some leases include extension options and provide for stepped rents. The operating lease expenses recognized in profit or loss amounted to EUR 2.0 billion as of the end of 2008 (2007: EUR 1.8 billion; 2006: EUR 1.6 billion).

The following table provides a breakdown of future obligations arising from operating leases:

millions of €	**Dec. 31, 2008**	Dec. 31, 2007
Maturity		
Within 1 year	2,414	2,285
In 1 to 3 years	3,864	3,702
In 3 to 5 years	2,988	2,729
After 5 years	13,407	11,560
	22,673	**20,276**

Deutsche Telekom as lessor.

Finance leases. Deutsche Telekom acts as lessor in connection with finance leases. Essentially, these relate to the leasing of routers which Deutsche Telekom provides to its customers for data and telephone network solutions. Deutsche Telekom recognizes a receivable in the amount of the net investment in the lease. Lease income is classified into repayments of the lease receivable and finance income. The lease receivable is reduced using the effective interest method and the carrying amount is adjusted accordingly. The amount of the net investment in a finance lease is determined as shown in the following table:

millions of €	Dec. 31, 2008	Dec. 31, 2007
Minimum lease payments	334	321
Unguaranteed residual value	–	–
Gross investment	334	321
Unearned finance income	(51)	(51)
Net investment (= present value of the minimum lease payments)	**283**	**270**

The gross investment amount and the present value of payable minimum lease payments are shown in the following table:

millions of €	Dec. 31, 2008		Dec. 31, 2007	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
Maturity				
Within 1 year	128	108	113	95
In 1 to 3 years	122	102	124	104
In 3 to 5 years	52	43	42	33
After 5 years	32	30	42	38
	334	**283**	**321**	**270**

Operating leases. Deutsche Telekom acts as a lessor in connection with operating leases and continues to recognize the leased assets in its balance sheet. The lease payments received are recognized in profit or loss. The leases mainly relate to the rental of building space and radio towers and have an average term of ten years. The future minimum lease payments arising from non-cancelable operating leases are shown in the following table:

millions of €	Dec. 31, 2008	Dec. 31, 2007
Maturity		
Within 1 year	330	229
In 1 to 3 years	354	185
In 3 to 5 years	281	120
After 5 years	614	312
	1,579	**846**

Agreements that are not leases in substance. In 2002, T-Mobile Deutschland GmbH concluded so-called lease-in/lease-out agreements (QTE lease agreements) for substantial parts of its GSM mobile communications network (amounting to USD 0.8 billion). These agreements were concluded with a total of seven U.S. trusts, each backed by U.S. investors. Under the terms of the principal lease agreements, T-Mobile Deutschland is obliged to grant the respective U.S. trust unhindered use of the leased objects for a period of 30 years. After expiry of the principal lease agreements, the U.S. trusts have the right to acquire the network components for a purchase price of USD 1.00 each. In return, T-Mobile has leased the network components back for 16 years by means of sub-lease agreements. After around 13 years, T-Mobile has the option of acquiring the rights of the respective U.S. trust arising from the principal lease agreements (call option). Upon exercise of this call option, all the rights of the U.S. trust in question to the leased objects arising from the principal lease agreement are transferred to T-Mobile Deutschland. In this case, T-Mobile would be the only party to the principal lease agreement, meaning that this agreement would be extinguished as a result of the fusion of rights and obligations under the agreement.

42 Stock-based compensation plans.

Stock option plans.

The following table provides an overview of all existing stock option plans (SOPs) of Deutsche Telekom AG, T-Online International AG (prior to merger) and T-Mobile USA:

Entity	Plan	Year of issuance	Stock options granted (thousands)	Vesting period (years)	Contractual term (years)	Weighted exercise price	Share price at grant date	Maximum price for SARs	Comments	Classification/ accounting treatment
Deutsche Telekom AG	2001 SOP	2001	8,221	2 – 3	10	€ 30.00	€ 19.10			Equity-settled
		2002	3,928	2 – 3	10	€ 12.36	€ 10.30			Equity-settled
	SARs	2001	165	2 – 3	10	€ 30.00	€ 19.10	€ 50.00		Cash-settled
		2002	3	2 – 3	10	€ 12.36	€ 10.30	€ 20.60		Cash-settled
T-Online International AG	2001 SOP	2001	2,369	2 – 3	10	€ 10.35	€ 8.28			Cash-settled
		2002	2,067	2 – 6	10	€ 10.26	€ 8.21			Cash-settled
T-Mobile USA	Acquired SOPs	2001	24,278	up to 4	max. 10	USD 15.36				Equity-settled
		2002	5,964	up to 4	max. 10	USD 13.35				Equity-settled
		2003	1,715	up to 4	max. 10	USD 12.86				Equity-settled
	Powertel	2001	5,323	up to 4	max. 10	USD 20.04				Equity-settled
	T-Mobile USA/ Powertel	2004	230	up to 4	max. 10	USD 19.64			Plans merged	Equity-settled

Supplemental information on the stock option plans.

Deutsche Telekom AG. In May 2001, the shareholders' meeting approved the introduction of the 2001 Stock Option Plan, resulting in the granting of stock options in August 2001 and July 2002. Furthermore, in 2001 and 2002, Deutsche Telekom also granted stock appreciation rights (SARs) to employees in countries where it was not legally possible to issue stock options.

The table below shows the changes in outstanding options issued by Deutsche Telekom AG:

Deutsche Telekom AG	**2001 SOP**		**SARs**	
	Stock options (thousands)	Weighted average exercise price (€)	SARs (thousands)	Weighted average exercise price (€)
Stock options outstanding/exercisable at January 1, 2008	**9,746**	**24.47**	**142**	**29.76**
Granted	0	–	0	–
Exercised	22	12.36	0	–
Forfeited	718	25.95	4	23.55
Stock options outstanding/exercisable at December 31, 2008	**9,006**	**24.38**	**138**	**29.93**
Supplemental information for 2008				
Remaining contractual life of options outstanding at end of period (years, weighted)	2.9		2.6	

The characteristics of the options outstanding/exercisable as of the reporting date (December 31, 2008) are as follows:

Deutsche Telekom AG	Options outstanding/exercisable as of Dec. 31, 2008		
Range of exercise prices (€)	Number (thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (€)
10 – 20	2,867	3.5	12.36
21 – 40	6,139	2.6	30.00
	9,006	**2.9**	

T-Online International AG (prior to merger). In May 2001, the shareholders' meeting approved the introduction of the 2001 Stock Option Plan, resulting in the granting of stock options in August 2001 and July 2002.

The merger of T-Online International AG into Deutsche Telekom AG became effective upon entry in the commercial register on June 6, 2006. Under the merger agreement, as of this date Deutsche Telekom AG granted rights equivalent to the stock options awarded by T-Online International AG. When exercising a stock option, the holders of such rights receive 0.52 shares in Deutsche Telekom AG. The Board of Management of Deutsche Telekom AG has made use of the possibility of a future cash compensation provided for under the merger agreement and the option terms and conditions.

The table below shows the changes in outstanding options issued by T-Online International AG:

T-Online International AG (prior to merger)	2001 SOP	
	Stock options (thousands)	Weighted average exercise price (€)
Stock options outstanding/ exercisable at January 1, 2008	**3,085**	**10.30**
Of which: exercisable	3,067	10.30
Granted	0	–
Exercised	0	–
Forfeited	245	10.30
Stock options outstanding/ exercisable at December 31, 2008	**2,840**	**10.30**
Supplemental information for 2008		
Remaining contractual life of options outstanding at end of period (years, weighted)	3.1	

T-Mobile USA. The table below shows the changes in outstanding options issued by T-Mobile USA:

T-Mobile USA	Stock options (thousands)	Weighted average exercise price (USD)
Stock options outstanding/ exercisable at January 1, 2008	**7,079**	**22.75**
Granted	0	–
Exercised	360	9.92
Forfeited	659	27.47
Expired	0	–
Stock options outstanding/ exercisable at December 31, 2008	**6,060**	**23.00**
Supplemental information for 2008		
Remaining contractual life of options outstanding at end of period (years, weighted)	2.1	

The characteristics of the options outstanding/exercisable as of the reporting date (December 31, 2008) are as follows:

T-Mobile USA	Options outstanding/exercisable as of Dec. 31, 2008		
Range of exercise prices (USD)	Number (thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (USD)
0.02 – 15.19	1,516	3.1	12.12
15.20 – 30.39	3,915	1.8	25.81
30.40 – 34.19	556	1.4	31.02
34.20 – 38.00	73	1.1	37.05
	6,060	**2.1**	

Mid-Term Incentive Plans (MTIPs)/Phantom Share Plan.

Deutsche Telekom has introduced Mid-Term Incentive Plans (MTIPs) and a Phantom Share Plan (PSP) to ensure competitive total compensation for members of the Board of Management, senior executives, and other beneficiaries of the Deutsche Telekom Group.

Mid-Term Incentive Plans. In the 2004 financial year, Deutsche Telekom introduced an MTIP to ensure competitive total compensation for members of the Board of Management, senior executives, and other beneficiaries of the Deutsche Telekom Group. The MTIP is a global, Group-wide compensation instrument for Deutsche Telekom AG and other participating Group entities that promotes mid- and long-term value creation in the Group, and therefore aligns the interests of management and shareholders.

The MTIP is a cash-based plan pegged to two equally weighted, share-based performance parameters – one absolute and one relative. If both performance targets are achieved, then the total amount earmarked as an award to the beneficiaries by the respective employers is paid out; if one performance target is achieved, 50 percent of the amount is paid out, and if neither performance target is achieved, no payment is made.

The absolute performance target is achieved if, at the end of the individual plans, Deutsche Telekom's share price has risen by at least 30 percent compared with its share price at the beginning of the plan. The benchmark for the assessment is the non-weighted average closing price of Deutsche Telekom shares in Xetra trading at the Frankfurt Stock Exchange (Deutsche Börse AG) during the last 20 trading days prior to the beginning and end of the plan.

The relative performance target is achieved if the total return of the Deutsche Telekom share has outperformed the Dow Jones EURO STOXX® Total Return Index on a percentage basis during the term of the individual plan. The benchmark is the non-weighted average of Deutsche Telekom shares (based on the Xetra closing prices of Deutsche Telekom shares) plus the value of dividends paid and reinvested in Deutsche Telekom shares, bonus shares etc., and the non-weighted average of the Dow Jones EURO STOXX® Total Return Index during the last 20 trading days prior to the beginning and end of the plan.

MTIP plan year	Maximum budget (millions of €)	Term of plan (years)	Share price at start of plan (€)	Absolute performance target (€)	Starting value of the index
2004	80	3	14.08	18.30	317.95
2005	83	3	16.43	21.36	358.99
2006	86	3	14.00	18.20	452.02
2007	83	3	13.64	17.73	551.91
2008	**83**	**3**	**15.11**	**19.64**	**601.59**

The proportionate amount to be expensed is calculated based on a Monte Carlo simulation.

The MTIP of Magyar Telekom is based on the same terms and conditions as the MTIP described above, except that the assessment benchmark is the performance of Magyar Telekom shares and the Dow Jones EURO STOXX® Total Return Index. In addition, the absolute performance target is achieved if, at the end of the individual plans, Magyar Telekom's share price has risen by at least 35 percent compared with Magyar Telekom's share price at the beginning of the plan.

The MTIP of T-Mobile UK is also based on the same terms and conditions applicable to the MTIP described above. In addition to the two aforementioned performance targets, however, these plans are subject to a third performance target for a defined group of participants, which is based on the cash contribution (EBITDA less investments in intangible assets (excluding goodwill) and property, plant and equipment). The third performance target can only be achieved after the two other performance targets have been met.

PTC has established a performance cash plan program with long-term incentive plans (LTIPs). The program provides for additional pay in the form of deferred compensation under the terms and conditions of the LTIP and is aimed at employees whose performance is of outstanding significance for the company's shareholder value. The LTIP is generally open to high-performers at specific management levels. Participants in the plans are selected individually by the management of PTC. Each plan encompasses three consecutive cycles, each running from January 1 through December 31. Participants receive payments from the plan after three years, provided the defined EBITDA target has been achieved (EBITDA hurdle). In addition, a bonus is paid at the end of each cycle. The amount of the bonus is determined for each cycle individually and depends on the level of target achievement. The plans for 2006 through 2008 and 2007 through 2009 are currently running.

Phantom Share Plan (PSP). T-Mobile USA has established a Phantom Share Plan (PSP) as Long-Term Incentive Plan (LTIP) on a revolving basis for the years 2004 through 2008, providing benefits for the top management. Under the PSP, T-Mobile USA grants performance-based cash bonus awards. These awards are earned (in full or in part) based upon the customer growth on a sliding scale from 60 to 150 percent of the original number of phantom shares granted. The value of a phantom share appreciates or depreciates from its USD 10 per share face value proportionate to the change in the appraised enterprise value of the subsidiary over the performance period. The value of an award is determined by multiplying the number of phantom share awards earned by the appraised value of a phantom share. Awards are earned and paid out ratably over a performance period of two to three years.

Impact of all share-based compensation systems. The expense incurred for share-based compensation systems totaled EUR 96 million in the reporting year (2007: EUR 79 million; 2006: EUR 15 million). Provisions total EUR 138 million as of the balance sheet date (December 31, 2007: EUR 99 million).

43 Risk management, financial derivatives, and other disclosures on capital management.

Principles of risk management. Deutsche Telekom is exposed in particular to risks from movements in exchange rates, interest rates, and market prices that affect its assets, liabilities, and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments are used for this purpose, depending on the risk assessment. However, Deutsche Telekom only hedges the risks that affect the Group's cash flow. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the credit risk, hedging transactions are generally only concluded with leading financial institutions whose credit rating is at least BBB+/Baa1. In addition, the credit risk of financial instruments with a positive fair value is minimized by way of limit management, which sets individualized relative and absolute figures for risk exposure depending on the counterparty's rating.

The fundamentals of Deutsche Telekom's financial 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. Certain transactions require the prior approval of the Board of Management, which is also regularly briefed on the severity and amount of the current risk exposure.

Treasury regards effective management of the market risk as one of its main tasks. The department performs simulation calculations using different worst-case and market scenarios so that it can estimate the effects of different conditions on the market.

Currency risks. Deutsche Telekom is exposed to currency risks from its investing, financing, and operating activities. Risks from foreign currencies are hedged to the extent that they influence the Group's cash flows. Foreign-currency risks that do not influence the Group's cash flows (i.e., the risks resulting from the translation of statements of assets and liabilities of foreign operations into the Group's reporting currency) are generally not hedged, however. Deutsche Telekom may nevertheless also hedge this foreign-currency risk under certain circumstances.

Foreign-currency risks in the area of investment result, for example, from the acquisition and disposal of investments in foreign companies. Deutsche Telekom hedges these risks. If the risk position exceeds EUR 100 million, the Board of Management must make a special decision on how the risk shall be hedged. If the risk position is below EUR 100 million, Group Treasury performs the currency hedging itself. At the reporting date, Deutsche Telekom was not exposed to any significant risks from foreign-currency transactions in the field of investments.

Foreign-currency risks in the financing area are caused by financial liabilities in foreign currency and loans in foreign currency that are extended to Group entities for financing purposes. Treasury hedges these risks in full. Cross-currency swaps and currency derivatives are used to convert financial obligations and intragroup loans denominated in foreign currencies into the Group entities' functional currencies.

At the reporting date, the foreign-currency liabilities for which currency risks were hedged mainly consisted of bonds and medium-term notes in Japanese yen, sterling, and U.S. dollars. On account of these hedging activities, Deutsche Telekom was not exposed to any significant currency risks in the area of financing at the reporting date.

The individual Group entities predominantly execute their operating activities in their respective functional currencies. This is why the assessment of Deutsche Telekom's exchange rate risk from ongoing operations is low. Some Group entities, however, are exposed to foreign-currency risks in connection with scheduled payments in currencies that are not their functional currency. These are mainly payments to international carriers for the processing of international calls placed by Deutsche Telekom's customers in Germany, plus payments for the procurement of handsets and payments for international roaming. Deutsche Telekom uses currency derivatives or currency options to hedge these payments up to a maximum of one year in advance. On account of these hedging activities, Deutsche Telekom was not exposed to any significant exchange rate risks from its operating activities at the reporting date.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. In addition to currency risks, Deutsche Telekom is exposed to interest rate risks and price risks in its investments. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the reporting date. It is assumed that the balance at the reporting date is representative for the year as a whole.

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration. Relevant risk variables are generally all non-functional currencies in which Deutsche Telekom has financial instruments.

The currency sensitivity analysis is based on the following assumptions:

Major non-derivative monetary financial instruments (liquid assets, receivables, interest-bearing securities and/or debt instruments held, interest-bearing liabilities, finance lease liabilities, non-interest-bearing liabilities) are either directly denominated in the functional currency or are transferred to the functional currency through the use of derivatives. Exchange rate fluctuations therefore have no effects on profit or loss, or shareholders' equity.

Non-interest-bearing securities or equity instruments held are of a non-monetary nature and therefore are not exposed to currency risk as defined by IFRS 7.

Interest income and interest expense from financial instruments are also either recorded directly in the functional currency or transferred to the functional currency by using derivatives. For this reason, there can be no effects on the variables considered in this connection.

In the case of fair value hedges designed for hedging currency risks, the changes in the fair values of the hedged item and the hedging instruments attributable to exchange rate movements balance out almost completely in the income statement in the same period. As a consequence, these financial instruments are not exposed to currency risks with an effect on profit or loss, or shareholders' equity, either.

Cross-currency swaps are always assigned to non-derivative hedged items, so these instruments do not have any currency effects, either.

Deutsche Telekom is therefore only exposed to currency risks from specific currency derivatives. Some of these are currency derivatives that are part of an effective cash flow hedge for hedging payment fluctuations resulting from exchange rate movements in accordance with IAS 39. Exchange rate fluctuations of the currencies on which these transactions are based affect the hedging reserve in shareholders' equity and the fair value of these hedging transactions. Others are currency derivatives that are neither part of one of the hedges defined in IAS 39 nor part of a natural hedge. These derivatives are used to hedge planned transactions. Exchange rate fluctuations of the currencies, on which such financial instruments are based, affect other financial income or expense (net gain/loss from remeasurement of financial assets to fair value).

If the euro had gained (lost) 10 percent against the U.S. dollar and the pound sterling at December 31, 2008, the hedging reserve in shareholders' equity and the fair value of the hedging transactions would have been EUR 45 million lower (higher) (December 31, 2007: EUR 82 million lower (higher)). The hypothetical effect of EUR – 45 million on profit or loss results from the currency sensitivities EUR/USD: EUR – 31 million; EUR/GBP: EUR – 14 million.

If the euro had gained (lost) 10 percent against all currencies at December 31, 2008, other financial income and the fair value of the hedging transactions would have been EUR 5 million lower (higher) (December 31, 2007: EUR 11 million lower (higher)). The hypothetical effect on profit or loss of EUR – 5 million results from the currency sensitivities EUR/USD: EUR – 31 million; EUR/GBP: EUR +14 million; EUR/PLN: EUR +13 million; EUR/HUF: EUR –1 million.

Interest rate risks. Deutsche Telekom is exposed to interest rate risks, mainly in the euro zone, in the United Kingdom, and in the United States of America. To minimize the effects of interest rate fluctuations in these regions, Deutsche Telekom manages the interest rate risk for net financial liabilities denominated in euros, sterling, and U.S. dollars separately. Once a year, the Board of Management stipulates the desired mix of fixed- and variable-interest net financial liabilities for a future period of three years. Taking account of the Group's existing and planned debt structure, Treasury uses interest rate derivatives to adjust the interest structure for the net financial liabilities of the composition specified by the Board of Management.

Due to the derivative hedges, an average of 64 percent (2007: 63 percent) of the net financial liabilities in 2008 denominated in euros, 61 percent (2007: 55 percent) of those denominated in sterling, and 58 percent (2007: 65 percent) of those denominated in U.S. dollars had a fixed rate of interest. The average value is representative for the year as a whole.

Interest rate risks are presented by way of sensitivity analyses in accordance with IFRS 7. These show the effects of changes in market interest rates on interest payments, interest income and expense, other income components and, if appropriate, shareholders' equity. The interest rate sensitivity analyses are based on the following assumptions:

Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. As such, all financial instruments with fixed interest rates that are carried at amortized cost are not subject to interest rate risk as defined in IFRS 7.

In the case of fair value hedges designed for hedging interest rate risks, the changes in the fair values of the hedged item and the hedging instrument attributable to interest rate movements balance out almost completely in the income statement in the same period. As a consequence, these financial instruments are not exposed to interest rate risk, either.

Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserve in shareholders' equity and are therefore taken into consideration in the equity-related sensitivity calculations.

Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of income-related sensitivities.

Changes in the market interest rate of interest rate derivatives (interest rate swaps, cross-currency swaps) that are not part of a hedging relationship as set out in IAS 39 affect other financial income or expense (net gain/loss from remeasurement of the financial assets to fair value) and are therefore taken into consideration in the income-related sensitivity calculations.

Currency derivatives are not exposed to interest rate risks and therefore do not affect the interest rate sensitivities.

If the market interest rates had been 100 basis points higher (lower) at December 31, 2008, profit or loss would have been EUR 173 million (December 31, 2007: EUR 170 million) lower (higher). The hypothetical effect of EUR –173 million on income results from the potential effects of EUR –106 million from interest rate derivatives and EUR – 67 million from non-derivative, variable-interest financial liabilities. If the market interest rates had been 100 basis points higher (lower) at December 31, 2008, shareholders' equity would have been EUR 57 million (December 31, 2007: EUR 50 million) higher (lower).

Other price risks. As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. Important risk variables are stock exchange prices or indexes.

As of December 31, 2008, Deutsche Telekom did not hold any material investments to be classified as available for sale.

Credit risks. Deutsche Telekom is exposed to a credit risk from its operating activities and certain financing activities. With regard to financing activities, transactions are only concluded with counterparties that have at least a credit rating of BBB+/Baa1, in connection with an operational credit management system. At the level of operations, the outstanding debts are continuously monitored in each area, i.e., locally. Credit risks must be taken into account through individual and collective allowances.

The solvency of the business with corporate customers, especially international carriers, is monitored separately. In terms of the overall risk exposure from the credit risk, however, the receivables from these counterparties are not so extensive as to justify extraordinary concentrations of risk.

The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets that are carried in the balance sheet, including derivatives with positive market values. Except for the collateral agreements mentioned in Notes 17 and 24, no significant agreements reducing the maximum exposure to credit risk (such as contractual netting) had been concluded as of the reporting date. In addition, Deutsche Telekom is exposed to a credit risk through the granting of financial guarantees. Guarantees amounting to a nominal total of EUR 181 million had been pledged as of the reporting date (December 31, 2007: EUR 206 million).

Liquidity risks. Please refer to Note 25.

Hedge accounting.

Fair value hedges. To hedge the fair value risk of fixed-interest liabilities, Deutsche Telekom used interest rate swaps and forward interest rate swaps (receive fixed, pay variable) denominated in EUR, GBP, and USD in the 2008 and 2007 financial years. Fixed-income bonds denominated in EUR, USD, and GBP were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the Euribor, USDLibor, or GBPLibor swap rate are offset against the changes in the value of the interest rate swaps. The aim of this hedging is to transform the fixed-income bonds into variable-interest debt, thus hedging the fair value of the financial liabilities. Credit risks are not part of the hedging.

The effectiveness of the hedging relationship is tested prospectively and retrospectively at each reporting date using statistical methods in the form of a regression analysis. This involves defining the performance of the hedged item as the independent variable and the performance of the hedging transaction as the dependent variable. A hedging relationship is classified as effective when $R^2 > 0.96$ and, depending on the actual realization of R^2, factor b has a value between -0.85 and -1.17. All hedging relationships, with their effectiveness having been tested using statistical methods, were effective at the reporting date.

As the list of the fair values of derivatives shows (please refer to table under Derivatives), Deutsche Telekom had interest rate derivatives in a net amount of EUR + 660 million (2007: EUR + 82 million) designated as fair value hedges at December 31, 2008. The remeasurement of the hedged items resulted in losses of EUR 695 million being recorded in other financial income in the 2008 financial year (2007: losses of EUR 115 million); the changes in the fair values of the hedging transactions resulted in gains of EUR 684 million (2007: gains of EUR 112 million) being recorded in other financial income/expense.

Cash flow hedges – interest rate risks. Deutsche Telekom entered into payer interest rate swaps and forward payer interest rate swaps (receive variable, pay fixed) to hedge the cash flow risk of variable-interest debt. The changes in the cash flows of the hedged items resulting from changes in the Euribor and Libor rates are offset against the changes in the cash flows of the interest rate swaps. The aim of this hedging is to transform the variable-interest bonds into fixed-income debt, thus hedging the cash flows of the financial liabilities. Credit risks are not part of the hedging.

The following table shows the contractual maturities of the payments, i.e., when those hedged items newly incorporated into a hedging relationship in 2008 will be recognized in profit or loss:

Start	End	Nominal volume	Reference rate
January 29, 2010	January 29, 2014	EUR 500 million	3-month Euribor

The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. This involves defining the performance of the hedged item as the independent variable and the performance of the hedging transaction as the dependent variable. The hedged item used is a hypothetical derivative in accordance with IAS 39.IG F.5.5. A hedging relationship is classified as effective when $R^2 > 0.96$ and, depending on the actual realization of R^2, factor b has a value between – 0.85 and – 1.17. All hedging relationships of this nature were effective as of the reporting date.

As the list of the fair values of derivatives shows (please refer to table under Derivatives), Deutsche Telekom had interest rate derivatives of EUR – 67 million (2007: net total of EUR + 22 million) designated as hedging instruments for cash flow hedges at December 31, 2008. The recognition directly in equity of the change in the fair value of the hedging transactions resulted in losses of EUR 86 million being recorded in the revaluation reserve in the 2008 financial year (2007: gains of EUR 21 million). Gains amounting to EUR 7 million recognized in shareholders' equity were transferred to other financial income/expense in the 2008 financial year (2007: gains of EUR 7 million).

Cash flow hedges – currency risks. Deutsche Telekom entered into USD/EUR currency derivatives in 2008 to hedge the EUR equivalent of nominal receivables from a USD loan granted to a subsidiary. USD 1.61 billion are swapped against EUR 1.25 billion as nominal values. The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. This involves defining the performance of the hedged item as the independent variable and the performance of the hedging transaction as the dependent variable. The hedged item used is a hypothetical derivative in accordance with IAS 39.IG F.5.5. A hedging relationship is classified as effective when $R^2 > 0.96$ and, depending on the actual realization of R^2, factor b has a value between – 0.85 and – 1.17. In addition, an F-test was carried out to test the hedge effectiveness. The hedging relationship was effective as of the balance sheet date.

In the 2008 financial year, gains totaling EUR 146 million (2007: losses of EUR 140 million) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve). These changes constitute the effective portion of the hedging relationship. Gains amounting to EUR 89 million recognized in shareholders' equity were transferred to other financial income/expense in the 2008 financial year (2007: losses of EUR 4 million). Deutsche Telekom expects that, within the next twelve months, gains recognized in equity (hedging reserve) in the amount of EUR 6 million will be transferred to the income statement when payments are made. There was no material ineffectiveness of these hedges recorded as of the balance sheet date.

As the list of the fair values of derivatives shows (please refer to table under Derivatives), Deutsche Telekom had currency forwards in the net amount of EUR – 13 million (2007: EUR – 90 million) and cross-currency swaps of EUR + 90 million designated as hedging instruments for cash flow hedges as of December 31, 2008.

Derivatives. The following table shows the fair values of the various derivatives carried. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, cash flow hedge) or not. Other derivatives can also be embedded (i.e., a component of a composite instrument that contains a non-derivative host contract).

millions of €	Net carrying amounts Dec. 31, 2008	Net carrying amounts Dec. 31, 2007
Assets		
Interest rate swaps		
– Held for trading	99	81
– In connection with fair value hedges	660	131
– In connection with cash flow hedges	0	24
Currency forwards/currency swaps		
– Held for trading	261	68
– In connection with cash flow hedges	34	0
Cross-currency swaps		
– Held for trading	454	128
– In connection with cash flow hedges	90	0
Other derivatives in connection with cash flow hedges	3	25
Liabilities and shareholders' equity		
Interest rate swaps		
– Held for trading	108	81
– In connection with fair value hedges	0	49
– In connection with cash flow hedges	67	2
Currency forwards/currency swaps		
– Held for trading	277	51
– In connection with cash flow hedges	47	90
Cross-currency swaps held for trading	554	704
Embedded derivatives	35	25

Disclosures on capital management. The overriding aim of the Group's capital management is to ensure that it will continue to be able to repay its debt and remain financially sound.

An important indicator of capital management is the gearing ratio of net debt to shareholders' equity as shown in the consolidated balance sheet. Deutsche Telekom considers net debt to be an important measure for investors, analysts, and rating agencies. It is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. The gearing remained almost constant year-on-year at 0.9 as of December 31, 2008. The target corridor for this indicator is between 0.8 and 1.2.

Calculation of net debt; shareholders' equity.

millions of €	Dec. 31, 2008	Dec. 31, 2007
Bonds	34,302	32,294
Liabilities to banks	4,222	4,260
Liabilities to non-banks from promissory notes	887	690
Derivative financial liabilities	1,053	977
Lease liabilities	2,009	2,139
Other financial liabilities	974	502
Gross debt	**43,447**	**40,862**
Cash and cash equivalents	3,026	2,200
Available-for-sale/held-for-trading financial assets	101	75
Derivative financial assets	1,598	433
Other financial assets	564	918
Net debt	**38,158**	**37,236**
Shareholders' equity in accordance with consolidated balance sheet*	**43,112**	**45,245**

* Prior-year figures adjusted. Accounting change in accordance with IFRIC 12. For explanations, please refer to "Summary of accounting policies/Change in accounting policies."

44 Related party disclosures.

The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds 31.70 percent (December 31, 2007: 31.70 percent) of the share capital of Deutsche Telekom AG. As the Federal Republic represents a solid majority at the shareholders' meeting despite its minority shareholding due to the average attendance at the shareholders' meeting, Deutsche Telekom is a dependent company of the Federal Republic. Therefore, the Federal Republic and the companies controlled by the Federal Republic are classified as related parties of Deutsche Telekom.

Federal Republic of Germany. The Federal Posts and Telecommunications Agency (Federal Agency) has been assigned certain tasks by law that affect cross-company issues at Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The Federal Agency's responsibilities include the continuation of the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the recreation service (Erholungswerk), the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost – VAP), and the welfare service (Betreuungswerk) for Deutsche Telekom AG, Deutsche Post AG, Deutsche Postbank AG, and the Federal Agency. The coordination and administrative tasks are performed on the basis of agency agreements. For the 2008 financial year, Deutsche Telekom made payments in the amount of EUR 55 million (2007: EUR 52 million; 2006: EUR 53 million). Payments are made according to the provisions of the Posts and Telecommunications Reorganization Act (please refer to Note 29).

The Federal Republic of Germany is a customer of Deutsche Telekom who sources services from the Company. Charges for services provided to the Federal Republic and its departments and agencies are based on Deutsche Telekom's commercial pricing policies. Services provided to any one department or agency do not represent a significant component of Deutsche Telekom's net revenue.

The Company's Dutch financing subsidiary, Deutsche Telekom International Finance, has taken out a loan of GBP 150 million with KfW Bankengruppe. The loan was extended at the normal market rate of interest which is based on Deutsche Telekom's current rating. The loan has a remaining life of under two years.

Joint ventures and associates. Deutsche Telekom has business relationships with numerous associates and joint ventures.

In 2008, Deutsche Telekom generated revenues from its joint venture Toll Collect amounting to EUR 0.1 billion (2007: EUR 0.1 billion; 2006: EUR 0.1 billion).

At December 31, 2008, the total amount of trade receivables from related companies was EUR 0.1 billion (December 31, 2007: EUR 0.0 billion). As of the same balance sheet date, the total amount of trade payables due to related companies decreased year-on-year and is immaterial from Deutsche Telekom's point of view (2007: EUR 0.1 billion).

Related individuals. No major transaction took place.

45 Compensation of the Board of Management and the Supervisory Board in accordance with § 314 HGB.

Compensation of the Board of Management.

The following information concerning the compensation of the Board of Management comprises the notes required by law under the German Commercial Code (please refer to § 314 HGB) as well as the information specified in the guidelines set out in the German Corporate Governance Code. Reporting on compensation of Board of Management members is based on German Accounting Standard (GAS) No. 17.

The Board of Management of Deutsche Telekom AG is currently comprised of seven members.

Dr. Manfred Balz was appointed to the Board of Management effective October 22, 2008. Dr. Karl-Gerhard Eick will leave the Company at his own request effective February 28, 2009, before his service contract expires. The Supervisory Board agreed to Dr. Eick's request to resign on that date at its meeting on December 2, 2008.

Board of Management compensation system and review. 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 and annual variable performance-based remuneration, a long-term variable remuneration component (Mid-Term Incentive Plan), and fringe benefits and deferred benefits based on a company pension commitment. The structure of the compensation system and the appropriateness of compensation for the Board of Management are reviewed and established by the Supervisory Board at regular intervals.

Fixed remuneration, variable incentive-based remuneration and fringe benefits. Total compensation is generally about two-thirds variable and one-third fixed if targets are achieved in full. The non-performance-based components are comprised of a fixed remuneration, fringe benefits and pension commitments, while the performance-based components are split into variable performance-based remuneration and a long-term incentive component.

Fixed remuneration is determined for all Board of Management members based on market conditions in accordance with the requirements of stock corporation law (for individual figures, please refer to the table "Total compensation").

The annual variable performance-based remuneration of Board of Management members is based on the achievement of targets set by the General Committee of the Supervisory Board of Deutsche Telekom AG for each member of the Board of Management prior to commencement of the financial year. The set of targets is composed of corporate targets and personal targets for the individual members of the Board of Management, based on the parameters of EBITDA adjusted for special factors, free cash flow and customer satisfaction. The level of target achievement is determined by the General Committee of the Supervisory Board for the respective financial year (for detailed information, please refer to the table "Total compensation").

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

According to 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 being reimbursed in connection with business trips and maintaining a second household.

Sideline employment generally requires prior approval. No additional compensation is paid for being a member of the Board of Management or Supervisory Board of other Group entities.

Arrangements in the event of termination of a position on the Board of Management. The terms of the existing service contracts of the Board of Management members are linked to the term of appointment as a member of the Board of Management. If the Company is entitled to terminate the appointment as a Board of Management member without this also constituting cause for the simultaneous termination of the service contract under civil law, the Board of Management member shall be entitled to a contractually defined severance payment. This is calculated (subject to being discounted) on the basis of the imputed remaining term of appointment in the current term of office of the Board of Management (up to a maximum of 36 months) on the basis of 100 percent of the fixed annual remuneration and 75 percent of the variable remuneration based on an assumed 100 percent achievement of targets.

The service contracts for members of the Board of Management at Deutsche Telekom AG do not include any benefits in the event of the termination of a position on the Board of Management as as result of a change of control.

Service contracts for members of the Board of Management include a provision in case of premature termination without good cause allowing a compensation payment which, in line with the recommendations of the German Corporate Governance Code, is restricted to a maximum of two years' remuneration (severance cap) and may not exceed the remuneration due for the remaining term of the service contract.

Board of Management member service contracts generally stipulate a post-contractual prohibition of competition. Unless otherwise agreed, members of the Board of Management are prohibited from rendering services to or on behalf of a competitor for the duration of one year following their departure. As compensation for this restricted period, they receive a payment in the amount of the annual fixed compensation last received.

Company pension entitlement. The members of the Board of Management are entitled to a company pension based on their respective annual salaries. This means that Board of Management members receive a company pension based on a fixed percentage of their last fixed annual remuneration for each year of service rendered prior to their date of retirement. The key features of the pension plan for Board of Management members active in 2008 are described below:

Board of Management members are entitled to pension payments in the form of a life-long retirement pension upon reaching the age of 62, a disability pension or in the form of an early retirement pension upon reaching the age of 60 (subject to the usual actuarial deductions). The amount of the company pension is calculated on the basis of the eligible period of service rendered as a Board of Management member until the date of departure.

The annual retirement pension is comprised of a base percentage (6 percent for René Obermann and Dr. Karl-Gerhard Eick, and 5 percent for the remaining Board of Management members) of the fixed annual remuneration upon termination of the service relationship multiplied by the eligible service period expressed in years. After ten years of Board of Management membership, the maximum percentage of the pension level is achieved (60 percent or 50 percent, respectively). Pension payments are subject to a standard annual adjustment (3 percent for René Obermann and Dr. Karl-Gerhard Eick, or 1 percent for the remaining Board of Management members). In the event of a permanent inability to work (invalidity), the respective period of service through the scheduled end of the current period of appointment serves as the basis for the period of service eligible for calculating the pension. A "pension plan substitute" was agreed with Hamid Akhavan in lieu of a pension commitment due to his U.S. citizenship. The resulting annual payment for each full year of service rendered is included in the table "Total compensation" under "Other remuneration." Dr. Manfred Balz is not covered by the Board of Management pension entitlements described above. Dr. Manfred Balz's pension arrangements under his previous employment relationship (Deutsche Telekom AG capital account plan) remain in place.

In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In specifically provided exceptional cases, entitlement to a widow's pension is excluded. Finally, the standard criteria for eligibility in the pension arrangements are in line with market levels.

In addition, the Company makes contributions, including the related taxes, for term life insurance with standard coverage (EUR 1.3 million) for several of its Board of Management members. The related expenses are included in the figures for non-cash benefits.

Components with mid- and long-term incentives.

Mid-Term Incentive Plan. Members of the Board of Management participate in the Deutsche Telekom AG Mid-Term Incentive Plan (MTIP) introduced in the 2004 financial year (please refer to the explanations regarding the MTIP under Note 42). Hamid Akhavan and Timotheus Höttges participate in the 2006 tranche as a result of their prior activities as members of the Board of Management of T-Mobile International AG.

The General Committee of the Supervisory Board found at its meeting on February 4, 2009 that the relative plan target for the 2006 tranche of the MTIP had been achieved. Consequently, 50 percent of the award amount for the 2006 tranche will be paid out in 2009.

Incentive-based compensation from the MTIP.

€ [a]	2008 MTIP Maximum award amount	2008 MTIP Fair value at grant date	Total expense for share-based payments 2008	2007 MTIP Maximum award amount	Total expense for share-based payments 2007
René Obermann	750,000	116,738	444,591	750,000	97,580
Dr. Karl-Gerhard Eick	630,000	98,060	439,520	596,250	84,737
Hamid Akhavan	480,000	74,712	275,023	480,000	61,626
Dr. Manfred Balz [b]	168,000	26,149	122,830	0	0
Reinhard Clemens	420,000	65,373	44,580	0	0
Timotheus Höttges	450,000	70,043	240,435	450,000	56,264
Thomas Sattelberger	515,000	80,160	152,452	457,778	35,529
	3,413,000	**531,235**	**1,719,431**	**2,734,028**	**335,736**

[a] Fair value calculated using the so-called Monte Carlo model.
[b] Dr. Manfred Balz still participated in the 2007 and 2008 tranches of the MTIP due to his previous position as General Counsel of Deutsche Telekom AG.

2001 Stock Option Plan. The Company's 2001 Stock Option Plan was terminated by resolution of the shareholders' meeting of May 18, 2004. No stock options were issued for members of the Group Board of Management as of the 2002 financial year.

Hamid Akhavan, Timotheus Höttges and René Obermann continue to participate in the 2002 tranche of the 2001 Stock Option Plan as a result of their prior activities at T-Mobile. Dr. Manfred Balz still participates in the Stock Option Plan as a result of his previous position as General Counsel of Deutsche Telekom AG.

The stock options that have been granted can be exercised under the terms of the stock option plans. However, no options have yet been exercised. The number of stock options held by the Board of Management members active in the 2008 financial year is unchanged year-on-year.

The number of stock options is shown in the following table:

Incentive-based compensation from stock option plans.

		Number of options 2001 SOP 2001 tranche	Value of options on issue (2001) (€)	Number of options 2001 SOP 2002 tranche	Value of options on issue (2002) (€)	Weighted average exercise price of stock options (€)
René Obermann	2008	48,195	4.87	28,830	3.79	23.40
	2007	48,195		28,830		
Dr. Karl-Gerhard Eick	2008	163,891	4.87	0	0.00	30.00
	2007	163,891		0		
Hamid Akhavan	2008	0	0.00	19,840	3.79	12.36
	2007	0		19,840		
Dr. Manfred Balz	2008	32,130	4.87	17,360	3.79	23.81
	2007	32,130		17,360		
Reinhard Clemens	2008	0	0.00	0	0.00	0.00
	2007	0		0		
Timotheus Höttges	2008	0	0.00	17,050	3.79	12.36
	2007	0		17,050		
Thomas Sattelberger	2008	0	0.00	0	0.00	0.00
	2007	0		0		
Total *	**2008**	**244,216**		**83,080**		
	2007	**244,216**		**83,080**		

* Dr. Manfred Balz still participated in the Stock Option Plan before being appointed to the Board of Management due to his previous position as General Counsel of Deutsche Telekom AG. His inclusion in the above table led to a year-on-year increase in the number of options issued for members of the Board of Management, as Dr. Balz was not a member of the Board of Management in 2007.

The range of exercise prices of René Obermann's and Dr. Manfred Balz's options varies between EUR 12.36 and EUR 30.00.

Due to the fact that the remaining members of the Board of Management only participate in one tranche of the stock option plan, no range need be stated.

The average remaining term of the outstanding options for Board of Management members as of December 31, 2008 is 2.9 years.

Please also refer to the explanations regarding stock option plans under Note 42.

Board of Management compensation for the 2008 financial year. In reliance on legal requirements and other guidelines, a total of EUR 14,910,486 (2007: EUR 11,549,061) is reported in the following table as compensation for the 2008 financial year for the current members of the Board of Management. This compensation comprises fixed annual remuneration, other benefits, non-cash benefits, remuneration in kind, variable remuneration for the 2008 financial year and the fair value of the 2008 MTIP at the grant date. The pension expense resulting from the company pension plan is shown as service costs. All other remuneration is totally unrelated to performance.

When comparing figures year-on-year, it should be noted that Reinhard Clemens and Thomas Sattelberger are included as members of the Board of Management for a full twelve months for the first time in 2008 and that the number of members of the Board of Management has increased from six to seven. Moreover, regarding the figures for the prior year it should be noted that the members of the Board of Management active in 2007 waived part of their remuneration in connection with the spin-off of the T-Service companies, whereby ordinary members of the Board of Management waived one month's fixed basic remuneration and the Chairman of the Board of Management, in view of his particular responsibility, waived two months' basic remuneration.

Total compensation. The compensation of the Board of Management is shown in detail in the following table:

€		Fixed annual remuneration	Other remuneration	Variable remuneration	MTIP (Fair value at grant date)	Total	Service costs
René Obermann	2008	1,250,000	86,262	1,762,500	116,738	**3,215,500**	495,302
	2007	1,041,667	224,480	1,375,000	16,981	**2,658,128**	745,770
Dr. Karl-Gerhard Eick	2008	1,054,375	49,290	1,513,028	98,060	**2,714,753**	704,526
	2007	915,625	56,529	1,098,281	13,500	**2,083,935**	819,060
Hamid Akhavan	2008	800,000	613,588 [a]	1,178,400	74,712	**2,666,700**	0
	2007	733,333	608,693	934,000	10,868	**2,286,894**	0
Dr. Manfred Balz	2008	127,742	4,641	122,485	26,149	**281,017**	117,570
(from Oct. 22, 2008)	2007	0	0	0	0	**0**	0
Reinhard Clemens	2008	650,000	33,463	1,106,250	65,373	**1,855,086**	261,469
	2007	54,167	0	68,750	0	**122,917**	32,881
Timotheus Höttges	2008	750,000	24,506	1,116,000	70,043	**1,960,549**	204,936
	2007	687,500	20,482	825,000	10,189	**1,543,171**	345,366
Thomas Sattelberger	2008	800,000	44,221	1,292,500	80,160	**2,216,881**	948,713
	2007	484,588	1,328,742	671,302	10,365	**2,494,997**	2,095,720
Total	**2008**	**5,432,117**	**855,971**	**8,091,163**	**531,235**	**14,910,486**	**2,732,516**
	2007 [b]	**3,916,880**	**2,238,926**	**4,972,333**	**61,903**	**11,190,042**	**4,038,797**

[a] In addition to the pension substitute paid to Hamid Akhavan due to his U.S. citizenship, he also receives a monthly lump-sum payment to compensate for different tax regulations in Germany and the United States.
[b] Compensation of Board of Managment members who left the Company in the course of 2007 is no longer included in the table.

The additions to provisions for pensions recognized in 2008 amounted to EUR 3,236,348 (2007: EUR 4,887,064). This amount includes service costs of EUR 2,732,516 (2007: EUR 4,483,266) and interest costs of EUR 503,832 (2007: EUR 403,798).

At December 31, 2008, there was a legal obligation to pay Lothar Pauly, a member of the Board of Management who left the Company in the previous year, the sum of EUR 2,242,188.

No member of the Board of Management received benefits or corresponding commitments from a third party for his activity as a Board of Management member during the past financial year.

Former members of the Board of Management. A total of EUR 4,140,947 (2007: EUR 15,014,605) was recorded for payments to and entitlements for former members of the Board of Management and their surviving dependents.

Provisions totaling EUR 78,477,282 (December 31, 2007: EUR 72,675,181) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents in accordance with IFRS.

Other. The Company has not extended any loans to current or former Board of Management members.

Compensation of the Supervisory Board.

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation of Deutsche Telekom AG. The members of the Supervisory Board receive fixed annual remuneration of EUR 20,000.00 plus variable, performance-related remuneration with short-term and long-term components, depending on the development of net profit per share.

The short-term performance-related remuneration amounts to EUR 300.00 per full EUR 0.01 by which the net profit per no par value share exceeds EUR 0.50 in the financial year for which the remuneration is being paid.

The long-term performance-related remuneration amounts to EUR 300.00 for every 4.0 percent by which the net profit per no par value share in the second financial year following the financial year in question (reference year) exceeds the net profit per no par value share in the financial year preceding the financial year in question. The long-term performance-related remuneration is limited, however, to the amount of the long-term performance-related remuneration for the financial year preceding the financial year in question, insofar as the net revenue in the reference year does not exceed the net revenue in the financial year preceding the financial year in question.

Short-term and long-term performance-related remuneration are each limited to a maximum of EUR 20,000.00.

Moreover, the short-term performance-related remuneration may not exceed a total of 0.02 percent of the Company's unappropriated net income reported in the approved annual financial statements of the financial year in question, reduced by an amount of 4.0 percent of the contributions made on the lowest issue price of the shares at the end of the financial year.

The chairperson of the Supervisory Board receives double, and the deputy chairperson one and a half times the remuneration of an ordinary member of the Supervisory Board. In addition, remuneration increases by half for each membership of a Supervisory Board committee (with the exception of the Mediation Committee and the Nomination Committee) and by a further half for each Supervisory Board committee chaired; total remuneration shall not exceed double the annual remuneration, however. Members of the Supervisory Board who were not in office for the entire financial year receive one twelfth of the remuneration for each month or part thereof that they held a seat.

Members of the Supervisory Board receive an attendance fee amounting to EUR 200.00 for each meeting of the Supervisory Board or its committees that they have attended. The Company reimburses value-added tax payable on remuneration and expenses.

The total remuneration of the members of the Supervisory Board in 2008 amounted to EUR 1,124,226.64 (plus VAT).

No loans were granted to the members of the Supervisory Board.

The **compensation of the individual members of the Supervisory Board** for 2008 is as follows:

€ **Member of the Supervisory Board**	Fixed remuneration including attendance fee	Short-term variable	Total (net)	Imputed long-term remuneration entitlement [a]
Asmussen, Jörg (since July 1, 2008)	16,000.00	0.00	16,000.00	9,000.00
Becker, Hermann Josef (since Jan. 1, 2008)	43,600.00	0.00	43,600.00	24,000.00
Brandl, Monika	22,000.00	0.00	22,000.00	12,000.00
Bury, Hans Martin (since May 15, 2008)	28,666.66	0.00	28,666.66	16,000.00
Falbisoner, Josef	21,800.00	0.00	21,800.00	12,000.00
Dr. von Grünberg, Hubertus	31,600.00	0.00	31,600.00	18,000.00
Guffey, Lawrence H.	43,200.00	0.00	43,200.00	24,000.00
Hocker, Ulrich	21,800.00	0.00	21,800.00	12,000.00
Holzwarth, Lothar [b]	23,400.00	0.00	23,400.00	12,960.00
Kallmeier, Hans-Jürgen (since Oct. 15, 2008)	5,400.00	0.00	5,400.00	3,000.00
Kühnast, Sylvia	22,000.00	0.00	22,000.00	12,000.00
Prof. Dr. Lehner, Ulrich (since Apr. 17, 2008, Chairman since Apr. 25, 2008)	55,900.00	0.00	55,900.00	31,500.00
Litzenberger, Waltraud	33,200.00	0.00	33,200.00	18,000.00
Löffler, Michael	22,000.00	0.00	22,000.00	12,000.00
Matthäus-Maier, Ingrid (until Sept. 30, 2008)	16,200.00	0.00	16,200.00	9,000.00
Dr. Mirow, Thomas (until June 30, 2008)	16,600.00	0.00	16,600.00	9,000.00
Dr. Overlack, Arndt (from Mar. 6, 2008 until Apr. 16, 2008)	3,333.33	0.00	3,333.33	2,000.00
Prof. Dr. Reitzle, Wolfgang	21,200.00	0.00	21,200.00	12,000.00
Prof. Dr. von Schimmelmann, Wulf	21,200.00	0.00	21,200.00	12,000.00
Dr. Schlede, Klaus G. (until May 15, 2008)	31,449.99	0.00	31,449.99	18,150.00
Schröder, Lothar (Deputy Chairman) [c]	75,400.00	0.00	75,400.00	42,000.00
Dr. Schröder, Ulrich (since Oct. 1, 2008)	5,600.00	0.00	5,600.00	3,000.00
Sommer, Michael	21,200.00	0.00	21,200.00	12,000.00
Walter, Bernhard	58,200.00	0.00	58,200.00	33,000.00
Wegner, Wilhelm (until Sept. 30, 2008)	48,400.00	0.00	48,400.00	27,000.00
Dr. Zumwinkel, Klaus (Chairman until Feb. 27, 2008)	12,266.66	0.00	12,266.66	7,000.00
	721,616.64	**0.00**	**721,616.64**	**402,610.00**

[a] In determining the amount to be recognized as provision it was assumed that net profit per no par value share in 2010 would equal that in 2008. Based on this assumption, each ordinary member is entitled to EUR 12,000.00 for the total year for the period 2007 to 2010. Upon application of the multiplying factor, the provision amount totals EUR 402.610,00.
[b] Lothar Holzwarth received compensation of EUR 8,000.00 from T-Systems Business Services GmbH, Bonn, a wholly-owned subsidiary of Deutsche Telekom AG, for the 2008 financial year for a mandate as member of the supervisory board of this company.
[c] Lothar Schröder received compensation of EUR 17,600.00 from T-Mobile Deutschland GmbH, Bonn, a wholly-owned subsidiary of Deutsche Telekom AG, for the 2008 financial year for a mandate as member of the supervisory board of this company.

46 Declaration of conformity with the German Corporate Governance Code in accordance with § 161 AktG.

In accordance with § 161 AktG, the Board of Management and the Supervisory Board of Deutsche Telekom AG have submitted the mandatory declaration of conformity and made it available to shareholders on Deutsche Telekom AG's website.

47 Events after the balance sheet date.

OTE shareholders' meeting. The changes to OTE's Articles of Incorporation necessary for full implementation of the shareholders' agreement were approved at the extraordinary shareholders' meeting of OTE on February 6, 2009. It cannot be ruled out that this resolution by the shareholders may be declared invalid by a court, in the event that other shareholders successfully file rescission suit against this resolution. For further details on the acquisition of OTE, please refer to Note 23 "Investments accounted for using the equity method."

Deutsche Telekom issues an eight-year bond of EUR 2 billion. In January 2009, Deutsche Telekom issued a bond of EUR 2 billion via its financing subsidiary, Deutsche Telekom International Finance B.V., Amsterdam. It has a coupon of 6 percent p.a. At an issue rate of 99.808 percent, this corresponds to a mark-up of 2.65 percent above the eight-year interbank rate (mid-swap). The transaction was very successful with orders for more than EUR 5 billion. With more than 400 orders, it was possible to place the bond with a wide range of investors.

48 Auditors' fees and services in accordance with § 314 HGB.

The following table provides a breakdown of auditing fees recognized as expenses in the 2008 financial year:

PricewaterhouseCoopers Aktiengesellschaft.

millions of €	2008
Professional fees for audits	9
Professional fees for other accounting services	7
Tax consulting fees	0
Other professional fees	6
	22

Ernst & Young AG.

millions of €	2008
Professional fees for audits	6
Professional fees for other accounting services	15
Tax consulting fees	1
Other professional fees	0
	22

Professional fees for audits include in particular fees for the statutory auditing of annual and consolidated financial statements as well as fees for other auditing services provided, in particular in connection with the audit of internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act.

Professional fees for other accounting services primarily relate to fees for the review of the interim financial statements as well as auditing activities in connection with the documentation of the internal control system for financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act.

Tax consulting fees primarily include professional fees for tax consulting services performed as part of current or planned transactions.

Other professional fees mainly relate to consulting services and assistance in connection with the Company's compliance with requirements stipulated by the Federal Network Agency and other authorities.

Responsibility statement.

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Bonn, February 9, 2009

Deutsche Telekom AG
Board of Management

René Obermann | Dr. Karl-Gerhard Eick

Hamid Akhavan | Dr. Manfred Balz | Reinhard Clemens

Timotheus Höttges | Thomas Sattelberger

Auditors’ report.

We have audited the consolidated financial statements prepared by Deutsche Telekom AG, Bonn, comprising the income statement, balance sheet, cash flow statement, statement of recognized income and expense, and the notes to the consolidated financial statements, together with the Group management report for the financial year from January 1 to December 31, 2008. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) are the responsibility of the parent Company’s Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit. In addition, we have been instructed to express an opinion as to whether the consolidated financial statements comply with IFRS as issued by the IASB.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company’s Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on our findings of our audit, the consolidated financial statements comply with the IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and IFRS as issued by the IASB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Stuttgart/Frankfurt (Main), February 9, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Prof. Dr. Wollmert) Wirtschaftsprüfer	(Forst) Wirtschaftsprüfer

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Prof. Dr. Kämpfer) Wirtschaftsprüfer	(Menke) Wirtschaftsprüfer