Our results for the 2008 financial year show that the Group's "Focus, fix and grow" strategy is right. Not only did we achieve our financial targets, we even exceeded them – despite the tough market environment and continued intense competitive and price pressure. At around EUR 19.5 billion, adjusted EBITDA was slightly higher than our initial forecast. Free cash flow of EUR 7 billion also exceeded our own expectations by EUR 0.4 billion. We increased net profit excluding special factors by 14 percent to EUR 3.4 billion while keeping our net debt almost stable at EUR 38.2 billion.

We invested EUR 8.7 billion, EUR 0.7 billion more than in the previous year, in future technologies and service improvements.

Group management report

Deutsche Telekom Group management report.

Net revenue amounted to EUR 61.7 billion compared with EUR 62.5 billion in 2007; exchange rate effects totaling EUR 1.3 billion impact on net revenue; share of international revenue amounts to 53.2 percent // Group EBITDA up 6.6 percent to EUR 18.0 billion; EBITDA adjusted for special factors at EUR 19.5 billion compared with EUR 19.3 billion in the prior year // Net profit increased year-on-year from EUR 0.6 billion to EUR 1.5 billion; net profit adjusted for special factors up EUR 0.4 billion to EUR 3.4 billion // Free cash flow before dividend payments up from EUR 6.6 billion to EUR 7.0 billion

Mobile customer base increased to 128.3 million in the reporting year // Number of broadband lines up 7.9 percent year-on-year to 15.0 million; 33.8 million fixed-network lines at the end of 2008 compared with 36.6 million in the prior year // Adjusted for deconsolidations, volume of new orders in the Business Customers operating segment increased by 5.2 percent

Further successes with the “Focus, fix and grow” strategy.

Despite continued intense competitive and price pressure in the German as well as Central and Eastern European markets, net revenue remained constant year-on-year when changes in exchange rates and the composition of the Group are excluded. Group EBITDA and net profit increased significantly. These results confirm that Deutsche Telekom successfully continued its “Focus, fix and grow” strategy in the 2008 reporting year.

Net revenue decreased 1.4 percent year-on-year to EUR 61.7 billion. Particularly exchange rate effects totaling EUR 1.3 billion, mainly from the translation of U.S. dollars and pound sterling, had a negative effect on net revenue. While the proportion of net revenue generated outside Germany increased to EUR 32.8 billion or 53.2 percent, the Broadband/Fixed Network operating segment in particular recorded a decrease in domestic revenue. Especially healthy customer growth in the Mobile Communications USA operating segment had an offsetting effect.

Group EBITDA increased in the reporting year by around EUR 1.1 billion or 6.6 percent to EUR 18.0 billion. Special factors amounting to EUR 1.4 billion had a negative effect on Group EBITDA, mainly on account of expenses incurred in connection with staff-related and restructuring measures. These special factors amounted to EUR 2.4 billion in 2007. The Group’s adjusted EBITDA increased to EUR 19.5 billion as a result of cost savings and enhanced efficiency.

Net profit rose year-on-year, mainly due to lower expenses for staff-related measures. The increase in EBITDA adjusted for special factors and predominantly lower depreciation, amortization and impairment losses led to an increase in adjusted net profit from EUR 3.0 billion in the previous year to EUR 3.4 billion in the reporting year.

Free cash flow (before dividend payments) rose by around EUR 0.5 billion to EUR 7.0 billion. The increase was primarily attributable to favorable changes in working capital and lower interest payments. Income tax payments had an offsetting effect, however. Payments of EUR 0.5 billion were recorded in 2008, compared with receipts of EUR 0.2 billion in the prior year. In addition, cash outflows for intangible assets and property, plant and equipment increased, primarily as a result of the 2G and 3G network roll-out in the United States.

Mobile Communications segments expand customer base to 128.3 million.

Once again, the Mobile Communications segments were the Group's growth drivers in 2008. T-Mobile Deutschland added 3.1 million new customers in the **Mobile Communications Europe** operating segment in the 2008 reporting year, bringing the number of customers* in Germany to 39.1 million at the end of 2008. The number of contract customers developed particularly positively. A change in the legal situation as regards the procedure for deactivating prepay customers in Germany has already led to an increase in the prepay customer base since the beginning of 2007. Total customer figures also continued to rise at all national companies in the Mobile Communications Europe operating segment with the exception of T-Mobile UK and T-Mobile Slovensko. Overall, the customer base in Europe increased to 95.6 million. In addition to successes in Western Europe (including Poland), the mobile communications subsidiaries in Southeastern Europe added a total of 1.0 million new customers, bringing the mobile customer base to 12.3 million. The number of contract customers grew by 3.3 million in Europe in 2008. In Germany and the other markets in which T-Mobile offers the Apple iPhone 3G, this device made a significant contribution to this customer growth.

The **Mobile Communications USA** operating segment increased its customer base during the year. The number of customers at the end of 2008 increased to 32.8 million with a total of 4.1 million net new customers in the year, including 1.1 million customers acquired as a result of the acquisition of SunCom Wireless Holdings, Inc. (SunCom). The acquisition of regional mobile communications provider SunCom in February 2008 enabled T-Mobile USA to expand its presence to the Southeastern United States, as well as to Puerto Rico and the Virgin Islands.

Key financial figures for the Deutsche Telekom Group.

millions of €	2008	2007[a]	2006[a]
Net revenue	61,666	62,516	61,347
Of which: international revenue	32,781	31,822	28,887
EBITDA[b]	18,015	16,897	16,321
EBITDA (adjusted for special factors)[b]	19,459	19,326	19,434
Profit after income taxes	2,024	1,080	3,582
Profit after income taxes (adjusted for special factors)[b]	3,995	3,526	4,283
Net profit	1,483	571	3,173
Net profit (adjusted for special factors)[b]	3,426	3,005	3,858
Shareholders' equity	43,112	45,245	49,678
Net debt[c]	38,158	37,236	39,555
Free cash flow (before dividend payments)[d]	7,033	6,581	2,983
Employees (average)	234,887	243,736	248,480

[a] Accounting change in line with IFRIC 12. Comparative periods adjusted. For a detailed description see the notes to the consolidated financial statements.
[b] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses. For a detailed explanation of the special factors affecting EBITDA and adjusted EBITDA, as well as special factors affecting profit/loss and the adjusted profit/loss after income taxes and net profit, please refer to the section on "Development of business in the Group."
[c] Deutsche Telekom considers "net debt" to be an important measure for investors, analysts, and rating agencies. This measure is common practice within Deutsche Telekom's competitive environment, but other companies may define it differently. For detailed information, please refer to the section on "Development of business in the Group."
[d] Deutsche Telekom defines free cash flow as cash generated from operations less interest paid and net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment. Deutsche Telekom is of the opinion that the "free cash flow (before dividend payments)" indicator is used by investors as a measure to assess the Group's net cash from operating activities after deduction of cash outflows for intangible assets (excluding goodwill) and property, plant and equipment, in particular with regard to subsidiaries, associates and joint ventures, and the repayment of liabilities. Free cash flow (before dividend payments) should not be used to determine the financial position of the Group. There is only limited comparability between Deutsche Telekom's definition of free cash flow and methods of calculating this measure and similarly designated measures and disclosures of other companies.

Strong DSL growth.

Demand among German customers for fast DSL connections continues to rise. According to information from (N)ONLINER Atlas 2008, 65 percent of Germans are now online. Internal estimates put Deutsche Telekom's German market share of existing DSL customers in the **Broadband/Fixed Network** operating segment at around 46 percent in 2008, helped to a considerable extent by the take-up of the complete packages with higher bandwidth, additional features, and enhanced customer service. Voice and Internet communications products proved particularly popular. Just under 67 percent of customers signing up for one of the complete packages in 2008 opted for a Call & Surf package. In addition, Stiftung Warentest consumer testing organization awarded Deutsche Telekom the title of Best Internet Provider in the 11/2008 issue of its magazine.

The new fixed-price Entertain packages allow customers to watch television in excellent quality, surf the Internet at high speeds, and make telephone calls. A total of around 150 TV channels and an online video shop with more than 3,000 movies on demand are available to viewers. In addition, around 2,000 titles are available free of charge. Since mid-December 2008, around 2,500 German and international Web radio stations – a service provided by Phonostar – have also been accessible via Entertain.

* For the definition of customer numbers, please refer to the section on "Development of business" in the Mobile Communications Europe operating segment.

To cope with the demand for fast Internet connections, Deutsche Telekom provided a growing number of towns and cities with ADSL2+ and the even faster VDSL in the 2008 reporting year. Along with VDSL roll-out in 50 towns and cities, Deutsche Telekom is working with local authorities to enable improved DSL coverage in rural areas, provided a partnership can be established that makes sound business sense. Cooperation projects were arranged with around 300 municipalities for DSL expansion in 2008 alone. This was in addition to 100 municipalities where broadband supply could be realized without the support of the local authorities. Overall, Deutsche Telekom can supply around 96 percent of households with DSL lines. Compared with the previous year, this is an increase of two percentage points. Since July 2007, Congstar has been offering one-stop individualized packages throughout Germany comprising broadband Internet access (DSL) and mobile communications without a minimum contract period. The company has also had complete connections comprising a telephone line and Internet access in its portfolio since August 2008. Prepaid mobile communications products were particularly successful and received several awards. Congstar itself was voted “Mobile discount provider of 2008” by the readers of “connect” magazine.

Growth in the broadband market has also remained steady outside Germany. The Broadband/Fixed Network operating segment is active on the Central and Eastern European market via Deutsche Telekom’s international subsidiaries. Despite the competitive pressure in the fixed-network market, the Central and Eastern European majority holdings posted double-digit growth rates courtesy of their broadband packages. Triple play is also becoming increasingly popular in Central and Eastern Europe. Deutsche Telekom’s subsidiaries in Croatia, Slovakia, Hungary, Macedonia and Montenegro had added a total of more than 220,000 customers by the end of the reporting year.

In Hungary, Magyar Telekom is planning to expand the next-generation access network to connect 1.2 million households. Magyar Telekom aims to provide fiber-to-the-home (FTTH) network access to around 780,000 households and to upgrade another 380,000 households. The new network supports higher bandwidth of up to 100 megabits per second and improves cost efficiency. In Slovakia, Slovak Telekom maintained its pole position on the broadband Internet market in spite of difficult competitive conditions. As the largest provider of IPTV services in Slovakia, Slovak Telekom is able to provide reliable high-speed connections based on the optical access network for over 133,000 households. In line with the strategy of further expanding broadband Internet access in Slovakia, Slovak Telekom is planning to make access to all services via the optical infrastructure available to around 250,000 households. As part of its network strategy, the Croatian subsidiary T-Hrvatski Telekom intends to migrate its network to a single IP-based platform in order to increase efficiency and extend its service offering. The time frame for this migration will primarily depend on the development of broadband penetration in the coming years.

New forward-looking projects for business and corporate customers.

Demand among corporate customers for efficient systems solutions based on IP infrastructure is rising sharply. The **Business Customers** operating segment is taking advantage of this development through T-Systems by providing its customers with an integrated service offering comprising network-centric information and communications technology (ICT). The key element in this strategy is providing the customer with combined IT and telecommunications services with an end-to-end service guarantee. The aim is to become one of the most significant global ICT service providers. T-Systems already leads the field in core markets such as Germany, Austria and Switzerland. The outsourcing contract with Royal Dutch Shell is just one example of the success of this strategy. T-Systems will operate Shell’s global computing and data storage centers in Europe, North America and Asia for a period of five years.

The ICT service provider also boosted its international business with customers outside Germany. This included contracts with Airbus to set up and operate a high-performance network in Asia, and with Bosch for a new network infrastructure connecting more than 200 locations in the Asia-Pacific region and data centers in America and Europe. Overall, these success stories confirm the international strategy T-Systems launched in the previous year, of focusing on network-centric ICT services for corporate customers in Western European core markets and to meet their global requirement for integrated IT and telecommunications solutions.

A number of future-oriented contracts were also signed in Germany. T-Systems is installing the new dealer management system (incadea.engine®) for BMW dealers and automotive dealership groups, for example. The system supports dealerships’ business processes in the areas of sales, service, parts sales, inventory management, financial accounting, and time management. T-Systems also further expanded its position in the public sector. The Federal Ministry of the Interior has awarded T-Systems a contract for the “universal public authorities’ phone number 115” put in place to provide the public with a single phone number to reach public authorities throughout Germany. In addition, the Federal Ministry of the Interior and T-Systems, together with other companies and users, will launch the De-Mail test in mid 2009. This promising means of communication will make Germany a pioneer in the area of trustworthy and legally binding Internet communication.

Group organization.

New Board of Management department for Data Privacy, Legal Affairs and Compliance // Strategic realignment of the Business Customers segment

Organizational structure and business activities.

Deutsche Telekom is an integrated telecommunications provider. The Group offers its customers around the world a comprehensive portfolio of state-of-the-art services in the areas of telecommunications and IT.

The Deutsche Telekom Group's organizational and management structure comprises five operating segments: Mobile Communications Europe, Mobile Communications USA, Broadband/Fixed Network, Business Customers, and Group Headquarters & Shared Services.

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

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 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 provides ICT products and solutions for large multinational enterprises (corporate customers), the other resells 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, Hungary, Italy, the Netherlands, Spain, Switzerland, 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.

Deutsche Telekom is consistently continuing to restructure the Group and is simplifying its sales organization in the various business customer segments from the beginning of 2009. Deutsche Telekom's small and medium-sized business customers will in future be served by the Broadband/Fixed Network operating segment. This will allow T-Systems to focus on ICT solutions business with Deutsche Telekom's national and international corporate customers. The realignment of the business customer segments reinforces both business customer and corporate customer business in equal measure, and is an important milestone in building on the Company's leading market position in Germany. On November 4, 2008, the Supervisory Board of Deutsche Telekom decided to consolidate its business customer approach in the Broadband/Fixed Network segment. The aim of this decision is to continue to expand business customer business by offering a competitive, customer-oriented range of services from a single source. T-Systems will focus its ICT portfolio on its 400 corporate customers and will also be the first point of contact for public-sector customers and the healthcare sector.

The **Group Headquarters & Shared Services** operating segment comprises all Group units and subsidiaries that cannot be allocated directly to one of the 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.

Legal structure of the Deutsche Telekom Group.

Deutsche Telekom AG, Bonn, is the parent of the Deutsche Telekom Group. Its **shares** are traded on several stock exchanges, including Frankfurt, New York, and Tokyo. As of December 31, 2008, 68.3 percent of the shares were in free float (December 31, 2007: 68.3 percent), 14.8 percent were held by the Federal Republic of Germany (December 31, 2007: 14.8 percent), and 16.9 percent were held by KfW Bankengruppe (December 31, 2007: 16.9 percent). Accordingly, the shareholding attributable to the Federal Republic amounted to 31.7 percent (December 31, 2007: 31.7 percent). The share held by the Blackstone Group remained unchanged at 4.4 percent at December 31, 2008.

As of December 31, 2008, the **share capital** of Deutsche Telekom AG totaled EUR 11,164,979,182.08 and was composed of 4,361,319,993 no par value registered ordinary shares. 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.

The Articles of Incorporation authorize the Board of Management to increase the share capital with the approval of the Supervisory Board by up to EUR 2,399,410,734.08 by issuing up to 937,269,818 registered no par value shares for non-cash contributions in the period ending on May 17, 2009 (2004 authorized capital). The Articles of Incorporation also authorize the Board of Management, with the consent of the Supervisory Board, to increase the share capital by up to EUR 38,400,000 by issuing up to 15,000,000 registered no par value shares for cash and/or non-cash contributions in the period up to May 2, 2011. The new shares may only be issued to grant shares to employees of Deutsche Telekom AG and lower-tier companies (2006 authorized capital) (www.telekom.com/articles-of-incorporation).

The share capital has been contingently increased by up to EUR 31,813,089.28 as of December 31, 2008, composed of up to 12,426,988 new no par value registered shares. The contingent capital increase is exclusively for the purpose of meeting preemptive rights to shares from stock options granted in the period until December 31, 2003 on the basis of the authorization for a 2001 Stock Option Plan granted by resolution of the shareholders' meeting on May 29, 2001 (contingent capital II). The share capital has been contingently increased by EUR 600,000,000 as of December 31, 2008, composed of up to 234,375,000 no par value shares. The contingent capital increase shall only be implemented to the extent that it is needed to service convertible bonds or bonds with warrants issued or guaranteed on or before April 25, 2010 (contingent capital IV).

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 the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e of the German Stock Corporation Act (Aktiengesetz – AktG) do not at any time account for more than 10 percent of the Company's share capital.

This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG 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 main agreements entered into by Deutsche Telekom AG, which include a **clause in the event of a takeover of Deutsche Telekom AG (change of control),** principally relate to bilateral credit lines and several loan agreements. In the event of a takeover, the individual lenders have the right to terminate the credit line and, if necessary, serve notice or demand repayment of the loans. A takeover is assumed when a third party, which can also be a group acting jointly, acquires control over Deutsche Telekom AG.

In addition, the other members of the Toll Collect consortium (Daimler Financial Services AG and Cofiroute SA) have a call option in the event that the ownership structure of Deutsche Telekom AG changes such that over 50 percent of its share capital or voting rights are held by a new shareholder, and this change was not approved by the other members of the consortium. § 22 (1) of the Securities Trading Act (Wertpapierhandelsgesetz – WphG) similarly applies to the allocation of voting rights.

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

The principal subsidiaries of Deutsche Telekom AG are listed in the notes to the consolidated financial statements in the section "Summary of accounting policies" under **"Consolidated group."** In addition to Deutsche Telekom AG, 65 German and 164 foreign subsidiaries are fully consolidated in Deutsche Telekom's consolidated financial statements (December 31, 2007: 70 and 176). 14 associates (December 31, 2007: 16) and 5 joint ventures (December 31, 2007: 3) are also included using the equity method.

The changes in the consolidated group relate to both acquisitions and divestments.

The Mobile Communications USA operating segment acquired the regional mobile operator SunCom in February 2008.

The Business Customers operating segment sold T-Systems Media & Broadcast GmbH to Télédiffusion de France. The sale was approved by the EU Commission in January 2008.

In the third quarter of 2008, the Group Headquarters & Shared Services operating segment sold DeTe Immobilien.

In 2008, Deutsche Telekom acquired 25 percent plus one share in OTE. In May 2008, the Greek government and Deutsche Telekom signed a shareholders' agreement regarding an investment in the telecommunications company. Together, the two shareholders hold a majority of 50 percent plus two votes in OTE, with Deutsche Telekom being granted the possibility of controlling OTE's financial and operating policies once all necessary steps of the transaction have been completed. 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.

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.

In 2008, OTE was reported using the equity method on the balance sheet under the Group Headquarters & Shared Services operating segment. For further details, please refer to Note 23 "Investments accounted for using the equity method" in the notes to the consolidated financial statements.

Management and supervision.

The management and supervisory structures, as well as the compensation system for the Board of Management and the Supervisory Board, are aligned toward the long-term performance of the Group and follow the recommendations of the German Corporate Governance Code.

In the 2008 reporting year, Deutsche Telekom strengthened data privacy by setting up a new Board department. The Supervisory Board of Deutsche Telekom AG approved the Board of Management's proposal of setting up a seventh Board department and appointed Dr. Manfred Balz to chair the new Data Privacy, Legal Affairs and Compliance department effective October 22, 2008.

Dr. Karl-Gerhard Eick will resign as Member of the Deutsche Telekom Board of Management responsible for Finance with effect from midnight on February 28, 2009. The Supervisory Board agreed to Dr. Eick's request to resign on that date at its meeting on December 2, 2008.

Board of Management responsibilities are distributed across seven Board departments. In addition to the four Board departments with central functions – the department assigned to the chairman of the Board of Management, the Finance department, the Human Resources department, and the Data Privacy, Legal Affairs and Compliance department – there are three other Board departments assigned to the Board members responsible for the operating segments, some of which combine segment-specific and Group-wide tasks: T-Mobile, Product Development, Technology and IT Strategy; T-Home, Sales & Service; and Business Customers. The Supervisory Board of Deutsche Telekom oversees the management of business by the Board of Management and advises the Board. The Supervisory Board is composed of 20 members, of whom 10 represent the shareholders and the other 10 the employees.

The appointment and discharge of members of the Board of Management is in accordance with § 84 and § 85 AktG, and § 31of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG). Amendments to the Articles of Incorporation are made pursuant to § 179 and § 133 AktG, and § 18 of the Articles of Incorporation. According to § 21 of the Articles of Incorporation, the Supervisory Board is authorized, without a resolution by the shareholders' meeting, to adjust the Articles of Incorporation to comply with new legal provisions that become binding for the Company and to amend the wording of the Articles of Incorporation.

The seven members of the Board of Management are entitled to fixed and annual variable remuneration as well as long-term variable components (Mid-Term Incentive Plan). Total compensation is generally about 2/3 variable and 1/3 fixed. The annual variable component is based on the extent to which each member of the Board of Management achieves the targets prescribed by the General Committee of the Supervisory Board before the beginning of each financial year.

The total compensation of Supervisory Board members is governed by § 13 of the Articles of Incorporation and includes a fixed annual component plus variable, performance-related remuneration with short-term and long-term components, depending on the development of net income per share. The compensation of the members of the Board of Management and the Supervisory Board is reported individually in the notes to the consolidated financial statements under Note 45, broken down by the various components.

Group strategy and Group management.

Successful implementation of the Group's "Focus, fix and grow" strategy continues

Group strategy.

Deutsche Telekom's long-term aim is to become a leader for connected life and work. Using this slogan, the Group is positioning itself in the growth areas of our age and focusing on the main trends: the digitization of many areas of life, the fragmentation of the living and working environment, the personalization of products and services, growing mobility, as well as increasing globalization and cross-border value creation. Deutsche Telekom is acting on these trends by focusing its investments on the infrastructure of the next generation, developing and marketing innovative products and services, systematically positioning itself as a service company, and using opportunities for growth abroad. With its "Focus, fix and grow" strategy, Deutsche Telekom remains stable even in times of economic turmoil and will continue pursuing the four successful, strategic areas of action in 2009:

- Improve competitiveness in Germany and in Central and Eastern Europe.
- Grow abroad with mobile communications.
- Mobilize the Internet.
- Roll out network-centric ICT.

Improve competitiveness. Deutsche Telekom is successfully meeting the continuing stiff competitive pressure in Germany and in the Central and Eastern European markets. In 2008, for example, the Group substantially reinforced its strong position in the German DSL market, with the total number of DSL lines rising to 13.3 million, an increase of 6.4 percent year-on-year. This positive development is the result of the targeted expansion of the broadband infrastructure, the introduction of innovative products, and improved customer service. This strategy will continue in 2009. In the fixed network, the Group is providing a growing number of towns and cities with ADSL2+ and the even faster VDSL. Cooperation projects were arranged with around 300 municipalities for DSL expansion in 2008 alone. This was in addition to 100 municipalities where broadband supply could be realized without the support of the local authorities.

The high-performance broadband infrastructure is the basis for products such as Entertain, which is marketed by T-Home. T-Home already dominates the German Internet-based television market with this service. The richness and exclusivity of the content, coupled with interactive television-related services, easily sets the product apart from the competition. Additional HD content and high-end formats such as live Bundesliga soccer games are further incentives to buy. Improving customer service at all points of customer contact is a core component of Deutsche Telekom's strategy. In this area, there are important achievements to report: The Telekom Shops received top marks from the German Technical Control Board (TÜV) for overall customer satisfaction with the service provided, while the Stiftung Warentest consumer testing organization rated T-Home the best provider of DSL lines and related customer service in the 11/2008 issue of its magazine. To meet rising service requirements efficiently and in line with customers' needs, Deutsche Telekom is also modernizing and consolidating its call center structure to 33 locations.

Deutsche Telekom is also relying on the continuous acceleration of its mobile communications networks (GPRS/EDGE, as well as UMTS/HSDPA and HSUPA) and has concluded the world's first successful tests of the Long Term Evolution (LTE) technology as part of the Next Generation Mobile Network (NGMN) alliance.

On the cost side, Deutsche Telekom is continuing to work systematically on aligning its structures. The Save for Service cost-cutting program launched in 2006 is running very successfully. Deutsche Telekom maintains its target of achieving long-term savings of no less than EUR 4.7 billion a year through 2010. At the end of 2008, annual savings totaled approximately EUR 4 billion.

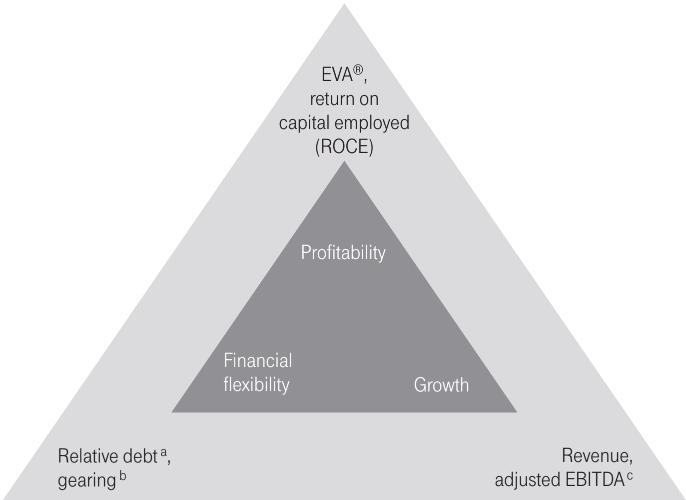
Grow abroad with mobile communications. Mobile communications business outside Germany is a major growth driver for Deutsche Telekom. Last year, the Group continuously expanded its share of international revenue through organic and inorganic growth, especially in the United States and Central and Eastern Europe, and generated the largest part of its revenue in mobile communications outside of Germany at the end of 2008. T-Mobile USA served a total of 32.8 million customers at year-end, a net increase of 4.1 million new customers (including SunCom) as compared to the previous year. This development was facilitated by the roll-out of new products and services. For instance, on October 22, 2008 T-Mobile USA launched the T-Mobile G1, the world's first mobile device based on the Android operating system. The acquisition of SunCom Wireless in early 2008 also enabled T-Mobile to broaden its customer base and extend its mobile coverage. T-Mobile USA will continue investments in the mobile broadband network and plans to almost double its 3G network coverage. In Southeastern Europe, Deutsche Telekom has become stronger especially through its investment in OTE, which will give the Group a strong position in the Greek market as well as in other fast-growing Southeastern European markets.

Mobilize the Internet. Mobile data use became increasingly popular in 2008, with more and more people accessing the Internet on mobile devices regularly and with growing intensity. Deutsche Telekom is shaping this trend, helped by a mix of high-performance infrastructure, attractive prices, and innovative handsets such as the iPhone 3G or the Android-based T-Mobile G1. T-Mobile successfully rolled out the iPhone 3G in Germany, Austria, the Netherlands, and other markets in Eastern and Southern Europe from July 2008, a move which delighted its existing customers and has enabled it to attract new high-caliber customers. The first Android-based mobile device of the world, the T-Mobile G1, was launched exclusively by T-Mobile in the United States and the United Kingdom at the end of October 2008 and was rolled out in Germany and other core European markets starting in February 2009. Furthermore, rising sales of reduced-price laptops backed up with a mobile broadband Internet contract have helped boost revenue from mobile data communications. In addition to the iPhone and the T-Mobile G1, Deutsche Telekom provides a simple, attractive opportunity to access the Internet from mobile devices with web'n'walk. Customers can quickly and conveniently access their most important and personal Internet services directly on the handset display using widgets. Partnerships with premier community, e-mail and instant messaging providers additionally address customers' specific mobile communications requirements through a variety of different channels. The number of web'n'walk customers in our five Western European companies rose by 65 percent in 2008 to 5.3 million.

Roll out network-centric ICT. In Deutsche Telekom's Business Customers segment, the trend toward convergence of IT, telecommunications services, and applications to create a standard ICT environment continues apace. T-Systems identified this trend early on by focusing strategically on network-centric ICT services. Large international outsourcing contracts with Siemens, the South African insurer Old Mutual Group, Alcatel Lucent, or the Finnish paper corporation Stora Enso, as well as the major deal with Royal Dutch Shell are proof of this strategy's success. As part of the realignment of Deutsche Telekom's Business Customers segment, T-Systems will focus in future on the ICT solutions business with its 400 national and international systems solutions customers, while the 160,000 business customers will be looked after by the Broadband/Fixed Network operating segment. This will enable T-Systems to benefit from its internationally acquired ICT expertise, which is based on capabilities for integrated production of IT and telecommunications in ICT operations, but also on diverse industry expertise in the field of systems integration. In March 2008, T-Systems entered into a global service alliance for systems integration with U.S.-based Cognizant, for which the two companies are consolidating their consulting business with offshore capacity in Asia. T-Systems is very well positioned to benefit internationally from the growth of network-centric ICT thanks to its restructuring, selected partnerships, and investments in computing power capacity and infrastructure.

Group management.

The financial management of the Group uses an integrated system of key ratios based on a small number of key performance indicators (KPIs). These performance indicators define the delicate balance of growth, profitability and financial flexibility the Group has to maintain as it pursues its primary "Focus, fix and grow" goal:



[a] The "relative debt" indicator is the ratio of net debt to EBITDA adjusted for special factors; for more information, please refer to the section on "Development of business in the Group."
[b] The "gearing" indicator is the ratio of net debt to equity; for more information, please refer to the section on "Development of business in the Group."
[c] Corresponds to EBITDA adjusted for special factors; for more information, please refer to the section on "Development of business in the Group."

The revenue trend forms the basis of almost every company's income statement. It reflects the concept of substantive growth. A further KPI is EBITDA, which corresponds to profit/loss from operations before depreciation, amortization, and impairment losses. The Group uses the development of EBITDA to measure its short-term operational performance and the success of its individual operations. The Group also uses the EBITDA margin – the ratio of EBITDA to revenue – as a performance indicator. This relative indicator enables a comparison of the earnings performance of profit-oriented units of different sizes.

The Group's focus on financial flexibility ensures that it will continue to be able to repay its debt and remain financially sound. Financial flexibility is primarily measured using the "gearing" and "relative debt" KPIs. One component of the indicators is net debt, which Deutsche Telekom uses as an important indicator in its communication with investors, analysts, and rating agencies.

To measure the profitability of business development, the Group uses return on capital employed (ROCE) as a relative indicator and economic value added (EVA®) as an indicator of value creation.

ROCE shows the result a company obtained in relation to the assets employed in achieving that result. ROCE is calculated using the ratio of profit from operations after depreciation, amortization and impairment losses, and taxes (i.e., net operating profit after taxes, or NOPAT) to the average value of the assets tied up for this purpose in the course of the year (i.e., net operating assets, or NOA).

Deutsche Telekom's goal is to exceed the return targets imposed on it by lenders and equity suppliers on the basis of capital market requirements (superior shareholder return). The Deutsche Telekom Group measures return targets using the weighted average cost of capital (WACC). The cost of equity is the return an investor expects on an investment in the capital market with equivalent risk. Deutsche Telekom calculates the cost of debt on the basis of the Group's financing terms on the debt market, taking into account that interest on borrowed capital is tax-deductible.

Deutsche Telekom uses EVA® as its key indicator of value creation to measure the absolute contributions made by the operational units to the value of the Group. In general, this KPI is also the main benchmark for focusing all operational measures on superior value. Value-oriented management thus implements the Group's commitment to growth in value-creating business areas down to the level of the operational units.

The economic environment.

Global economy in substantial slowdown // Mobile communications continuing to drive growth despite falling prices // German broadband market growing more slowly // Strong competition in the business customer market

Global economic development.

The global economy has been undergoing a substantial slowdown since early 2008. The downturn gained momentum globally in the second half of 2008. While during the first half of the year, the inflationary push fuelled by commodity prices put a large damper on the global economy, the deceleration in the second half was mainly attributable to the crisis in the housing and financial markets. In response to the development in the second half of the year, leading German economic research institutes cut their expected 2008 growth figure for gross domestic product in Germany to 1.8 percent in the "Joint Economic Forecast Fall 2008" published in October 2008. The International Monetary Fund (IMF) has also cut its forecast for global economic growth in the reporting year to 3.9 percent. In an initial estimate in early January 2009, the Federal Statistical Office disclosed that GDP in Germany had risen by just 1.3 percent in 2008.

Inflationary pressures eased off over the past few months thanks to a sharp decline in commodity prices. The main risks facing the global economy are the extent and duration of the financial market crisis and the scale of the impact on the real economy, along with the willingness of consumers to buy and businesses to invest.

Telecommunications market.

According to the Federal Statistical Office, average prices for telecommunications services (fixed-network/Internet and mobile communications) from the perspective of residential households fell by 3.3 percent year-on-year in 2008 in Germany. These prices had slipped just 0.3 percent year-on-year in 2007, though this was partly attributable to the VAT increase that took effect on January 1, 2007.

In 2008, the price index for fixed-network and Internet telephone services in Germany decreased by 3.4 percent compared with 2007, primarily due to competition in the field of complete packages (telephone and DSL lines, telephone flat rate, Internet flat rate). On average, the cost of mobile telephony fell by 2.3 percent in 2008 compared with 2007.

A recent industry association study on the development of the German telecommunications market points to a sustained downturn in the market as a whole for 2008. According to the study, revenue from telecommunications services in Germany will amount to around EUR 60.6 billion in 2008, a decrease of 4.1 percent compared with 2007, which is essentially due to competition-induced price cuts in both the fixed and the mobile network.

The German Association of Telecommunications and Value-Added Service Providers (VATM) currently believes the financial market crisis will only slightly affect the telecommunications sector. Based on a survey from October 2008, the German Association for Information Technology, Telecommunications and New Media (Bitkom) also expects the financial market crisis to have little impact on the German IT and telecommunications market.

Mobile communications market. The mobile communications business continued its global growth trend in 2008. Growth in the largely saturated markets of Western Europe continued to decline, however (based on the last competition figures published at the end of the third quarter of 2008). The ongoing price war and regulatory price cuts impacted on revenues in many of the markets in which T-Mobile is represented. In terms of revenue, the markets in Germany and Austria contracted compared with the previous year. While Southeastern Europe continued to witness overall growth in customer figures and revenue, due to intense competition only T-Mobile Hungary was able to further expand its revenue market share. T-Mobile Netherlands substantially improved its market position and increased its market share through the acquisition of Orange Nederland. The key competitive factors in the mobile communications markets are prices, contractual options, applications, network coverage and quality of service. In addition, competition in mobile communications is increasing at European level, partly due to the introduction of Europe-wide services. As market penetration continues to rise, providers are increasingly concentrating on boosting customer retention.

In the United States, T-Mobile now competes with three major national providers: Verizon Wireless, AT&T, and Sprint Nextel, all of whom have a much larger national customer base than T-Mobile. Despite the more difficult market environment, the Mobile Communications USA operating segment again recorded strong growth in 2008. T-Mobile USA continued to expand its market share.

Three main groups of providers compete for customers in the mobile communications markets: network operators, resellers, and companies that buy network services and market them independently to third parties (MVNOs). A precondition for operating mobile communications networks, and hence for offering mobile communication services, is a frequency spectrum license issued by public authorities. Whereas these are normally awarded by the national authorities in Europe, the United States has a large number of license areas, including areas smaller than the individual states. The number of licenses awarded limits the number of network operators in each market.

Broadband/fixed-network market. Demand for broadband connections remains high in Germany, although growth in the telecommunications market is slowing. Competition in the fixed-network market is intense in large cities because here all providers have expanded their own networks into the large main distribution frames. Competitors are increasingly renting the so-called "last mile," or unbundled local loop lines (ULLs), from Deutsche Telekom. In rural regions, however, it rarely makes sound business sense for competitors to invest in their own infrastructure.

The new bitstream process introduced by the German Regulatory Authority in the middle of the reporting year enables competitors of Deutsche Telekom to offer customers complete DSL lines and telephone lines while making substantially lower investments in their own infrastructure. Consequently, when a customer moves to the competition they no longer need a PSTN (Public Switch Telephone Network) line from Deutsche Telekom. Competitors can thus attract customers throughout Germany with Deutsche Telekom's new bitstream offering. In metropolitan areas, competitors use their own or third-party infrastructure combined with Deutsche Telekom's ULL instead of the regulated, higher-priced bitstream offering.

Cable network operators are increasingly competing in the fixed-network market, further upgrading their networks to offer customers low-cost telephone and Internet connections as well. In the television business, the prevalence of cable TV connections in Germany and the broader range of free-to-air television channels compared with other countries are a decisive factor in the slow growth of triple-play packages in the market.

Eleven years after market liberalization, Deutsche Telekom's market share in fixed-network lines remains high. According to the Federal Network Agency (Bundesnetzagentur – BNetzA), alternative fixed-network operators enjoyed a market share of around 26 percent in 2008 compared with 19 percent in the previous year. In addition to losses caused by competitive and regulatory factors, the continuing loss of market share in the fixed-line business in the Broadband/Fixed Network segment is partly due to line losses on technical grounds as a result of the migration of resale customers to the all-IP platform. Due to continually falling fixed-network prices and the increasing use of flat rates, the decline in revenue can no longer be compensated by the number of call minutes billed.

IP carriers like Telefónica Deutschland that focus exclusively on wholesale products are increasingly marketing their own, fully IT-based network infrastructure built up in recent years. This especially benefits Internet service providers and carriers that do not have their own network in Germany, wish to add to their own network, or would like to improve their upstream services. For Deutsche Telekom this means lower sales of resale lines to competitors on account of the migration to IP-based business models.

The transition from traditional telecommunications to IP-based networks is a decisive trend in the telecommunications market. Already more than one in three telephone calls worldwide are made using voice over IP (VoIP). The main reason IP technology has developed so fast is that it is much cheaper than conventional telecommunications networks – for both operators and customers. An all-IP network makes the whole range of services such as VoIP, IPTV, or data transfer available to all users anywhere at all times. This technology transmits data in switched packets using Internet Protocol (IP).

According to a study conducted by Dialog Consult GmbH, the number of voice minutes billed for full-package lines rose substantially in 2008, though it declined for call-by-call and preselection.

Business customer market. The business customer market for information and communication technologies (ICT) continued to grow in 2008. This general trend impacted the various segments of the market in different ways, however.

In Germany, telecommunications (TC) again experienced fierce competition and intense price pressure, while information technology (IT) enjoyed sustained growth. Outside Germany, the Company's increasing globalization is translating into growing demand in the international ICT market.

Demand on the whole has changed, however. Whereas customers in the past demanded telecommunications products and IT services as separate items, these days they are increasingly looking for complete solutions to improve processes within companies and help enhance value. While small and medium-sized enterprises typically look for standardized products to increase efficiency, corporate customers require customized solutions.

Regulatory influence on Deutsche Telekom's business.

Deutsche Telekom's business activities are largely subject to state regulation, combined with extensive powers of government agencies to intervene in product design and pricing.

Regulation in Germany. The German Telecommunications Act (Telekommunikationsgesetz – TKG) imposes far-reaching regulation for many telecommunications services provided by Deutsche Telekom. Under this Act, the Federal Network Agency can impose obligations on companies with "significant market power" in individual markets regarding the services they offer on those markets. For example, the Federal Network Agency may oblige such companies to offer certain upstream products at prices that are also subject to prior approval by the Agency. Since the Federal Network Agency regards Deutsche Telekom as having "significant market power" in broad sections of the German telecommunications market, regulation encroaches on Deutsche Telekom's entrepreneurial freedom in many areas.

2008 saw the emergence of the first cautious deregulation trends that may take effect in 2009. For example, the fixed-network end customer markets for national calls to mobile and fixed networks are likely to be deregulated completely. In addition, fixed-network deregulation is planned in the area of interconnection for transit services and a number of origination services. If this proves to be permanent, Deutsche Telekom can look forward to reduced state intervention.

The Federal Network Agency is currently looking at easing existing nation-wide regulation of IP bitstream in line with the approach adopted by other European regulatory authorities. In regions with intense competition from local-loop operators and cable TV providers, regulation of IP bitstream could then be pared back. The relevant regulatory process is underway. A decision from the Federal Network Agency is expected in spring 2009.

On the other hand, there is a risk that regulation will be extended to new markets. In applying the TKG, the Federal Network Agency has so far shown very little inclination to significantly reduce the intensity of state control. With a few exceptions, the Agency applies the restrictive regulations unchanged and even extends them to cover new services and markets. Only a ruling by the Federal Administrative Court subsequently revoked the regulation of new voice over IP services. The Federal Network Agency also intends to regulate pure IP lines. Regulation on the fiercely competitive mobile communications market remains in place for mobile termination, with Brussels having drafted a recommendation to step up existing regulation. The expansion of the fiber-optic network also subject Deutsche Telekom to new obligations. Currently, Deutsche Telekom is not required to provide its competitors immediate access to its new high-speed network based on optical-fiber and VDSL technology. However, access is mandatory for portions of the new network, such as multi-function street cabinets, underground cable conduits and, alternatively, “dark fiber.”

The Federal Network Agency has made a series of decisions about charges, including in particular the approval of new interconnection charges in November 2008. The charges last fixed by the Federal Network Agency two-and-a-half years ago will be raised by an average of 4.4 percent in three categories. The new charges will apply up to June 30, 2011.

Regulation by the European Union. The European Union (EU) defines the fundamental principles of European telecommunications market regulation. The European Commission is currently reviewing the directives and recommendations adopted in 2002. In November 2007 it presented a comprehensive reform package (EU review).

The reform package includes proposed amendments to the valid legal framework. An extension of veto rights in respect of national regulatory measures and the establishment of a European regulatory authority is being discussed. Moreover, the possible functional separation of network operation and services has been considered and is currently being reviewed by the European bodies.

The European Parliament discussed the reform proposals at a first reading at the end of September 2008. The Parliament opposes a substantial expansion of the powers of the European Commission and is also moving to promote investment in new next-generation fiber-optic access networks (NGA).

However, the European Parliament’s proposals do not include any clear statements on the distribution of the “digital dividend” freed up by the changeover from analog to digital terrestrial broadcasting. In this respect, the European Commission had called for greater flexibility in the awarding and use of frequency bands, pointing out that using at least part of the newly available spectrum for mobile (broadband) applications would improve general welfare. This issue is largely regarded as the remit of national governments.

The Commission’s proposals were reviewed by the Council at the end of November 2008. The Council largely disregarded the proposals made by the European Parliament on the promotion of investments in new access networks. The review package is expected to be adopted by mid-2009 at the latest, after the second reading. As a review is currently underway, it is not possible to comment on the anticipated final result.

In other areas, the European Commission intervened directly in pricing policy, pressing for a further reduction of international roaming rates (billing intervals for voice as well as additional caps for text messaging and data). This kind of regulation is expected to result in considerable revenue losses.

In October 2008, the European Commission launched a preliminary investigation into possible anti-competitive behavior by European mobile communications operators with regard to mobile VoIP services. The investigation focuses on whether the operators are setting negative incentives for the use of VoIP services, thus creating competition barriers for VoIP providers.

International regulation. Deutsche Telekom is also subject to regulation outside Germany and the EU. Its subsidiaries abroad are regulated by national authorities. For the fixed network, this applies in particular to subsidiaries in Hungary, Slovakia, and Croatia. In mobile communications, all subsidiaries are subject to regulation, in particular regarding termination charges and use of frequency spectrum.

Development of business in the Group.

Proportion of revenue generated outside Germany continues to rise // EBITDA and adjusted EBITDA increased // Net profit more than doubled // Free cash flow strength further developed

Earnings situation of the Group.

Net revenue in the 2008 financial year amounted to EUR 61.7 billion, a decrease of EUR 0.9 billion or 1.4 percent year-on-year. Overall, exchange rate effects amounting to EUR 1.3 billion, especially in relation to the U.S. dollar and pound sterling, had a negative impact on net revenue. Factors that had a positive effect on revenue mainly included the development of revenue in the Mobile Communications USA operating segment and changes in the composition of the Group totaling EUR 0.9 billion arising from the inclusion of SunCom and Orange Nederland. Revenue in 2008 decreased by EUR 0.5 billion year-on-year on account of deconsolidations.

While the Group's revenue in the Mobile Communications USA operating segment increased, revenue in the Mobile Communications Europe, Broadband/Fixed Network and Business Customers segments declined.

The proportion of international revenue continued to increase, rising by 2.3 percentage points year-on-year to 53.2 percent of net revenue.

Contribution of the operating segments to net revenue.

	2008 millions of €	Proportion of net revenue of the Group %	2007 millions of €	Proportion of net revenue of the Group %	Change millions of €	Change %	2006 millions of €
Net revenue	**61,666**	**100.0**	**62,516**	**100.0**	**(850)**	**(1.4)**	**61,347**
Mobile Communications Europe	19,978	32.4	20,000	32.0	(22)	(0.1)	17,700
Mobile Communications USA	14,942	24.2	14,050	22.5	892	6.3	13,608
Broadband/Fixed Network	17,691	28.7	19,072	30.5	(1,381)	(7.2)	20,366
Business Customers	8,456	13.7	8,971	14.3	(515)	(5.7)	9,301
Group Headquarters & Shared Services	599	1.0	423	0.7	176	41.6	372

Development of revenue by geographic area.

	2008 millions of €	2007 millions of €	Change millions of €	Change %	2006 millions of €
Net revenue	**61,666**	**62,516**	**(850)**	**(1.4)**	**61,347**
Domestic	28,885	30,694	(1,809)	(5.9)	32,460
International	32,781	31,822	959	3.0	28,887
Proportion generated internationally (%)	53.2	50.9			47.1
Europe (excluding Germany)	17,324	17,264	60	0.3	14,823
North America	14,931	14,159	772	5.5	13,700
Other	526	399	127	31.8	364

Consolidated income statement and effects of special factors.[a]

millions of €	2008	Special factors	2008 excluding special factors	2007	Special factors	2007 excluding special factors
Net revenue	61,666		61,666	62,516		62,516
Cost of sales	(34,592)	(937)[b]	(33,655)	(35,337)	(1,252)[j]	(34,085)
Gross profit (loss)	**27,074**	**(937)**	**28,011**	**27,179**	**(1,252)**	**28,431**
Selling expenses	(15,952)	(485)[c]	(15,467)	(16,644)	(498)[k]	(16,146)
General and administrative expenses	(4,821)	(224)[d]	(4,597)	(5,133)	(701)[l]	(4,432)
Other operating income	1,971	510[e]	1,461	1,645	419[m]	1,226
Other operating expenses	(1,232)	(644)[f]	(588)	(1,761)	(769)[n]	(992)
Profit (loss) from operations (EBIT)	**7,040**	**(1,780)**	**8,820**	**5,286**	**(2,801)**	**8,087**
Profit (loss) from financial activities	(3,588)	(652)[g]	(2,936)	(2,833)	(9)[o]	(2,824)
Profit (loss) before income taxes	**3,452**	**(2,432)**	**5,884**	**2,453**	**(2,810)**	**5,263**
Income taxes	(1,428)	461[h]	(1,889)	(1,373)	364[p]	(1,737)
Profit (loss) after income taxes	**2,024**	**(1,971)**	**3,995**	**1,080**	**(2,446)**	**3,526**
Profit (loss) attributable to minority interests	541	(28)	569	509	(12)	521
Net profit (loss)	**1,483**	**(1,943)**	**3,426**	**571**	**(2,434)**	**3,005**
Profit (loss) from operations (EBIT)	7,040	(1,780)	8,820	5,286	(2,801)	8,087
Depreciation, amortization and impairment losses	(10,975)	(336)[i]	(10,639)	(11,611)	(372)[q]	(11,239)
EBITDA	**18,015**	**(1,444)**	**19,459**	**16,897**	**(2,429)**	**19,326**
EBITDA margin (%)	**29.2**		**31.6**	**27.0**		**30.9**

[a] EBITDA for the operating segments and the Group as a whole is derived from profit/loss from operations (EBIT). This measure of earnings before profit/loss attributable to minority interests, income taxes and profit/loss from financial activities is additionally adjusted for depreciation, amortization and impairment losses to calculate EBITDA. It should be noted that Deutsche Telekom's definition of EBITDA may differ from that used by other companies. In this definition, profit/loss from financial activities includes finance costs, the share of profit/loss of associates and joint ventures accounted for using the equity method, and other financial income/expense. As it is based on profit/loss from operations, this method of computation allows EBITDA to be derived in a uniform manner on the basis of a measure of earnings in accordance with IFRS published for the operating segments and the Group as a whole. In the reporting period as well as the comparable prior-year period, Deutsche Telekom's net profit/loss as well as the EBITDA of the Group and of the segments were affected by a number of special factors. Deutsche Telekom defines EBITDA adjusted for special factors as profit/loss from operations (EBIT) before depreciation, amortization and impairment losses and before the effects of any special factors. The underlying concept involves the elimination of special factors that affect operational business activities and thus impair the comparability of EBITDA and net profit/loss with the corresponding figures for prior periods. In addition, a statement about the future development of EBITDA and net profit is only possible to a limited extent due to such special factors. Adjustments are made irrespective of whether the relevant income and expenses are reported in profit/loss from operations, profit/loss from financial activities, or in tax expense. Income and expenses directly relating to the adjusted items are also adjusted. To compare the earnings performance of profit-oriented units of different sizes, EBITDA margin and the adjusted EBITDA margin are presented in addition to EBITDA and adjusted EBITDA. The EBITDA margin is calculated as the ratio of EBITDA to net revenue (EBITDA divided by net revenue).

Accounting change in line with IFRIC 12. 2007 and 2006 comparative periods adjusted. For a detailed description see the notes to the consolidated financial statements.

Special factors in 2008:

[b] Mainly expenses for staff-related measures in the Broadband/Fixed Network (EUR – 0.4 billion) and Business Customers (EUR – 0.2 billion) operating segments, and non-staff-related restructuring expenses in the Business Customers operating segment (EUR – 0.2 billion).

[c] Mainly expenses for staff-related measures in the Broadband/Fixed Network (EUR – 0.2 billion) and Business Customers (EUR – 0.1 billion) operating segments.

[d] Mainly expenses for staff-related and restructuring measures in the Broadband/Fixed Network (EUR – 0.1 billion), Business Customers (EUR – 0.1 billion) and Group Headquarters & Shared Services (EUR 0.1 billion) operating segments.

[e] Primarily income from the disposal of Media&Broadcast in the Business Customers operating segment (EUR 0.5 billion).

[f] Mainly expenses relating to the disposal of DeTe Immobilien (EUR – 0.3 billion) in the Headquarters & Shared Services operating segment, and impairment of goodwill at T-Mobile Austria, T-Mobile Macedonia, and T-Mobile Hungary in the Mobile Communications Europe operating segment (EUR – 0.2 billion).

[g] Primarily impairment losses on the carrying amount of OTE under share of profit/loss of associates and joint ventures accounted for using the equity method (EUR – 0.5 billion), and expenses for interest added back to provisions for staff-related measures (EUR – 0.1 billion).

[h] Mainly tax benefits from expenses for non-staff-related restructuring (EUR 0.2 billion) and staff-related measures (EUR 0.2 billion).

[i] Mainly expenses from impairment of goodwill in the Mobile Communications Europe operating segment (EUR – 0.2 billion).

Special factors in 2007:

[j] Expenses for staff-related and restructuring measures, mainly in the Broadband/Fixed Network (EUR – 0.8 billion), Business Customers (EUR – 0.3 billion), and Mobile Communications Europe (EUR – 0.1 billion) operating segments.

[k] Expenses for staff-related and restructuring measures, mainly in the Broadband/Fixed Network (EUR – 0.4 billion) and Business Customers (EUR – 0.1 billion) segments.

[l] Expenses for staff-related and restructuring measures, mainly in the Broadband/Fixed Network (EUR – 0.1 billion), Business Customers (EUR – 0.1 billion) and Group Headquarters & Shared Services (EUR – 0.5 billion) operating segments.

[m] Gain on the disposal of T-Online France and T-Online Spain in the Broadband/Fixed Network (EUR 0.4 billion) operating segment.

[n] Expenses from reduction of goodwill at T-Mobile Netherlands in connection with the subsequent recognition of tax loss carryforwards in the Mobile Communications Europe segment (EUR – 0.3 billion), and costs from the sale of Vivento business units in the Group Headquarters & Shared Services segment (EUR – 0.4 billion).

[o] Mainly expenses from interest added back to provisions for staff-related measures (early retirement arrangements and partial retirement arrangements) (EUR – 50 million). These were partially offset by income from the disposal of the remaining shares in Sireo at Group Headquarters & Shared Services (EUR 18 million) as well as income attributable to other periods from associates and joint ventures accounted for using the equity method in the Broadband/Fixed Network operating segment (EUR 31 million).

[p] Mainly tax benefits from expenses for staff-related measures (EUR 0.7 billion). This also includes a tax benefit from the partial recognition of previously unrecognized taxes relating to loss carryforwards at T-Mobile Netherlands (EUR 0.3 billion) as well as an offsetting tax expense from the measurement of deferred tax items in response to the changes in the rates of taxation in connection with the 2008 corporate tax reform (EUR – 0.7 billion).

[q] Mainly expenses from reduction of goodwill at T-Mobile Netherlands in connection with the subsequent recognition of tax loss carryforwards in the Mobile Communications Europe operating segment (EUR – 0.3 billion).

2006	Special factors	2006 excluding special factors
61,347		61,347
(34,755)	(1,400)[r]	(33,355)
26,592	**(1,400)**	**27,992**
(16,410)	(790)[s]	(15,620)
(5,264)	(841)[t]	(4,423)
1,257	20	1,237
(888)	(145)[u]	(743)
5,287	**(3,156)**	**8,443**
(2,675)	196[v]	(2,871)
2,612	**(2,960)**	**5,572**
970	2,259[w]	(1,289)
3,582	**(701)**	**4,283**
409	(16)	425
3,173	**(685)**	**3,858**
5,287	(3,156)	8,443
(11,034)	(43)	(10,991)
16,321	**(3,113)**	**19,434**
26.6		**31.7**

Special factors in 2006:
[r] Expenses for staff-related and restructuring measures, mainly in the Broadband/Fixed Network (EUR – 0.8 billion) and Business Customers (EUR – 0.5 billion) operating segments.
[s] Expenses for staff-related and restructuring measures, mainly in the Broadband/Fixed Network (EUR – 0.5 billion) and Business Customers (EUR – 0.2 billion) operating segments.
[t] Expenses for staff-related and restructuring measures, mainly in the Broadband/Fixed Network (EUR – 0.1 billion), Business Customers (EUR – 0.1 billion) and Group Headquarters & Shared Services (EUR – 0.6 billion) segments.
[u] Expenses for staff-related and restructuring measures, mainly at Group Headquarters & Shared Services (EUR – 0.1 billion).
[v] Retroactive income from the sale of Celcom at Group Headquarters & Shared Services (EUR 0.2 billion).
[w] Positive tax effects from the recognition of previously unrecognized deferred tax assets relating to loss carryforwards at T-Mobile USA (EUR 1.3 billion) and from expenses for staff-related and restructuring measures (EUR 1.2 billion) are offset by negative tax effects, mainly from valuation allowances on deferred tax assets relating to loss carryforwards at T-Mobile in Austria and at Broadband/Fixed Network in France and Spain (EUR – 0.2 billion).

Group EBITDA amounted to EUR 18.0 billion, an increase of EUR 1.1 billion or 6.6 percent year-on-year. Compared with the prior year, the decrease in special factors of EUR 1.0 billion in particular had a positive effect on the development of EBITDA. These mainly involved expenses in connection with staff-related measures.

Group EBITDA adjusted for special factors amounted to EUR 19.5 billion in 2008, up from the prior-year level of EUR 19.3 billion. Positive effects from changes in the composition of the Group totaling EUR 0.3 billion and negative exchange rate effects, also amounting to EUR 0.3 billion, offset each other. While the Broadband/Fixed Network operating segment recorded a decrease in adjusted EBITDA, the Mobile Communications segments in particular saw an increase in adjusted EBITDA. The decrease in the Broadband/Fixed Network segment was principally due to the continued intense price and cost pressure and also to fixed-network line losses, especially in Germany. Adjusted for special factors and changes in the composition of the Group, EBITDA in the Business Customers operating segment remained stable. The acquisition of SunCom and customer growth were the main factors leading to higher adjusted EBITDA in the Mobile Communications USA segment. T-Mobile Deutschland and Central and Eastern European companies contributed to the increase in the Mobile Communications Europe operating segment.

Net profit amounted to EUR 1.5 billion in the reporting year. This represents an increase of EUR 0.9 billion over the previous year, due in part to the higher level of EBITDA, while the share of profit/loss of associates and joint ventures accounted for using the equity method had a negative effect of EUR 0.4 billion on net profit. As a consequence of the macroeconomic developments in the fourth quarter of 2008 and the associated increase in discount rates, as part of an impairment test Deutsche Telekom recognized an impairment loss on the carrying amount of the OTE equity interest in the amount of EUR 0.5 billion.

Financial position of the Group.

In 2008, total assets of the Deutsche Telekom Group increased EUR 2.5 billion year-on-year to EUR 123.1 billion.

On the **assets** side, an increase in non-current assets was recorded in the reporting year, mainly as a result of the acquisition of the Greek company OTE, which was accounted for using the equity method at EUR 3.4 billion in 2008. This was partly offset by exchange rate effects and a decrease of inventories and trade receivables.

Liabilities and shareholders' equity were marked by the growth of EUR 3.7 billion in current and non-current financial liabilities, other liabilities (EUR 0.7 billion) and deferred taxes (EUR 0.4 billion). Shareholders' equity decreased by EUR 2.1 billion, primarily as a consequence of the dividend payment for the 2007 financial year.

Consolidated balance sheet.*

as of Dec. 31	2008 millions of €	2008 %	2007 millions of €	2007 %	Change millions of €	2006 millions of €	2006 %
Assets							
Current assets	**15,908**	**13.0**	**15,945**	**13.2**	**(37)**	**15,951**	**12.3**
Cash and cash equivalents	3,026	2.5	2,200	1.8	826	2,765	2.1
Trade and other receivables	7,393	6.0	7,696	6.4	(303)	7,753	6.0
Miscellaneous assets	5,489	4.5	6,049	5.0	(560)	5,433	4.2
Non-current assets	**107,232**	**87.0**	**104,728**	**86.8**	**2,504**	**114,217**	**87.7**
Intangible assets	53,927	43.8	54,404	45.1	(477)	58,014	44.6
Property, plant and equipment	41,559	33.7	42,531	35.2	(972)	45,869	35.2
Miscellaneous assets	11,746	9.5	7,793	6.5	3,953	10,334	7.9
Total assets	**123,140**	**100.0**	**120,673**	**100.0**	**2,467**	**130,168**	**100.0**
Liabilities and shareholders' equity							
Current liabilities	**24,866**	**20.2**	**23,215**	**19.2**	**1,651**	**22,088**	**17.0**
Financial liabilities	10,208	8.3	9,075	7.5	1,133	7,683	5.9
Trade and other payables	7,073	5.7	6,823	5.6	250	7,160	5.5
Provisions	3,437	2.8	3,365	2.8	72	3,093	2.4
Other liabilities	4,148	3.4	3,952	3.3	196	4,152	3.2
Non-current liabilities	**55,162**	**44.8**	**52,213**	**43.3**	**2,949**	**58,402**	**44.9**
Financial liabilities	36,386	29.5	33,831	28.0	2,555	38,799	29.8
Provisions	8,461	6.9	9,019	7.5	(558)	9,341	7.2
Other liabilities	10,315	8.4	9,363	7.8	952	10,262	7.9
Shareholders' equity	**43,112**	**35.0**	**45,245**	**37.5**	**(2,133)**	**49,678**	**38.1**
Total liabilities and shareholders' equity	**123,140**	**100.0**	**120,673**	**100.0**	**2,467**	**130,168**	**100.0**

* Accounting change in line with IFRIC 12. 2007 and 2006 comparative periods adjusted. For a detailed description see the notes to the consolidated financial statements.

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

The primary instruments used for the Group's medium to long-term financing are bonds and medium-term notes (MTNs). In the 2008 financial year, Deutsche Telekom issued bonds totaling EUR 2.8 billion, MTNs totaling EUR 1.8 billion, and liabilities to non-banks from promissory notes totaling EUR 1.4 billion, and took out loans totaling EUR 0.5 billion with the European Investment Bank. The individual terms and conditions for the most important financial instruments are explained in the notes to the consolidated financial statements under Note 25.

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 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. No drawdowns under these agreements had been made as of December 31, 2008.

To ensure its financial flexibility Deutsche Telekom essentially uses two key performance indicators: gearing and relative debt. One component of the indicators is net debt, which the Group uses as an important indicator for investors, analysts, and rating agencies.

Net debt increased in the reporting year from EUR 37.2 billion to EUR 38.2 billion. This is attributable in particular to dividends paid and cash outflows for the acquisition of shares in OTE and SunCom. The strong free cash flow and the cash inflow from the sale of Media & Broadcast had an offsetting effect.

Net debt.*

millions of €, as of Dec. 31	2008	2007	2006
Bonds	34,302	32,294	36,288
Liabilities to banks	4,222	4,260	2,348
Liabilities to non-banks from promissory notes	887	690	680
Derivative financial liabilities	1,053	977	562
Lease liabilities	2,009	2,139	2,293
Liabilities arising from ABS transactions	0	0	1,139
Other financial liabilities	974	502	377
Gross debt	**43,447**	**40,862**	**43,687**
Cash and cash equivalents	3,026	2,200	2,765
Available-for-sale/held-for-trading financial assets	101	75	122
Derivative financial assets	1,598	433	359
Other financial assets	564	918	886
Net debt	**38,158**	**37,236**	**39,555**

* Deutsche Telekom considers "net debt" to be an important measure for investors, analysts, and rating agencies. Although many of Deutsche Telekom's competitors use this measure, its definition may vary from one company to another.

Financial flexibility.*

as of Dec. 31	2008	2007	2006
Gearing $\frac{\text{Net debt}}{\text{Shareholders' equity}}$	0.9	0.8	0.8
Relative debt $\frac{\text{Net debt}}{\text{EBITDA (adjusted for special factors)}}$	2.0	1.9	2.0

* Calculated and rounded on the basis of millions for greater precision.

Long-term rating of Deutsche Telekom.

as of Dec. 31	Standard & Poor's	Moody's	Fitch
2006	A–	A3	A–
2007	A–	A3	A–
2008	**BBB+**	**Baa1**	**A–**
Outlook	stable	stable	negative

Condensed consolidated statement of cash flows.

millions of €	2008	2007	2006
Net cash from operating activities	**15,368**	**13,714**	**14,222**
Cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment	(8,707)	(8,015)	(11,806)
Free cash flow before proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	**6,661**	**5,699**	**2,416**
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	372	761	567
Adjustment [a]	–	121	–
Free cash flow (before dividend payments) [b]	**7,033**	**6,581**	**2,983**
Net cash used in investing activities	**(11,384)**	**(8,054)**	**(14,305)**
Net cash used in financing activities	**(3,097)**	**(6,125)**	**(2,061)**
Effect of exchange rate changes on cash and cash equivalents	(61)	(100)	(66)
Net increase (decrease) in cash and cash equivalents	826	(565)	(2,210)
Cash and cash equivalents	3,026	2,200	2,765

[a] Cash outflows for parts of Centrica PLC taken over by T-Systems UK as part of an asset deal.
[b] Deutsche Telekom defines free cash flow as cash generated from operations less interest paid and net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment. Deutsche Telekom is of the opinion that the "free cash flow (before dividend payments)" indicator is used by investors as a measure to assess the Group's net cash from operating activities after deduction of cash outflows for intangible assets (excluding goodwill) and property, plant and equipment, in particular with regard to subsidiaries, associates and joint ventures, and the repayment of liabilities. Free cash flow (before dividend payments) should not be used to determine the financial position of the Group. There is only limited comparability between Deutsche Telekom's definition of free cash flow and methods of calculating this measure and similarly designated measures and disclosures of other companies.

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 GmbH 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.

Statement on business development in 2008.

Deutsche Telekom kept net revenue constant in 2008 compared with the prior year despite the continued intense competitive and price pressure on the German as well as Central and Eastern European markets, when excluding year-on-year changes in exchange rates and in the composition of the Group. Group EBITDA and free cash flow increased. These results confirm Deutsche Telekom's successful continuation of its "Focus, fix and grow" strategy. The Board of Management therefore proposes a dividend of EUR 0.78 for each no par value share carrying dividend rights.

Development of business in the operating segments.
Mobile Communications Europe and Mobile Communications USA.

Mobile Communications Europe and Mobile Communications USA: Customer development. [a]

	Dec. 31, 2008 millions	Dec. 31, 2007 millions	Change millions	Change %	Dec. 31, 2006 millions
Mobile Communications Europe	**95.6**	**90.9**	**4.7**	**5.2**	**83.4**
T-Mobile Deutschland [b]	39.1	36.0	3.1	8.6	31.4
T-Mobile UK [c]	16.8	17.3	(0.5)	(2.9)	16.9
PTC (Poland)	13.3	13.0	0.3	2.3	12.2
T-Mobile Netherlands (NL) [d]	5.3	4.9	0.4	8.2	4.6
T-Mobile Austria (A)	3.4	3.3	0.1	3.0	3.2
T-Mobile CZ (Czech Republic)	5.4	5.3	0.1	1.9	5.0
T-Mobile Hungary	5.4	4.9	0.5	10.2	4.4
T-Mobile Croatia	2.7	2.4	0.3	12.5	2.2
T-Mobile Slovensko (Slovakia)	2.3	2.4	(0.1)	(4.2)	2.2
Other [e]	1.9	1.6	0.3	18.8	1.3
Mobile Communications USA	**32.8**	**29.8**	**3.0**	**10.1**	**26.1**
Mobile customers (total)	**128.3**	**120.8**	**7.5**	**6.2**	**109.6**

[a] One mobile communications card corresponds to one customer. The total was calculated on the basis of precise figures and rounded to millions. Percentages are calculated on the basis of figures shown. Organic customer growth is reported for better comparability: Orange Nederland and SunCom customers were also included in the historic customer base.
[b] On the basis of different rulings on the expiry of prepaid credit and the limited validity of prepaid cards, T-Mobile Deutschland changed its terms of contract and thus also its deactivation policy in the first quarter of 2007 in favor of its prepay customers. These customers can now use their prepaid credit longer than before. As a result of the change in the terms of contract, prepaid contracts no longer end automatically, but run for an unlimited duration and can be terminated by the customer at any time and by T-Mobile with one month's notice. T-Mobile Deutschland reserves the right to make use of this right of termination and to deactivate cards in the systems.
[c] Including Virgin Mobile.
[d] The consolidation of Online (formerly Orange Nederland Breedband B.V.) in the second quarter of 2008 has no effect on the number of customers of the T-Mobile Netherlands group, as only mobile communications customers are shown.
[e] "Other" includes T-Mobile Macedonia and T-Mobile Crna Gora (Montenegro).

Mobile Communications Europe.

The customer base in the Mobile Communications Europe operating segment continued to grow in 2008. The highest increases compared with the end of 2007 were generated by T-Mobile Deutschland (3.1 million net additions), T-Mobile Hungary (0.5 million net additions), T-Mobile Netherlands (0.4 million net additions), as well as T-Mobile Croatia and PTC (0.3 million net additions each). The T-Mobile companies in the Czech Republic, Austria, Macedonia, and Montenegro also contributed to customer growth. The number of customers at T-Mobile UK declined mainly as a result of the downward trend at Virgin Mobile. The number of contract customers continued to rise encouragingly in 2008. The number of contract customers at T-Mobile Deutschland increased by almost 1 million, the same growth level as in the previous year. PTC also recorded strong growth of over 0.9 million in the number of its contract customers, which equates to an increase of 5 percent over growth in the prior year.

The percentage share of contract customers as a proportion of the total customer base increased in particular in the T-Mobile companies in Slovakia, Poland, the Czech Republic, the United Kingdom, Austria, and Hungary, as well as in the other Southeastern European companies. This success is due to the focused customer acquisition strategy – calling plans with minute buckets, flat-rate plans, and new, attractive hardware offers in conjunction with a fixed-term contract. In Germany and the other markets where T-Mobile offers the Apple iPhone 3G, this device made a significant contribution to contract customer growth.

Mobile Communications USA.

The Mobile Communications USA operating segment increased its customer base during the year. The number of customers at the end of 2008 increased to 32.8 million with a total of 4.1 million net additions, including 1.1 million customers acquired as a result of the acquisition of SunCom.

Mobile Communications Europe: Development of operations.

	2008 millions of €	2007 millions of €	Change millions of €	Change %	2006 millions of €
Total revenue [a]	20,663	20,713	(50)	(0.2)	18,455
Of which: T-Mobile Deutschland	7,770	7,993	(223)	(2.8)	8,215
Of which: T-Mobile UK	4,051	4,812	(761)	(15.8)	4,494
Of which: PTC	2,260	1,965	295	15.0	305
Of which: T-Mobile NL [b]	1,806	1,318	488	37.0	1,138
Of which: T-Mobile A	1,085	1,182	(97)	(8.2)	1,149
Of which: T-Mobile CZ	1,329	1,171	158	13.5	1,043
Of which: T-Mobile Hungary	1,117	1,118	(1)	(0.1)	1,050
Of which: T-Mobile Croatia	616	581	35	6.0	556
Of which: T-Mobile Slovensko	571	510	61	12.0	429
Of which: Other [c]	248	236	12	5.1	198
EBIT (profit from operations)	3,188	2,436	752	30.9	2,746
EBIT margin (%)	15.4	11.8			14.9
Depreciation, amortization and impairment losses	(3,875)	(4,241)	366	8.6	(3,367)
EBITDA [d]	7,063	6,677	386	5.8	6,113
Special factors affecting EBITDA [d]	(97)	(147)	50	34.0	(40)
Adjusted EBITDA [d]	7,160	6,824	336	4.9	6,153
Of which: T-Mobile Deutschland	3,028	2,938	90	3.1	3,303
Of which: T-Mobile UK	888	1,183	(295)	(24.9)	978
Of which: PTC	785	646	139	21.5	89
Of which: T-Mobile NL [b]	352	279	73	26.2	189
Of which: T-Mobile A	285	336	(51)	(15.2)	331
Of which: T-Mobile CZ	634	513	121	23.6	450
Of which: T-Mobile Hungary	481	475	6	1.3	422
Of which: T-Mobile Croatia	271	248	23	9.3	237
Of which: T-Mobile Slovensko	230	203	27	13.3	173
Of which: Other [c]	114	116	(2)	(1.7)	105
Adjusted EBITDA margin [d] (%)	34.7	32.9			33.3
Cash capex [e]	(1,897)	(1,938)	41	2.1	(1,950)
Number of employees [f]	29,237	30,802	(1,565)	(5.1)	25,345

[a] The amounts stated for the national companies correspond to their respective unconsolidated financial statements without taking into consideration consolidation effects at operating segment level.
[b] Including first-time consolidation of Orange Nederland from October 1, 2007 and of Online (formerly Orange Nederland Breedband B.V.) in the second quarter of 2008, retroactively as of October 1, 2007.
[c] “Other” includes revenues and EBITDA generated by T-Mobile Macedonia and T-Mobile Crna Gora (Montenegro).
[d] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses. For a detailed explanation of the special factors affecting EBITDA, adjusted EBITDA, and the adjusted EBITDA margin, please refer to the section on “Development of business in the Group.”
[e] Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the cash flow statement.
[f] Average number of employees.

Mobile Communications USA: Development of operations.[a]

	2008 millions of €	2007 millions of €	Change millions of €	Change %	2006 millions of €
Total revenue	14,957	14,075	882	6.3	13,628
EBIT (profit from operations)	2,299	2,017	282	14.0	1,756
EBIT margin (%)	15.4	14.3			12.9
Depreciation, amortization and impairment losses	(1,884)	(1,892)	8	0.4	(1,991)
EBITDA[b]	4,183	3,909	274	7.0	3,747
Special factors affecting EBITDA[b]	(57)	–	(57)	n.a.	–
Adjusted EBITDA[b]	4,240	3,909	331	8.5	3,747
Adjusted EBITDA margin[b] (%)	28.3	27.8			27.5
Cash capex[c]	(2,540)	(1,958)	(582)	(29.7)	(5,297)
Number of employees[d]	36,076	31,655	4,421	14.0	28,779

[a] Including first-time consolidation of SunCom from February 22, 2008.
[b] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses. For a detailed explanation of the special factors affecting EBITDA, adjusted EBITDA, and the adjusted EBITDA margin, please refer to the section on "Development of business in the Group."
[c] Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the cash flow statement.
[d] Average number of employees.

Mobile Communications: Development of operations.[a]

	2008 millions of €	2007 millions of €	Change millions of €	Change %	2006 millions of €
Total revenue	35,586	34,736	850	2.4	32,040
EBIT (profit from operations)	5,487	4,453	1,034	23.2	4,504
EBIT margin (%)	15.4	12.8			14.1
Depreciation, amortization and impairment losses	(5,759)	(6,133)	374	6.1	(5,358)
EBITDA[b]	11,246	10,586	660	6.2	9,862
Special factors affecting EBITDA[b]	(154)	(147)	(7)	(4.8)	(40)
Adjusted EBITDA[b]	11,400	10,733	667	6.2	9,902
Adjusted EBITDA margin[b] (%)	32.0	30.9			30.9
Cash capex[c]	(4,437)	(3,896)	(541)	(13.9)	(7,247)
Number of employees[d]	65,313	62,457	2,856	4.6	54,124

[a] This table presents figures showing the Mobile Communications Europe and Mobile Communications USA operating segments in consolidated form for information purposes.
[b] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses. For a detailed explanation of the special factors affecting EBITDA, adjusted EBITDA, and the adjusted EBITDA margin, please refer to the section on "Development of business in the Group."
[c] Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the cash flow statement.
[d] Average number of employees.

Mobile Communications Europe.

Total revenue in the Mobile Communications Europe operating segment almost reached the prior-year level. Even if adjusted for exchange rate effects, PTC and T-Mobile CZ in particular recorded revenue growth. All national companies in Southeastern Europe again recorded marked increases in revenue, with the exception of T-Mobile Hungary which maintained its revenue at the same level as in the previous year. Revenue at T-Mobile UK decreased, due mainly to a strong negative effect of the pound sterling exchange rate and fierce competition. Regulatory decisions also impacted revenue at T-Mobile UK in 2008. The continuing intense price competition and regulatory price cuts caused the revenues of T-Mobile Austria to decline and those of T-Mobile Deutschland to edge down slightly. However, increasing customer numbers and a targeted focus on acquiring contract customers partially offset the decrease in revenue at both companies. The consolidation of Orange Nederland and Online (formerly Orange Nederland Breedband B.V.) also had a positive effect on revenue growth in Europe.

Adjusted EBITDA grew by EUR 0.3 billion in 2008 compared with 2007. This trend was driven primarily by PTC and T-Mobile CZ. On the back of sustained successful cost management and a one-time effect of EUR 0.1 billion from the sale of an asset, T-Mobile Deutschland's EBITDA improved substantially to over EUR 3 billion despite intense competition. The national companies in Slovakia, Hungary and Croatia also contributed to EBITDA growth. The first-time consolidation of Orange Nederland and Online (formerly Orange Nederland Breedband B.V.) also had a positive effect on earnings. A sharp decline in the pound sterling reduced EBITDA for T-Mobile UK year-on-year. On top of that, lower revenues and high usage-dependent direct costs reduced T-Mobile UK's earnings further. The continuing intense price competition and regulatory price cuts led to a reduction in EBITDA at T-Mobile Austria. Considerable savings in indirect costs were not sufficient to offset the decline in revenue.

EBIT (profit from operations) in the Mobile Communications Europe operating segment increased by EUR 0.8 billion year-on-year in 2008. This corresponds to an increase of 30.9 percent. In addition to the positive EBITDA effects, lower depreciation, amortization and impairment losses at T-Mobile UK, PTC, T-Mobile Deutschland, and T-Mobile Austria also contributed to the increase in EBIT.

Cash capex in the Mobile Communications Europe operating segment amounted to EUR 1.9 billion, the same level as in the previous year. While capital expenditure decreased in the United Kingdom, Germany, the Czech Republic, Slovakia, and Croatia, it increased in Poland, the Netherlands, and Hungary.

The **average number of employees** declined year-on-year, primarily due to the lower headcount at T-Mobile Deutschland. In Germany, the spin-off of customer service operations to Deutsche Telekom Kundenservice GmbH affected employee figures within the Group. As a result, Deutsche Telekom has reported former T-Mobile customer service employees in the Broadband/Fixed Network operating segment since the first quarter of 2008. These effects were countered mainly by the inclusion of Orange Nederland and Online (formerly Orange Nederland Breedband B.V.) employees and a sharp increase in the number of PTC employees following the expansion of sales through its own shops.

Mobile Communications USA.

Total revenue in the Mobile Communications USA operating segment grew by 6.3 percent. Growth was significantly stronger when measured in local currency (13.5 percent), on account of U.S. dollar and euro currency movements. The main factor driving this revenue growth was the increase in customer base, including those customers added as a result of the acquisition of SunCom. The acquisition of SunCom in February 2008 contributed EUR 0.5 billion to consolidated revenues during 2008.

EBIT (profit before operations) and **adjusted EBITDA** rose by EUR 0.3 billion year-on-year, respectively, mainly as a result of the continued revenue growth and simultaneous improvement in EBITDA margin. Growth was stronger when measured in local currency, and was reduced by currency movements when T-Mobile USA's results were converted to euros.

Cash capex increased year-on-year from EUR 2.0 billion to EUR 2.5 billion. The increase is primarily due to higher capex in connection with the roll-out of T-Mobile USA's UMTS/HSDPA (3G) network. By the end of 2008, T-Mobile USA's 3G network covered a population of 107 million people in 130 cities.

The average **number of employees** rose year-on-year. The increase is related to sustained customer growth and business expansion and in addition the acquisition of SunCom in February 2008, which added approximately 1,850 new employees.

Broadband/Fixed Network.

Broadband/Fixed Network: Customer development.

	Dec. 31, 2008 millions	Dec. 31, 2007 millions	Change millions	Change %	Dec. 31, 2006 millions
Broadband					
Lines (total) [a, b]	15.0	13.9	1.1	7.9	11.3
Of which: retail	12.1	10.2	1.9	18.6	7.9
Domestic [a]	13.3	12.5	0.8	6.4	10.3
Of which: retail	10.6	9.0	1.6	17.8	7.1
International [a, b]	1.7	1.4	0.3	21.4	1.0
Fixed Network					
Lines (total) [a, b]	33.8	36.6	(2.8)	(7.7)	39.0
Domestic [a]	28.6	31.1	(2.5)	(8.0)	33.2
Of which: standard analog lines	20.3	22.4	(2.1)	(9.4)	24.2
Of which: ISDN lines	8.3	8.6	(0.3)	(3.5)	9.0
International [a, b]	5.3	5.5	(0.2)	(3.6)	5.8
Wholesale/resale					
Resale/IP-BSA [c]	2.8	3.7	(0.9)	(24.3)	3.4
Of which: domestic	2.5	3.5	(1.0)	(28.6)	3.2
ULLs [d]	8.4	6.4	2.0	31.3	4.7
Of which: domestic	8.3	6.4	1.9	29.7	4.7
IP-BSA SA [e]	0.2	n.a.	n.a.	n.a.	n.a.
Of which: domestic	0.2	n.a.	n.a.	n.a.	n.a.

Totals were calculated on the basis of precise figures and rounded to millions. Percentages are calculated on the basis of figures shown.

[a] Lines in operation excluding internal use and public telecommunications, including wholesale services.
[b] International includes Central and Eastern Europe with T-Hrvatski Telekom, Slovak Telekom, and Magyar Telekom including subsidiaries Makedonski Telekom AD and Crnogorski Telekom. T-Online France and T-Online Spain were deconsolidated in 2007 and are not included here. Prior-year figures have been adjusted accordingly.
[c] Definition of resale/IP-BSA: Sale of broadband lines based on DSL technology to alternative providers outside the Deutsche Telekom Group including bundled IP-Bitstream Access. In the case of IP-BSA, Deutsche Telekom leases DSL lines to the competitor and transports the datastream carried over the lines via its concentrator network to the associated broadband point of presence where the datastream is handed over to the competitor.
[d] Unbundled local loop (ULL) lines in Germany and abroad; wholesale service that can be leased by other telecommunications operators without upstream technical equipment in order to offer their own customers a telephone or DSL line.
[e] Definition of IP-BSA stand alone (IP-BSA SA): IP-BSA is a wholesale product not bundled with a Deutsche Telekom PSTN line. Allows competitors to offer an all-IP product range.

In the Broadband/Fixed Network operating segment, the number of **broadband lines** rose by 1.1 million year-on-year to 15.0 million in the reporting year. In Germany, the number of broadband lines increased by 0.8 million to 13.3 million compared with the previous year.

Deutsche Telekom is by far the largest broadband provider in Germany with 10.6 million retail broadband lines. Net additions of 1.6 million retail DSL customers were recorded in 2008. This corresponds to a new customer market share calculated by Deutsche Telekom of around 45 percent. Attractive pricing models, regional pricing campaigns, and improved service are driving this growth.

The number of Entertain lines activated climbed to around 353,000 by year-end. The number of orders received up to this point in time were around 480,000.

Internationally too, the broadband market grew in 2008. With a total of 1.7 million broadband lines, including resale, the Broadband/Fixed Network operating segment achieved a year-on-year increase outside Germany of 326,000 lines.

A drop in the number of **fixed-network** lines was recorded, as expected. The total number of fixed-network lines in Germany decreased by 8.0 percent in 2008 to 28.6 million. The line losses include customers who previously obtained their broadband connection via a fixed network-based DSL resale line from Deutsche Telekom and are now migrating to a ULL-based IP line. The other line losses are mainly attributable to customers switching to other fixed-network, cable and mobile operators.

Demand for unbundled local loop lines (ULLs) in Germany increased by 1.9 million from the end of 2007 to a total of 8.3 million lines. Among other factors, this increase was mainly the result of the migration of DSL resale customers to all-IP lines operated on the basis of ULLs. The decline in DSL resale lines of just under 1.0 million to 2.5 million in 2008 was partly offset by the migration to IP-BSA lines. In the reporting period, Deutsche Telekom provided 206,000 of the IP-BSA stand alone lines introduced mid-year without a PSTN line (unbundled), which the Deutsche Telekom Group sells to competitors as wholesale products.

Broadband/Fixed Network: Development of operations. [a]

	2008 millions of €	2007 millions of €	Change millions of €	Change %	2006 millions of €
Total revenue	21,331	22,690	(1,359)	(6.0)	24,515
Domestic	19,055	20,078	(1,023)	(5.1)	21,835
Of which: network communications	9,026	10,138	(1,112)	(11.0)	11,240
Of which: wholesale services	4,404	4,482	(78)	(1.7)	4,302
Of which: IP/Internet	2,504	2,452	52	2.1	3,000
Of which: other fixed-network services [b]	2,111	2,405	(294)	(12.2)	2,536
International	2,329	2,654	(325)	(12.2)	2,680
EBIT (profit from operations)	2,914	3,250	(336)	(10.3)	3,356
EBIT margin (%)	13.7	14.3			13.7
Depreciation, amortization and impairment losses	(3,612)	(3,675)	63	1.7	(3,839)
EBITDA [c]	6,526	6,925	(399)	(5.8)	7,195
Special factors affecting EBITDA [c]	(903)	(845)	(58)	(6.9)	(1,553)
Adjusted EBITDA [c]	7,429	7,770	(341)	(4.4)	8,748
Domestic	6,461	6,792	(331)	(4.9)	7,903
International	970	979	(9)	(0.9)	845
Adjusted EBITDA margin [c] (%)	34.8	34.2			35.7
Domestic (%)	33.9	33.8			36.2
International (%)	41.6	36.9			31.5
Cash capex [d]	(3,134)	(2,805)	(329)	(11.7)	(3,250)
Number of employees [e]	94,287	97,690	(3,403)	(3.5)	107,006
Domestic	78,808	79,704	(896)	(1.1)	86,315
International	15,479	17,986	(2,507)	(13.9)	20,691

[a] T-Online France and T-Online Spain, which were previously assigned to Broadband/Fixed Network, were sold and have no longer been included in the consolidated group of this operating segment since June 30, 2007 and July 31, 2007, respectively. The Scout24 group is reported in the domestic segment as the parent company has its registered office in Germany. ImmobilienScout GmbH has been fully consolidated since November 2007. ActiveBilling was reassigned and, together with T-Mobile Deutschland GmbH's call center operations, included in the Broadband/Fixed Network operating segment effective January 1, 2008.
[b] Other revenue from other fixed-network services was reclassified and combined in other fixed-network services. Prior-year comparatives have been adjusted.
[c] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses. For a detailed explanation of the special factors affecting EBITDA, adjusted EBITDA, and the adjusted EBITDA margin, please refer to the section on "Development of business in the Group."
[d] Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the cash flow statement.
[e] Average number of employees.

Total domestic revenue in 2008 was down 5.1 percent year-on-year at EUR 19.1 billion. This decline is attributable to the continuing line losses resulting from increased competition, the high acceptance of complete packages (telephony and Internet) with a flat-rate component and falling usage-related charges. Other factors included a volume-related decline in interconnection revenue, lower prices in the broadband market, and decreased purchase of wholesale voice and data products by the Business Customers segment due to price and volume factors. Volume growth in the broadband business and in unbundled local loop lines only partially offset the decline in revenue.

In the network communications area, intense competition caused revenues to fall by 11.0 percent year-on-year to EUR 9.0 billion in the reporting year. The popularity of complete packages was not sufficient to offset the decline in revenue from line losses. In addition, the flat rates reduced call revenues due to the decreasing proportion of billed minutes.

Revenue from wholesale services decreased by 1.7 percent in 2008 to EUR 4.4 billion. Factors included the lower number of interconnection lines and calls based on a reduction in origination services. The decline in DSL resale lines as a result of volume and price factors as well as migration of customers to IP-based lines (IP-BSA) due to lower regulatorily mandated prices also led to a decrease in revenue. The increase in revenue from unbundled local loop lines did not fully offset this decrease.

Revenue in the IP/Internet area in 2008 increased by 2.1 percent year-on-year to EUR 2.5 billion, driven primarily by the full consolidation of ImmobilienScout GmbH and volume growth in terms of DSL complete packages. This positive development was partly offset by effects such as the price cuts resulting from continuing competitive pressure or customer migration from individual DSL components to more favorably priced complete packages.

“Other fixed-network services,” comprising the areas of data communications, value-added services, and terminal equipment, recorded a revenue decline of 12.2 percent to EUR 2.1 billion in 2008 due both to a decrease in volumes and, in part, to a reduction in prices.

International revenue in 2008 decreased by 12.2 percent year-on-year to EUR 2.3 billion. This decline can be attributed to the deconsolidation of T-Online France and T-Online Spain, with an impact of EUR 0.2 billion, tough competition in the traditional fixed network, and fixed-mobile substitution in Central and Eastern Europe. The losses in the traditional fixed-network business were only partially offset by dynamic broadband growth and positive exchange rate effects.

Adjusted EBITDA of the Broadband/Fixed Network operating segment decreased by EUR 0.3 billion to EUR 7.4 billion year-on-year. The negative development in international and domestic revenue was not fully offset by a reduction in revenue-related costs, lower market investments, and efficiency gains, as well as the overall positive effects of the changes in the composition of the Group.

Adjusted EBITDA of EUR 6.5 billion was generated **in Germany** in the reporting year, down 4.9 percent year-on-year. The savings, for example, in revenue-driven costs for materials, as well as reduced costs for market investments and third-party services, and lower IT expenses only partly made up for the decrease in revenue in the traditional fixed-network business.

Outside Germany, adjusted EBITDA was almost stable in 2008 at approximately EUR 1.0 billion in 2008. Adjusted for the deconsolidation of T-Online France and T-Online Spain, adjusted EBITDA in Central and Eastern Europe declined due to a decrease in revenue.

EBIT (profit from operations) decreased by 10.3 percent to EUR 2.9 billion year-on-year in 2008. The reasons for this trend are the same as those for EBITDA development.

Cash capex increased by 11.7 percent year-on-year to EUR 3.1 billion. This increase was primarily due to capital expenditure for IT systems and IP platforms in Germany, whereas, in Central and Eastern Europe, the focus of expenditure was above all on network infrastructure, including, to a certain extent, optical-fiber roll-out as well as IP platforms.

Despite staff reductions, the average **number of employees** in Germany decreased by just 896 to 78,808 on account of the newly consolidated companies. Around 4,700 employees were added at the beginning of 2008 following the reassignment of ActiveBilling and the inclusion of T-Mobile Deutschland GmbH’s call center operations in the Broadband/Fixed Network operating segment. In addition, junior staff completing vocational training at Deutsche Telekom were given permanent positions. Due to the further use of workforce reduction measures such as partial or early retirement and voluntary redundancies, the transfer of civil servants and salaried employees to other employment opportunities, and the reassignment of staff to Group Headquarters & Shared Services, however, employees left the operating segment.

The average number of employees outside Germany also decreased year-on-year due to the deconsolidation of companies and the improvement of performance processes.

Business Customers.

Business Customers: Key performance indicators.

	Dec. 31, 2008	Dec. 31, 2007	Change	Change %	Dec. 31, 2006
Computing & Desktop Services					
Number of servers managed and serviced (units)	56,734	39,419	17,315	43.9	33,037
Number of workstations managed and serviced (millions)	1.51	1.46	0.05	3.4	1.36
Systems Integration [a]					
Hours billed [b] (millions)	10.7	11.4	(0.7)	(6.1)	10.9
Utilization rate [c] (%)	80.9	80.2	0.7		80.4

[a] Domestic: excluding changes in the composition of the Group.
[b] Cumulative figures at the balance sheet date.
[c] Ratio of average number of hours billed to maximum possible hours billed per period.

Business customers: Development of operations. [a]

	2008 millions of €	2007 millions of €	Change millions of €	Change %	2006 millions of €
Total revenue	11,010	11,987	(977)	(8.2)	12,869
EBIT (loss from operations)	(6)	(323)	317	98.1	(835)
Special factors affecting EBIT [b]	(75)	(478)	403	84.3	(1,180)
Adjusted EBIT [b]	69	155	(86)	(55.5)	345
Adjusted EBIT margin [b] (%)	0.6	1.3			2.7
Depreciation, amortization and impairment losses	(805)	(907)	102	11.2	(946)
EBITDA [c]	799	584	215	36.8	111
Special factors affecting EBITDA [c]	(51)	(478)	427	89.3	(1,180)
Adjusted EBITDA [c]	850	1,062	(212)	(20.0)	1,291
Adjusted EBITDA margin [c] (%)	7.7	8.9			10.0
Cash capex [d]	(839)	(921)	82	8.9	(795)
Number of employees [e]	52,479	56,566	(4,087)	(7.2)	56,595

[a] ActiveBilling was reassigned to the Broadband/Fixed Network operating segment as of January 1, 2008. Media & Broadcast GmbH was sold to Télédiffusion de France with effect from January 1, 2008.
[b] For a detailed explanation of the special factors affecting EBIT, adjusted EBIT, and the adjusted EBIT margin, please refer to the section on "Development of business in the Group."
[c] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses. For a detailed explanation of the special factors affecting EBITDA, adjusted EBITDA, and the adjusted EBITDA margin, please refer to the section on "Development of business in the Group."
[d] Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the cash flow statement. In the first half of 2007 these include outflows totaling EUR 112 million for parts of Centrica PLC taken over by T-Systems UK as part of an asset deal.
[e] Average number of employees.

The business customer market for information and communication technology (ICT) services again saw intense competition and price pressure in 2008. Despite a 5.1 percent year-on-year decrease in the number of orders received not adjusted for consolidation effects, T-Systems increased the number of orders in operational terms by 5.2 percent year-on-year. The positive development of directly comparable new order levels on an adjusted basis underlines the fact that T-Systems is on the right track with its new sales and marketing approach and its ability to provide ICT and telecommunications services worldwide. Examples of this include the new deals concluded with Alcatel-Lucent and Stora Enso. In addition, the focus on major cross-border outsourcing activities is already contributing to T-Systems' continued international growth. Examples of this are the large contracts with the energy and petrochemicals group Royal Dutch Shell and Siemens (networking its locations in Eastern Europe) and the South African insurance company Old Mutual Group (IT outsourcing).

Total revenue in the Business Customers operating segment in 2008 amounted to EUR 11.0 billion, a year-on-year decrease of 1.2 percent when adjusted for effects of changes in the composition of the Group and exchange rate effects. Reported revenue declined by 8.2 percent, primarily as a result of changes in the composition of the Group. Both internal and external revenues were affected by this trend. The positive development of international business, for instance as a result of the contracts with corporate customers such as Shell, continued in the reporting period with an increase in revenue of 7.4 percent. In Germany, revenue adjusted for changes in the composition of the Group declined by 4.3 percent, whereas reported revenue was down by 12.3 percent. The decrease in domestic revenue is attributable both to the continued price erosion in the telecommunications and IT business and to the sale of Media & Broadcast and the reassignment of ActiveBilling.

The Business Customers operating segment generated revenue of EUR 8.5 billion in 2008 from business with customers outside the Deutsche Telekom Group, a decrease of 5.7 percent compared with the prior year. Initial successes from the strategic partnership with Cognizant and revenue from the large-scale contract with the energy and petrochemical group Royal Dutch Shell were not sufficient to compensate for the price-driven decrease in revenue in the area of Systems Integration. Telecommunications also recorded a decline that was partly attributable to changes in the composition of the Group and partly to significant price erosion in the voice and data business. The increase in IP revenues was not sufficient to offset this development. Net revenue from Computing & Desktop Services increased by 3.1 percent despite deconsolidation effects. The contracts won in this segment more than offset falling prices in the mainstream IT business at Computing & Desktop Services.

The slight decline in adjusted revenue from operations did not have a negative effect on **EBIT** and **EBITDA** development. **Adjusted EBITDA** was at prior-year level when the deconsolidation of Media & Broadcast and the reassignment of ActiveBilling are taken into account. On a like-for-like basis (deconsolidations), **adjusted EBIT** (loss from operations) even improved, which can be attributed to the cost cutting and efficiency enhancement program launched.

Cash capex in the reporting year was lower than in the previous year. Investments in Centrica were primarily responsible for the development of cash capex in the prior year.

The average **headcount** in the Business Customers operating segment declined by 4,087 to 52,479, a decrease of 7.2 percent compared with the prior year. The sale of Media & Broadcast and the reassignment of ActiveBilling to the Broadband/Fixed Network operating segment at the beginning of 2008 reduced the number of employees by approximately 3,000 compared with 2007. The remaining reduction is due to the staff restructuring measures initiated in 2007. As a result, the average number of employees in Germany declined by 5,944 year-on-year to 34,383 in 2008, a decrease of 14.7 percent. The average headcount abroad rose by 1,857 – an increase of 11.4 percent. This was mainly attributable to the internationalization strategy.

Group Headquarters & Shared Services.

Group Headquarters & Shared Services: Development of operations.

	2008 millions of €	2007 millions of €	Change millions of €	Change %	2006 millions of €
Total revenue	3,573	3,868	(295)	(7.6)	3,758
EBIT (loss from operations)	(1,198)	(1,973)	775	39.3	(2,138)
EBIT margin (%)	(33.5)	(51.0)			(56.9)
Depreciation, amortization and impairment losses	(831)	(967)	136	14.1	(947)
EBITDA [a]	(367)	(1,006)	639	63.5	(1,191)
Special factors affecting EBITDA [a]	(336)	(898)	562	62.6	(730)
Adjusted EBITDA [a]	(31)	(108)	77	71.3	(461)
Adjusted EBITDA margin [a] (%)	(0.9)	(2.8)			(12.3)
Cash capex [b]	(435)	(471)	36	7.6	(508)
Number of employees [c]	22,808	27,023	(4,215)	(15.6)	30,755
Of which: at Vivento [d]	8,200	10,200	(2,000)	(19.6)	13,500

[a] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses. For a detailed explanation of the special factors affecting EBITDA, adjusted EBITDA, and the adjusted EBITDA margin, please refer to the section on "Development of business in the Group."
[b] Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the cash flow statement.
[c] Average number of employees.
[d] Number of employees at the balance sheet date, including Vivento's own staff and management; figures rounded.

Vivento had three main tasks in the reporting year: the acquisition of additional external employment opportunities for civil servants and employees, in particular in the public sector, sustainable placement management to support staff restructuring, and the continued improvement and sale of additional sites of Vivento Customer Services GmbH (VCS).

During the reporting period, Vivento sold a total of ten more VCS call center sites. Five sites were transferred to the arvato group effective March 1, 2008. A further five sites were moved to the D+S europe group effective December 1, 2008. A total of some 740 employees moved to different employers as a result. Deutsche Telekom supported all transfers of operations with five-year contract commitments, thus providing the prerequisites for long-term job security for the employees affected by these disposals.

Vivento made an important contribution to cutting costs and therefore to the associated staff reduction within the Group with the sale of the operations of Vivento Technical Services GmbH (VTS) to Nokia Siemens Networks. Effective January 1, 2008, a total of around 1,600 employees started work for their new employer as part of the transfer of operations.

The workforce at Vivento totaled around 8,200 employees as of December 31, 2008. This figure comprises around 500 of Vivento's own staff including management, approximately 2,400 call center unit employees, around 3,000 employees assigned to projects set up together with the German Federal Employment Agency and to other positions, mainly in the public sector, as well as around 2,300 additional transferees. External deployment at normal market terms and conditions is intended to partially refinance the personnel costs of employees assigned. Vivento took on a total of around 2,600 employees from the Group in 2008, bringing the total number of Deutsche Telekom staff transferred to Vivento since the establishment of the personnel service provider to around 41,100. In addition, around 4,600 employees left Vivento in the reporting period to pursue new employment opportunities. Approximately 32,900 employees have thus found jobs outside Vivento since its formation. The employment rate remained high in 2008. During the reporting period, around 81 percent of the approximately 7,700 employees (excluding Vivento's own staff and management) were in employment or undergoing training.

Deutsche Telekom sold its wholly owned subsidiary DeTe Immobilien, which provides real estate services for Deutsche Telekom, to the Austrian company Strabag SE in the third quarter of 2008 as part of its strategy of focusing on its core business. The sale also included the two foreign subsidiaries of DeTe Immobilien, DeTeImmobilien – Hungary Szolgáltató Zártkörü Részvénytársaság and DeTeImmobilien-Slovakia s.r.o. Deutsche Telekom concluded far-reaching agreements to safeguard the jobs and to regulate the financial conditions of employment of the around 5,900 employees affected by the sale. In addition, a comprehensive service agreement with an initial term of ten years was concluded with Deutsche Telekom based on market and industry benchmarks. Deutsche Telekom's real estate is not affected by the sale.

Streamlining and improving the real estate portfolio remained a key property management issue in the 2008 financial year. Deutsche Telekom closed a total of 298 sales deals in the reporting year, involving 153,000 square meters of floor space and 1.1 million square meters of land. Cash inflows from the disposal of real estate totaled EUR 0.1 billion in 2008. Deutsche Telekom reduced leased floor space by another 172,000 square meters, thanks to the ongoing activities to optimize floor space and corporate sites. Overall, the Group again cut its leasing and facility management costs in 2008.

To increase its competitiveness and safeguard the future of its accounting in Germany, Deutsche Telekom established Deutsche Telekom Accounting GmbH on April 1, 2008 with the objective of modernizing and streamlining the financial accounting process and utilizing economies of scale by merging locations. To this end, Deutsche Telekom has efficiently bundled accounting functions that were previously assigned to the operating segments in a function-oriented shared service center which standardizes and automates mass accounting processes throughout the Group. The new company successfully completed its first location migrations in the reporting period, thus initiating the intended cost improvement process.

Total revenue in the Group Headquarters & Shared Services operating segment fell by 7.6 percent year-on-year in 2008. A major factor behind this trend was the revenue decrease at Vivento due in particular to the sale of VTS operations, the disposal of call center locations of VCS and price cuts in the call center unit. In addition, revenue declined in the Real Estate Services unit. This was primarily the consequence of the decline in revenue at Deutsche Funkturm GmbH, the sale of DeTe Immobilien to Strabag, and the lower level of facility management services, in particular for collocation, billed to the operating segments of the Group by the Real Estate Services unit. Volume-driven growth in revenue at Power and Air Condition Solution Management GmbH & Co. KG and increased revenue at DeTeFleetServices GmbH as a result of a higher level of proceeds from vehicle sales as part of a regular replacement process both had a positive effect on total revenue. Deutsche Telekom Accounting GmbH, which was established in the 2008 financial year, additionally generated revenue from charging the operating segments for accounting services.

Year-on-year, Group Headquarters & Shared Services improved its **adjusted EBITDA** by EUR 0.1 billion. This is primarily attributable to higher EBITDA achieved by the Real Estate Services unit and at Vivento, the former profiting in the reporting period from income from the reclassification of real estate from assets held for sale to non-current assets in particular as well as income from the recognition of a receivable for a refund of electricity tax paid and lower provisions. The sale of the VTS operations, the disposal of call center locations, and a year-on-year reduction in headcount due to the staff fluctuation at Vivento also had a positive effect on adjusted EBITDA. Lower income from real estate sales and the decline in revenue following price cuts in the call center unit partially offset these factors contributing to the improvement in EBITDA. **EBIT** (loss from operations) improved by EUR 0.8 billion year-on-year in 2008, mainly as a result of the decrease in expenses for staff-related measures. Furthermore, the decrease in depreciation, amortization and impairment losses, which principally affect Deutsche Telekom AG's real estate assets, and the substantial improvement in adjusted EBITDA also had a positive effect.

The average **number of employees** during the reporting period was 22,808. The decrease of 4,215 employees compared with the 2007 financial year is primarily attributable to the continued staff reduction at Vivento, which is mainly due to the sale of the VTS operations and the disposal of call center locations. The disposal of DeTe Immobilien was also reflected in the average number of employees.

Corporate responsibility.

New fields of activity for more responsibility // Supply chain management: E-TASC set up

As part of the further development of its corporate responsibility (CR) strategy in 2008, the Deutsche Telekom Group set itself the goal of becoming an international leader in the field of CR. The strategy defines a common understanding of corporate responsibility throughout Deutsche Telekom, establishing a framework of activities for all Group units. A separate CR department, which also carries out tasks such as environmental management and CR reporting, has provided the interface to a new, efficient organizational structure since early 2008. Assigning this department to the Chairman of the Board of Management has enabled corporate responsibility to be managed uniformly throughout the Group. In the future, CR will focus on three new fields of activity: climate protection ("low-carbon society"), equality of opportunity in the information society ("connect the unconnected"), and "connected life and work." With this approach, Deutsche Telekom intends to unite social and environmental commitments with economic growth in its core business. The printed CR report for 2008 and the CR online report at http://www.telekom.com/cr-report2008 contain further information on the CR strategy and the core CR topics.

New fields of activity for more responsibility.

Deutsche Telekom's contributions to the **low-carbon society** include increased usage of renewable energies, efficient resource and waste-disposal management, digitized business processes, and the development of state-of-the-art communications solutions. Renewable energies have met the Group's entire power requirements in Germany since January 2008. Apart from the proportions of renewable energy contained in the German power mix, this is effected indirectly through the purchase of certificates from the Renewable Energy Certificate System (RECS). In addition, T-Systems, for example, has boosted energy efficiency by optimizing its own data centers as part of the Green IT concept. Customers can avoid business or shopping trips thanks to products and services such as audio and videoconferencing and special Internet-based services that enable them to download music tracks, for instance. The new energy- and cost-efficient telephones from the Sinus range not only save power but are low cost and can also be disposed of in an environmentally friendly manner. Throughout their lifecycle, Deutsche Telekom offsets the CO_2 emissions through climate protection measures elsewhere. In 2008, Deutsche Telekom sold around 751,000 climate-neutral phones from the Sinus range.

Deutsche Telekom has set itself the goal of providing as many people as possible with access to digital media **(connect the unconnected)** to bridge the digital divide. To this end, the Group supports initiatives that promote the integration of people in the information and knowledge society. Examples include the practically nationwide expansion of broadband networks (covering approximately 96 percent of Germany at the end of 2008) and the Telekom@School initiative that already provides free Internet access for around 34,000 schools in Germany. Since 2003, Deutsche Telekom has also supported the German aid organization "Ärzte für die Dritte Welt" (Doctors for Developing Countries). By setting up a state-of-the-art ICT infrastructure, the Group is leveraging its core competencies for the organization's benefit. Furthermore, Deutsche Telekom provides the organization's volunteers with funding, logistics and know-how.

Connected life and work is a central element of Deutsche Telekom's business activities. The Group develops innovative solutions that help customers improve their quality of life and work. One groundbreaking example is the Motiva telemedicine project launched in the T-City Friedrichshafen, which enables the remote diagnosis of patients with heart failure. Within the Group itself, various diversity management programs have made an important contribution toward improving the connection between life and work. Such initiatives include the Deutsche Telekom Family Fund or the current "Heimspiel" (Home Match) project, designed specifically to help fathers achieve a balance between family and work commitments.

Further achievements in 2008: Supplier management and rating results.

Already, Deutsche Telekom is a trailblazer in numerous key areas of CR including sustainable supply chain management. As procurement goes global, the risk of suppliers failing to consistently maintain minimum social and environmental standards increases. To lessen this risk, Deutsche Telekom introduced the online supplier information system E-TASC (Electronics – Tool for Accountable Supply Chains) throughout the Group at the end of 2007. E-TASC helps evaluate the social and environmental performance of suppliers and estimate risks more effectively. Deutsche Telekom requested self-assessments from 100 of its key suppliers by the end of 2008. After all relevant information has been stored in the system, 62 percent of the entire purchasing volume will be covered. Top positions in Socially Responsible Investment (SRI) ratings and rankings are renewed testimony to the Group's CR performance. In 2008, Deutsche Telekom was once again included in the U.K. FTSE4Good sustainability index and the Dow Jones Sustainability Index (DJSI) family. The DJSI lists the top 10 percent in each industry according to the best-in-class principle. In the same year, Deutsche Telekom also won the SAM Gold Class 2008 award and a recommendation as "prime investment" from the Munich-based rating agency oekom.

Research and development.

Deutsche Telekom research and development activities // Successful transfer of results within the Group // Cooperation with research institutions in Germany and abroad // Open innovation

In 2008, Deutsche Telekom added further key elements to its research and development strategy in order to become a global leader in connected life and work. Apart from laying the focus on innovation for the benefit of the Group as a whole and the successful placement of innovative products on the market, the Group also promoted the strategy of open innovation as a further key element of R&D.

Deutsche Telekom research and development activities.

The Product & Innovation department steers innovation activities and is responsible for coordinating research and development, innovation management and innovation marketing as well as corporate venture capital across the Group. Deutsche Telekom Laboratories, the Group's central research and development unit, has become a byword for world-class international research and the development of unique selling propositions in pioneering products and services for Deutsche Telekom customers. Deutsche Telekom Laboratories focuses primarily on topics and new technologies that are expected to be rolled out or market-ready in one-and-a-half to five years. Responsibility for shorter-term product development and product innovation lies directly with the international product house, which was established in 2007, or with the Group business units. In 2008, the work carried out by the product house gained further momentum in its consistent development of cross-segment products and services. As a consequence of this approach, Deutsche Telekom is well positioned to compete in the marketplace going forward with its best-in-class products and services for both fixed and mobile networks.

Innovation Development Laboratory.

As an affiliated institute of the Berlin University of Technology (TU Berlin), Deutsche Telekom Laboratories facilitates close knowledge sharing between the scientific community and industry based on a public/private partnership model. Deutsche Telekom Laboratories is divided into two areas: the Innovation Development Laboratory and the Strategic Research Laboratory. The research work of the Innovation Development Laboratory is geared to Deutsche Telekom's research and development strategy and focuses on **five fields of innovation** set up in 2004, known as the "5i"s:

- As part of **Intuitive Usability,** Deutsche Telekom develops methods and tools to incorporate usability aspects from the early stages of developing telecommunications services. Researchers also analyze user groups and user experiences while implementing new forms of interaction to make using current and future devices, services and applications more intuitive and user-friendly. One key area in this respect relates to multimodal user interfaces and intelligent system architectures.

- The **Integrative Service Components** field develops concepts for service and network convergence and specific modules tailored to a range of applications and areas of daily life. These include using multimedia on the television, PC, mobile phone or in the car. This area also covers machine-to-machine interaction, personalized and smarter services as well as secure identity and transaction management for the customer. These components can be used to implement innovative information, communication, entertainment and e-commerce services efficiently and rapidly.

- **Intelligent Access** aims to ensure that customers are automatically offered the best service available regardless of the device and network used, anywhere – whether on the move, at home or at work – and at any time. This field of innovation also aims to improve the performance and efficiency of wireless access networks, provide new user groups with access to network-centric service modules, and also facilitate extensive network, device and service management in the area of personal home networks.

- The **Infrastructure** field develops innovations for Deutsche Telekom's basic ICT structures. The scope of this area not only includes platforms, communications networks and IT architectures but also production-oriented issues such as security, bandwidth and product lifecycle management.
- **Inherent Security** addresses customers' needs for end-to-end security in their communication applications. Security is an integral part of Deutsche Telekom's products, services and solutions. Users should be able to reliably identify who they are communicating with via the network to ensure that transactions and agreements can be concluded securely. Deutsche Telekom is also identifying and developing applications that protect its own systems against failure and misuse.

User-driven innovation utilizes sophisticated innovation market-research methods to ascertain the customer needs that play a central role in the activities of the Innovation Development Laboratory. In this context, "user clinics" provide a way of testing the user-friendliness and acceptance of innovation concepts and prototypes at an early stage. Alongside traditional methods like focus groups and large-scale field tests, they allow many strategic and technical decisions to be taken in the early stages of innovation development.

The Innovation Development Laboratory's responsibilities also include **early detection of technological trends.** New ideas that are relevant to the Group are exploited and made usable by Deutsche Telekom using a host of state-of-the-art and scientifically tested methods such as the "technology radar."

Strategic Research Laboratory.

The Strategic Research Laboratory at Deutsche Telekom Laboratories carries out long-term, applied research. It is here that researchers drawn from a variety of disciplines provide the basic knowledge for tomorrow's information and communications technologies. Approximately one third of them come from Germany, one third from other European countries, and the remainder from countries outside Europe. The Strategic Research Laboratory also makes a notable contribution to teaching at TU Berlin. To this end TU Berlin and Deutsche Telekom have set up four professorships: Quality and Usability, Intelligent Networks, Interaction Design & Media, and Security in Telecommunications.

The scientific research conducted at Deutsche Telekom Laboratories has received international acclaim and attracts visiting researchers from around the world. Numerous patent applications and scientific papers are testimony to this success. The results are widely acclaimed, as demonstrated by the large number of awards won by employees. For instance, the Speech Based Classification (SBC) project has already received numerous awards. For its solutions for secure authentication on the Internet, Deutsche Telekom received the IDDY Award 2008, an accolade conferred by the Liberty Alliance, the global identity consortium dedicated to providing a more reliable Internet for end users, governments and enterprises. A scientist from the Strategic Research Laboratory also won the award for an outstanding paper sponsored by the Information Technology Society (ITG) within the Association for Electrical, Electronic & Information Technologies (VDE).

Successful transfer of results.

The most important goal of these joint efforts is to transfer the results into the Group units, where they can be used to generate new products and services for Deutsche Telekom customers. This transfer gained further momentum in 2008. A host of findings were picked up by the operating segments, where they helped to increase revenue and reduce costs way above the initial forecasts. The mobile shopping assistant for Metro AG is just one such example. T-Mobile also rolled out Speech Based Classification as part of its voice-controlled customer service portal. Insights from the Generation 50+ project also found their way directly into the design of the Sinus A 201 telephone. Concepts from the Personalized Intelligent User Interfaces (PIUI) project were instrumental in the definition of the web'n'walk 4.0 service T-Mobile unveiled at CeBIT 2008. A value-tracking system regularly checks and monitors the value creation associated with all development projects.

In the 2008 reporting year, Zimory became the second spin-off from Deutsche Telekom Laboratories. Zimory is the world's first company to develop and operate an international trading platform for IT infrastructure resources. The patented Web 2.0 technology behind Zimory allows spare data-center capacity to be provided and accessed dynamically and on demand.

Cooperation with research institutions in Germany and abroad.

As a member of international forums and committees, Deutsche Telekom helps shape future products and services. Using these organizations as a platform, the Group secures its own interests and its customers' needs and through its standardization activities, ensures high quality and interoperability of services.

Deutsche Telekom intensified its cooperation with the State of Israel and Israeli start-ups during the reporting year. In addition to the very successful partnership with Ben-Gurion University in Israel and the Deutsche Telekom Laboratories' subsidiary institute based there, in October 2007 the Group became the sixth company in the world and the first company in the industry to sign up to Israel's Global Enterprise R&D Cooperation Framework. Deutsche Telekom supports selected Israeli companies in research and development as part of this cooperation. The firms also receive financial support from the Israeli Ministry of Industry, Trade and Labor to establish and develop marketing activities, technology development, and customer access. Since January 2008 more than 70 companies have responded to the call to Israeli start-ups to take part in this program with Deutsche Telekom – the largest ever number of participants to join the initiative. In a joint selection process, Deutsche Telekom and the Office of the Chief Scientist of the State of Israel selected the final candidates with the aim of agreeing partnerships for ongoing cooperation.

Deutsche Telekom Laboratories boasts an international partner network involving acclaimed research institutions, such as the German Research Center for Artificial Intelligence (DFKI), the University of Illinois at Urbana-Champaign, Ecole Polytechnique Fédérale de Lausanne, Stanford University and Shanghai Jiao Tong University. Last but not least, Deutsche Telekom Laboratories supports outstanding doctoral students at various universities through its PhD Advisor Mentor (PAM) program.

T-Venture, Deutsche Telekom's venture capital arm, finances and supports innovative telecommunications and IT companies during their start-up phase. In 2008, the T-Online Venture Fund invested in the Chinese start-up "Guangzhou 1bib software development." The company operates an online marketplace for new and used cars, trucks, buses and coaches in China. The strategic investment underscores the growing importance of emerging countries such as China. 1bib has a great deal of development potential and operates in a highly attractive market. For T-Venture as Deutsche Telekom's venture capital provider, it is important to be closely involved in these major, promising markets.

Open innovation.

Deutsche Telekom pursues the principle of "open innovation." Opening up innovation processes facilitates an extensive exchange of ideas and information between selected institutions and companies. The goal is to leverage synergies, exchange research results, and efficiently develop those results. The global potential of new technologies is thus substantially increased, enabling new applications to be rolled out faster.

Deutsche Telekom embraces open innovation on numerous levels. Examples include Innovation Day, the Deutsche Telekom Interactive TV Award, the Creation Center, the BetaBuzz online test lab, and the open development project Helios. At Innovation Day, outstanding start-ups together with Deutsche Telekom teams present their joint project results to a wide circle of industry representatives and partners. This forms the basis for further promising cooperation right through to a joint product. Deutsche Telekom thus utilizes and shapes trends for the mass market from a very early stage. The Deutsche Telekom Interactive TV Award aims to further develop television via DSL. Thanks to interactive services and networked community applications, in future viewers will enjoy a much more convenient experience that delivers far more added value than conventional television. The Creation Center operated jointly by Deutsche Telekom Laboratories and T-Mobile is an innovative platform that brings together managers, customers and creative people to generate new ideas for future T-Mobile products. The Creation Center did not take long to come up with its first successful results. The BetaBuzz online test lab is by no means just an online playground for curious users. It gives start-ups unfiltered responses from a large community and allows them to present their own creations to a wide audience. So in addition to being a potential catalyst for business growth, BetaBuzz also delivers valuable feedback straight from the users. With the Helios development project, developers and programmers have the opportunity to integrate services from the Deutsche Telekom Group in their own websites and applications. For the first time Deutsche Telekom is opening up some of its voice, messaging and authentication services as well as interesting back-end solutions to developers and website operators. Using open interfaces (APIs) developers can integrate Deutsche Telekom core services into their own innovative applications and combine these services to create new offerings. At http://developer.telekom.com, developers can download a software development kit (SDK) free of charge and discuss issues with their peers and the Deutsche Telekom experts. All of this gives rise to a wealth of new products – mash-up in Internet parlance. Deutsche Telekom gains access to new business models, innovative services and talented developers. Maximum use of existing services by the entire creative external developer community opens up new sources of revenue. In addition to reinforcing innovative strength, simultaneously shifting the risk associated with developing new products and services to external developers has brought distinct advantages for Deutsche Telekom in the ever-changing telecommunications market.

At the same time, Deutsche Telekom is sustainably building up its internal expertise in developing state-of-the-art Internet applications. The product house is an important competence center in the Group for developing software for connected life and work.

Successful innovation in the segments.

The Mobile Communications business area focused on the mobile Internet as the main growth driver. T-Mobile invested in the further expansion and optimization of networks for mobile Internet access via cell phones, mobile Internet devices and mobile personal computers in 2008. The focus in Europe was on further upgrading third-generation networks (3G) in regions with heavy mobile data communication traffic. HSDPA technology supporting data rates of up to 7.2 megabits per second from base stations to devices and HSUPA delivering up to 2.0 megabits per second upload speeds provide the basis for high-speed connections. EDGE data transmission technology was also optimized in the second-generation networks, delivering a performance boost of around 20 percent.

T-Mobile UK tackled a particular network-optimization project: The British mobile subsidiary and network operator 3 UK merged their existing 3G base stations under the umbrella of the joint venture Mobile Broadband Network Limited (MBML) in order to build an optimized network they operate together. The mid-term aim of this network-sharing project is to deliver improved, largely universal coverage of the UK population with broadband mobile communications, while reducing the number of sites by 30 percent at the same time.

Across the Atlantic, T-Mobile USA started commercial operation of 3G with HSDPA. At the end of 2008, the company was offering its customers download speeds of up to one megabit per second in more than 130 major cities across the United States.

To further increase transmission capacity and improve wireless coverage inside buildings, T-Mobile is testing the use of so-called femtocells in Europe. Thanks to miniaturization, femtocells provide base station functionality in the guise and dimensions of a typical WLAN router. Plug&play enables femtocells to connect automatically to the T-Mobile network via the customers' existing broadband/DSL lines.

T-Mobile is driving forward medium-term network development through the Next Generation Mobile Networks (NGMN) Alliance. At CeBIT 2008, T-Mobile showcased the next development stage in the shape of Long Term Evolution (LTE) as a potential NGMN technology. LTE supports data transmission rates of up to 170 megabits per second (downlink) and 50 megabits per second (uplink). In the fourth quarter of 2008, T-Mobile in Bonn launched the world's first field test of LTE together with a technology partner. Multiple radio cells cover an urban area in which, for instance, broadband-intensive and time-critical applications such as videostreams and online games can be used interruption-free in a moving vehicle.

In addition to networks, T-Mobile focused in 2008 on developing and rolling out high-end devices that support the usage of the mobile Internet with unprecedented quality. Following the launch of the Apple iPhone 2G in practically all European T-Mobile companies, T-Mobile initiated the next development stage with the iPhone 3G in July 2008. T-Mobile is also adopting open, configurable terminal equipment platforms. The company launched the latest generation of Windows Mobile devices, the T-Mobile MDA Compact IV and Vario IV. As a founding member of the Open Handset Alliance, T-Mobile was also involved – under the direction of Google – in developing the Android open platform. As a result of this development, in October 2008 T-Mobile exclusively launched the T-Mobile G1, the world's first Android-based device, in the United States and the United Kingdom. The T-Mobile G1 was rolled out in Germany and other core European markets starting in February 2009. T-Mobile G1 users can choose from several hundred applications across a full range of categories via the Android Market online store, thus customizing their mobile Internet applications to suit their personal requirements.

T-Mobile also expanded its portfolio of mobile Internet-capable PCs, laptops and – the latest category – netbooks with data cards, USB modems, and broadband modules already built in. T-Mobile has been working closely with device manufacturers to popularize the use of mobile Internet communications.

T-Mobile once again substantially improved mobile Internet usage via cell phones with the latest widget technology in its web'n'walk product. Users can choose from a wide range of widget-based Internet applications to tailor their personal Internet experience. Another key area of development focused on integrating communities and other Web 2.0 applications in T-Mobile's personal communications services. T-Mobile extended its service portfolio in the second half of 2008 by rolling out instant messaging on cell phones. The new service can be used with the four largest communities AOL Instant Messenger, ICQ, Windows Live Messenger, and Yahoo! Messenger, with support for the kind of instant messaging that customers are familiar with from their home PC.

T-Mobile also systematically developed the quality of mobile voice telephony in 2008. As part of large-scale tests, the company tested enhanced voice transmission based on adaptive multi-rate wideband (AMR) technology and completed the preparations for its launch of 2G and 3G networks and devices. T-Mobile customers will thus soon be able to experience mobile telephony in high-fidelity quality. As regards future services, T-Mobile is involved in projects such as Touch&Travel from Deutsche Bahn AG. As part of the project, the companies involved have selected several bus and train routes to test the usage of electronic tickets on cell phones using near-field communications technologies (NFC).

Broadband/Fixed Network built on its innovative product portfolio. Transformation of the product landscape into an IP-based platform. Launched in 2007, the IPTV product T-Home Entertain was consistently developed to support new content and numerous new product features. For instance, Entertain customers can now view their holiday snaps and listen to their favorite music on a TV set. Customers can also use the Program Manager while out of the house to program the set-top box and manage their recordings. Bundesliga Interactive provides access to one of the first interactive TV services in the German market.

In 2008, the operating segment continued to systematically transform its product landscape from a circuit-switched PSTN to an IP-based platform with a wide range of benefits such as simpler user interfaces, computer-telephony integration, and improved voice quality.

The Personal Social Network (PSN) unit at Deutsche Telekom's product house also brought numerous successful products to market:

On August 28, 2008, Deutsche Telekom launched a freemail product based on the latest AJAX technology and with its own new innovative design. For the first time, this allows customers without a Deutsche Telekom Internet connection to use a high-quality, secure e-mail address from Deutsche Telekom.

Two further key components to network Deutsche Telekom customers more effectively were launched at IFA 2008: My Software and the new Media Center. My Software is a new attractive software suite that bundles corporate services and personalized information on the desktop. The use of the very latest technologies and usability concepts represents the first step in continuing the success story of Software on new operating systems. The all-new Media Center reflects the increasing popularity of storing and sharing photos and videos. The state-of-the-art, easy-to-use Web 2.0 interface now offers users extensive media-specific functions such as a music and video player with the new photo, music and video environments.

Offering more than six-and-a-half million music tracks, almost three million of which are in the copy-protection-free MP3 format, www.musicload.de is the most popular music download portal. In addition, the German Institute for Service Quality (DISQ) singled Musicload out as the Best Music Portal 2008. The market-leading www.gamesload.de range exclusively launched NEOGEO games by the Japanese gaming machine manufacturer SNK PLAYMORE on the German market at the end of 2008. www.softwareload.de supplemented its range of more than 29,000 software titles with a downloadable PC magazine and its own security package for PC and mobile devices at the end of the reporting year. Since mid-2008, the range of titles has also included mobile software programs for major operating systems such as SymbianOS, Windows Mobile, Blackberrry and PalmOS. The video download service, www.videoload.de, extended its cooperation agreement with Warner Bros. in May 2008, making movies available as soon as the DVDs are released for sale. Deutsche Telekom's Entertain customers also benefit from this arrangement as they can use their TV set to directly access the films offered by Videoload.

Another example of successful product developments from Deutsche Telekom subsidiaries is the new, personalizable homepage of the Scout24 group at www.scout24.de. This enables users to centrally manage their personal searches on all Scout24 sites (car, dating, electronics, finance, property, jobs and travel) and compile additional information from each of the various marketplaces.

In 2008, Deutsche Telekom launched a sophisticated Software as a Service (SaaS) product, an IT software service aimed specifically at business customers. This service allows even small enterprises to use professional software applications such as efficient e-mail communications based on Microsoft Exchange without having to set up a costly, complex infrastructure as software, operation and maintenance are leased from Deutsche Telekom. In tune with the trend of increasing mobility, the IT software service also supports the use of Windows Mobile, Blackberry and iPhone to provide mobile e-mail communications. Moreover, a wealth of other software products can be used without having to install them on the computer. They can therefore be used by multiple members of staff on the move.

Business Customers segment continues work on integrated ICT solutions. Systematic technology scouting in cooperation with the T-Laboratories underpinned innovation efforts to develop solutions that integrate IT and telecommunications technologies in line with customers' needs. The assimilation of relevant trends, a close dialog with customers and partners, and a wealth of staff-generated ideas from several organizational units formed the basis for the innovation projects launched in 2008. In addition, continuous innovation cooperation gained further importance, especially as part of long-term customer relationships, such as major outsourcing contracts. The Business Customers operating segment launched innovation projects to address topics such as the dynamic and flexible usage of software and services from the Net, or user-centric standardized communication and collaboration. The projects also included solutions for mobile work, communication between distributed machines and sensors, including corresponding data preparation, as well as the ever-increasingly important issue of security.

Environmental considerations and increasing energy costs were another focus of the innovation activities of Deutsche Telekom's Business Customers segment. One example is remote electronic metering of electricity, gas, water and heating. To make corporate processes and structures even more flexible, in the reporting year experts worked on modular, service-oriented solutions that will make application software available for a faster modification of IT systems in response to organizational changes.

T-Systems received two awards for its security solution as part of the European TeleTrusT Innovation Award 2008: one for voice encryption for mobile networks and the other for a solution for mobile devices that monitors security requirements associated with locations and ensures compliance. The 2008 "Oscar" of the telematics sector also went to T-Systems. At Telematics Detroit 2008, the company received the Telematics Award in the category Best Telematics Service and Application for Commercial Vehicles for its intelligent Tracking Management (iTM) solution.

Automation, standardization and virtualization are the topics at the heart of internal process innovation. Dynamic usability of applications and infrastructure resources, which had been on the agenda for a number of years, became a major factor in the market in 2008. It is under constant development as an integral part of software applications and network operations.

Research and development expenditure and investment.

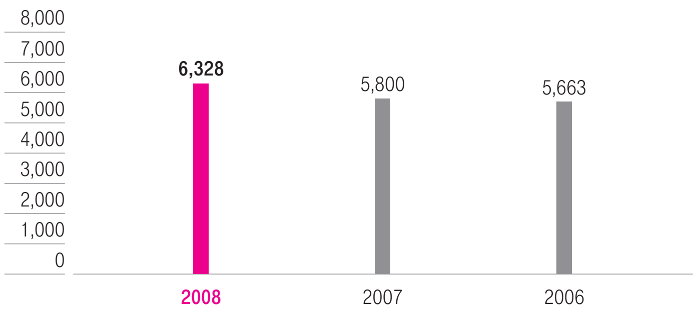
Research and development expenditure amounted to EUR 0.2 billion in the 2008 financial year, the same level as in previous years. The investments in internally generated intangible assets to be capitalized rose by EUR 0.1 billion year-on-year to EUR 0.4 billion. These investments principally relate to internally developed software, mainly for the Broadband/Fixed Network and Mobile Communications segments. In the reporting year, over 2,400 employees were involved in projects and activities to create new products and market them more efficiently.

Patent applications and intellectual property rights.

In the market for mobile and fixed-network telephony, intellectual property rights play an extremely important role, both nationally and internationally. For this reason, the Group focuses intensively on in-house development and third-party acquisition of such rights.

The number of patent applications increased in 2008 by 23 percent year-on-year to 665. 6,328 intellectual property rights (inventions, patent applications, patents, utility models, and design models) were held as of the end of 2008. The portfolio is reviewed on a regular basis, and the rights that are no longer relevant are eliminated. Management of these intellectual property rights is governed by strict cost/benefit considerations.

Number of intellectual property rights of Deutsche Telekom.



Employees.

HR strategy // Socially responsible staff restructuring // Collective bargaining in the Group // On track to achieve service excellence // Realignment of ideas management // HR@2009 – service takes center stage in human resources work

The global realignment of the telecommunications industry, the rapid pace of technological development and the tough competition in the fixed-network and broadband markets posed acute challenges for Deutsche Telekom in the areas of workforce reduction, restructuring and expansion. The Group had to adjust its staff structure in various markets to account for changes in business volumes and customer numbers. The company not only consistently improved the age structure of its workforce, but also raised the number of junior staff in Germany in particular to retain and increase its market shares.

One mission, four drives, eleven projects.

Deutsche Telekom operates in dynamic markets and competitive environments where structural conditions vary widely from one country to another. Thanks to efficient personnel work, built on a mission with four strategic cornerstones, Human Resources (HR) supports the Group strategy. This includes maintaining a competitive workforce as a valuable contribution to achieving commercial Group targets (Add Value), tailor-made HR development with an extended talent agenda (Best People), a sustainable enhancement of the service culture and professional change management (Enable Transformation), and the transformation of the HR organization into a far more efficient, business-oriented structure that comprises the three roles of Business Partner, Competence Center and Shared Service Center (HR Excellence). The HR strategy is implemented via a Group-wide program of eleven top strategic HR projects.

Staff restructuring continued on a socially conscious basis.

Staff reduction within the Group in Germany continued on a socially conscious basis in 2008. This was implemented essentially by means of voluntary redundancies, partial and early retirement, and employment opportunities for civil servants and employees offered by Vivento, especially in the public sector. The 32,000 Program launched in 2005 was concluded ahead of schedule. Deutsche Telekom will continue its staff reduction activities to the extent necessary, however, in response to intense competition, the very rapid pace of technological progress and the regulatory environment in Germany, as well as personnel costs that are too high in some areas in comparison with its competitors.

However, staff restructuring and staff increases are also necessary, in addition to staff reductions, to improve the age structure in the Group, to attract people with the skills the Company lacks or needs more of, and to be able to grow in new business areas. The Group took on 3,134 new staff under its 2008 recruitment drive. Another 929 junior staff joined the workforce on fixed-term contracts at Vivento Interim Services (VIS), which was formerly part of the Deutsche Telekom Group and now operates a joint business model with the temporary-employment agency Manpower. After a transitional period of around twelve months, VIS employees may be taken over on a permanent basis by Deutsche Telekom.

Vivento made an important contribution to staff restructuring in the Group in the 2008 financial year by placing some 2,900 employees in jobs mostly in the public sector, in particular at the Federal Employment Agency, improving and selling further Vivento Customer Services GmbH sites, and transferring Vivento Technical Services GmbH operations to Nokia Siemens Networks.

Vivento continued to sell off Vivento Customer Services GmbH sites in the reporting period. The arvato group took over five sites effective March 1, 2008. Approximately 410 employees were transferred to the arvato group as part of the transfer of operations. The transfer included a long-term order commitment from Deutsche Telekom. Deutsche Telekom sold five more sites to the D+S europe group in October 2008. Operations were transferred, together with around 330 employees, on December 1, 2008. The contract partners also entered into a long-term order commitment. Deutsche Telekom has thus safeguarded the jobs at these sites.

The transfer of operations of Vivento Technical Services GmbH to Nokia Siemens Networks was a crucial contribution to staff reduction. Effective January 1, 2008, around 1,600 employees started work for their new employer as part of the transfer of operations. Deutsche Telekom and Nokia Siemens Networks had signed a strategic partnership in October 2007 which involved the transfer of Vivento Technical Services GmbH to Nokia Siemens Networks.

The **Total Workforce Management** project aims to optimize the deployment of internal and external staff capacity and to respond early to demographic changes in order to cut personnel costs and raise productivity. The Workforce Quality sub-project has devised specifications for qualitative clustering of the workforce and developed the requisite formulas to compute qualitative forecast data from staffing and headcount simulations. This will help to highlight quantitative and qualitative workforce shortfalls and surpluses over the medium and long term. An HR planning process can also be defined, which includes far more pronounced qualitative elements in addition to the quantitative component. For instance, the process makes specific statements on qualifications needed going forward, on the training structures required to build theses qualifications, and on the structure of expert careers. Greater transparency and more active HR management is the only way to ensure that HR can respond early and effectively to shortfalls in trained staff crucial to business operations.

The adjusted personnel cost ratio for the Group as a whole in the 2008 financial year was 21.1 percent of revenue, representing a year-on-year increase of 0.4 percentage points. The decrease in adjusted personnel costs was mainly attributable to the continued staff restructuring and the resulting lower headcount.

Expenses for staff-related measures totaled approximately EUR 1.1 billion in the reporting year. These mainly relate to expenses for staff reduction tools that will have an effect beyond 2009, primarily to expenses in connection with early retirement arrangements for civil servants (EUR 0.2 billion), and voluntary redundancy and severance payments in Germany and abroad (EUR 0.8 billion). In the prior year, expenses for staff-related measures amounted to around EUR 2.0 billion, primarily comprising expenses in connection with early retirement arrangements for civil servants and voluntary redundancy and severance payments for employees.

Workforce development.

Employees in the Group, as of Dec. 31	2008	2007	2006
Total	**227,747**	**241,426**	**248,800**
Of which: Deutsche Telekom AG	44,645	51,863	92,575
Mobile Communications	67,588	66,054	60,429
Of which: Mobile Communications Europe	29,557	32,304	29,937
Of which: Mobile Communications USA	38,031	33,750	30,492
Broadband/Fixed Network	89,783	93,486	101,594
Business Customers	51,692	56,516	57,538
Group Headquarters & Shared Services	18,684	25,370	29,239
Breakdown by geographic area			
Germany	131,713	148,938	159,992
International	96,034	92,488	88,808
Of which: other EU member states	45,115	45,709	45,144
Of which: rest of Europe	7,908	8,179	9,014
Of which: North America	38,621	34,297	31,049
Of which: rest of world	4,390	4,303	3,601
Productivity trend			
Net revenue per employee (thousands of €)	263	257	247

Personnel costs in the Group.

billions of €	2008	2007	2006
Personnel costs in the Group	14.1	15.4	16.5
Special factors	1.1 [a]	2.0 [b]	2.8 [c]
Personnel costs in the Group adjusted for special factors [d]	13.0	13.4	13.7
Net revenue	61.7	62.5	61.3
Adjusted personnel cost ratio (%) [d]	**21.1**	**21.5**	**22.3**

Special factors (billions of €):
[a] Expenses for staff-related measures (early retirement arrangements, severance and redundancy payments, compensation payments, etc.) primarily in the segments Broadband/Fixed Network (– 0.7) and Business Customers (– 0.4).
[b] Expenses for staff-related measures (early retirement arrangements, severance and redundancy payments, compensation payments, etc.) primarily in the operating segments Broadband/Fixed Network (–1.1), Business Customers (– 0.3) and Group Headquarters & Shared Services (– 0.5).
[c] Expenses for staff-related measures (early retirement arrangements, severance and redundancy payments, partial retirement, etc.) in the operating segments Broadband/Fixed Network (–1.5), Business Customers (– 0.6) and Group Headquarters & Shared Services (– 0.7).
[d] Calculated and rounded on the basis of millions for greater precision.

DT KS location concept and reassignment of technology centers to Deutsche Telekom Netzproduktion GmbH.

The establishment of three service companies in 2007 was an essential element of the reorganization of Deutsche Telekom, which is intended to secure the Company's future and is therefore indispensable. The second step in 2008 involved expanding the new service companies' footprints.

Deutsche Telekom Kundenservice GmbH (DT KS) has proposed a large-scale plan to modernize and consolidate its service center structure in order to strengthen its market position.

After three months of negotiations, DT KS and its central works council agreed on a new location concept in conciliation committee proceedings. By mid-2011, DT KS will have pooled its activities at 33 sites throughout Germany. A comprehensive social plan will assist the employees who are hit particularly hard by this measure.

Deutsche Telekom AG transferred the four technology centers previously assigned to Deutsche Telekom AG to **Deutsche Telekom Netzproduktion GmbH** (DT NP) as of December 1, 2008. The Group is thus concentrating responsibility for the technology core business and increasing the economic performance of network production in the interest of its customers.

Some 6,000 employees across Germany were transferred to DT NP. An agreement was reached with the ver.di trade union on November 25, 2008 on the terms and conditions for the transferees. In line with agreements for T-Service, employees at the technology centers enjoy far-reaching safeguards relating to pay (financial cushion), protection against redundancy until the end of 2012 and protection against outsourcing until 2010.

Termination of the temporary leave system for DeTe Immobilien GmbH employees. With effect from September 30, 2008, the temporary leave system for DeTe Immobilien GmbH employees came to an end. Practically all employees have ended their inactive employment relationship (i.e., temporary leave) with Deutsche Telekom, while at the same time continuing employment within the employment enterprise, now STRABAG Property and Facility Services GmbH. The termination of the temporary leave system is a necessary step for Deutsche Telekom that allows the Group to meet its staff restructuring requirements by clearly assigning employees.

Collective bargaining in the Deutsche Telekom Group.

Collective negotiations for Telekom Shop Vertriebsgesellschaft, T-Mobile Deutschland and T-Systems were concluded in the 2008 reporting year.

First, the collective negotiations for Telekom Shop Vertriebsgesellschaft were brought to a successful conclusion in March 2008. After five months of no change, annual target salaries increased on a straight-line basis by 3.8 percent from June 1, 2008. A one-time payment of EUR 650 for lower salary groups and EUR 550 for higher salary groups was made in April 2008. The agreement will run for 16 months and expire on April 30, 2009.

The parties reached an agreement for T-Mobile Deutschland in June 2008. Under the terms of the agreement, the salaries of around 4,000 pay-scale employees will be adjusted in two stages. Salaries rose by 3.6 percent as of June 1, 2008 and will rise by a further 2.3 percent 12 months later. The collective agreement cannot be terminated before December 31, 2009. For the first months of 2008, the lower salary groups received an additional one-time payment of EUR 650 (EUR 550 for civil servants on leave) and the higher salary groups EUR 550 (EUR 470 for civil servants on leave). In January 2009, employees in the lower salary groups received another one-time payment of EUR 500 (EUR 425 for civil servants on leave), while EUR 425 will be paid to those in the higher salary groups (EUR 340 for civil servants on leave).

The 2008 collective negotiations at T-Systems were concluded in July. The result was a salary increase of 3.1 percent effective January 1, 2009. The linear salary increase applies to the approximately 27,000 employees of T-Systems Enterprise Services and T-Systems Business Services who are covered by the company collective agreement with the service industry trade union ver.di. The parties agreed a one-time payment of EUR 900 for 2008. The wage settlement is valid for a total of 21 months and will expire on December 31, 2009.

The collective negotiations at Telekom Shop Vertriebsgesellschaft, T-Mobile Deutschland, and T-Systems had to take differing business backgrounds into consideration. Overall, it was possible to reach an agreement that takes into account the economic situation of the individual company on the one hand and the interests of the employees on the other. The collective remuneration agreements with the T-Service companies and Deutsche Telekom AG were terminated with due notice effective December 31, 2008. Collective negotiations for around 50,000 employees and approximately 11,500 trainees began in mid-January 2009.

Collective negotiations on remuneration increases for DeTeFleet GmbH and Deutsche Funkturm Management GmbH began in 2008 but have not yet been concluded.

Pay increase for civil servants in the Deutsche Telekom Group. The lawmaker decided to adjust retroactively the remuneration and pensions of German civil servants by enacting the 2008/2009 Federal Civil Servant Remuneration and Pension Adjustment Act (Bundesbesoldungs- und Versorgungsanpassungsgesetz). This also applies to civil servants employed at Deutsche Telekom AG. The Act provides for the following pay increase: On January 1, 2008, the basic monthly salary rates increased by EUR 50 (basic amount). Remuneration, including the basic amount, increased on a straight line basis by 3.1 percent. A further linear increase of 2.8 percent followed on January 1, 2009. In addition, one-time payments of EUR 225 were made in January 2009; overtime pay and severity allowances also rose.

The draft act for the reform of civil service law (Dienstrechtsneuordnungsgesetz) was approved by the German Bundestag on November 12, 2008 and by the Bundesrat (second chamber) on December 19, 2008. The draft includes a gradual raising of the retirement age of Federal civil servants to 67. This raise does not apply, however, to those civil servants who have chosen to take early retirement, meaning civil servants who are eligible can still take early retirement upon reaching the age of 55. When the reform comes into force, the provisions for early retirement will be extended until December 31, 2012, whereas they are currently limited until December 31, 2010. Exercise of the early retirement option in 2011 and 2012 is subject to a decision by the Board of Management.

Training commitment remains at a high level.

For years Deutsche Telekom has been the largest vocational training provider in Germany. At the end of the reporting year, the Group had 11,393 trainees and students on degree courses with integrated practical phases in Germany. The proportion of trainees in the workforce is also well above the average of other companies. Deutsche Telekom intends to maintain this high level of commitment to junior-staff training. By September 1, 2008, Deutsche Telekom gave around 3,800 young people a career development opportunity by accepting them for training or a study program. Training positions are available in twelve different professions and on various ‘dual’ training courses. For 2008 to 2010, Deutsche Telekom and the service industry trade union ver.di agreed upon an above-average trainee ratio of 2.9 percent per year of the headcount of permanent employees in Germany. At the end of 2008 the parties also agreed to exceed this quota in 2009 as the Group takes the realization of its social responsibility to an even higher level. The Group trainee ratio was 9.2 percent of staff in Germany, excluding Vivento, at the end of 2008.

Deutsche Telekom’s training programs are high quality and attract a large number of applicants. Every year, the chambers of commerce number Deutsche Telekom-trained staff among the best in their profession. In the interests of developing prospects for the younger generation, Deutsche Telekom’s training goes far beyond its own staffing requirements. Unions and management agreed in June 2007 that more than 4,000 junior staff would be given permanent positions in the Group in Germany by the end of 2009. The Group gave around 1,300 trainees permanent positions in 2007; approximately 1,800 followed in 2008. Deutsche Telekom invests in its future by training junior staff and promotes the necessary change in the Group by employing young people.

Further training at Deutsche Telekom.

Telekom Training, further-training provider for the Group and the German labor market, coordinates and designs training programs for expert and executive staff. In total, Telekom Training held 23,428 seminars for 155,457 participants in 2008. The majority of these events took place at one of the eight Deutsche Telekom conference hotels.

Service culture: On track to achieve service excellence.

Deutsche Telekom has launched several projects to increase the level of service qualification in the long term and to generate an active service culture throughout the Group. The establishment of the service companies was a key element in the future-oriented restructuring of Deutsche Telekom – a fine example of a successful and ambitious transformation process.

Service-oriented approaches are starting to bear fruit:

- Service quality increased: around 60 percent of all customer inquiries were resolved upon initial telephone contact.
- Service Saturday pilot launched nationwide: Deutsche Telekom is positioning itself as a service pioneer in the industry.
- Customer information systems optimized: powerful customer support processing software has been installed.
- Customer satisfaction growing: according to surveys, customers are increasingly satisfied with products and services.

Ideas management.

In 2008, Deutsche Telekom continued implementation of the strategic realignment of its ideas management organization. Throughout the Company, ideas are no longer separated by business area; there is now one central Ideas Management Center for the entire Group. A Group Works Agreement was also concluded with employee representatives as an essential measure to put ideas management on a uniform footing throughout the Group and thus to lay the foundation for boosting the Group's innovation culture.

Moreover, in 2008 the focus was on substantially shortening the time it takes to assess new ideas. For instance, having been unattended for an unacceptable length of time, virtually the entire backlog of suggestions and ideas was finally assessed under a special initiative. Ideas Management also implemented various measures to improve quality, including optimization of the IT system and improved monitoring of processing times. In 2008 alone, the Group generated savings of EUR 0.1 billion from a total of 8,456 ideas.

Service takes center stage in human resources work with HR@2009.

Leaner, more efficient, more customer-oriented: The HR@2009 project boosts the role of HR as a partner to Deutsche Telekom's business units. The new organizational structure is already up and running in the domestic Group units and serves as a model for the international roll-out. This project also contributes to the Group-wide Save for Service program.

Outstanding customer focus and efficiency as a result of HR@2009. Deutsche Telekom's new HR organization is based on a clear distribution of roles:

- The HR business partners are the direct contacts for HR topics within the Group.
- The HR competence centers provide expertise and advisory services to the HR business partners.
- The shared services have a central role in the management and performance of standard administrative processes.

Human Resources Service Telekom as a fully integrated service provider. Supporting a customer base of over 140,000 employees, Human Resources Service Telekom (PST) as an HR shared service center has developed into a fully integrated, nationwide service provider for administrative HR products. Since it was set up in 2006, PST has integrated all the HR service centers of the major national units. These measures chiefly affected T-Systems Enterprise Services and T-Mobile Deutschland in the reporting period.

Risk and opportunity management.

Continued decline in prices in the core business // Consolidation among competitors // Extensive data privacy measures

Deutsche Telekom's operating environment is characterized by continuous technological progress, increasingly fierce competition, and regulation. Deutsche Telekom is mastering these challenges by systematically managing risks and opportunities using a holistic risk early warning system.

This system consolidates all strategic and organizational control and monitoring measures for managing risks, focusing on early identification, assessment, and management of risks and opportunities. Deutsche Telekom analyzes opportunities primarily within the framework of its strategy and innovation development activities on the basis of comprehensive market analyses in order to identify potential opportunities for its segments and markets.

The Group's risk management unit regularly reports to the Board of Management on risks and their development. The Board of Management in turn informs the Supervisory Board. The Audit Committee of the Supervisory Board regularly examines the risk management system and the risk reports at its meetings.

Deutsche Telekom regularly analyzes risks and opportunities, both centrally and in the Group segments. The early warning systems used in this process are based on prescribed Group-wide methods and are tailored to specific requirements. Potential deviations in the planning period are analyzed to determine the potential scope and probability of occurrence, using methods such as scenario modeling. The reference variables for the potential scope are the Group's target values (including EBITDA).

Deutsche Telekom's risk management system aggregates essential EBITDA-assessed individual risks using combination and simulation processes and taking probabilities of occurrence and correlations into account. In addition, it analyzes incidents and situations that could adversely affect the Group's reputation and image. These components are factored into the assessment of the aggregate risk position, which is carried out using a system of indicators that covers all material risk areas.

Principal opportunities and risks are reported quarterly, with additional ad hoc reports generated in the event of unexpected risks. Materiality thresholds for risks are defined for each reporting level. Group Risk Management is in charge of the methods and systems used for this Group-wide, standardized risk reporting system and also ensures that the risk early warning system works effectively and efficiently.

Deutsche Telekom attaches particular importance to managing risks arising from financial positions. All treasury activities, in particular the use of derivatives, are subject to the principle of risk minimization. For this purpose, the Group manages all financial transactions and risk positions in a central treasury system. Group management is informed of these positions on a regular basis. Deutsche Telekom uses derivatives to hedge interest rate and currency exposures that could have an effect on cash flow as well as other price risks.

Certain financial transactions require the prior approval of the Board of Management, which is also regularly briefed on the scope of the current risk exposure. The Deutsche Telekom Group simulates various market and worst-case scenarios to estimate the effects of different conditions on the market. It uses selected derivative and non-derivative hedging instruments to hedge market risk, depending on the risk assessment. However, Deutsche Telekom only hedges risks that affect cash flows. The Group uses derivatives exclusively as hedging instruments, not for trading or other speculative purposes.

The effectiveness and efficiency of risk management processes and compliance with the regulations and guidelines in Deutsche Telekom's Risk Management Manual are subject to regular reviews by Internal Audit. Within the scope of their legal mandate to audit the Company's annual financial statements, the external auditors examine whether the risk management system is able to identify at an early stage risks and developments that could jeopardize the Company's future.

Deutsche Telekom's risk management system ensures that business risks and opportunities are identified early on and that the Group is in a position to deal with them actively and effectively. This system thus complies with the statutory requirements for risk early warning systems and conforms to German corporate governance principles.

The risks.

Of all the risks identified for the Group, those risk areas or individual risks that could, as it stands today, materially affect Deutsche Telekom's financial position and results are examined in the following sections.

Economic environment. For Deutsche Telekom's largest markets – Germany and the United States – the economic outlook for 2009 has worsened significantly. The main risk facing the global economy is the extent and duration of the financial market crisis and its impact on the real economy. Despite efforts by governments and central banks, the global economic recession looks set to continue for some time. A gradual recovery is not expected until late 2009. Economic developments are impacting not only the willingness of consumers to buy but also, and in particular, the readiness of enterprises to invest.

Industry and competition. Unrelenting stiff competition and technological progress continued to depress prices for voice and data services in both fixed-network and mobile communications in 2008. There is a general risk that price reductions cannot be compensated by corresponding volume growth.

Competitive pressure could rise even further as a result for example of significantly expanded coverage by (regional) telecommunications carriers and the continuing trend toward bundled products. Technological innovations and increasing fixed-mobile substitution are also intensifying the competitive situation. Moreover, previously pure mobile communications providers in Germany are increasingly offering fixed-network and DSL products. In addition, competing DSL providers offer bundled products integrating broadband and Voice over IP (VoIP) without the need for a fixed-network line.

Furthermore, competitors are increasingly taking over cable companies that operate their own home lines. This enables these companies to offer private homes and smaller companies telecommunications products that do not require expansion of their own network or a local loop line from Deutsche Telekom. Alternatively, in certain regions competitors are extending their own fiber-optic network up to the home so that they are independent of Deutsche Telekom's network there, too. The cable companies are expanding their range of services to include triple-play offers, for example. A significant competitive trend is emerging where Deutsche Telekom increasingly has to compete with players that do not belong to the telecommunications sector as such, including major companies from the consumer electronics and Internet industries. Despite having lost some market share already, Deutsche Telekom continues to be exposed to the risk of a further loss of market share and falling margins.

In Germany and other European markets, the proliferation of low-cost providers has further reduced prices for both mobile voice telephony and mobile data services. It is not known whether and to what extent this decline in prices can be compensated by corresponding volume growth. In the United States, T-Mobile is faced with the challenge of being the smallest of the four national wireless providers. T-Mobile must continue to successfully drive its product and service quality and pricing. As a crucial growth driver for Deutsche Telekom, risks to T-Mobile's U.S. business may also negatively impact the Group's ability to reach its targets.

As for the Business Customers segment, the ICT market is experiencing declining prices and long sales cycles with the risk of lower revenues and margins for T-Systems. In the current economic climate, corporate customers could postpone investments, which may impact T-Systems' ICT business. T-Systems' international footprint and brand awareness are limited, especially compared with some of its competitors. This could adversely affect T-Systems' ability to leverage growth potential, particularly considering the growing importance of business with multinational corporations outside Germany. T-Systems was strategically realigned in 2008 with the goal of further expanding its market lead in the business customers segment in Germany and focusing ICT solutions expertise in large-scale projects.

Products, services, and innovations. As a result of rapid technological progress and increasing technological convergence, new and established technologies or products may to some extent substitute one another. This could lead to lower prices and revenues in both voice and data traffic. On the other hand, the range of new products such as the iPhone that was rolled out in key European markets, and the T-Mobile G1 phone provide an opportunity to tap new sources of mobile Internet revenue.

Key drivers of demand for broadband lines include the increasing performance of transmission technology and the availability of innovative products and services. Against the background of strong market penetration, the first indications of the market in Germany becoming saturated can be expected in the form of slowing market growth. There is also a risk that Deutsche Telekom will not be able to convince customers sufficiently of the benefits of the new, innovative products and services or raise the level of acceptance among customers. The marketing of innovative TV products (Entertain) will also be influenced by the prevalence of cable TV connections in Germany and the broad range of free-to-air television channels compared with other countries.

Deutsche Telekom is augmenting the sales opportunities of the mobile Internet by continuously expanding its high-performance mobile communications network. Thanks to increasingly higher bandwidths and better network coverage, high-quality multimedia offerings and office applications are now taken for granted by people on the move. If mobile data applications do not develop as expected, there is a risk that revenue targets will be missed. Furthermore, investments in network construction and expansion as well as in mobile communications licenses may pay off later than expected. If competitors prove more successful than Deutsche Telekom at convincing customers of the added value of mobile products and services, this could lead to the loss of particularly high-revenue customers.

Systematic orientation toward customer needs helped improve service quality in 2008. Customer service will continue to be of crucial significance for customer satisfaction and long-term business success.

Regulation. Regulation of the network, network access and prices applies to telecommunications services offered by network operators with "significant market power." In Germany, Deutsche Telekom is considered such an operator and is therefore subject to strict regulation in broadband and fixed-network communications, and increasingly in mobile communications. Subsidiaries are also subject to corresponding regulatory regimes in the fixed-network and mobile areas.

The risk that regulation will be extended to cover modern super-fast optical fiber access networks and the restrictions regarding the dismantling of main distribution frames make political lobbying necessary. Regulation gives extensive powers to government agencies to intervene in product design and pricing, which can have a drastic effect on operations. Deutsche Telekom is able to anticipate such interventions, which may intensify existing price and competitive pressure, only to a limited extent. There are concerns that these regulatory influences in Germany could impact the revenue trend in the fixed-network core market and in the mobile communications market in the medium and long term.

Investments in next-generation access (NGA) require a modified regulatory framework that provides for a fair distribution of risk among investors and access-seekers while allowing for the necessary price flexibility. Otherwise, there is risk that these investments will not be as cost effective as planned.

The scope of regulation has also been extended to mobile termination. The European Commission is currently reviewing a recommendation aimed at limiting the costs that can be included in the calculation of termination charges. Termination charges are therefore expected to come under further pressure.

Even after an average increase of 4.4 percent in fixed-network termination charges in Germany, it is still possible that regulated wholesale charges will be cut. The regulatory framework is currently being reviewed by the European Union. It is expected that the EU will make regulation even more detailed and create more capacity for intervention. There is no indication of any significant efforts in favor of sector-specific deregulation. Rather, it is feared that the outcome of the review will increase the scope of regulation.

The European Commission has proposed, for example, a new regulatory instrument allowing, in the most extreme case, the functional separation of network operation and services. The Commission's proposals are currently being reviewed by the European bodies. Results are expected toward the end of the first half of 2009.

The European Commission is pressing for a further reduction of international roaming rates (billing intervals for voice as well as additional caps for text messaging and data). This kind of regulation is expected to result in considerable revenue losses.

In October 2008, the European Commission launched a preliminary investigation into possible anti-competitive behavior of European mobile communications operators with regard to mobile VoIP services. The investigation focuses on whether the operators are setting negative incentives for the use of VoIP services, thus creating competition barriers for VoIP providers.

Should regulation become this intense, Deutsche Telekom's flexibility could be compromised, especially with regard to pricing and product design.

Human resources. Staff restructuring within the Deutsche Telekom Group in Germany continued on a socially conscious basis in 2008. This was implemented essentially by means of voluntary redundancies, partial and early retirement, and employment opportunities for civil servants and employees offered by Vivento, especially in the public sector. Deutsche Telekom will also continue to restructure its workforce as required. If it is not possible to implement the corresponding measures to the extent planned or not at all, this may have negative effects on the Group's financial targets and profitability.

When Group units that employ civil servants are disposed of, it is generally possible to continue to employ them at the Group unit to be sold. This requires the consent or initiative of the civil servants themselves. However, there is a risk that civil servants may return from the unit sold to Deutsche Telekom after the end of their temporary leave from civil servant status. This risk can be reduced – by compensation payments, for example – but not completely ruled out. At present, around 4,200 civil servants have the right to return to Deutsche Telekom. This figure increased considerably in 2008, chiefly as a result of the deconsolidation of DeTe Immobilien.

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 (Postpersonalrechtsgesetz – 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 that the case must be presented before the Federal Constitutional Court for a judicial review pursuant to Art. 100 of the German 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 worked for Deutsche Telekom between 2004 and 2008 are entitled to receive year-end bonus payments for the relevant years, this could result in corresponding expenses.

IT/telecommunications infrastructure. In the 2008 financial year, Deutsche Telekom implemented comprehensive programs to adapt its IT systems and IT infrastructure to changing customer needs and new organizational structures. Any lack of efficiency in planning and monitoring these activities could result in resource allocation errors and disruptions to business processes.

Building on the IT 2010 initiative launched in March 2007, the Group-wide project Next Generation IT (NG IT) was launched in February 2008 as part of the updated IT strategy. NG IT is the framework for all IT-related components in the Group's transformation programs. The aim of the program is to develop the future IT architecture in the Group. NG IT looks at the Group's information technology at all architectural levels: IT infrastructure, applications, data, and systems. Group-wide projects work on preparing, for example, the joint product data model, solutions for forward-looking, comprehensive customer relationship management (CRM), and future IT support for the Finance, Human Resources, and Procurement functions.

There are long-term plans to develop and implement an IP platform that supports both fixed-network and mobile communications services. Deutsche Telekom will completely replace the existing network platform by an IP-based system. The implementation of this shared IP platform entails risks that affect all IT systems with an Internet connection, such as hacker attacks and so-called spam calls. Due to the great complexity of the IT landscape, malfunctions, for example between newly developed and existing IT systems, would lead to process disturbances and, in a worst case scenario, to interruptions to business processes.

Deutsche Telekom counteracts these risks with a large number of measures including redundant systems and defensive devices such as firewalls and virus scanners, regular technical network tests, building security measures, and organizational precautions. Early warning systems ensure that automated and manual countermeasures can be initiated in the event of disruptions. In addition, organizational and technical emergency procedures are in place to minimize damage. Group-wide insurance programs have also been established to cover operational interruptions and damage to current and non-current assets.

Data security and data privacy. Safeguarding customer data is a top priority for the Group. It forms the basis for a trusting relationship between the Company and its customers. In the reporting year, Deutsche Telekom faced allegations of data misuse and flaws in the security system. To guarantee better protection for customer data Deutsche Telekom took various measures, such as the restructuring of its data privacy in fall 2008. Deutsche Telekom created a new Board of Management department for Data Privacy, Legal Affairs and Compliance and put together a comprehensive action package for improving data privacy, increasing data security and enhancing transparency, thus underlining the significance of these issues. The data privacy and security expertise of the Group's specialists as well as recommendations from external experts were assimilated in the process. These activities will also involve a significant increase in financial and human resources in these areas as well as a right to veto business decisions relating to data privacy. Together with his staff, the new Board member will ensure that Deutsche Telekom harmonizes and implements the necessary measures related to data privacy and security and will monitor compliance throughout the Group. Furthermore, the Group is setting up an independent data privacy council comprising leading experts from universities, industry and other organizations.

To guarantee the highest standards in operational data privacy, Deutsche Telekom has launched comprehensive action plans and is pressing on with existing measures. Deutsche Telekom thus makes a crucial contribution to improving the privacy of customer data in everyday business – another step in continuing its numerous efforts from the past years. To increase the awareness of data privacy and data security among employees, in particular executives, the Company stepped up its established training programs and the annual data audits. In addition, the Group will give even more serious consideration to cases of misuse and punish them accordingly. Deutsche Telekom has further restricted the scope of various customer support activities, thereby limiting employees' access to data. User IDs now have to be renewed at shorter intervals. In addition, Deutsche Telekom extended the use of fixed IP addresses to ensure that employees and sales partners may access the systems on specific computers only. Access for external sales partners and our staff to internal IT systems is restricted, among other things, by applications requiring transaction authentication numbers (TANs). In the TAN procedure, the sales staff can only access personal data of mobile customers when they receive a valid transaction number from the customer. Customers are sent an automatically generated TAN via text message to their cell phone whenever they wish to carry out any modifications to their contract.

Together with the Federal Criminal Police Office and the police, Deutsche Telekom plans to launch a security concept for data of persons particularly at risk. The goal is to sustainably increase transparency in the area of data privacy. The Deutsche Telekom Group will publish a voluntary report prepared by the Group privacy officer every year and submit it to the Supervisory Board of Deutsche Telekom and the Federal Commissioner for Data Protection. The first data privacy report is scheduled for the first quarter of 2009. The Company has commissioned the German Technical Inspection Association (TÜV) as a recognized testing authority with the task of carrying out a data privacy certification of its customer systems. In addition to its own investigations, Deutsche Telekom will commission a certified company to systematically audit its systems in order to detect weaknesses. By implementing these two measures, Deutsche Telekom is set to assume a pioneering role in the ICT industry. In October 2008, Deutsche Telekom launched the website www.telekom.com/datenschutz (in German only) which provides information on the current status of data privacy at Deutsche Telekom in Germany. The site also provides information on data privacy incidents that are the subject of criminal investigations. The cases are published in agreement with the relevant authorities and the supervisory bodies are informed of the details. Deutsche Telekom is therefore voluntarily fulfilling a requirement that is still being debated among politicians as a possible obligation.

These countermeasures will minimize the occurrence of other data security and privacy incidents. Negative consequences for Deutsche Telekom's business caused by a loss of reputation cannot be ruled out or accurately assessed at the present time.

Health and the environment. Electromagnetic fields (EMFs) are repeatedly associated with potential environmental and health damage. This is a controversial issue and the subject of public debate. Existing public acceptance problems relate both to networks and to the use of terminal equipment. They have an effect, for example, on T-Mobile, particularly with regard to mobile network roll-out. In the Broadband/Fixed Network operating segment, they affect sales of cordless DECT equipment and devices that use WLAN technology. Apart from the legal risks, there may be regulatory initiatives involving the implementation of preventive measures in mobile communications. The World Health Organization (WHO) has declared that, on the basis of current scientific knowledge, there are no known adverse effects on health provided internationally acknowledged threshold levels are not exceeded. Nor does the WHO expect any serious dangers to arise in the future, though it does recommend continued research due to ongoing scientific uncertainties.

Deutsche Telekom aims to overcome doubts among the general public by pursuing an objective, scientifically well-founded, and transparent information policy. The Deutsche Telekom Group's efforts to provide state-of-the-art technologies therefore include funding scientific research that aims to detect possible risks at an early stage. Among other things, the Group is involved in Informationszentrum Mobilfunk (IZMF), an industry initiative by mobile communications enterprises, as well as in the German Research Association for Radio Applications (Forschungsgemeinschaft Funk – FGF), which supports independent research into the biological effects of EMFs. In addition, the EMF policy adopted in 2004 has enabled T-Mobile to take measures in the areas of transparency, information, involvement, and research funding that should minimize both potential legal and regulatory problems as well as acceptance problems among the public.

Purchasing. As an ICT service provider and an operator and provider of IT/telecommunications products, Deutsche Telekom cooperates with a variety of suppliers of technical components including software and hardware, transmission and switching technology, outside plant and terminal equipment.

Supply risks cannot be entirely ruled out. Delivery bottlenecks, price increases, changes in the prevailing economic conditions or suppliers' product strategies may have a negative impact on Deutsche Telekom's business processes and results. Risks may result from the dependence on individual suppliers or from individual vendors' defaulting as a direct result of the economic crisis. Deutsche Telekom employs a large number of organizational, contractual, and procurement strategy measures to counteract such risks.

Litigation. Deutsche Telekom is party to several proceedings both in and out of court with government agencies, competitors, and other parties. The proceedings listed below are of particular importance from Deutsche Telekom's point of view.

Shareholders have filed more than 2,000 lawsuits in Germany against Deutsche Telekom. They claim to have purchased shares in Deutsche Telekom on the basis of the offering prospectuses dated May 28, 1999 and May 26, 2000. Many of these lawsuits also allege that Deutsche Telekom did not recognize the carrying amount of the real estate assets in accordance with statutory accounting requirements and that it provided incorrect data in connection with the acquisition of Voicestream. Some lawsuits are also directed at KfW Bankengruppe and/or the Federal Republic of Germany. The aggregate amount of the claims filed under these lawsuits is approximately EUR 79 million. The Frankfurt/Main Regional Court has issued two certified questions to the Frankfurt/Main Higher Regional Court pursuant to the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG). Moreover, several thousand investors have initiated conciliatory proceedings with a state institution in Hamburg, the "Öffentliche Rechtsauskunfts- und Antragsstelle der Freien und Hansestadt Hamburg."

After the merger of T-Online International AG into Deutsche Telekom AG became effective on June 6, 2006, Deutsche Telekom AG was served around 250 applications for a court review of the fairness of the exchange ratio stipulated in the merger agreement dated March 8, 2005. Under the German Reorganization and Transformation Act (Umwandlungsgesetz), former shareholders of T-Online can request the Frankfurt/Main Regional Court to review the fairness of the exchange ratio in the course of appraisal rights proceedings (Spruchverfahren). If the outcome of these proceedings shows that the exchange ratio for the T-Online shares was too low, the court will stipulate a supplementary cash payment that Deutsche Telekom would have to pay to all former shareholders of T-Online whose shares were exchanged for Deutsche Telekom shares in connection with the merger. Proceedings are scheduled to begin on February 17, 2009 before the Frankfurt/Main Regional Court.

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 to be 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 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.

On May 3, 2005, Vivendi SA (formerly Vivendi Universal S.A., hereinafter referred to as Vivendi) took legal action against Deutsche Telekom AG and T-Mobile International AG & Co. KG (now T-Mobile International AG). Vivendi alleges that the defendants unlawfully broke off negotiations on the acquisition of a 48-percent stake in Polska Telefonia Cyfrowa Sp.z o.o (PTC) in order to then obtain these shares at a lower price. The value in dispute has been put at approximately EUR 2.27 billion. The case was dismissed in March 2008 by the Paris Commercial Court in the first instance. Vivendi has given notice of appeal against this decision. Numerous other lawsuits and arbitration proceedings in addition to those listed below are pending in connection with the disputed PTC shares. However, they are not presented in detail here.

On April 13, 2006, in line with the rules of the International Chamber of Commerce in Paris, Vivendi filed arbitration proceedings before the international court of arbitration in Geneva against Deutsche Telekom AG, T-Mobile International AG & Co. KG (now T-Mobile International AG), T-Mobile Deutschland GmbH, T-Mobile Poland Holding Nr. 1 B.V. and others. This complaint is aimed at a declaratory judgment that on or before March 29, 2006 a verbal agreement was reached between the parties concerning, inter alia, putting an end to all legal disputes relating to the investment in PTC, or that pre-contractual obligations were breached. Vivendi is demanding performance of the contract or compensation.

On October 23, 2006, Vivendi filed a suit against Deutsche Telekom AG, T-Mobile USA Inc., T-Mobile International AG, T-Mobile Deutschland GmbH and others with the U.S. District Court in Seattle, Washington State, claiming that the defendants had colluded illegally to cause Vivendi to lose its alleged interest in PTC. The lawsuit is based on the Racketeer Influenced and Corrupt Organizations (RICO) Act. The Court dismissed the action on June 5, 2008. Vivendi has lodged an appeal against this decision and reduced its compensation claim from around USD 7.5 billion to around USD 2.5 billion.

On October 19, 2005, following enforcement proceedings, Deutsche Telekom received a claim for damages of approximately EUR 86 million plus interest from telegate AG. telegate alleges that Deutsche Telekom charged excessive prices for the provision of subscriber data between 1997 and 1999, which resulted in telegate AG having insufficient funds available for marketing measures and preventing it from achieving its planned market share. Following enforcement proceedings, Deutsche Telekom received a claim for damages of approximately EUR 329 million plus interest from Dr. Harisch, also on October 19, 2005. Dr. Harisch alleges that due to the excessive prices for the provision of subscriber data between 1997 and 1999, the equity ratio of telegate AG fell significantly on several occasions, resulting in the need for capital increases. This required Dr. Harisch and another shareholder to release shares from their own holdings, thereby diluting their remaining shareholdings. The plaintiff has increased his claim by approximately EUR 283 million. The amount in dispute has thus risen to approximately EUR 612 million.

Competitors have filed lawsuits against Deutsche Telekom AG with a notice of action seeking damages of currently EUR 223 million on grounds of an alleged price squeeze between wholesale and retail prices. This legal dispute has been suspended until the European Courts have issued a final decision related to proceedings for the reversal of a decision by the European Commission in administrative penalty proceedings that are decisive for the proof of claim. On April 10, 2008, the European Court of First Instance dismissed Deutsche Telekom AG's claim for reversal of the European Commission's decision. Deutsche Telekom AG has filed an appeal against the ruling with the European Court of Justice.

On October 31, 2005, satellite operator Eutelsat S.A. filed an action against Deutsche Telekom AG and T-Systems Business Services GmbH with the Paris Commercial Court for damages of EUR 142 million due to an alleged breach of contract. The Paris Commercial Court declined jurisdiction and dismissed the action on June 24, 2008. Eutelsat's appeal was also dismissed on December 10, 2008. Eutelsat has lodged another appeal against this decision and also still has the option of referring the matter to an arbitration court.

In a ruling on the ULL reference offer dated December 21, 2007, the Federal Network Agency obliged Deutsche Telekom to provide 333,000 ULLs per month as part of a binding plan. Orders going beyond the total planned volume of 333,000 ULLs must be fulfilled as far as this is technically and operationally feasible. For any delays in provisioning, Deutsche Telekom AG will be fined EUR 3.62 per day for the first ten days and, from the eleventh day onwards, a one-time additional fine of EUR 36.19, plus EUR 1.82 per day. Competitors must pay Deutsche Telekom EUR 1.82 for each ULL that falls short of their announced volume. The ULL reference offer will come into force once existing ULL contracts are terminated and new provisions are negotiated on the basis of the ULL reference offer. Deutsche Telekom AG took legal action against the Agency's ruling in January 2008.

In June 2007, the Federal Network Agency had obliged Deutsche Telekom to give its competitors access to its cable ducts (empty conduits) or, should there be no empty conduits, to dark fiber and to grant access to the unbundled local loop, where required also in cable distributors. In a temporary injunction in January 2008 and a ruling in April 2008, the Cologne Administrative Court largely upheld the Agency's decision. Deutsche Telekom has filed an appeal with the Federal Administrative Court.

Like many other large telecommunications/Internet providers, Deutsche Telekom believes it is exposed to an increasingly large number of intellectual property rights disputes. For Deutsche Telekom, there is a risk that it may have to pay license fees and/or compensation.

Furthermore, Deutsche Telekom intends to defend itself and/or pursue its claims resolutely in each of these court, conciliatory, and arbitration proceedings.

Financial risks. The financial risks for the Group arise mainly from liquidity, credit, and currency and interest rate risks. To guarantee the solvency and financial flexibility of Deutsche Telekom at all times, a liquidity reserve in the form of credit lines and cash is maintained. The primary instruments used for medium- to long-term financing are bonds and medium-term notes (MTNs) issued in a variety of currencies and jurisdictions.

As of December 31, 2008, 28 banks granted Deutsche Telekom credit lines totaling EUR 16.8 billion. In the current environment, new issues of bonds and medium-term notes are only possible in smaller volumes and within limited windows of opportunity. 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.

Rating agencies Moody's and S&P both cut Deutsche Telekom's long-term rating from A3 and A– in 2007 to Baa1 and BBB+ respectively. The outlook from both rating agencies is "stable." Fitch has maintained Deutsche Telekom's rating at A– with a negative outlook. If Deutsche Telekom's rating falls below certain defined levels, this will result in higher interest rates for some of the bonds and medium-term notes issued.

Deutsche Telekom believes it is rather unlikely that it will have difficulty in accessing the capital markets due to a decline in its ratings. Detailed information on financial risks can be found in Note 43 in the notes to the consolidated financial statements.

Impairment of Deutsche Telekom's assets. The value of the assets of Deutsche Telekom and its subsidiaries is reviewed periodically. In addition to the regular annual measurements, specific impairment tests may have to be carried out in certain cases. These may be necessary, for example, whenever due to changes in the economic, regulatory, business or political environment it can be assumed that the value of goodwill, intangible assets or items of property, plant and equipment might have decreased. These tests may lead to the recognition of impairment losses that do not however result in disbursements. This could impact to a considerable extent on Deutsche Telekom's results, which in turn may negatively influence the Deutsche Telekom share and ADS price.

Sales of shares by the Federal Republic and KfW Bankengruppe. As of December 31, 2008, the Federal Republic, together with KfW Bankengruppe held approximately 31.7 percent of Deutsche Telekom's shares, and the Blackstone Group held 4.4 percent. On April 24, 2006, the Blackstone Group purchased an interest in Deutsche Telekom AG's share capital from KfW Bankengruppe. The one-year lock-up for further sales of Deutsche Telekom shares by KfW Bankengruppe agreed between KfW Bankengruppe and Blackstone expired in April 2007. The two-year lock-up for the shares of Deutsche Telekom purchased by the Blackstone Group expired in April 2008.

It is possible that the Federal Republic will continue its privatization policy and sell further equity interests, including shares in Deutsche Telekom AG, in a manner designed not to disrupt the capital markets and with the involvement of KfW Bankengruppe. On May 16, 2008, KfW Bankengruppe issued a five-year exchangeable on shares of Deutsche Telekom AG. Exchangeables are debt certificates that the holder can exchange, during a period determined in advance and at a conversion price determined in advance, for shares in another company (registered shares in Deutsche Telekom AG in the case of the KfW Bankengruppe exchangeables referred to here). If the conversion price is exceeded, KfW Bankengruppe may exchange the exchangeables submitted to it for shares in Deutsche Telekom AG and if the holders of the exchangeables exercise the conversion option, it must exchange them. When the exchangeables mature, KfW Bankengruppe has the right to pay them out in Deutsche Telekom AG shares. This exchangeable has a volume of EUR 3.3 billion and a conversion price of EUR 14.9341. The exchangeable issued by KfW Bankengruppe in 2003 that matured on August 8, 2008 was repaid in cash.

For Deutsche Telekom, there is a risk that the sale of a significant volume of Deutsche Telekom shares by the Federal Republic or KfW Bankengruppe, or speculation to this effect on the markets, could have a negative short-term impact on the price of the T-Share.

Aggregate risk position. The assessment of the aggregate risk position is the outcome of the consolidated analysis of all material areas of risk or individual risks. Despite the intense competitive and price pressure, the regulatory framework, the deterioration in economic conditions, and the considerable challenges the Group faces as regards its staff restructuring and quality of its customer service, the aggregate risk position in the reporting year has not fundamentally changed since the previous year. As it stands today, there is no risk to the Company's continued existence as a going concern.

The opportunities.

Focus, fix and grow – this strategy will safeguard Deutsche Telekom's stable, positive business development in the long term. Opportunities present themselves through the systematic implementation of the following pillars of this strategy: 1. Improve competitiveness in Germany and in Central and Eastern Europe, 2. Grow abroad with mobile communications, 3. Mobilize the Internet, and 4. Roll out network-centric ICT.

The expansion of DSL is also of particular importance, as all new business models will in future be based on broadband technology. Deutsche Telekom can now supply 96 percent of all German households with DSL lines. The Company has taken a major step toward filling the white spots on the map in rural areas. At the same time, the systematic roll-out strategy will provide opportunities for the use and payoff of innovative products. This also includes mobile data applications on the basis of mobile broadband technologies.

Innovative bundled products as well as convergence products are also potential areas of opportunity for Deutsche Telekom. As a large, integrated telecommunications group, Deutsche Telekom is not only able to cope with substitution risks better than specialized providers; it can also implement new bundled products. Civic, social, and ecological requirements are further starting points for the development of new, promising products and services, such as a state-of-the-art health care system, efficient climate protection, mobility geared to seniors, citizen-oriented administration, mobile working, or transparent goods traceability (e.g., commodity online services). In particular, IP-based solutions and the use of Radio Frequency Identification facilitate new business models that can reduce the quantities of resources used and also the costs to society and the environment. In this way, Deutsche Telekom makes a further contribution to the sustainable development of society.

Projects like T-City in Friedrichshafen are proof of the innovative strength of the Deutsche Telekom Group, which demonstrates its service quality combined with state-of-the-art networking technology, and allows customers to experience many products for themselves.

Significant 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" in the notes to the consolidated financial statements.

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.

Outlook.*

Deutsche Telekom well positioned financially in spite of financial market crisis // Markets remain fiercely competitive // Sustained improvement of service culture // Mobile communications will remain a growth engine // Broadband business to be further expanded // T-Systems: Concentration on corporate customers

Economic outlook.

Germany's six leading economic research institutes (Projektgruppe Gemeinschaftsdiagnose) and the recent economic outlooks issued by the International Monetary Fund and the World Bank predict that the national economies of the leading industrialized nations will pass through a phase of recession. A gradual recovery is not expected until late 2009. The global financial market crisis has brought about an economic slowdown in the United States, Europe and other industrialized countries. The Federal Government's latest annual economic report forecasts a drop in national GDP of around 2.25 percent in 2009. An increase of 0.2 percent had previously been forecast. While developed economies will contract in 2009, the World Bank believes that economic growth in emerging and developing countries will only reach around 3.8 percent.

Market expectations.

The forecast economic difficulties in German and international markets may force companies around the world to step up their cost-cutting measures and business with corporate and business customers in the areas of telecommunications and information technology may be impacted. There are currently no indications that consumers in Europe are reducing their telecommunications spending to a noticeable extent, although it is not possible to rule out completely any impact of the economic crisis on the mobile communications market in the United States. Deutsche Telekom's main sales markets will also face intense competition and a continuing fall in prices.

Deutsche Telekom is well positioned.

Deutsche Telekom will consistently pursue its strategic action areas – improving competitiveness, growing abroad with mobile communications, mobilizing the Internet and rolling out network-centric ICT – to achieve its long term goal of becoming a global leader in connected life and work.

Despite the turbulence on the financial markets, Deutsche Telekom managed to cover some of its 2009 funding requirements in the long term by issuing a bond of EUR 2 billion and placing a promissory note totaling EUR 0.2 billion at the beginning of 2009. Should the bond markets contrary to expectations not be able to manage any further issues in the course of this year, the remaining funding requirements can be covered using the existing liquidity reserve.

As such, the foundation is laid for Deutsche Telekom to achieve its financial targets, i.e., a sustained, strong level of cash flow and the payment of an attractive dividend, despite the expectation of an unfavorable economic environment. This will also be supported by the systematic implementation of cost-cutting measures. Where this requires adjustment of the personnel structure, the necessary staff reduction will be primarily implemented using socially responsible and voluntary instruments such as partial and early retirement arrangements, and severance and voluntary redundancy payments.

In addition, where it makes sense as part of the further internationalization of Deutsche Telekom, consolidation may also be an option in markets where the Group is already active. Activities outside these markets are also a possibility to leverage international economies of scale and synergies.

Mobile Communications Europe. Deutsche Telekom expects customer numbers to continue growing in the Mobile Communications Europe operating segment. A key growth driver is the range of innovative data services, especially an enhanced web'n'walk offering with new mobile devices and attractive rate plans. The investment in OTE added more mobile growth markets in Southeastern Europe to the footprint and will add potential for a sustainable increase in revenue, profit, and the customer base.

Adjusted for exchange rate effects, Deutsche Telekom expects the Mobile Communications Europe operating segment to experience positive revenue and profit trends overall. This development will be supported by savings initiatives. For instance, in the United Kingdom, T-Mobile UK and its competitor 3 UK have started to share their UMTS networks to cut costs and provide a larger proportion of the population with 3G mobile services. However, regulatory decisions and exchange rate risks may negatively affect revenue and profit denominated in euros.

The key areas of capital expenditure in Europe will be improvements in GSM network quality and the further roll-out of the UMTS networks. Moreover, T-Mobile was the world's first network operator to successfully test the Long Term Evolution (LTE) technical standard, one of the possible technologies for mobile communications networks of the future.

Mobile Communications USA. Absent further deterioration in the U.S. economy, the mobile communications business is expected to be positively impacted primarily by growth in non-voice services and further customer additions – albeit at a slower rate – in the Mobile Communications USA operating segment.

Based on these assumptions, Deutsche Telekom expects that the positive revenue and profit trend in mobile communications will continue in the United States. However, regulatory decisions and exchange rate risks may negatively affect revenues and profits in euros.

Mobile Communications USA will continue to focus capital expenditure on the enhancement of network quality and coverage, as well as the continued build out of 3G mobile communications networks.

Broadband/Fixed Network. Deutsche Telekom will defend its market leadership in the broadband and fixed-network business, even though its traditional access business will continue to suffer competition-driven losses of market share. Deutsche Telekom is countering these losses with its quality and service campaign which will again focus the Broadband/Fixed Network operating segment in 2009 on safeguarding and defending its core voice and access business, and broadband market leadership. In addition, Deutsche Telekom is focusing consistently on addressing growth areas with new products, for instance, an innovative IP connection for consumers in the first half of 2009 that will offer customers additional functions, such as video telephony.

One of the key issues in 2009 will be the further development of the mass market with Entertain. This is to be done through a combination of a super-fast DSL line and attractive content, together with a powerful package comprising television via DSL and a telephone line with all the flat rates.

Another important milestone will be the agreement with the Central Works Council on modernizing and consolidating the service centers. The Broadband/Fixed Network operating segment will generate additional savings under the Save for Service program.

Against this background, Deutsche Telekom expects the negative revenue and earnings trend in the Broadband/Fixed Network operating segment to slow in the medium term. This applies even when excluding the integration of approximately 160,000 business customers from the Business Customers operating segment effective January 1, 2009 and the first-time consolidation of OTE's fixed-network business.

Deutsche Telekom is continuing to invest in the high-speed network infrastructure in 2009. The focus will be on increasing broadband coverage in rural regions. Other investments in the performance of the existing IP network infrastructure are also planned.

Business Customers: Concentration on the growth market of ICT services for corporate customers. T-Systems now focuses on the ICT services growth market with solutions for corporate customers. Since January 1, 2009, the Broadband/Fixed Network operating segment has been serving Deutsche Telekom's business customers, which total around 160,000. The realignment of the business customer segments enhances business customer and corporate customer business in equal measure, and is an important milestone in strengthening the Company's leading market position in Germany.

Drawing on a global infrastructure of data centers and networks, T-Systems now operates the information and communications technology for some 400 corporate customers, including multinational corporations as well as public sector and public health institutions. On this basis, Deutsche Telekom's corporate customers arm provides integrated solutions for the networked future of business and society. Outside Germany, companies' increasing globalization is translating into growing demand in the international ICT market overall. It is this demand that T-Systems is addressing. The cost-cutting measures had encouraging effects in the past financial year and will continue in 2009. Revenue development is expected to remain at the prior-year level in this operating segment in 2009 and earnings are expected to improve as a result of the measures described.

Group Headquarters & Shared Services. Earnings in the Group Headquarters & Shared Services operating segment will be negatively affected primarily by the performance of Vivento, mainly as a result of the measures for securing employment opportunities for civil servants and salaried employees especially in the public sector. The improvement and centralization of functions aimed at achieving efficiency gains for the Group will also put pressure on the results of Shared Services.

General statement on the business development in the Group.

In view of the expected market situation in the individual operating segments, Deutsche Telekom aims to again achieve positive results for the entire Group.

* Outlook contains forward-looking statements that reflect management's current views with respect to future events. Words such as "assume," "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "plan," "project," "should," "want" and similar expressions identify forward-looking statements. These forward-looking statements include statements on the expected development of net revenue, earnings, and personnel figures for 2009 and 2010. Such statements are subject to risks and uncertainties, such as an economic downturn in Europe or North America, changes in exchange and interest rates, the outcome of disputes in which Deutsche Telekom is involved, and competitive and regulatory developments. Some uncertainties or other imponderabilities that might influence Deutsche Telekom's ability to achieve its objectives, are described in the "Risk and opportunities management" section in the management report and in the "Forward Looking Statements" and "Risk Factors" sections in the Annual Report on Form 20-F and the disclaimer at the end of the Annual Report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. We do not guarantee that our forward-looking statements will prove correct. The forward-looking statements presented here are based on the current structure of the Group, without regard to significant acquisitions, dispositions or business combinations Deutsche Telekom may choose to undertake. These statements are made with respect to conditions as of the date of this document's publication. Without prejudice to existing obligations under capital market law, we do not intend or assume any obligation to update forward-looking statements.