Consolidated financial statements

In order to save costs in an increasingly competitive environment while still being able to make the investments that are vital for our broadband and mobile business, we launched the Save for Service efficiency program last year. We have clearly exceeded the planned EUR 2 billion in savings – and thus made a major contribution to the sustainable and forward-looking development of our Company.

Consolidated income statement.

millions of €	Note	2007	2006	2005
Net revenue	1	**62,516**	**61,347**	**59,604**
Cost of sales	2	(35,337)	(34,755)	(31,862)
Gross profit		**27,179**	**26,592**	**27,742**
Selling expenses	3	(16,644)	(16,410)	(14,683)
General and administrative expenses	4	(5,133)	(5,264)	(4,210)
Other operating income	5	1,645	1,257	2,408
Other operating expenses	6	(1,761)	(888)	(3,635)
Profit from operations		**5,286**	**5,287**	**7,622**
Finance costs	7	(2,514)	(2,540)	(2,401)
Interest income		261	297	398
Interest expense		(2,775)	(2,837)	(2,799)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	8	54	24	214
Other financial income (expense)	9	(374)	(167)	784
Loss from financial activities		**(2,834)**	**(2,683)**	**(1,403)**
Profit before income taxes		**2,452**	**2,604**	**6,219**
Income taxes	10	(1,374)	970	(198)
Profit after income taxes		**1,078**	**3,574**	**6,021**
Profit (loss) attributable to minority interests	11	509	409	432
Net profit (profit (loss) attributable to equity holders of the parent)		569	3,165	5,589
Earnings per share	12			
Basic		0.13	0.74	1.31
Diluted		0.13	0.74	1.31

Consolidated balance sheet.

millions of €	Note	Dec. 31, 2007	Dec. 31, 2006
Assets			
Current assets		**15,945**	**15,951**
Cash and cash equivalents	17	2,200	2,765
Trade and other receivables	18	7,696	7,753
Current recoverable income taxes	10	222	643
Other financial assets	24	2,019	1,825
Inventories	19	1,463	1,129
Non-current assets and disposal groups held for sale	20	1,103	907
Other assets		1,242	929
Non-current assets		**104,719**	**114,209**
Intangible assets	21	54,404	58,014
Property, plant and equipment	22	42,531	45,869
Investments accounted for using the equity method	23	109	189
Other financial assets	24	599	657
Deferred tax assets	10	6,610	8,952
Other assets		466	528
Total assets		**120,664**	**130,160**
Liabilities and shareholders' equity			
Current liabilities		**23,215**	**22,088**
Financial liabilities	25	9,075	7,683
Trade and other payables	26	6,823	7,160
Income tax liabilities	10	437	536
Other provisions	30	3,365	3,093
Liabilities directly associated with non-current assets and disposal groups held for sale	20	182	17
Other liabilities	28	3,333	3,599
Non-current liabilities		**52,214**	**58,402**
Financial liabilities	25	33,831	38,799
Provisions for pensions and other employee benefits	29	5,354	6,167
Other provisions	30	3,665	3,174
Deferred tax liabilities	10	6,676	8,083
Other liabilities	28	2,688	2,179
Liabilities		**75,429**	**80,490**
Shareholders' equity	31	**45,235**	**49,670**
Issued capital	32	11,165	11,164
Capital reserves	33	51,524	51,498
Retained earnings including carryforwards	34	(16,226)	(16,977)
Other comprehensive income	35	(4,907)	(2,275)
Net profit		569	3,165
Treasury shares	36	(5)	(5)
Equity attributable to equity holders of the parent		42,120	46,570
Minority interests	37	3,115	3,100
Total liabilities and shareholders' equity		**120,664**	**130,160**

Consolidated cash flow statement.

millions of €	Note	2007	2006	2005
	38			
Profit after income taxes		**1,078**	**3,574**	**6,021**
Depreciation, amortization and impairment losses		11,611	11,034	12,497
Income tax expense (benefit)		1,374	(970)	198
Interest income and interest expenses		2,514	2,540	2,401
Other financial (income) expense		374	167	(846)
Share of (profit) loss of associates and joint ventures accounted for using the equity method		(54)	(24)	(152)
Profit on the disposal of fully consolidated subsidiaries		(379)	–	–
Other non-cash transactions		124	32	11
(Gain) loss from the disposal of intangible assets and property, plant and equipment		(42)	(72)	2
Change in assets carried as working capital		(1,072)	(17)	(298)
Change in provisions		1,825	1,585	(571)
Change in other liabilities carried as working capital		(1,391)	353	(134)
Income taxes received (paid)		171	(1,248)	(1,200)
Dividends received		36	27	60
Cash generated from operations		**16,169**	**16,981**	**17,989**
Interest paid		(4,005)	(4,081)	(4,017)
Interest received		1,550	1,322	1,086
Net cash from operating activities		**13,714**	**14,222**	**15,058**
Cash outflows for investments in				
– Intangible assets		(1,346)	(4,628)	(1,868)
– Property, plant and equipment		(6,669)	(7,178)	(7,401)
– Non-current financial assets		(264)	(624)	(604)
– Investments in fully consolidated subsidiaries and business units		(1,547)	(2,265)	(2,051)
Proceeds from disposal of				
– Intangible assets		39	35	33
– Property, plant and equipment		722	532	333
– Non-current financial assets		133	249	1,648
– Investments in fully consolidated subsidiaries and business units		888	(21)	0
Net change in short-term investments and marketable securities and receivables		(60)	(348)	(208)
Other		50	(57)	–
Net cash used in investing activities		**(8,054)**	**(14,305)**	**(10,118)**
Proceeds from issue of current financial liabilities		32,514	3,817	5,304
Repayment of current financial liabilities		(35,259)	(9,163)	(14,747)
Proceeds from issue of non-current financial liabilities		1,586	7,871	4,944
Repayment of non-current financial liabilities		(1,020)	(492)	(443)
Dividend payments		(3,762)	(3,182)	(2,931)
Share buy-back		–	(709)	–
Proceeds from the exercise of stock options		24	16	34
Repayment of lease liabilities		(208)	(219)	(200)
Net cash used in financing activities		**(6,125)**	**(2,061)**	**(8,039)**
Effect of exchange rate changes on cash and cash equivalents		(100)	(66)	69
Net increase (decrease) in cash and cash equivalents		**(565)**	**(2,210)**	**(3,030)**
Cash and cash equivalents, at the beginning of the year		**2,765**	**4,975**	**8,005**
Cash and cash equivalents, at the end of the year		**2,200**	**2,765**	**4,975**

The presentation of cash generated from operations has been changed to increase transparency and to disclose individual components. Net cash from operating activities is unchanged with the exception of the change in current finance lease receivables which will be classified as cash from investing activities from now on. Prior-year figures have been adjusted accordingly.

Statement of recognized income and expense.

millions of €	2007	2006	2005
Fair value measurement of available-for-sale securities			
– Change in other comprehensive income (not recognized in income statement)	(1)	3	126
– Recognition of other comprehensive income in income statement	(1)	(1)	(984)
Fair value measurement of hedging instruments			
– Change in other comprehensive income (not recognized in income statement)	(118)	385	(537)
– Recognition of other comprehensive income in income statement	3	(8)	(28)
Revaluation due to business combinations	(142)	395	(9)
Exchange differences on translation of foreign subsidiaries	(2,510)	(1,747)	2,878
Other income and expense recognized directly in equity	160	80	9
Actuarial gains and losses from defined benefit plans and other employee benefits	923	314	(1,099)
Deferred taxes on items in other comprehensive income	(228)	(275)	624
Income and expense recognized directly in equity	**(1,914)**	**(854)**	**980**
Profit after income taxes	**1,078**	**3,574**	**6,021**
Recognized income and expense	**(836)**	**2,720**	**7,001**
Minority interests	512	517	480
Equity attributable to equity holders of the parent	(1,348)	2,203	6,521

Notes to the consolidated financial statements.
Summary of accounting policies.

General information.

The Deutsche Telekom Group (hereinafter referred to as Deutsche Telekom) is one of the world's leading service providers in the telecommunications and information technology sector. With its operating segments, Mobile Communications Europe, Mobile Communications USA, Broadband/Fixed Network, Business Customers and Group Headquarters & Shared Services, Deutsche Telekom covers the full range of state-of-the-art telecommunications and information technology services.

The Company was entered as Deutsche Telekom AG in the commercial register of the Bonn District Court (Amtsgericht – HRB 6794) on January 2, 1995.

The Company has its registered office in Bonn, Germany. Its address is Deutsche Telekom AG, Friedrich-Ebert-Allee 140, 53113 Bonn.

The Declaration of Conformity with the German Corporate Governance Code required pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG) was released and made available to shareholders.

In addition to Frankfurt/Main, other German stock exchanges, and Tokyo, Deutsche Telekom shares are also traded on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs).

The annual financial statements of Deutsche Telekom AG as well as the consolidated financial statements of Deutsche Telekom AG, which have an unqualified audit opinion from Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, and PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, are published in the electronic Federal Gazette (Bundesanzeiger). This annual report and the Annual Report on Form 20-F, filed with the SEC due to Deutsche Telekom's listing on the NYSE, are available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on the Internet at www.telekom.com.

The consolidated financial statements of Deutsche Telekom for the 2007 financial year were released for publication by the Board of Management on February 11, 2008.

Basis of preparation.

The consolidated financial statements of Deutsche Telekom have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the regulations under commercial law as set forth in § 315a (1) HGB (Handelsgesetzbuch – German Commercial Code). All IFRSs issued by the International Accounting Standards Board (IASB), effective at the time of preparing the consolidated financial statements and applied by Deutsche Telekom, have been adopted for use in the EU by the European Commission. The consolidated financial statements of Deutsche Telekom thus also comply with IFRS as issued by the IASB. Therefore the term IFRS is used in the following.

The financial year corresponds to the calendar year. The consolidated income statement, the consolidated cash flow statement and the statement of recognized income and expense include two comparative years.

Presentation in the balance sheet differentiates between current and non-current assets and liabilities, some of which are broken down further by their respective maturities in the notes to the financial statements. The income statement is presented using the cost-of-sales method. Under this format, net revenues are compared against the expenses incurred to generate these revenues, classified into cost of sales, selling, and general and administrative functions. The consolidated financial statements are prepared in euros.

The financial statements of Deutsche Telekom AG and its subsidiaries included in the consolidated financial statements were prepared using uniform group accounting policies.

Initial application of standards, interpretations and amendments to standards and interpretations in the financial year.

In the financial year, Deutsche Telekom applied the following pronouncements by the IASB for the first time:

- IFRS 8 “Operating Segments,”
- Amendment to IAS 1 “Presentation of Financial Instruments – Capital Disclosures,”
- IFRIC 7 “Applying the Restatement Approach under IAS 29 Reporting in Hyperinflationary Economies,”
- IFRIC 8 “Scope of IFRS 2,”
- IFRIC 9 “Reassessment of Embedded Derivatives,” and
- IFRIC 10 “Interim Financial Reporting and Impairment.”

Deutsche Telekom has opted voluntarily for earlier application of IFRS 8. Note 39 details the implications of the application of IFRS 8. The initial application of the other pronouncements did not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows.

Standards, interpretations and amendments issued, but not yet adopted.

In November 2006, the IFRIC issued IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions.” The European Union endorsed IFRIC 11 in June 2007. The interpretation addresses how to apply IFRS 2 to share-based payment arrangements involving an entity’s own equity instruments or equity instruments of another entity in the same group (e.g., equity instruments of its parent). The interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. IFRIC 11 also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity’s parent, should be accounted for as cash-settled or equity-settled in the entity’s financial statements. The interpretation shall be applied for financial years beginning on or after March 1, 2007. An entity shall apply the interpretation retrospectively in accordance with IAS 8, subject to the transitional provisions of IFRS 2. The adoption of IFRIC 11 is not expected to have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows.

In November 2006, the IFRIC issued IFRIC 12 “Service Concession Rights.” The European Union has not yet endorsed IFRIC 12. Service concessions are arrangements whereby a government or other public sector entity as the grantor grants contracts for the supply of public services – such as roads, airports, prisons and energy and water supply and distribution facilities – to private sector entities as operators. IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. Depending on the consideration the operator receives from the grantor, the operator recognizes a financial or an intangible asset. A financial asset is recognized if the operator has an unconditional contractual right to receive cash or another financial asset from the grantor. If the consideration the operator receives from the grantor is a right to charge users, an intangible asset is recognized. Depending on the contractual arrangements, recognition of both a financial asset and an intangible asset is possible as well. The provisions of IFRIC 12 are effective for financial years beginning on or after January 1, 2008. The adoption of IFRIC 12 is not expected to have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position or cash flows.

In March 2007, the IASB issued an amendment to IAS 23 "Borrowing Costs." The European Union has not yet endorsed the amendment to IAS 23. The amendment to the standard mainly relates to the elimination of the option of immediately recognizing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as an expense. Currently, Deutsche Telekom recognizes these costs directly as an expense. A qualifying asset in this context is an asset that takes a substantial period of time to get ready for its intended use or sale. In future, an entity is therefore required to capitalize borrowing costs as part of the cost of the qualifying assets. The revised standard does not require the capitalization of borrowing costs relating to assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale. The standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. Deutsche Telekom is currently analyzing the date of adoption of the amendment to IAS 23 and the resulting effects on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

In June 2007, the IFRIC issued IFRIC 13 "Customer Loyalty Programmes." The European Union has not yet endorsed IFRIC 13. The interpretation addresses the accounting of customer loyalty programs that grant customers points (credits) that allow them to acquire free or discounted goods or services from the seller or a third party. The question to be clarified was whether the award credits are a liability in the context of a completed sale or an advance payment for a future sales transaction. The interpretation now issued requires the proceeds of the sale to be divided into two components. One component is attributable to the transaction which resulted in the credit awards. The other component is allocable to the future sales transaction resulting from the credit awards to be redeemed. The portion of the proceeds allocated to the goods or service already delivered is recognized as revenue. The portion of the proceeds allocated to the award credits is deferred as an advance payment until the customer redeems the credit award, or the obligation in respect of the credit award is fulfilled. Since the guidance under IFRIC 13 deviates from Deutsche Telekom's current accounting policy, the accounting method will have to be adjusted. The interpretation shall be applied for financial years beginning on or after July 1, 2008. Deutsche Telekom is currently analyzing the impact of applying IFRIC 13 on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

In July 2007, the IFRIC issued IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction." The European Union has not yet endorsed IFRIC 14. The interpretation addresses the measurement of an asset resulting from the fair value of the plan assets exceeding the present value of the defined benefit obligation. The interpretation specifies how to determine whether a surplus in a pension plan represents an economic benefit for the entity. In addition, it addresses how to determine the present value of the asset in the case of a future refund or reduction in future contributions when a minimum funding requirement exists, as well as how to measure a defined benefit asset or defined benefit liability in the case of a minimum funding requirement. The interpretation shall be applied for financial years beginning on or after January 1, 2008. The adoption of IFRIC 14 is not expected to have a material impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

In September 2007, the IASB issued an amendment to IAS 1 "Presentation of Financial Statements: A Revised Presentation." The European Union has not yet endorsed the amendment to IAS 1. IAS 1 (revised) uses the terms "statement of financial position" (previously "balance sheet") and "statement of cash flows" (previously "cash flow statement") and introduces a new element of financial statements termed "statement of comprehensive income." Use of the new terminology, however, is not mandatory. The amendment to IAS 1 requires entities to disclose comparative information in respect of the previous period. The revised standard also stipulates the presentation of a further financial statement (statement of financial position) at the beginning of the first comparative period presented if the entity changed its accounting policies retrospectively or made retrospective restatements.

Revised IAS 1 also includes:

- All changes in shareholders' equity resulting from transactions with owners must be presented separately from such changes in shareholders' equity not resulting from transactions with owners (non-owner changes).
- Income and expenses are reported separately from transactions with owners either in one statement of comprehensive income or in two statements – a separate income statement and a statement of comprehensive income.
- The components of other comprehensive income must be presented in the statement of comprehensive income.
- The total comprehensive income must be disclosed.

The amendment to IAS 1 also requires the relevant amount of income tax per component of other comprehensive income to be stated and the amounts reclassified as other comprehensive income to be presented. Reclassification amounts arise from the reclassification of amounts formerly reported under other comprehensive income as profit or loss. In addition, amounts reported as distributed dividends and corresponding per-share amounts must be presented either in the statement of changes in equity or in the notes. The provisions of IAS 1 are effective for financial years beginning on or after January 1, 2009. As the amendment to IAS 1 only affects disclosure requirements, it will not have an impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

In January 2008, the IASB published the revised standards IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements." The standards are the outcome of the second phase of the project carried out together with the FASB to reform the accounting for business combinations. The revised IFRS 3 and IAS 27 have not yet been endorsed by the European Union. The main changes that the revised IFRS 3 will make to the existing requirements are described below:

- The revised standard gives the option of measuring non-controlling interests either at fair value or at the proportionate share of the identifiable net assets. This choice can be exercised for each business combination individually.
- In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at the date the acquirer obtains control. Goodwill shall then be determined as the difference between the remeasured carrying amount plus consideration transferred for the acquisition of the new shares, minus the acquired net assets.
- Transaction costs shall be recognized as expenses in future.
- For changes in contingent consideration classified as a liability at the acquisition date, goodwill cannot be remeasured subsequently.
- According to the revised IFRS 3, effects from the settlement of relationships existing prior to the business combination shall not be part of the exchange for the acquiree.
- In contrast to the original IFRS 3, the revised standard governs the recognition and measurement of rights that were granted to another entity prior to the business combination and which are now reacquired as part of the business combination (reacquired rights).

The main changes that the revised IAS 27 will make to the existing requirements are described below:

- Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for exclusively within equity.
- If a parent loses control of a subsidiary it shall derecognize the consolidated assets and liabilities. The new requirement is that any investment retained in the former subsidiary shall be recognized at fair value at the date when control is lost; any differences resulting from this shall be recognized in profit or loss.
- When losses attributed to the minority (non-controlling) interests exceed the minority's interests in the subsidiary's equity, these losses shall be allocated to the non-controlling interests even if this results in a deficit balance.

The revised IFRS 3 shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. Earlier application is permitted, however, at the earliest at the beginning of an annual reporting period that begins on or after June 30, 2007. The provisions of IAS 27 shall be effective for annual reporting periods beginning on or after July 1, 2009. Earlier application is permitted. However, the earlier application of one of these two standards requires that the other standard also applies at the same earlier time.

Deutsche Telekom is currently analyzing the date of adoption of the amendments to IFRS 3 and IAS 27 and the resulting effects on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

In January 2008, the IASB published the revised standard IFRS 2 "Share-based Payment – Vesting Conditions and Cancellations." The European Union has not yet endorsed the revised IFRS 2. Main changes and clarifications are:

- Vesting conditions are service conditions and performance conditions only.
- All (premature) cancellations, whether by the entity itself or by employees, should receive the same accounting treatment.

The amendments to IFRS 2 are effective for financial years beginning on or after January 1, 2009. Earlier application is permitted. Deutsche Telekom is currently analyzing the effects resulting from the application of the revised IFRS 2 on the presentation of results of operations, financial position or cash flows.

Consolidated group.

All subsidiaries, joint ventures and associates are included in the consolidated financial statements. Subsidiaries are companies that are directly or indirectly controlled by Deutsche Telekom and are fully consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity is controlled. If a subsidiary meets the criteria for classification as held for sale at the acquisition date according to IFRS 5, it shall not be fully consolidated but presented as non-current assets and disposal groups held for sale. Joint ventures are companies jointly controlled by Deutsche Telekom and other companies. Associates are companies on which Deutsche Telekom has a significant influence, and that are neither subsidiaries nor joint ventures. As with joint ventures, associates are accounted for using the equity method.

The composition of the Deutsche Telekom Group changed as follows in the 2007 financial year:

	Domestic	International	Total
Consolidated subsidiaries (including special-purpose entities)			
January 1, 2007	71	204	275
Additions	6	7	13
Disposals (including mergers)	(7)	(35)	(42)
December 31, 2007	**70**	**176**	**246**
Associates accounted for using the equity method			
January 1, 2007	9	9	18
Additions	0	2	2
Disposals	(1)	(3)	(4)
December 31, 2007	**8**	**8**	**16**
Joint ventures accounted for using the equity method			
January 1, 2007	2	0	2
Additions	0	1	1
Disposals	0	0	0
December 31, 2007	**2**	**1**	**3**
Total			
January 1, 2007	82	213	295
Additions	6	10	16
Disposals (including mergers)	(8)	(38)	(46)
December 31, 2007	**80**	**185**	**265**

Business combinations.

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

Orange Nederland provides mobile communications products and services based on GSM and UMTS technology. Orange Breedband on the other hand offers broadband Internet lines and other Internet-based services.

The acquired equity interests in Orange Breedband are expected to be sold in the near future. In accordance with IFRS 5, Orange Breedband was classified as held for sale and included in the consolidated financial statements at its fair value (less costs to sell) of EUR 133 million (please refer to Note 20).

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

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

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

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

* Figures excluding goodwill.

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

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

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

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

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

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

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

* Figures excluding goodwill.

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

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

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

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

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

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

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

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

* Figures excluding goodwill.

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

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

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

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

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

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

* Figures excluding goodwill.

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

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

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

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

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

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

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

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

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

* Figures excluding goodwill.

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

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

2005:
As part of a public tender offer, Deutsche Telekom purchased approximately 16 percent of the outstanding shares in **T-Online International AG** for a total price of EUR 1.8 billion. This share acquisition was part of the planned merger of T-Online into Deutsche Telekom AG. These transactions in February and March 2005 led to an increase in goodwill of EUR 0.8 billion.

Magyar Telekom, Deutsche Telekom's Hungarian subsidiary, acquired an equity interest of approximately 76.5 percent in the **Telekom Montenegro group** for EUR 0.15 billion in March and May 2005. The purchase price was paid in cash. In addition to traditional fixed-network services, the Telekom Montenegro group not only offers mobile communications services, but also operates as an Internet service provider. The business combination resulted in goodwill of EUR 25 million. Telekom Montenegro was included in Deutsche Telekom's consolidated financial statements as of March 31, 2005 for the first time.

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

millions of €	Telekom Montenegro group *	
	Fair value at the acquisition date	Carrying amounts immediately prior to the business combination
Assets	**201**	**181**
Current assets	**35**	**35**
Cash and cash equivalents	7	7
Other assets	28	28
Non-current assets	**166**	**146**
Intangible assets	40	19
Property, plant and equipment	114	122
Other assets	12	5
Liabilities	**41**	**44**
Current liabilities	**28**	**34**
Financial liabilities	10	15
Trade and other payables	6	6
Other liabilities	12	13
Non-current liabilities	**13**	**10**
Financial liabilities	3	3
Other liabilities	10	7

* Figures excluding goodwill.

T-Online International AG fully acquired the cable network operator **Albura Telecomunicaciones** at June 30, 2005. This share was purchased for EUR 36 million. The business combination resulted in negative goodwill of EUR 4 million, which was recognized as income in profit or loss. The fair values of the assets acquired amounted to less than EUR 0.1 billion.

Pro forma information.

The pro forma information shown in the table on the right presents the most important financial data of Deutsche Telekom, including its principal consolidated subsidiaries acquired in the financial years 2005 through 2007, as if they had been included in the consolidated financial statements from the beginning of each financial year in which they were acquired.

millions of €	2007	2006	2005
Net revenue			
Reported	62,516	61,347	59,604
Pro forma	63,060	63,172	59,627
Net profit			
Reported	569	3,165	5,589
Pro forma	555	2,751	5,589
Earnings per share/ADS (€)			
Reported	0.13	0.74	1.31
Pro forma	0.13	0.64	1.31

Principal subsidiaries.

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

Name and registered office	**Deutsche Telekom share** in % Dec. 31, 2007	**Net revenue** millions of € 2007	**Employees** average 2007
T-Mobile USA, Inc., Bellevue, Washington, United States [a, c]	100.00	14,075	31,655
T-Mobile Deutschland GmbH, Bonn [b]	100.00	7,993	5,983
T-Systems Enterprise Services GmbH, Frankfurt/Main [a]	100.00	5,175	18,537
T-Systems Business Services GmbH, Bonn [a]	100.00	4,928	12,485
T-Mobile Holdings Ltd., Hatfield, United Kingdom [a, c]	100.00	4,812	6,218
Magyar Telekom Nyrt., Budapest, Hungary [a, g]	59.30	2,685	12,108
PTC, Polska Telefonia Cyfrowa Sp.z o.o., Warsaw, Poland [b]	97.00	1,965	4,684
T-Mobile Netherlands Holding B.V., The Hague, Netherlands [a, c]	100.00	1,318	1,641
HT-Hrvatske telekomunikacije d.d., Zagreb, Croatia [a]	51.00	1,202	6,955
T-Mobile Austria Holding GmbH, Vienna, Austria [a, d]	100.00	1,182	1,777
T-Mobile Czech Republic a.s., Prague, Czech Republic [e]	60.77	1,171	2,535
Slovak Telekom a.s., Bratislava, Slovakia [a]	51.00	932	5,620
T-Systems GEI GmbH, Aachen [f]	100.00	416	2,734

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

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

Consolidation methods.

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

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

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

Investments in joint ventures and associates accounted for using the equity method are carried at the acquirer's interest in the identifiable assets (including any attributable goodwill), liabilities and contingent liabilities are remeasured to fair value upon acquisition. Goodwill from application of the equity method is not amortized. The carrying amount of the investment accounted for using the equity method is tested for impairment whenever there are indications of impairment. Unrealized gains and losses from transactions with these companies are eliminated in proportion to the acquirer's interest.

Currency translation.

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

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

The exchange rates of certain significant currencies changed as follows:

€	Annual average rate			Rate at balance sheet date	
	2007	2006	2005	**Dec. 31, 2007**	Dec. 31, 2006
100 Czech korunas (CZK)	3.60154	3.52842	3.35741	3.76364	3.63768
1 Pound sterling (GBP)	1.46142	1.46671	1.46209	1.36130	1.48966
100 Croatian kuna (HRK)	13.62830	13.65320	13.51280	13.63840	13.60670
1,000 Hungarian forints (HUF)	3.97762	3.78398	4.03201	3.96178	3.97329
100 Macedonian denars (MKD)	1.62699	1.62490	1.65696	1.62538	1.62607
100 Polish zlotys (PLN)	26.42900	25.66560	24.86080	27.89210	26.08550
100 Slovak korunas (SKK)	2.96074	2.68559	2.59153	2.97801	2.89755
1 U.S. dollar (USD)	0.72974	0.79626	0.80325	0.67907	0.75851

Accounting policies.

Intangible assets (excluding goodwill) with finite useful lives, including UMTS licenses, are measured at cost and amortized on a straight-line basis over their useful lives. Such assets are impaired if their recoverable amount, which is measured at the higher of fair value less costs to sell and value in use, is lower than the carrying amount. Indefinite-lived intangible assets (U.S. mobile communications licenses (FCC licenses)) are carried at cost. They are not amortized, but tested for impairment annually or whenever there are indications of impairment and, if necessary, written down to the recoverable amount. Impairment losses are reversed if the reasons for recognizing the original impairment loss no longer apply. The useful lives and the amortization method of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8.

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

Mobile communications licenses	Years
FCC licenses	Indefinite
UMTS licenses	7 to 17
GSM licenses	1 to 17

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

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

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

On disposal of an item of property, plant and equipment or when no future economic benefits are expected from its use or disposal the carrying amount of the item is derecognized. The gain or loss arising from the derecognition of an item of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognized as other operating income or other operating expenses when the item is derecognized.

The useful lives of material asset categories are presented in the following table:

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

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

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

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

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

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

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

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

Non-current assets and disposal groups held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of carrying amount and fair value less costs to sell and are classified as non-current assets held for sale. Such assets are no longer depreciated. As a rule, impairment of such assets is only recognized if fair value less costs to sell is lower than the carrying amount. If fair value less costs to sell subsequently increases, the impairment loss previously recognized must be reversed. The reversal of impairment losses is restricted to the impairment losses previously recognized for the assets concerned.

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

Pension obligations and other employee benefits relate to obligations to non-civil servants. Liabilities for **defined benefit plans** are measured using the projected unit credit method, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future salary and benefit increases. For discounting the present value of benefits, taking into account future salary increases (defined benefit obligation), a rate of 5.50 percent as of December 31, 2007 was used. Actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognized in the period in which they occur outside profit or loss within equity (retained earnings). The return on plan assets is classified in interest income. Service costs are classified as operating expenses. The amounts payable under defined contribution plans are expensed when the contributions are due and classified as operating expenses. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available. Past service costs are recognized immediately to the extent that the benefits are vested; otherwise, they are recognized on a straight line basis over the average remaining vesting period.

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

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

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

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

Contingencies (contingent liabilities and assets) are potential liabilities or assets arising from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of Deutsche Telekom. Contingent liabilities can also be present obligations that arise from past events for which an outflow of resources embodying economic benefits is not probable or for which the amount of the obligation cannot be measured reliably. Contingent liabilities are only recognized at their fair value if they were assumed in the course of a business combination. Contingent assets are not recognized. Information on contingent liabilities is disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of economic benefits is remote. The same applies to contingent assets where an inflow of economic benefits is probable.

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

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

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

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

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

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

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

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

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

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

The carrying amounts of the financial assets that are not measured at fair value through profit or loss are tested at each reporting date to determine whether there is objective, material evidence of **impairment** (e.g., a debtor is facing serious financial difficulties, it is highly probable that insolvency proceedings will be initiated against the debtor, an active market for the financial asset disappears, there is a substantial change in the technological, economic or legal environment and the market environment of the issuer, or there is a continuous decline in the fair value of the financial asset to a level below amortized cost). Any impairment losses caused by the fair value being lower than the carrying amount are recognized in profit or loss. Where impairments of the fair values of available-for-sale financial assets were recognized directly in equity in the past, these must now be reclassified from equity in the amount of the impairment determined and reclassified to the income statement. If, in a subsequent period, the fair value of the financial asset increases and this increase can be related objectively to events occurring after the impairment was recognized, the impairment loss is reversed to income in the appropriate amount. Impairment losses on unquoted equity instruments that are classified as available for sale and carried at cost may not be reversed. Both the fair value of held-to-maturity securities to be determined by testing for impairment and the fair value of the loans and receivables measured at amortized cost, which are required for impairment testing, correspond to the present value of the estimated future cash flows discounted using the original effective interest rate. The fair value of unquoted equity instruments measured at cost is calculated as the present value of the expected future cash flows, discounted using the current interest rate that corresponds to the investment's special risk position.

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

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

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

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

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

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

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

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

Recording the changes in the fair values – in either the income statement or directly in equity – depends on whether or not the derivative is part of an effective hedging relationship as set out in IAS 39. If no hedge accounting is employed, the changes in the fair values of the derivatives must be recognized in profit or loss. If, on the other hand, an effective hedging relationship as set out in IAS 39 exists, the hedge will be recognized as such.

Deutsche Telekom applies **hedge accounting** in accordance with IAS 39 to hedge balance sheet items and future cash flows, thus reducing income statement volatility. A distinction is made between fair value hedges, cash flow hedges, and hedges of a net investment in a foreign operation depending on the nature of the hedged item.

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

Cash flow hedges are used to hedge against fluctuations in future cash flows from assets and liabilities recognized in the balance sheet, from firm commitments (in the case of currency risks), or from highly probable forecast transactions. To hedge the currency risk of an unrecognized firm commitment, Deutsche Telekom makes use of the option to recognize this as a cash flow hedge rather than a fair value hedge. If a cash flow hedge is employed, the effective portion of the change in the fair value of the hedging instrument is recognized in equity (hedging reserve) until the gain or loss on the hedged item is realized; the ineffective portion of the hedging instrument is recognized in profit or loss. In the case of currency risks, the change in the fair value resulting from spot rate changes is designated as the hedged risk. The interest component is separated from the hedge in accordance with IAS 39.74 (b). If a hedge of a forecast transaction subsequently results in the recognition of a financial or non-financial asset or liability, the associated cumulative gains and losses that were recognized directly in equity are reclassified into profit or loss in the same periods during which the financial asset acquired or the financial liability assumed affects profit or loss for the period. In doing so, Deutsche Telekom has decided not to make use of the basis adjustment option for hedging forecast transactions when non-financial balance sheet items arise.

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

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

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

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

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

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

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

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

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

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

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

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

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

The terms of contracts awarded by Enterprise Services generally range from less than one year to ten years.

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

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

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

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

Revenue for Telecommunication Services rendered by Enterprise Services is recognized in accordance with the methods described under Business Services.

When an arrangement contains a lease, the lease is accounted for separately in accordance with IFRIC 4 and IAS 17.

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

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

Change in accounting policies.

In November 2006, the International Accounting Standards Board issued IFRS 8 "Operating Segments." IFRS 8 replaces IAS 14 "Segment Reporting" and must be applied to reporting periods beginning on or after January 1, 2009. Deutsche Telekom has opted for early adoption of IFRS 8, beginning with the financial year ending on December 31, 2007. According to IFRS 8, operating segments are identified based on the "management approach." This approach stipulates external segment reporting based on the Group's internal organizational and management structure and on internal financial reporting to the chief operating decision maker. In the Deutsche Telekom Group, the Board of Management of Deutsche Telekom AG is responsible for measuring and steering the business success of the segments and is considered the chief operating decision maker within the meaning of IFRS 8.

In contrast to the former reporting structure, Deutsche Telekom reports on five operating segments, which are independently managed by bodies responsible for the respective segments depending on the nature of products and services offered, brands, sales channels, and customer profiles. The identification of Company components as business segments is based in particular on the existence of segment managers who report directly to the Board of Management of Deutsche Telekom AG and who are responsible for the performance of the segment under their charge. In accordance with IFRS 8, Mobile Communications Europe and Mobile Communications USA are reported separately as operating segments, since internal reporting and management channels in the Mobile Communications operating segment have been changed. Prior-year figures have been adjusted accordingly.

Measurement uncertainties.

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

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

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

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

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

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

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

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

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

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

Revenue recognition.

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

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

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

Notes to the consolidated income statement.

1 Net revenue.

Net revenue breaks down into the following revenue categories:

millions of €	2007	2006	2005
Revenue from the rendering of services	59,125	57,730	55,942
Revenue from the sale of goods and merchandise	3,174	3,240	3,345
Revenue from the use of entity assets by others	217	377	317
	62,516	**61,347**	**59,604**

Net revenue increased by EUR 1.2 billion to EUR 62.5 billion in the 2007 financial year, mainly as a result of changes in the composition of the Group. Customer growth in the mobile communications business also contributed to the increase in revenue. The increase was partly offset by exchange rate effects that resulted primarily from the translation of U.S. dollars (USD).

2 Cost of sales.

Cost of sales increased by EUR 0.5 billion in 2007 to EUR 35.3 billion (2006: EUR 34.8 billion; 2005: EUR 31.9 billion). In addition to customer growth at T-Mobile UK and T-Mobile USA, changes in the composition of the Group were major drivers here. This was partly offset by exchange rate effects, resulting primarily from the translation of USD.

3 Selling expenses.

The increase in selling expenses by EUR 0.2 billion to EUR 16.6 billion (2006: EUR 16.4 billion; 2005: EUR 14.7 billion) was mainly due to changes in the composition of the Group and higher marketing expenses, for example for new calling plans in the Mobile Communications USA operating segment. By contrast, expenses in connection with staff-related measures in the segments Broadband/Fixed Network, Business Customers and Group Headquarters & Shared Services declined year-on-year.

4 General and administrative expenses.

The year-on-year reduction in general and administrative expenses by EUR 0.2 billion to EUR 5.1 billion in 2007 (2006: EUR 5.3 billion; 2005: EUR 4.2 billion) was primarily attributable to the year-on-year decrease in expenses in connection with staff-related measures in the operating segments Group Headquarters & Shared Services, Business Customers and Broadband/Fixed Network. Offsetting effects mainly resulted from changes in the composition of the Group.

5 Other operating income.

millions of €	2007	2006	2005
Income from divestitures	388	21	1
Income from disposal of non-current assets	300	227	141
Income from reimbursements	226	250	260
Income from reversal of provisions	39	38	978
Miscellaneous other operating income	692	721	1,028
	1,645	**1,257**	**2,408**

Other operating income increased by EUR 0.4 billion to EUR 1.6 billion in the 2007 financial year, in particular as a result of the gains on the disposal of T-Online France (EUR 0.2 billion) and T-Online Spain (EUR 0.1 billion). No income of a comparable level was recorded in the prior year.

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

6 Other operating expenses.

millions of €	2007	2006	2005
Goodwill impairment losses	327	10	1,920
Loss on disposal of non-current assets	257	155	143
Miscellaneous other operating expenses	1,177	723	1,572
	1,761	**888**	**3,635**

The increase in other operating expenses is mainly attributable to the reduction of the carrying amount of goodwill of T-Mobile Netherlands and miscellaneous other operating expenses.

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

Besides expenses in connection with the sale of call centers of Vivento Customer Services and the transfer of operations of Vivento Technical Services, miscellaneous other operating expenses in the reporting year are mainly accounted for by a variety of expense items which, individually, are not material.

7 Finance costs.

millions of €	**2007**	2006	2005
Interest income	261	297	398
Interest expense	(2,775)	(2,837)	(2,799)
	(2,514)	**(2,540)**	**(2,401)**
Of which: from financial instruments relating to categories in accordance with IAS 39:			
Loans and receivables	152	202	220
Held-to-maturity investments	9	14	3
Available-for-sale financial assets	31	27	36
Financial liabilities measured at amortized cost *	(2,612)	(2,636)	(2,510)

* Interest expense calculated according to the effective interest method and adjusted for accrued interest from derivatives that were used as hedging instruments against interest-rate-based changes in the fair values of financial liabilities measured at amortized cost in the reporting period for hedge accounting in accordance with IAS 39 (2007: interest expense of EUR 42 million; 2006: interest income of EUR 29 million, interest expense of EUR 13 million).

The year-on-year decrease in finance costs was primarily due to a slight reduction in average net debt.

Accrued interest payments from derivatives (interest rate swaps) that were designated as hedging instruments in a fair value hedge in accordance with IAS 39 are netted per swap contract and recognized as interest income or interest expense depending on the net amount. Finance costs are assigned to the categories on the basis of the hedged item; only financial liabilities were hedged in the reporting period.

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

millions of €	**2007**	2006	2005
Share of profit (loss) of joint ventures	24	(89)	(1)
Share of profit of associates	30	113	215
	54	**24**	**214**

The share of profit/loss of associates and joint ventures accounted for using the equity method increased year-on-year. While the share of profit/loss of joint ventures improved, the share of profit/loss of associates has decreased due to the full consolidation of PTC since November 2006.

9 Other financial income/expense.

millions of €	**2007**	2006	2005
Income from investments	25	6	32
Gain (loss) from financial instruments	(3)	136	1,090
Interest component from measurement of provisions and liabilities	(396)	(309)	(338)
	(374)	**(167)**	**784**

All income components including interest income and expense from financial instruments classified as held for trading in accordance with IAS 39 are reported under other financial income/expense.

Other financial expense increased in comparison with the previous year. Net gain/loss from financial instruments included income from the sale of Celcom (EUR 196 million) in the prior year, whereas in 2007, gains of only EUR 18 million on the disposal of the remaining shares in Sireo, in particular, were realized.

In the 2005 financial year, the gain from financial instruments included profit of EUR 1.0 billion on the sale of the remaining shares in MTS (Mobile TeleSystems OJSC).

10 Income taxes.

Income taxes in the consolidated income statement. Income taxes are broken down into current taxes paid or payable in the individual countries and into deferred taxes.

The following table provides a breakdown of income taxes in Germany and internationally:

millions of €	2007	2006	2005
Current taxes	**212**	**249**	**1,203**
Germany	(259)	(54)	916
International	471	303	287
Deferred taxes	**1,162**	**(1,219)**	**(1,005)**
Germany	1,122	(666)	1,027
International	40	(553)	(2,032)
	1,374	**(970)**	**198**

Deutsche Telekom's combined income tax rate for 2007 amounted to 39 percent, comprising corporate income tax at a rate of 25 percent, the solidarity surcharge of 5.5 percent on corporate income tax, and trade income tax at an average multiplier of 419 percent. As a result of the 2008 corporate tax reform, the combined income tax rate will be 30.5 percent from 2008. Domestic deferred tax assets and liabilities were adjusted accordingly in 2007. The combined corporate income tax rate for 2006 and 2005 amounted to 39 percent.

Reconciliation of the effective tax rate. Income taxes of EUR 1,374 million in the reporting year (2006: EUR (970) million; 2005: EUR 198 million) are derived as follows from the expected income tax expense that would have arisen had the statutory income tax rate of the parent company (combined income tax rate) been applied to profit before income taxes:

millions of €	2007	2006	2005
Profit before income taxes	**2,452**	**2,604**	**6,219**
Expected income tax expense (income tax rate applicable to Deutsche Telekom AG: 2007: 39 %; 2006: 39 %; 2005: 39 %)	956	1,016	2,425
Adjustments to expected tax expense			
Effect of changes in statutory tax rates	734	(8)	(5)
Tax effects from prior years	65	(517)	148
Tax effects from other income taxes	42	7	4
Non-taxable income	(217)	(151)	(503)
Tax effects from equity investments	(21)	(60)	(49)
Non-deductible expenses	63	78	100
Permanent differences	28	(270)	(18)
Impairment of goodwill or negative excess from capital consolidation	130	4	749
Tax effects from loss carryforwards	(306)	(975)	(2,585)
Tax effects from additions to and reductions of local tax	92	109	103
Adjustment of taxes to different foreign tax rates	(182)	(190)	(212)
Other tax effects	(10)	(13)	41
Income tax expense (benefit) according to the consolidated income statement	**1,374**	**(970)**	**198**
Effective income tax rate (%)	56	(37)	3

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

millions of €	2007	2006	2005
Current income taxes	**212**	**249**	**1,203**
Of which:			
Current tax expense	579	841	1,111
Prior-period tax expense (income)	(367)	(592)	92

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

millions of €	2007	2006	2005
Deferred tax expense (income)	**1,162**	**(1,219)**	**(1,005)**
Of which:			
On temporary differences	325	89	1,103
On loss carryforwards	852	(1,275)	(2,090)

Income tax expense increased compared with the prior year to EUR 1.4 billion. The major reason for this increase was the fact that in the prior year, previously unrecognized deferred tax assets relating to loss carryforwards were recognized and provisions for income taxes were reversed, creating significant one-time favorable effects on income of EUR 1.2 billion and EUR 0.4 billion, respectively. A comparable tax effect had already resulted in a very low tax expense at Deutsche Telekom in 2005.

Moreover, deferred tax assets and deferred tax liabilities were adjusted in the current period in response to changes in German tax rates (decrease in total tax burden on domestic profits from approximately 39 percent to approximately 30 percent as a result of the 2008 corporate tax reform) resulting in a negative effect on income of EUR 0.7 billion. However, this one-time effect did not entail additional tax payments and in turn, did not impact negatively on liquidity or interest.

Two offsetting deferred tax effects did not fully offset this one-time negative impact on income: For one, the state tax burden in the United States was adjusted to reflect more detailed information on the effects of a corporate reorganization (EUR 0.1 billion). The other effect came from the recognition of deferred tax assets on temporary differences and tax loss carryforwards in the Netherlands (EUR 0.3 billion), which resulted almost entirely from the acquisition of T-Mobile Netherlands (formerly Ben Nederland).

At the time, neither the deferred tax assets on these temporary differences nor those on loss carryforwards were considered to meet recognition criteria. Based on an assessment of all available evidence and taking into account possible tax optimization options, it was determined that these previously unrecognized temporary differences and loss carryforwards at T-Mobile Netherlands were likely to be utilized in the near future, so associated deferred tax assets had to be recognized.

Current income taxes in the consolidated balance sheet:

millions of €	Dec. 31, 2007	Dec. 31, 2006
Recoverable taxes	222	643
Tax liabilities	437	536

Deferred taxes in the consolidated balance sheet:

millions of €	Dec. 31, 2007	Dec. 31, 2006
Deferred tax assets	6,610	8,952
Deferred tax liabilities	(6,676)	(8,083)
	(66)	**869**
Of which: recognized in equity	(248)	(20)

Development of deferred taxes:

millions of €	Dec. 31, 2007	Dec. 31, 2006
Deferred taxes recognized in balance sheet	(66)	869
Difference to prior year	(935)	1,060
Of which:		
Recognized in income statement	(1,162)	1,219
Recognized in equity	(228)	(275)
Acquisitions/disposals	157	(241)
Currency translation adjustments	297	357

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

millions of €	Dec. 31, 2007		Dec. 31, 2006	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Current assets	**622**	**(374)**	**608**	**(991)**
Trade and other receivables	443	(81)	462	(531)
Other financial assets	30	(247)	114	(282)
Inventories	39	(5)	16	(10)
Other assets	110	(41)	16	(168)
Non-current assets	**1,642**	**(8,146)**	**2,080**	**(9,290)**
Intangible assets	757	(6,187)	1,072	(6,945)
Property, plant and equipment	487	(1,632)	548	(1,907)
Investments accounted for using the equity method	0	(1)	0	(12)
Other financial assets	258	(294)	315	(252)
Other assets	140	(32)	145	(174)
Current liabilities	**1,090**	**(654)**	**971**	**(480)**
Financial liabilities	71	(102)	81	(105)
Trade and other payables	591	(340)	436	(150)
Other provisions	306	(77)	301	(110)
Other liabilities	122	(135)	153	(115)
Non-current liabilities	**2,598**	**(826)**	**3,608**	**(622)**
Financial liabilities	848	(549)	1,355	(434)
Provisions for pensions and other employee benefits	417	(186)	682	(15)
Other provisions	798	(58)	914	(171)
Other liabilities	535	(33)	657	(2)
Tax credits	122	–	96	–
Loss carryforwards	5,143	–	6,581	–
Total	**11,217**	**(10,000)**	**13,944**	**(11,383)**
Of which: non-current	9,002	(8,972)	11,830	(9,912)
Netting	(3,324)	3,324	(3,300)	3,300
Allowance	(1,283)	–	(1,692)	–
Recognition	**6,610**	**(6,676)**	**8,952**	**(8,083)**

The allowances relate primarily to loss carryforwards.

The loss carryforwards are shown in the following table:

millions of €	Dec. 31, 2007	Dec. 31, 2006
Loss carryforwards for corporate income tax purposes	**15,581**	**17,176**
Expiry within		
1 year	50	2
2 years	24	45
3 years	8	28
4 years	2,207	8
5 years	178	1,221
After 5 years	5,785	8,452
Unlimited carryforward period	7,329	7,420

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

millions of €	Dec. 31, 2007	Dec. 31, 2006
Loss carryforwards for corporate income tax purposes	**4,230**	**5,017**
Expiry within		
1 year	50	1
2 years	20	11
3 years	8	5
4 years	1,091	3
5 years	2	1,026
After 5 years	6	120
Unlimited carryforward period	3,053	3,851
Temporary differences in corporate income tax	**332**	**148**

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 183 million (December 31, 2006: EUR 184 million) and on temporary differences for trade tax purposes in the amount of EUR 5 million (December 31, 2006: EUR 6 million). Apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 86 million (December 31, 2006: EUR 204 million) were recognized for other foreign income tax loss carryforwards.

No deferred tax assets were recognized on the aforementioned tax loss carryforwards and temporary differences as it is not probable that taxable profit will be available in the near future against which these tax loss carryforwards can be utilized.

A positive tax effect in the amount of EUR 14 million (2006: EUR 8 million; 2005: EUR 306 million) was recorded, attributable to the utilization of loss carryforwards on which deferred tax assets had not yet been recognized.

Despite losses in the current and the prior year, deferred tax assets in the amount of EUR 3,002 million were recognized on loss carryforwards and temporary differences for 2007 (December 31, 2006: EUR 4,684 million; December 31, 2005: EUR 2,425 million), as the Company expects to generate future taxable profits.

Having streamlined T-Mobile UK's corporate structure in 2006, Deutsche Telekom believes that a capital loss has become available for tax purposes. However, as it is unlikely that the resulting loss carryforward of EUR 9.8 billion, which can only be offset against certain types of profit, can be utilized, it is not included in the loss carryforwards above.

No deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting to EUR 627 million (December 31, 2006: EUR 616 million) as it is unlikely that these differences will be reversed in the near future.

11 Profit/loss attributable to minority interests.

Profit attributable to minority interests of EUR 509 million (2006: EUR 409 million; 2005: EUR 432 million) comprises gains of EUR 549 million (2006: EUR 430 million; 2005: EUR 655 million) and losses of EUR 40 million (2006: EUR 21 million; 2005: EUR 223 million).

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

12 Earnings per share.

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

Basic earnings per share.

	2007	2006	2005
Net profit (millions of €)	569	3,165	5,589
Adjustment for the financing costs of the mandatory convertible bond (after taxes) (millions of €)	–	38	98
Adjusted net profit (basic) (millions of €)	**569**	**3,203**	**5,687**
Number of ordinary shares issued (millions)	4,361	4,309	4,198
Treasury shares (millions)	(2)	(2)	(2)
Shares reserved for outstanding options granted to T-Mobile USA and Powertel (millions)	(20)	(22)	(24)
Effect from the potential conversion of the mandatory convertible bond (millions)	–	68	163
Adjusted weighted average number of ordinary shares outstanding (basic) (millions)	**4,339**	**4,353**	**4,335**
Basic earnings per share/ADS (€)	**0.13**	**0.74**	**1.31**

Net profit is calculated as the profit/loss after income taxes less profit/loss attributable to minority interests. The calculation of basic earnings per share is based on the time-weighted total number of all ordinary shares outstanding. The number of ordinary shares issued already includes all shares newly issued in the reporting period in line with their time weighting. Furthermore, the weighted average number of ordinary shares outstanding is determined by deducting the treasury shares held by Deutsche Telekom AG as well as the shares that, as part of the issue of new shares in the course of the acquisition of T-Mobile USA/Powertel, are held in a trust deposit account for later issue and later trading as registered shares and/or American depositary shares (ADS), each multiplied by the corresponding time weighting factor.

In the 2006 financial year, 62.7 million Deutsche Telekom shares were bought back. This corresponds to the number of shares newly issued in the course of the merger of T-Online International AG into Deutsche Telekom AG. The issue and the buy-back of the shares were both included in the calculation of the basic earnings per share in the 2006 financial year in line with their respective time weighting.

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

Diluted earnings per share.

	2007	2006	2005
Adjusted net profit (basic) (millions of €)	569	3,203	5,687
Dilutive effects on profit (loss) from stock options (after taxes) (millions of €)	0	0	0
Net profit (diluted) (millions of €)	**569**	**3,203**	**5,687**
Adjusted weighted average number of ordinary shares outstanding (basic) (millions)	4,339	4,353	4,335
Dilutive potential ordinary shares from stock options and warrants (millions)	1	1	3
Weighted average number of ordinary shares outstanding (diluted) (millions)	**4,340**	**4,354**	**4,338**
Diluted earnings per share/ADS (€)	**0.13**	**0.74**	**1.31**

The calculation of diluted earnings per share generally corresponds to the method for calculating basic earnings per share. However, the calculation must be adjusted for all dilutive effects arising from potential ordinary shares. The equity instruments described below may dilute basic earnings per share in the future and – to the extent that a potential dilution already occurred in the reporting period – have been included in the calculation of diluted earnings per share.

Stock options of Deutsche Telekom AG. In 2001, Deutsche Telekom AG created the 2001 Stock Option Plan that led to the issue of stock options in August 2001 (2001 tranche) and July 2002 (2002 tranche). Potential dilutive ordinary shares may be created on the basis of this stock option plan. Options from the 2001 tranche of the 2001 Stock Option Plan have not yet had any dilutive effects. In other words, the 2001 tranche has had no effect on the determination of diluted earnings per share up to now. The determination of diluted earnings per share is, however, impacted by potential dilutive ordinary shares from the 2002 tranche of the 2001 Stock Option Plan. The number of ordinary shares outstanding (basic) was increased by 1 million potential dilutive ordinary shares for 2005. For the 2006 and 2007 financial years, the dilutive effect was less than 1 million shares.

Stock options of T-Mobile USA. As a consequence of the acquisition of T-Mobile USA in 2001, all outstanding options owned by employees of T-Mobile USA have been converted from T-Mobile USA options into Deutsche Telekom AG options at a conversion rate of 3.7647 for each T-Mobile USA option. The dilutive effect arising from these options was taken into account in the determination of diluted earnings per share. The number of ordinary shares outstanding was increased by 1 million for 2007 (2006: 1 million; 2005: 2 million) potential dilutive ordinary shares.

Stock options and warrants of Powertel. As a consequence of the acquisition of Powertel in 2001 all outstanding Powertel options have been converted into Deutsche Telekom AG options at a conversion rate of 2.6353 for each Powertel option. The dilutive effect arising from these options was taken into account in the determination of diluted earnings per share. Accordingly, the number of ordinary shares outstanding was increased by the potential dilutive ordinary shares. The dilutive effect from Powertel stock options and Powertel warrants is less than 1 million. The Powertel warrants expired in accordance with the option terms and conditions in February 2006. Since then, the warrants can therefore no longer be exercised.

13 Dividend per share.

For the 2007 financial year, the Board of Management proposes a dividend of EUR 0.78 for each no par value share carrying dividend rights. On the basis of this proposed appropriation, total dividends in the amount of EUR 3,386 million (2006: EUR 3,124 million) will be appropriated to the no par value shares carrying dividend rights at February 11, 2008.

The final amount of the total dividend payment depends on the number of no par value shares carrying dividend rights as of the date of the resolution on the appropriation of net income as adopted on the day of the shareholders' meeting.

14 Goods and services purchased.

This item breaks down as follows:

millions of €	2007	2006	2005
Goods purchased	6,897	7,017	6,190
Services purchased	12,418	11,207	10,157
	19,315	**18,224**	**16,347**

15 Personnel costs.

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

millions of €	2007	2006	2005
Wages and salaries	12,609	13,436	11,436
Social security contributions and expenses for pension plans and benefits:			
Social security costs	1,588	1,598	1,520
Expenses for pension plans	1,056	1,351	1,129
Expenses for benefits	134	157	169
	15,387	**16,542**	**14,254**

The year-on-year decline of EUR 1.2 billion in personnel costs to EUR 15.4 billion is due to lower expenses for staff-related measures (early retirement arrangements, voluntary redundancy and severance payments as well as compensation payments) and lower headcounts as a result of the restructuring program. This decline was partially offset by the effect of changes in the composition of the Group and a staff increase at T-Mobile USA.

Average number of employees.

	2007	2006	2005
Deutsche Telekom Group	**243,736**	**248,480**	**244,026**
Non-civil servants	205,471	205,511	197,501
Civil servants	38,265	42,969	46,525
Trainees and student interns	10,708	10,346	10,019

The reduction in the average number of employees was primarily caused by the sale of call centers and staff reduction in Germany and Eastern Europe. This trend was partially offset by an increase in headcount at T-Mobile USA as well as effects of changes in the composition of the Group.

Number of employees at balance sheet date.

	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Deutsche Telekom Group	**241,426**	**248,800**	**243,695**
Germany	148,938	159,992	168,015
International	92,488	88,808	75,680
Non-civil servants	205,867	208,420	197,741
Civil servants	35,559	40,380	45,954
Trainees and student interns	11,932	11,840	11,481

The reduction in the number of employees as of the balance sheet date was also attributable to the sale of call centers and workforce reductions in Germany and Eastern Europe. This trend was partially offset by an increase in headcount at T-Mobile USA as well as effects of changes in the composition of the Group.

16 Depreciation, amortization and impairment losses.

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

millions of €	2007	2006	2005
Amortization and impairment of intangible assets	**3,490**	**2,840**	**4,427**
Of which:			
Goodwill impairment losses	327	10	1,920
Amortization of mobile communications licenses	1,017	994	951
Depreciation and impairment of property, plant and equipment	**8,121**	**8,194**	**8,070**
	11,611	**11,034**	**12,497**

Amortization and impairment of intangible assets mainly relate to mobile communications licenses, software, customer bases and brand names as well as goodwill. The increase in depreciation, amortization and impairment losses in the 2007 financial year was predominantly attributable to higher amortization of intangible assets following the acquisition, in 2006, of tele.ring and PTC in the Mobile Communications Europe operating segment. This relates primarily to the amortization of the customer base and brand names totaling EUR 0.3 billion. In addition, the carrying amount of the goodwill of T-Mobile Netherlands (formerly Ben Nederland) was reduced by EUR 0.3 billion in the 2007 financial year.

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

The decrease in amortization and impairment of intangible assets in the 2006 financial year over the 2005 financial year of EUR 1.6 billion was primarily attributable to the goodwill impairment losses at T-Mobile UK in 2005 in the amount of EUR 1.9 billion. No corresponding impairment loss was recognized in 2006. Depreciation and amortization at the new companies acquired in the Mobile Communications Europe operating segment in 2006 – tele.ring and PTC – had the opposite effect. These essentially relate to amortization of the customer base and brand names totaling EUR 0.3 billion.

In the 2005 financial year, Deutsche Telekom recognized an impairment loss of EUR 1.9 billion at the T-Mobile UK cash-generating unit. Telefónica announced its offer to acquire the UK group O_2 at a price of 200 pence per share (approximately GBP 17.7 billion) on October 31, 2005. When determining the fair value less costs to sell, the purchase prices paid in comparable transactions must generally be given preference over internal DCF calculations. The fair value of the cash-generating unit T-Mobile UK was derived from the Telefónica offer in accordance with a valuation model based on multipliers.

Depreciation of property, plant, and equipment decreased by EUR 0.1 billion in the reporting year, mainly as a result of lower depreciation of technical equipment and machinery.

The following table provides a breakdown of impairment losses:

millions of €	2007	2006	2005
Intangible assets	**378**	**123**	**1,958**
Of which:			
Goodwill	327	10	1,920
U.S. mobile communications licenses	9	33	30
Property, plant and equipment	**300**	**287**	**248**
Land and buildings	238	228	233
Technical equipment and machinery	54	13	7
Other equipment, operating and office equipment	4	26	5
Advance payments and construction in progress	4	20	3
	678	**410**	**2,206**

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

Notes to the consolidated balance sheet.

17 Cash and cash equivalents.

The assets reported under this category have an original maturity of less than three months and mainly comprise fixed-term bank deposits. They also include small amounts of cash-in-hand and checks.

In the reporting period, cash and cash equivalents decreased by EUR 0.6 billion to EUR 2.2 billion. This decrease was largely attributable to dividend payments of EUR 3.8 billion, the repayment of the euro tranche of the 2002 global bond (EUR 2.5 billion), the acquisition of Orange Nederland (EUR 1.3 billion) and the acquisition of additional shares in Immobilien Scout (EUR 0.4 billion). The decrease was to a large extent offset by free cash flow and proceeds from the sale of T-Online France (EUR 0.5 billion) and T-Online Spain (EUR 0.3 billion).

For the development of cash and cash equivalents, please refer to the consolidated cash flow statement.

18 Trade and other receivables.

millions of €	**Dec. 31, 2007**	Dec. 31, 2006
Trade receivables	7,530	7,577
Receivables from construction contracts	166	176
	7,696	**7,753**

Of the total amount of trade receivables and receivables from construction contracts, EUR 7,693 million (December 31, 2006: EUR 7,749 million) is due within one year.

millions of €	**Carrying amount**	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
Trade receivables			less than 30 days	between 30 and 60 days	between 61 and 90 days	between 91 and 180 days	between 181 and 360 days	more than 360 days
as of Dec. 31, 2007	7,530	4,039	1,048	162	78	165	39	31
as of Dec. 31, 2006	7,577	4,445	872	130	89	69	131	28

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

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

millions of €	2007	2006
Allowances as of January 1	**1,148**	**1,108**
Currency translation adjustments	(8)	(29)
Additions (allowances recognized as expense)	662	534
Use	(510)	(425)
Reversal	(221)	(40)
Allowances as of December 31	**1,071**	**1,148**

The total additions of EUR 662 million (2006: EUR 534 million) relate to allowances for individual impairments of EUR 144 million (2006: EUR 152 million) and allowances for collective impairments of EUR 518 million (2006: EUR 382 million). Reversals were made of allowances for individual impairments of EUR 85 million (2006: EUR 44 million) and of allowances for collective impairments of EUR 106 million (2006: EUR 62 million).

Deutsche Telekom discontinued selling trade receivables to special-purpose entities in asset-backed securitization (ABS) transactions in December 2007. Trade receivables amounting to EUR 1,165 million were pledged in connection with ABS transactions and other sales of receivables as of December 31, 2006, and collateral amounting to EUR 125 million in the form of cash deposits was pledged to third parties outside the Group. The latter have been recognized as receivables under other financial assets (please refer to Note 24).

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

millions of €	2007	2006
Expenses for full write-off of receivables	378	380
Income from recoveries on receivables written off	52	93

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

19 Inventories.

millions of €	Dec. 31, 2007	Dec. 31, 2006
Raw materials and supplies	138	106
Work in process	66	79
Finished goods and merchandise	1,255	937
Advance payments	4	7
	1,463	**1,129**

Of the inventories reported as of December 31, 2007, EUR 640 million (December 31, 2006: EUR 383 million) were recognized at their net realizable value. Write-downs of EUR 55 million (2006: EUR 93 million; 2005: EUR 199 million) on the net realizable value were recognized in profit or loss.

The carrying amount of inventories recognized as expense amounted to EUR 5,713 million (2006: EUR 5,667 million).

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

As of December 31, 2007, current assets included EUR 1,103 million in non-current assets and disposal groups held for sale relating in particular to Deutsche Telekom AG's real estate portfolio as well as the subsidiaries T-Systems Media&Broadcast and Vivento Technical Services. In addition, the equity interests in Orange Nederland Breedband were purchased as part of the acquisition of Orange Nederland with the intention to sell. At the time of acquisition the relevant assets and liabilities were classified as held for sale.

The subsidiaries T-Online France and T-Online Spain were sold in the second and third quarters of 2007. The sales are part of the "Focus, fix and grow" strategy. Effective September 1, 2007, Deutsche Telekom sold its radio relay business unit to the Swedish telecommunications and network equipment supplier Ericsson under a managed services partnership agreement. Prior to the disposal, this unit was assigned to the Broadband/Fixed Network operating segment. In addition Tower Broadcasting & Data Services (TBDS), a subsidiary of Slovak Telekom, was sold in the fourth quarter of 2007.

The non-current assets and disposal groups held for sale in the amount of EUR 907 million were reclassified as current assets in the prior year. In addition to assets related to the acquisition of the tele.ring group (EUR 87 million), these assets included in particular FCC licenses of T-Mobile USA (EUR 248 million) and real estate at Deutsche Telekom AG (EUR 469 million).

millions of €	Deutsche Telekom AG's real estate portfolio	T-Systems Media&Broadcast	Orange Nederland Breedband	Other	Total
	Group Headquarters & Shared Services operating segment	Business Customers operating segment	Mobile Communications Europe operating segment		
Current assets	**–**	**45**	**–**	**–**	**45**
Trade and other receivables	–	32	–	–	32
Other assets	–	13	–	–	13
Non-current assets	**462**	**324**	**165**	**107**	**1,058**
Intangible assets	–	7	–	–	7
Property, plant and equipment	462	311	–	44	817
Investments accounted for using the equity method	–	–	–	62	62
Other assets	–	6	165	1	172
Non-current assets and disposal groups held for sale	**462**	**369**	**165**	**107**	**1,103**
Current liabilities	**–**	**85**	**32**	**3**	**120**
Trade and other payables	–	52	–	–	52
Other liabilities	–	33	32	3	68
Non-current liabilities	**–**	**37**	**–**	**25**	**62**
Liabilities directly associated with non-current assets and disposal groups held for sale	**–**	**122**	**32**	**28**	**182**

Under IFRS 5 the assets and disposal groups held for sale and directly associated liabilities were included in the consolidated financial statements at their fair value less costs to sell.

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

Deutsche Telekom AG's real estate portfolio. The real estate portfolio held for sale by Group Headquarters & Shared Services relates to land and buildings not required for operations. These properties are scheduled to be sold within twelve months via the customary channels.

T-Systems Media&Broadcast. Deutsche Telekom AG concluded an agreement with the French TDF group (Télédiffusion de France) on the sale of all shares of T-Systems Media&Broadcast GmbH, a subsidiary assigned to the Business Customers segment that installs and operates multimedia TV and radio broadcasting platforms. At December 31, 2007, the sale was still awaiting approval from the anti-trust authorities. This was given in January 2008. The company will be deconsolidated with effect from January 1, 2008 for reasons of simplification.

Orange Nederland Breedband. By acquiring 100 percent of the equity interests in Orange Nederland N.V., The Hague, Netherlands and in Orange Nederland Breedband B.V., Amsterdam, Netherlands (Orange Breedband) Deutsche Telekom gained control of the entities as of October 1, 2007. The acquisition was conducted indirectly through T-Mobile Netherlands Holding B.V., part of the Mobile Communications Europe segment, with the intention to sell the acquired equity stake in Orange Breedband in the near future. Orange Breedband offers broadband Internet lines and other Internet-based services.

Vivento Technical Services. The transfer of operations of Vivento Technical Services GmbH to Nokia Siemens Networks as part of a strategic partnership for managed services and network modernization between Deutsche Telekom AG and Nokia Siemens Networks became effective January 1, 2008. Nokia Siemens Networks is one of the world's leading providers of infrastructure products and services for the communications industry. The company is headquartered in Espoo, Finland. The transfer of operations provides for the transfer of the operating assets of Vivento Technical Services GmbH as well as continued support by Deutsche Telekom in order to ensure a successful transfer of operations of Vivento Technical Services GmbH to Nokia Siemens Networks. Vivento Technical Services is assigned to the Group Headquarters & Shared Services segment.

Sale of T-Online France. In the second quarter of 2007, Deutsche Telekom AG sold its subsidiary T-Online France S.A.S., which was a part of the Broadband/Fixed Network segment, to the French telecommunications company Neuf Cegetel. The net disposal proceeds amount to EUR 0.5 billion. Neuf Cegetel now holds all the shares in the company which provides Internet services in France under the Club Internet brand. The company was deconsolidated effective June 30, 2007. The gain on the disposal in the amount of EUR 0.2 billion has been included in other operating income.

Sale of T-Online Spain. In the third quarter of 2007, Deutsche Telekom AG sold its subsidiary T-Online Spain S.A.U., which was a part of the Broadband/ Fixed Network segment, to France Télécom España S.A. for EUR 0.3 billion. Besides the net proceeds from the sale of the shares (EUR 0.1 billion) the sale price also included the take-over, by France Télécom España, of a shareholders' loan issued by Deutsche Telekom AG in the amount of EUR 0.2 billion. France Télécom España acquired all shares in the company, which provides Internet services in Spain under the Ya.com brand. The company was deconsolidated effective July 31, 2007. The EUR 0.1 billion gain on the disposal has been included in other operating income.

Sale of Tower Broadcasting & Data Services (TBDS). Slovak Telekom sold TBDS, its subsidiary operating in the broadcasting business (formerly Rádiokomunikácie o.z. and RK Tower s.r.o.), to the TRI R a.s. consortium with effect from October 5, 2007. Deconsolidation was effective on the same date. Prior to the disposal, TBDS was assigned to the Broadband/Fixed Network segment. The gain on the disposal in the amount of EUR 49 million is included in other operating income.

21 Intangible assets.

millions of €	Internally generated intangible assets	Acquired intangible assets					
		Total	Acquired concessions, industrial and similar rights and assets	UMTS licenses	GSM licenses	FCC licenses (T-Mobile USA)	Other acquired intangible assets
Cost							
At December 31, 2005	**1,399**	**40,786**	**731**	**15,194**	**857**	**18,343**	**5,661**
Currency translation	(32)	(1,769)	34	149	12	(1,924)	(40)
Changes in the composition of the Group	0	2,520	247	250	278	0	1,745
Additions	287	4,177	26	0	0	3,245	906
Disposals	111	2,314	51	0	1	1,488	774
Reclassifications	202	680	25	0	0	0	655
At December 31, 2006	**1,745**	**44,080**	**1,012**	**15,593**	**1,146**	**18,176**	**8,153**
Currency translation	(60)	(2,507)	23	(491)	19	(1,910)	(148)
Changes in the composition of the Group	(12)	441	141	56	106	0	138
Additions	348	764	5	3	16	116	624
Disposals	273	593	16	0	0	25	552
Reclassifications	335	194	(123)	0	0	0	317
At December 31, 2007	**2,083**	**42,379**	**1,042**	**15,161**	**1,287**	**16,357**	**8,532**
Accumulated amortization							
At December 31, 2005	**725**	**7,300**	**206**	**1,581**	**396**	**1,296**	**3,821**
Currency translation	(15)	(114)	6	18	5	(115)	(28)
Changes in the composition of the Group	0	29	0	0	0	0	29
Additions (amortization)	414	2,303	147	893	68	0	1,195
Additions (impairment)	7	106	4	0	0	33	69
Disposals	120	1,982	39	0	1	1,214	728
Reclassifications	(2)	240	14	0	0	0	226
At December 31, 2006	**1,009**	**7,882**	**338**	**2,492**	**468**	**0**	**4,584**
Currency translation	(31)	(254)	9	(95)	5	0	(173)
Changes in the composition of the Group	(3)	(54)	(8)	0	0	0	(46)
Additions (amortization)	486	2,626	163	908	100	0	1,455
Additions (impairment)	0	51	6	0	0	9	36
Disposals	270	547	12	0	0	9	526
Reclassifications	32	40	(59)	0	0	0	99
Reversal of impairment losses	0	0	0	0	0	0	0
At December 31, 2007	**1,223**	**9,744**	**437**	**3,305**	**573**	**0**	**5,429**
Net carrying amounts							
At December 31, 2006	736	36,198	674	13,101	678	18,176	3,569
At December 31, 2007	860	32,635	605	11,856	714	16,357	3,103

The net carrying amount of the UMTS licenses of EUR 11,856 million mainly comprises EUR 6,662 million for the license of T-Mobile Deutschland (December 31, 2006: EUR 7,175 million) and EUR 4,360 million for the license of T-Mobile UK (December 31, 2006: EUR 5,113 million).

Goodwill	Advance payments	Total
28,956	140	71,281
(677)	2	(2,476)
265	0	2,785
1,453	204	6,121
2	17	2,444
1,156	(204)	1,834
31,151	125	77,101
(1,402)	3	(3,966)
(224)	(7)	198
733	343	2,188
6	8	880
22	(187)	364
30,274	269	75,005
10,581	0	18,606
(398)	0	(527)
0	0	29
0	0	2,717
10	0	123
(3)	0	2,099
0	0	238
10,196	0	19,087
(888)	0	(1,173)
0	0	(57)
0	0	3,112
327	0	378
0	0	817
3	0	75
(4)	0	(4)
9,634	0	20,601
20,955	125	58,014
20,640	269	54,404

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

millions of €	Dec. 31, 2007	Dec. 31, 2006
Business Customers – Enterprise Services	4,542	4,434
T-Mobile USA	3,476	3,883
T-Mobile UK	2,700	2,954
PTC	1,840	1,721
T-Mobile Austria	1,377	1,377
T-Mobile Netherlands	1,263	1,144
Other	5,442	5,442
Total	**20,640**	**20,955**

The changes in goodwill at the cash-generating units T-Mobile USA, T-Mobile UK and PTC are attributable to exchange rate effects from the translation of U.S. dollars, pounds sterling and Polish zlotys. The increase of EUR 0.4 billion in the goodwill allocated to the T-Mobile Netherlands cash-generating unit is attributable to the acquisition of Orange Nederland in 2007. In addition, the carrying amount of goodwill of the T-Mobile Netherlands cash-generating unit was reduced by EUR 0.3 billion in the 2007 financial year. The reduction of the carrying amount of goodwill of T-Mobile Netherlands was not the result of an impairment test, but of the recognition of deferred tax assets for tax loss carryforwards that were acquired by the Group in connection with the acquisition of Ben Nederland but were not considered to meet the criteria for recognition at the time.

Deutsche Telekom performed its annual goodwill impairment tests at September 30, 2007. These tests did not result in any impairment of goodwill. On the basis of information currently available and expectations with respect to the market and competitive environment, the figures for all cash generating units fall within the general range of reasonable values.

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

22 Property, plant and equipment.

millions of €	Land and equivalent rights, and buildings including buildings on land owned by third parties	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and construction in progress	Total
Cost					
At December 31, 2005	**17,146**	**88,844**	**7,389**	**2,665**	**116,044**
Currency translation	(68)	(654)	(87)	(82)	(891)
Changes in the composition of the Group	171	508	223	62	964
Additions	192	2,940	569	3,595	7,296
Disposals	1,275	2,640	568	70	4,553
Reclassifications	287	2,776	(385)	(3,357)	(679)
At December 31, 2006	**16,453**	**91,774**	**7,141**	**2,813**	**118,181**
Currency translation	(79)	(1,324)	(141)	(126)	(1,670)
Changes in the composition of the Group	19	(47)	(71)	16	(83)
Additions	114	2,486	544	3,745	6,889
Disposals	967	3,935	703	194	5,799
Reclassifications	291	2,727	24	(3,387)	(345)
At December 31, 2007	**15,831**	**91,681**	**6,794**	**2,867**	**117,173**
Accumulated depreciation					
At December 31, 2005	**6,128**	**57,155**	**4,921**	**34**	**68,238**
Currency translation	(25)	(129)	(62)	1	(215)
Changes in the composition of the Group	8	8	109	0	125
Additions (depreciation)	642	6,493	761	10	7,906
Additions (impairment)	207	13	26	20	266
Disposals	720	2,495	530	16	3,761
Reclassifications	13	250	(502)	0	(239)
Reversal of impairment losses	(8)	0	0	0	(8)
At December 31, 2006	**6,245**	**61,295**	**4,723**	**49**	**72,312**
Currency translation	(36)	(628)	(95)	(1)	(760)
Changes in the composition of the Group	0	(124)	(28)	(2)	(154)
Additions (depreciation)	675	6,400	735	11	7,821
Additions (impairment)	221	54	4	4	283
Disposals	598	3,563	545	52	4,758
Reclassifications	22	127	(220)	(1)	(72)
Reversal of impairment losses	(27)	0	(3)	0	(30)
At December 31, 2007	**6,502**	**63,561**	**4,571**	**8**	**74,642**
Net carrying amounts					
At December 31, 2006	10,208	30,479	2,418	2,764	45,869
At December 31, 2007	9,329	28,120	2,223	2,859	42,531

Restoration obligations of EUR 168 million were recognized as of December 31, 2007 (December 31, 2006: EUR 177 million).

23 Investments accounted for using the equity method.

Significant investments in entities accounted for using the equity method and the related goodwill amounts break down as follows:

	Dec. 31, 2007			Dec. 31, 2006		
Name	Deutsche Telekom share %	Net carrying amount millions of €	Goodwill millions of €	Deutsche Telekom share %	Net carrying amount millions of €	Goodwill millions of €
HT Mostar [a, b]	39.10	47	–	30.29	3	–
Iowa Wireless Services LCC	39.74	10	–	39.98	6	–
CTDI Nethouse Services GmbH	49.00	9	–	49.00	10	–
DETECON AL SAUDIA CO. Ltd.	46.50	9	–	46.50	11	–
t-info	25.10	2	–	25.10	56	–
Toll Collect [a]	45.00	–	–	45.00	4	–
Bild.T-Online.de AG & Co. KG	n.a.	–	–	37.00	44	36
Immobilien Scout GmbH [c]	n.a.	–	–	33.11	24	20
Other		32	3		31	2
		109	**3**		**189**	**58**

[a] Joint venture.
[b] Indirect shareholding via HT-Hrvatske telekomunikacije d.d., Croatia (Deutsche Telekom AG's share: 51.00 %).
[c] Immobilien Scout GmbH has been fully consolidated since November 2007.

Aggregated key financial figures for the associates accounted for using the equity method are shown in the following overview. The data is not based on the portions attributable to the Deutsche Telekom Group, but represents the shareholdings on a 100-percent basis.

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

billions of €	Dec. 31, 2007	Dec. 31, 2006
Total assets	0.5	0.8
Total liabilities	0.2	0.4
	2007	2006
Net revenue	0.4	0.7
Profit	0.0	0.0

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

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

billions of €	Dec. 31, 2007	Dec. 31, 2006
Total assets	**0.5**	**0.4**
Current	0.3	0.2
Non-current	0.2	0.2
Total liabilities	**0.4**	**0.4**
Current	0.2	0.2
Non-current	0.2	0.2
	2007	2006
Net revenue	0.3	0.2
Profit	0.0	0.0

24 Other financial assets.

millions of €	Dec. 31, 2007 Total	Dec. 31, 2007 Of which: current	Dec. 31, 2006 Total	Dec. 31, 2006 Of which: current
Originated loans and receivables	1,588	1,348	1,710	1,340
Available-for-sale financial assets	276	79	345	121
Derivatives	457	305	359	301
Miscellaneous assets	297	287	68	63
	2,618	**2,019**	**2,482**	**1,825**

millions of €			Of which: not impaired on the reporting date and past due in the following periods					
Originated loans and receivables	**Carrying amount**	Of which: neither impaired nor past due on the reporting date	less than 30 days	between 30 and 60 days	between 61 and 90 days	between 91 and 180 days	between 181 and 360 days	more than 360 days
as of Dec. 31, 2007								
due within one year	1,348	1,330	7	1				1
due after more than one year	240	240						
as of Dec. 31, 2006								
due within one year	1,340	1,264	12	21			42	1
due after more than one year	370	369						1

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

Receivables of EUR 54 million (December 31, 2006: EUR 52 million) were used in connection with collateral agreements as surety for potential credit risks arising from derivative transactions.

The available-for-sale financial assets include unquoted equity instruments whose fair values could not be reliably measured, and which were therefore recognized at cost in the amount of EUR 182 million as of December 31, 2007 (December 31, 2006: EUR 214 million).

In the 2007 financial year, EUR 19 million (2006: EUR 10 million) in impairment losses on available-for-sale financial assets were recognized in profit or loss because the impairment was permanent or material.

At the balance sheet date T-Mobile Venture Fund GmbH & Co. KG was a major investment that was recognized at cost. No market price was available for the investment. Neither was it possible to derive its fair value in the period in question using comparable transactions. The Company did not measure the investments by discounting the expected cash flows because the cash flows could not be reliably determined. At December 31, 2007 the carrying amount of T-Mobile Venture Fund GmbH & Co. KG was EUR 83 million (December 31, 2006: EUR 73 million). At the preparation date of the financial statements there was no intention to sell the investment.

The investment in Beach Holding Co. (SBS International Puerto Rico, Inc.), which had been carried at cost, was sold in the 2007 financial year. Its carrying amount at the time of disposal was EUR 21 million. A disposal gain of EUR 10 million was recorded.

25 Financial liabilities.

millions of €	Dec. 31, 2007				Dec. 31, 2006			
	Total	due within 1 year	due > 1 year < 5 years	due > 5 years	Total	due within 1 year	due > 1 year < 5 years	due > 5 years
Bonds and other securitized liabilities								
Nonconvertible bonds	21,786	2,564	10,571	8,651	25,033	2,488	11,497	11,048
Commercial papers, medium-term notes, and similar liabilities	10,508	1,518	6,509	2,481	11,255	1,108	6,346	3,801
Liabilities to banks	4,260	1,848	1,522	890	2,348	295	1,188	865
	36,554	**5,930**	**18,602**	**12,022**	**38,636**	**3,891**	**19,031**	**15,714**
Lease liabilities	2,139	162	422	1,555	2,293	213	420	1,660
Liabilities arising from ABS transactions	–	–	–	–	1,139	271	868	–
Promissory notes	690	–	10	680	680	–	–	680
Other interest-bearing liabilities	527	135	244	148	373	87	131	155
Other non-interest-bearing liabilities	1,994	1,897	91	6	2,799	2,724	66	9
Derivative financial liabilities	1,002	951	16	35	562	497	35	30
	6,352	**3,145**	**783**	**2,424**	**7,846**	**3,792**	**1,520**	**2,534**
Financial liabilities	**42,906**	**9,075**	**19,385**	**14,446**	**46,482**	**7,683**	**20,551**	**18,248**

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

A liquidity reserve in the form of credit lines and, where necessary, cash is maintained to guarantee the solvency and financial flexibility of Deutsche Telekom at all times. For this purpose, the Company entered into standardized bilateral credit agreements with 29 banks amounting to a total of EUR 17.4 billion. The Company currently pays a commitment fee of 0.075 percent (2006: 0.075 percent) for credit lines not drawn and Euribor + 0.15 percent (2006: + 0.15 percent) for credit lines drawn. The terms and conditions depend on Deutsche Telekom's credit rating. The bilateral credit agreements have a maturity of 36 months and can, after each period of 12 months, be extended by a further 12 months to renew the maturity of 36 months.

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

millions of €	Carrying amount Dec. 31, 2007	Cash flows 2008		
		Fixed interest rate	Variable interest rate	Repayment
Non-derivative financial liabilities:				
Bonds, other securitized liabilities, liabilities to banks, promissory notes and similar liabilities	(37,244)	(1,757)	(281)	(5,729)
Finance lease liabilities	(1,636)	(124)		(169)
Other interest-bearing liabilities	(1,030)	(38)		(204)
Other non-interest-bearing liabilities	(1,994)			(1,965)
Derivative financial liabilities and assets:				
Derivative financial liabilities:				
– Currency derivatives without a hedging relationship	(51)			(31)
– Currency derivatives in connection with cash flow hedges	(90)			(93)
– Interest rate derivatives without a hedging relationship	(785)	(60)	(7)	(75)
– Interest rate derivatives in connection with fair value hedges	(49)	54	(67)	
– Interest rate derivatives in connection with cash flow hedges	(2)	(17)	18	
Derivative financial assets:				
– Currency derivatives without a hedging relationship	68			41
– Interest rate derivatives without a hedging relationship	209	108	(87)	118
– Interest rate derivatives in connection with fair value hedges	131	283	(282)	
– Interest rate derivatives in connection with cash flow hedges	24	(36)	47	

All instruments held at December 31, 2007 and for which payments were already contractually agreed are included. Planning data for future, new liabilities is not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2007. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period.

In accordance with Postreform II (§ 2 (4) of the Stock Corporation Transformation Act – Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were outstanding at January 1, 1995. At December 31, 2007, this figure was a nominal EUR 2.0 billion.

Cash flows 2009			Cash flows 2010–2012			Cash flows 2013–2017			Cash flows 2018 and thereafter		
Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
(1,557)	(215)	(4,495)	(3,669)	(257)	(14,139)	(2,678)	(7)	(7,212)	(4,249)		(6,637)
(117)		(96)	(305)		(262)	(352)		(499)	(310)		(610)
(38)		(92)	(112)		(144)	(189)		(162)	(134)		(437)
		(14)			(18)			(1)			(1)
		(19)									
(30)	(22)	(72)	63	(163)	(167)	33	(104)	(189)	100	(288)	(101)
73	(91)		174	(214)		279	(314)		482	(554)	
(4)	1										
		21									
39	(43)	2	15	2	2	(7)	5	2			
225	(227)		361	(369)		118	(100)				
(82)	93		(138)	125		(4)	3				

26 Trade and other payables.

millions of €	Dec. 31, 2007	Dec. 31, 2006
Trade payables	6,811	7,121
Liabilities from construction contracts	12	39
	6,823	**7,160**

Of the total of trade and other payables, EUR 6,810 million (December 31, 2006: EUR 7,157 million) is due within one year.

27 Additional disclosures on financial instruments.

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

millions of €	Category in accordance with IAS 39	Carrying amount Dec. 31, 2007	Amounts recognized in balance sheet according to IAS 39			
			Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
Assets						
Cash and cash equivalents	LaR	2,200	2,200			
Trade receivables	LaR	7,530	7,530			
Other receivables	LaR/n.a.	1,588	1,318			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	297	297			
Available-for-sale financial assets	AfS	276		182	94	
Financial assets held for trading						
Derivative financial assets						
Derivatives without a hedging relationship	FAHfT	277				277
Derivatives with a hedging relationship	n.a.	180			49	131
Liabilities						
Trade payables	FLAC	6,811	6,811			
Bonds and other securitized liabilities	FLAC	32,294	32,294			
Liabilities to banks	FLAC	4,260	4,260			
Liabilities arising from ABS transactions	FLAC					
Promissory notes	FLAC	690	690			
Other interest-bearing liabilities	FLAC	1,030	1,030			
Other non-interest-bearing liabilities	FLAC	1,994	1,994			
Finance lease liabilities	n.a.	1,636				
Derivative financial liabilities						
Derivatives without a hedging relationship (held for trading)	FLHfT	861				861
Derivatives with a hedging relationship (hedge accounting)	n.a.	141			92	49
Of which: aggregated by category in accordance with IAS 39						
Loans and receivables (LaR)		11,048	11,048			
Held-to-maturity investments (HtM)		297	297			
Available-for-sale financial assets (AfS)		276		182	94	
Financial assets held for trading (FAHfT)		277				277
Financial liabilities measured at amortized cost (FLAC)		47,079	47,079			
Financial liabilities held for trading (FLHfT)		861				861

* For details, please refer to Note 24.

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

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

Amounts recognized in balance sheet according to IAS 17	Fair value Dec. 31, 2007	Category in accordance with IAS 39	Carrying amount Dec. 31, 2006	Amounts recognized in balance sheet according to IAS 39				Amounts recognized in balance sheet according to IAS 17	Fair value Dec. 31, 2006
				Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss		
	2,200	LaR	2,765	2,765					2,765
	7,530	LaR	7,577	7,577					7,577
270	1,588	LaR/n.a.	1,710	1,429				281	1,710
	297	HtM	66	66					66
	94*	AfS	345		214	131			131*
		FAHfT	2				2		2
	277	FAHfT	280				280		280
	180	n.a.	79			14	65		79
	6,811	FLAC	7,121	7,121					7,121
	33,644	FLAC	36,288	36,288					39,060
	4,336	FLAC	2,348	2,348					2,474
		FLAC	1,139	1,139					1,139
	743	FLAC	680	680					768
	1,046	FLAC	883	883					883
	1,994	FLAC	2,799	2,799					2,799
1,636	1,821	n.a.	1,783					1,783	2,000
	861	FLHfT	439				439		439
	141	n.a.	123			58	65		123
	11,048		11,771	11,771					11,771
	297		66	66					66
	94*		345		214	131			131*
	277		282				282		282
	48,574		51,258	51,258					54,244
	861		439				439		439

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

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

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

Net gain/loss by measurement category.

millions of €	From interest, dividends	From subsequent measurement			From derecognition	Net gain (loss)	
		At fair value	Currency translation	Impairment/ reversal of impairment		2007	2006
Loans and receivables (LaR)	152	n.a.	(1,440)	(797)	2	(2,083)	(1,656)
Held-to-maturity investments (HtM)	9	n.a.				9	14
Available-for-sale financial assets (AfS)	56			(19)	28	65	226
Financial instruments held for trading (FAHfT and FLHfT)	n.a.	(393)	n.a.	n.a.		(393)	(17)
Financial liabilities measured at amortized cost (FLAC)	(2,570)		1,824	n.a.		(746)	(1,505)
	(2,353)	**(393)**	**384**	**(816)**	**30**	**(3,148)**	**(2,938)**

Interest from financial instruments is recognized in finance costs, dividends in other financial income (please refer to Notes 7 and 9).

Deutsche Telekom recognizes the other components of net gain/loss in other financial income/expense, except for impairments/reversal of impairments of trade receivables that are classified as loans and receivables which are reported under selling expenses (please refer to Note 3).

The net loss from the subsequent measurement for financial instruments held for trading (EUR 393 million) also includes interest and currency translation effects.

The net currency translation losses on financial assets classified as loans and receivables (EUR 1,440 million) are primarily attributable to the Group-internal transfer of foreign-currency loans taken out by Deutsche Telekom's financing company, Deutsche Telekom International Finance B.V., on the capital market. These were offset by corresponding currency translation gains on capital market liabilities of EUR 1,824 million.

Finance costs from financial liabilities measured at amortized cost (EUR 2,570 million) primarily consist of interest expense on bonds and other (securitized) financial liabilities. The item also includes interest income from interest added back and discounted from trade payables. However, it does not include the interest expense and interest income from interest rate derivatives Deutsche Telekom used in the reporting period to hedge the fair value risk of financial liabilities (please refer to Note 7).

Net losses of EUR 1 million (2006: losses of EUR 1 million) from remeasurement were recognized in shareholders' equity in 2007 as a result of the recognition of changes in the fair values of available-for-sale financial assets. Of the amounts recorded in shareholders' equity, gains totaling EUR 1 million (2006: losses of EUR 3 million) were reclassified to the income statement in the 2007 financial year.

28 Other liabilities.

millions of €	Dec. 31, 2007	Dec. 31, 2006
Deferred revenues	1,909	2,082
Other liabilities	4,112	3,696
	6,021	**5,778**

Other liabilities increased by EUR 0.2 billion to EUR 6.0 billion. This is primarily attributable to increased liabilities in connection with the early retirement scheme for civil servants which was largely offset by a decline in liabilities for voluntary redundancy and severance payments.

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

29 Provisions for pensions and other employee benefits.

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

Defined benefit plans.

Defined benefit plans require the employer to pay the agreed pension benefits and to fund these by recognizing pension provisions or plan assets.

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

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

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

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

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

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

Calculation of defined benefit liabilities (+)/defined benefit assets (–):

millions of €	Dec. 31, 2007	Dec. 31, 2006
Present value of funded obligations	1,368	1,515
Plan assets at fair value	(986)	(966)
Projected benefit obligations in excess of plan assets	382	549
Present value of non-funded obligations	4,959	5,619
Unrecognized past service cost	(3)	(1)
Net defined benefit liabilities (+)/ defined benefit assets (–)	**5,338**	**6,167**

Pension provisions break down into defined benefit liabilities and defined benefit assets as follows:

millions of €	Dec. 31, 2007	Dec. 31, 2006
Defined benefit assets presented on the balance sheet	(16)	0
Defined benefit liabilities presented on the balance sheet	5,354	6,167
Net defined benefit liabilities (+)/ defined benefit assets (–)	**5,338**	**6,167**

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

The following table shows the composition of pension obligations:

millions of €	Dec. 31, 2007	Dec. 31, 2006
Pension obligations		
– Direct	4,955	5,615
– Indirect	380	548
Obligations in accordance with Article 131 GG	3	4
Net defined benefit liabilities (+)/ defined benefit assets (–)	**5,338**	**6,167**

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

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

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

%	2007	2006
Discount rate	5.50 3.25 [b] 5.40 [c]	4.45 3.25 [b] 4.80 [c]
Projected salary increase	2.50 3.25 [a] 1.50 [b] 4.20 [c]	2.50 3.25 [a] 1.50 [b] 4.00 [c]
Projected pension increase	1.00 1.70 0.60 [b] 3.20 [c]	1.00 1.50 0.60 [b] 3.00 [c]

[a] For non-civil servants not covered by collective agreements.
[b] Switzerland.
[c] United Kingdom.

For calculating the present value of pension obligations, taking into account future salary increases (defined benefit obligation), Deutsche Telekom used a rate of 5.5 percent as of December 31, 2007. This interest rate was determined based on a weighted average term of the obligation of approximately 15 years. As the obligations are denominated in euros, the discount rate is based on the rate of return of high-quality European corporate bonds with AA rating for which a yield curve is prepared based on spot rates. The discount rate is determined in the same way for the entire Group.

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

%	2007	2006	2005
Discount rate	4.45 3.25 [b] 4.80 [c]	4.10 3.25 [b] 4.75 [c]	5.25 3.25 [b] 5.30 [c]
Projected salary increase	2.50 3.25 [a] 1.50 [b] 4.00 [c]	2.75 3.50 [a] 1.00 [b] 3.90 [c]	2.75 3.50 [a] 1.00 [b] 3.80 [c]
Return on plan assets	4.00 4.50 [b] 6.47 [c]	4.00 4.50 [b] 6.60 [c]	5.00 4.50 [b] 7.25 [c]
Projected pension increase	1.00 1.50 0.60 [b] 3.00 [c]	1.00 1.50 1.00 [b] 2.90 [c]	1.00 1.50 1.00 [b] 2.80 [c]

[a] For non-civil servants not covered by collective agreements.
[b] Switzerland.
[c] United Kingdom.

Development of defined benefit obligations in the reporting year:

millions of €	2007	2006
Present value of the defined benefit obligations as of January 1	**7,134**	**7,016**
Current service cost	217	389
Interest cost	307	285
Contributions by plan participants	4	7
Change in obligations	(40)	40
Actuarial (gains) losses	(947)	(303)
Total benefits actually paid	(296)	(289)
Plan amendments	2	(18)
Exchange rate fluctuations for foreign-currency plans	(54)	7
Present value of the defined benefit obligations as of December 31	**6,327**	**7,134**

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

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

millions of €	2007	2006
Plan assets at fair value, as of January 1	**966**	**901**
Expected return on plan assets	50	46
Actuarial (losses) gains	(24)	11
Contributions by employer	43	37
Contributions by plan participants	4	7
Benefits actually paid through pension funds	(56)	(61)
Change in obligations	41	21
Exchange rate fluctuations for foreign-currency plans	(38)	4
Plan assets at fair value, as of December 31	**986**	**966**

Breakdown of plan assets at fair value by investment category:

%	Dec. 31, 2007	Dec. 31, 2006
Equity securities	35	36
Debt securities	48	50
Real estate	10	11
Other	7	3

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

The remaining target allocation risk is monitored and managed on a regular basis using downside risk management.

At December 31, 2007, the plan assets did not include any shares (December 31, 2006: EUR 1.6 million) issued by Deutsche Telekom. No own financial instruments were included in the years shown.

Determination of the expected return on essential plan assets: The expected return on plan assets for 2008 is 4.3 percent (VAP and DTBS), 4.5 percent (Switzerland) and 7.0 percent (United Kingdom).

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

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

millions of €	Income statement account	2007	2006	2005
Current service cost	Personnel costs (pension benefit costs)	217	389	223
Interest cost	Other financial income (expense)	307	285	289
Expected return on plan assets	Other financial income (expense)	(50)	(46)	(47)
Past service cost	Personnel costs (pension benefit costs)	0	(18)	0
Pension expense		**474**	**610**	**465**
Curtailment/settlement		33	12	0
Actual return on plan assets		26	57	101

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

millions of €	2007	2006	2005
Cumulative (gains) losses recognized directly in equity as of January 1	1,265	1,579	480
Recognition directly in equity of actuarial (gains) losses in the reporting period	(923)	(314)	1,099
Cumulative (gains) losses recognized directly in equity as of December 31	342	1,265	1,579

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

millions of €	2008
Expected contributions by employer	44

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

millions of € as of Dec. 31	2007	2006	2005	2004	2003
Defined benefit obligations	6,327	7,134	7,016	5,311	5,032
Plan assets at fair value	(986)	(966)	(901)	(623)	(489)
Projected benefit obligations in excess of plan assets (funded status)	**5,341**	**6,168**	**6,115**	**4,688**	**4,543**

Adjustment in %	2007	2006	2005
Experience-based increase (decrease) of pension obligations	(0.8)	(0.4)	2.2
Experience-based increase (decrease) of plan assets	(2.5)	1.1	6.5

Defined contribution plans.

Individual Group entities grant defined contribution plans to their employees. Under defined contribution plans, the employer does not assume any other obligations above and beyond the payment of contributions to an external fund. The amount of the future pension payments will exclusively depend on the contribution made by the employer (and their employees, if applicable) to the external fund, including income from the investment of such contributions. Current contributions are reported as an expense in functional costs during the respective year. In 2007 they amounted to EUR 103 million (2006: EUR 74 million; 2005: EUR 73 million). Of this amount, EUR 1 million (2006: EUR 1 million; 2005: EUR 1 million) were pledged to commitments to members of staff in key positions.

Civil-servant retirement arrangements. As part of the civil servants' pension plan, Deutsche Telekom AG maintained a special pension fund for its active and former civil servants up until the 2000 financial year. By way of a notarized agreement dated December 7, 2000, this fund was merged with the special pension funds of Deutsche Post AG and Deutsche Postbank AG to form the joint pension fund Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT). On January 11, 2001, the fund was entered in the Register of Associations with retroactive effect from July 1, 2000. The registered office of BPS-PT is Bonn. BPS-PT works for the funds of all three companies and also handles the financial administration for the Federal Republic on a trust basis. It carries out all transactions for pension and allowance payments in respect of civil servants for Deutsche Post AG, Deutsche Postbank AG, and Deutsche Telekom AG.

In accordance with the provisions of the German Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz – PTNeuOG), BPS-PT makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil-servant status. The level of Deutsche Telekom's payment obligations to its special pension fund is defined under § 16 of the Act Concerning the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz – PostPersRG). Since 2000, Deutsche Telekom AG has been legally obliged to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. A contribution of EUR 772 million was recognized as an ongoing expense in 2007 (2006: EUR 842 million; 2005: EUR 862 million; please refer to Note 40).

Under PTNeuOG, the Federal Republic compensates the special pension fund for differences between the ongoing payment obligations of the special pension fund, amounts received from Deutsche Telekom AG, and returns on assets, and guarantees that the special pension fund is always in a position to fulfill the obligations it has assumed. The Federal Republic cannot require reimbursement from Deutsche Telekom AG for amounts paid by it to the special fund.

30 Other provisions.

millions of €	Personnel	Restoration obligations	Investment risks	Litigation risks	Reimburse-ments	Other	Total
At December 31, 2005	**3,013**	**642**	**311**	**238**	**153**	**1,300**	**5,657**
Of which: current	2,097	6	311	88	152	967	3,621
Changes in the composition of the Group	70	53	0	4	4	46	177
Currency translation adjustments	(12)	(1)	0	2	(4)	(17)	(32)
Addition	3,283	90	0	150	132	794	4,449
Use	(2,269)	(35)	(311)	(51)	(110)	(644)	(3,420)
Reversal	(243)	(37)	0	(31)	(13)	(200)	(524)
Interest effect	41	31	0	0	0	2	74
Other changes	6	(30)	0	18	(7)	(101)	(114)
At December 31, 2006	**3,889**	**713**	**0**	**330**	**155**	**1,180**	**6,267**
Of which: current	1,954	6	0	113	149	871	3,093
Changes in the composition of the Group	(2)	19	0	0	0	2	19
Currency translation adjustments	(25)	(11)	0	0	(2)	(21)	(59)
Addition	3,708	45	0	148	148	1,319	5,368
Use	(2,836)	(95)	0	(71)	(123)	(698)	(3,823)
Reversal	(302)	(14)	0	(61)	(37)	(188)	(602)
Interest effect	94	27	0	0	0	2	123
Other changes	84	(20)	0	5	12	(344)	(263)
At December 31, 2007	**4,610**	**664**	**0**	**351**	**153**	**1,252**	**7,030**
Of which: current	2,167	10	0	165	138	885	3,365

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

Deutsche Telekom continued the staff restructuring program announced in the 2005 financial year. Part of this HR restructuring program in Germany is socially responsible staff adjustment on a voluntary basis and largely without the need for compulsory redundancies. Socially responsible HR tools such as severance and redundancy models as well as partial and early retirement arrangements contribute substantially to the achievement of this aim. Some of these HR measures are covered by law and will apply beyond 2008. The cut-off date for the early retirement arrangement for civil servants, for example, which was enabled by a new law in November 2006, is the end of 2010. For civil servants employed at Deutsche Telekom, the law provides the opportunity under certain conditions to retire early from the age of 55. Within the framework of the staff restructuring program, provisions in connection with the early retirement arrangements for civil servants until 2010 and for compensation payments in connection with the collective agreement on Telekom Service were recognized in the 2007 financial year.

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

The provision for litigation risks includes pending lawsuits for damages in connection with reimbursement claims relating to the sale of subscriber data.

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

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

31 Shareholders' equity – Overview.

Statement of changes in shareholders' equity from January 1, 2005 to December 31, 2007:

Changes in shareholders' equity	Equity attributable to equity holders of the parent				
	Equity contributed			Consolidated shareholders' equity generated	
	Number of shares thousands	Issued capital millions of €	Capital reserves millions of €	Retained earnings incl. carryforwards millions of €	Net profit (loss) millions of €
Balance at January 1, 2005	**4,197,854**	**10,747**	**49,528**	**(18,058)**	**1,594**
Changes in the composition of the Group				(6)	
Profit after income taxes					5,589
Unappropriated net profit (loss) carried forward				1,594	(1,594)
Dividends				(2,586)	
Sale of treasury shares (anniversary campaign)					
Proceeds from the exercise of stock options	224		33		
Actuarial gains and losses				(697)	
Change in other comprehensive income (not recognized in income statement)				5	
Recognition of other comprehensive income in income statement					
Balance at December 31, 2005	**4,198,078**	**10,747**	**49,561**	**(19,748)**	**5,589**
Balance at January 1, 2006	**4,198,078**	**10,747**	**49,561**	**(19,748)**	**5,589**
Changes in the composition of the Group					
Profit after income taxes					3,165
Unappropriated net profit (loss) carried forward				5,589	(5,589)
Dividends				(3,005)	
Mandatory convertible bond	162,988	417	1,793	(71)	
T-Online merger	62,730	161	631		
Share buy-back/retirement	(62,730)	(161)	(548)		
Sale of treasury shares			(1)		
Proceeds from the exercise of stock options	53		62		
Actuarial gains and losses				187	
Change in other comprehensive income (not recognized in income statement)				71	
Recognition of other comprehensive income in income statement					
Balance at December 31, 2006	**4,361,119**	**11,164**	**51,498**	**(16,977)**	**3,165**
Balance at January 1, 2007	**4,361,119**	**11,164**	**51,498**	**(16,977)**	**3,165**
Changes in the composition of the Group				(5)	
Profit after income taxes					569
Unappropriated net profit (loss) carried forward				3,165	(3,165)
Dividends				(3,124)	
Proceeds from the exercise of stock options	179	1	26		
Actuarial gains and losses				559	
Change in other comprehensive income (not recognized in income statement)				156	
Recognition of other comprehensive income in income statement					
Balance at December 31, 2007	**4,361,298**	**11,165**	**51,524**	**(16,226)**	**569**

			Minority interests			
Other comprehensive income	Treasury shares	**Total** (equity attributable to equity holders of the parent)	Minority interest capital	Other comprehensive income	**Total** (minority interests)	**Total (consolidated shareholders' equity)**
millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
(2,678)	**(8)**	**41,125**	**4,332**	**55**	**4,387**	**45,512**
		(6)	(1,009)	4	(1,005)	(1,011)
		5,589	432		432	6,021
		0			0	0
		(2,586)	(351)		(351)	(2,937)
	2	2			0	2
		33			0	33
		(697)			0	(697)
2,589		2,594	4	44	48	2,642
(966)		(966)			0	(966)
(1,055)	**(6)**	**45,088**	**3,408**	**103**	**3,511**	**48,599**
(1,055)	**(6)**	**45,088**	**3,408**	**103**	**3,511**	**48,599**
		0	(44)		(44)	(44)
		3,165	409		409	3,574
		0			0	0
		(3,005)	(277)		(277)	(3,282)
		2,139			0	2,139
		792	(607)		(607)	185
		(709)			0	(709)
	1	0			0	0
		62			0	62
		187	(3)		(3)	184
(1,214)		(1,143)	9	102	111	(1,032)
(6)		(6)			0	(6)
(2,275)	**(5)**	**46,570**	**2,895**	**205**	**3,100**	**49,670**
(2,275)	**(5)**	**46,570**	**2,895**	**205**	**3,100**	**49,670**
		(5)			0	(5)
		569	509		509	1,078
		0			0	0
		(3,124)	(497)		(497)	(3,621)
		27			0	27
		559			0	559
(2,632)		(2,476)	4	(1)	3	(2,473)
		0			0	0
(4,907)	**(5)**	**42,120**	**2,911**	**204**	**3,115**	**45,235**

32 Issued capital.

As of December 31, 2007, the share capital of Deutsche Telekom totaled EUR 11,165 million. The share capital is divided into 4,361,297,603 no par value registered shares. Each share entitles the holder to one vote.

The Federal Republic's direct shareholding in Deutsche Telekom AG, represented by the Federal Agency, was 14.8 percent at December 31, 2007 (December 31, 2006: 14.8 percent), while KfW's shareholding at December 31, 2007 was 16.9 percent (December 31, 2006: 16.9 percent) and the Blackstone Group's 4.4 percent (December 31, 2006: 4.4 percent). This means that as of December 31, 2007, 646,575,126 no par value shares (EUR 1.7 billion) of the share capital were held by the Federal Republic; 735,667,390 no par value shares (EUR 1.9 billion) by KfW and 192,000,000 no par value shares (EUR 491 million) by the Blackstone Group. The remaining shares are in free float.

In the course of the acquisition of T-Mobile USA Inc., Bellevue (United States)/ Powertel Inc., Bellevue (United States), Deutsche Telekom granted options on shares of Deutsche Telekom AG in exchange for the outstanding warrants between Deutsche Telekom and T-Mobile USA/Powertel at the time of the acquisition. As of December 31, 2007, the number of Deutsche Telekom shares reserved for the stock options granted to T-Mobile USA/ Powertel employees and still outstanding was 7,079,479.

Authorized capital.
Authorized capital comprised the following components as of December 31, 2007:

2004 Authorized capital: The Board of Management is authorized, with the approval of the Supervisory Board, to increase the share capital by up to an amount of EUR 2,399,410,734.08 by issuing up to 937,269,818 no par value registered shares against non-cash capital contributions in the period up to May 17, 2009. This authorization may be exercised in full or in one or several partial amounts. The Board of Management is authorized, with the approval of the Supervisory Board, to exclude the shareholders' preemptive rights when issuing new shares for business combinations or for the acquisition of companies, parts thereof or equity interests in companies, including increasing an existing investment, or other assets eligible for contribution for such acquisitions, including receivables from the Company. The Board of Management is authorized, with the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares.

The Board of Management exercised the authority originally amounting to EUR 2,560,000,000 with the approval of the Supervisory Board in August 2005 and resolved to increase the share capital in the amount of EUR 160,589,265.92 (62,730,182 no par value shares) for the purpose of the merger of T-Online International AG into Deutsche Telekom AG. The implementation of this capital increase was entered in the commercial register on September 12, 2005; it took effect together with the entry of the merger in the commercial register on June 6, 2006.

When the merger took effect, existing shares in T-Online International AG were exchanged at the ratio agreed in the merger agreement of 25 T-Online International AG shares to 13 Deutsche Telekom AG shares. This resulted in an increase of issued capital by EUR 161 million. To prevent the merger from increasing the number of shares of Deutsche Telekom AG permanently, the Board of Management of Deutsche Telekom resolved on August 10, 2006 in accordance with the authorizing resolution of the shareholders' meeting on May 3, 2006 to buy back and retire 62,730,182 shares of the Company (corresponding to the number of new shares issued as a result of the merger of T-Online International AG into Deutsche Telekom AG). The Supervisory Board approved this share retirement. Between August 14 and August 25, 2006, a total of 62,730,182 shares with a proportionate amount of the share capital of EUR 160,589,269.92, i.e., approximately 1.4 percent of the share capital at that time, were repurchased by the Company at an average price of EUR 11.29 for a total consideration of EUR 708,482,743.99.

2006 Authorized capital: The Board of Management is authorized, with the approval of the Supervisory Board, to increase the share capital by up to EUR 38,400,000 by issuing up to 15,000,000 no par value registered shares against cash and/or non-cash contributions in the period up to May 2, 2011. This authorization may be exercised in full or in one or several partial amounts. Shareholders' preemptive rights are disapplied. The new shares may only be issued to grant shares to employees of Deutsche Telekom AG and of lower-tier companies (employee shares). The new shares can also be issued to a bank or some other company meeting the requirements of § 186 (5), sentence 1 AktG that assumes the obligation to use these shares for the sole purpose of granting employee shares. The shares to be issued as employee shares can also be acquired in the form of a securities loan from a bank or some other company meeting the requirements of § 186 (5), sentence 1 AktG and the new shares used to repay this securities loan. The Board of Management is authorized, with the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares.

Contingent capital.
Contingent capital comprised the following components as of December 31, 2007:

Contingent capital II: The share capital has been contingently increased by up to EUR 31,870,407.68, composed of up to 12,449,378 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.

178,353 stock options granted under the 2001 Stock Option Plan were exercised in the 2007 financial year. As a result, contingent capital II amounting to EUR 32,326,991.36 decreased by EUR 456,583.68 (178,353 no par value shares) to EUR 31,870,407.68. The share capital rose accordingly in the 2007 financial year.

Contingent capital IV: The share capital has been contingently increased by EUR 600,000,000, composed of 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.

33 Capital reserves.

The capital reserves of the Group primarily encompass the capital reserves of Deutsche Telekom AG. Differences to the capital reserves of Deutsche Telekom AG result from the recognition at fair value of the Deutsche Telekom AG shares newly issued in the course of the acquisition of VoiceStream/Powertel instead of at their par value, which is permissible in the consolidated financial statements, and from the related treatment of the issuing costs. Furthermore, there were additional allocations to capital reserves in 2007 from the exercise of conversion rights by former shareholders of T-Mobile USA/Powertel.

34 Retained earnings including carryforwards.

Retained earnings were impacted in particular by the appropriation of an amount of EUR 3.2 billion in net profit for the prior year, Deutsche Telekom AG's payment of EUR 3.1 billion in dividends for the 2006 financial year, and actuarial gains and losses of EUR 0.6 billion.

35 Other comprehensive income.

Other comprehensive income declined year-on-year by EUR 2.6 billion to EUR – 4.9 billion. This was due in particular to negative exchange rate effects on the currency translation of financial statements prepared in foreign currencies and to losses which are recognized as other comprehensive income as part of cash flow hedges. A positive effect resulted primarily from the adjustment of deferred taxes on net investment hedges in connection with the corporate tax reform.

36 Treasury shares.

Through a resolution by the shareholders' meeting on May 3, 2007, the Board of Management is authorized to acquire up to 436,117,555 treasury shares, i.e., up to almost 10 percent of the share capital, until November 2, 2008. This authorization may be exercised in full or in part. The shares can be acquired in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. The treasury shares acquired on the basis of this authorization may be resold on the stock exchange, tendered to shareholders on the basis of a subscription offer extended to all shareholders, disposed of, with the approval of the Supervisory Board, in a manner other than on the stock exchange or tender to all shareholders, used, with the approval of the Supervisory Board, to list the Company's shares on foreign stock exchanges, granted, with the approval of the Supervisory Board, to third parties in the course of business combinations or for the acquisition of companies, parts of companies, or equity interests in companies, used, with the approval of the Supervisory Board, for the fulfillment of conversion or option rights/obligations arising from convertible bonds or bonds with warrants issued by the Company based on the authority resolved by the shareholders' meeting on April 26, 2005 under item 9 of the agenda, or retired with the approval of the Supervisory Board. The authorization granted to the Board of Management by the shareholders' meeting on May 3, 2006, to acquire treasury shares, ended when this new authorization took effect on May 3, 2007; the authorizations granted by the shareholders' meeting resolution of May 3, 2006, on the use of treasury shares acquired remain unaffected.

At 1,881,508 shares, the holding of treasury shares, remaining unchanged since last year's balance sheet date, breaks down as follows:

	Number
1999 Employee Stock Purchase Plan	5,185,278
Decrease as a result of the 2000 Employee Stock Purchase Plan	(2,988,980)
Decrease as a result of the 2005 Employee Stock Purchase Plan	(314,790)
	1,881,508

Treasury shares are carried at cost. Treasury shares amount to a total of approximately EUR 5 million or 0.04 percent of issued capital. All treasury shares are held by Deutsche Telekom AG.

37 Minority interest.

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

Other disclosures.

38 Notes to the consolidated cash flow statement.

Net cash from operating activities. Net cash from operating activities amounted to EUR 13.7 billion in the 2007 financial year, compared with EUR 14.2 billion in the prior year. This decrease is primarily attributable to the negative development of working capital, partially offset by a positive effect from tax payments totaling EUR 1.4 billion compared with the prior year. Income tax receipts of EUR 0.2 billion were recorded in the reporting year as compared with tax payments of EUR 1.2 billion in the prior year. In addition, net interest payments were reduced by EUR 0.3 billion year-on-year.

Net cash used in investing activities. Net cash used in investing activities totaled EUR 8.1 billion in 2007 as compared with EUR 14.3 billion in the previous year. This change was primarily the result of lower cash outflows for investments in intangible assets and property, plant and equipment which declined by a total of EUR 3.8 billion. This decline was mainly attributable to the acquisition of FCC licenses by T-Mobile USA in the prior year for EUR 3.3 billion for which there was no comparable single investment in 2007. Furthermore, proceeds from the disposal of property, plant and equipment were EUR 0.2 billion higher than in the prior year.

Lower cash outflows of EUR 0.7 billion for acquisitions and higher cash inflows of EUR 0.9 billion from disposals of businesses compared with the previous year also had a positive impact on net cash used in investing activities. In the reporting year, the acquisition of Orange Nederland and Immobilien Scout resulted in cash outflows of EUR 1.5 billion and the disposal of T-Online France, T-Online Spain, and TBDS contributed cash inflows of EUR 0.9 billion, whereas in the prior year, cash outflows for tele.ring, PTC, gedas, and Maktel totaled EUR 2.2 billion.

Net cash used in financing activities. Net cash used in financing activities increased from EUR 2.1 billion in the prior year to EUR 6.1 billion in 2007.

This change is primarily attributable to a EUR 6.3 billion decline in proceeds from the issue of non-current financial liabilities and a EUR 0.5 billion increase in the repayment of non-current financial liabilities. These effects in net cash used in financing activities were partly offset by a EUR 2.6 billion increase in net proceeds from the issue of current financial liabilities. The issuance and repayment of current financial liabilities increased year-on-year due to the drawdown of several short-term credit lines.

In addition to short-term drawdowns of credit lines amounting to EUR 1.4 billion net, the issue of financial liabilities in 2007 consisted in particular of a medium-term note issue in the amount of EUR 0.5 billion as well as a loan of EUR 0.5 billion from the European Investment Bank. In the same period, a euro tranche of the 2002 global bond of EUR 2.5 billion and medium-term notes of EUR 1.1 billion and ABS liabilities of EUR 1.1 billion were repaid.

In addition, dividend payments increased by EUR 0.6 billion year-on-year, partly as a result of an increase of EUR 0.1 billion in dividend payments at Deutsche Telekom AG, of EUR 0.1 billion at Hrvatske Telekomunikacije d.d., and of EUR 0.1 billion at Slovak Telekom a.s. Furthermore, a dividend payment of EUR 0.1 billion by Makedonski Telekominikacii A.D. was recorded in the reporting year, as was the dividend payment by Magyar Telekom for 2005 and 2006 amounting to EUR 0.2 billion, for which there were no comparable payments in the prior year.

A positive effect also resulted from the fact that a buy-back of shares for EUR 0.7 billion in connection with the merger of T-Online International AG into Deutsche Telekom AG was recorded in the prior year, for which there was no comparable outflow in the reporting period.

39 Segment reporting.

In November 2006, the International Accounting Standards Board (IASB) issued IFRS 8 “Operating Segments.” IFRS 8 replaces IAS 14 “Segment Reporting” and must be applied to reporting periods beginning on or after January 1, 2009. Deutsche Telekom has opted for early adoption of IFRS 8, beginning with the financial year ending on December 31, 2007. According to IFRS 8, reportable operating segments are identified based on the “management approach.” This approach stipulates external segment reporting based on the Group’s internal organizational and management structure and on internal financial reporting to the chief operating decision maker. In the Deutsche Telekom Group, the Board of Management of Deutsche Telekom AG is responsible for measuring and steering the business success of the segments and is considered the chief operating decision maker within the meaning of IFRS 8.

In contrast to the former reporting structure, Deutsche Telekom reports on five operating segments, which are independently managed by bodies responsible for the respective segments depending on the nature of products and services offered, brands, sales channels, and customer profiles. The identification of Company components as business segments is based in particular on the existence of segment managers who report directly to the Board of Management of Deutsche Telekom AG and who are responsible for the performance of the segment under their charge. In accordance with IFRS 8, Mobile Communications Europe and Mobile Communications USA are reported separately as operating segments, since internal reporting and management channels in the Mobile Communications segment have been changed. Prior-year figures have been adjusted accordingly.

Information on the Group's segments is presented below.

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

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

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

The **Broadband/Fixed Network** operating segment offers consumers and small business customers traditional fixed-network services on the basis of a state-of-the-art infrastructure, broadband Internet access, and multimedia services. 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 segment has a presence in both Western and Eastern Europe: In Western Europe, it is represented by subsidiaries in Austria and Switzerland. The subsidiary T-Online France was sold in the second quarter and the subsidiary T-Online Spain in the third quarter of 2007. In Eastern Europe's markets, the operating segment has operations primarily in Hungary including Macedonia, Montenegro, Bulgaria and Romania (Magyar Telekom), Croatia (T-Hrvatski Telekom), and Slovakia (Slovak Telekom).

The **Business Customers** operating segment is divided into two operating business units: T-Systems Enterprise Services, which supports around 60 multinational corporations and large public authorities, and T-Systems Business Services, which serves around 160,000 large and medium-sized business customers. T-Systems is represented by subsidiaries in more than 20 countries, with a particular focus on the Western European countries of Germany, France, Spain, Italy, the United Kingdom, Austria, Switzerland, Belgium, and the Netherlands. The service provider offers its customers a full range of information and communication technology (ICT) from a single source. It realizes integrated ICT solutions on the basis of its extensive expertise in these two technological areas. T-Systems develops and operates infrastructure and industry solutions for its key accounts. 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 developing complete ICT solutions.

Group units and subsidiaries that are not directly allocated to one of the aforementioned operating segments are included in the **Group Headquarters & Shared Services** segment. Group Headquarters is responsible for strategic and cross-segment management functions. All other operating functions not directly related to the aforementioned segments' core business are assumed by Shared Services. These include the Real Estate Services division, 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. Vivento, which is also part of Shared Services, is responsible for placing employees and creating employment opportunities. Shared Services primarily has activities in Germany. Real Estate Services also has operations in Hungary and in Slovakia offering facility management services. The main Shared Services subsidiaries include DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, GMG Generalmietgesellschaft mbH, DFMG Deutsche Funkturm GmbH, PASM Power and Air Condition Solution Management GmbH & Co. KG, DeTeFleet Services GmbH, and Vivento Customer Services GmbH. Since the beginning of the 2007 financial year, the Group Headquarters & Shared Services segment has also included the shared services and headquarters functions of Magyar Telekom. Deutsche Telekom reported these functions as part of the Broadband/Fixed Network operating segment until the end of 2006.

The reconciliation summarizes the elimination of links between segments.

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

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

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

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

millions of €		Net revenue	Intersegment revenue	Total revenue	Profit (loss) from operations (EBIT)	Interest income	Interest expense	Share of profit (loss) of associates and joint ventures accounted for using the equity method	Income taxes
Mobile Communications Europe	2007	20,000	713	20,713	2,436	208	(495)	0	635
	2006 [a]	17,700	755	18,455	2,746	168	(514)	77	13
	2005 [a]	16,673	945	17,618	1,487	164	(531)	131	(554)
Mobile Communications USA	2007	14,050	25	14,075	2,017	99	(457)	6	(518)
	2006 [a]	13,608	20	13,628	1,756	68	(408)	3	651
	2005 [a]	11,858	29	11,887	1,519	14	(271)	2	2,035
Broadband/ Fixed Network	2007	19,072	3,618	22,690	3,250	522	(62)	46	(84)
	2006 [b]	20,366	4,149	24,515	3,356	256	(41)	31	(241)
	2005 [b]	21,447	4,395	25,842	5,264	407	(47)	54	(175)
Business Customers	2007	8,971	3,016	11,987	(323)	91	(99)	0	(47)
	2006 [b]	9,301	3,568	12,869	(835)	61	(99)	(86)	(50)
	2005 [b]	9,328	3,817	13,145	458	45	(107)	3	(28)
Group Headquarters & Shared Services	2007	423	3,445	3,868	(1,973)	1,015	(3,309)	2	(1,361)
	2006 [b]	372	3,386	3,758	(2,138)	1,055	(3,043)	(2)	342
	2005 [b]	298	3,279	3,577	(1,010)	1,033	(3,064)	(1)	(1,474)
Total	**2007**	**62,516**	**10,817**	**73,333**	**5,407**	**1,935**	**(4,422)**	**54**	**(1,375)**
	2006	**61,347**	**11,878**	**73,225**	**4,885**	**1,608**	**(4,105)**	**23**	**715**
	2005	**59,604**	**12,465**	**72,069**	**7,718**	**1,663**	**(4,020)**	**189**	**(196)**
Reconciliation	2007	–	(10,817)	(10,817)	(121)	(1,674)	1,647	0	1
	2006	–	(11,878)	(11,878)	402	(1,311)	1,268	1	255
	2005	–	(12,465)	(12,465)	(96)	(1,265)	1,221	25	(2)
Group	2007	62,516	–	62,516	5,286	261	(2,775)	54	(1,374)
	2006	61,347	–	61,347	5,287	297	(2,837)	24	970
	2005	59,604	–	59,604	7,622	398	(2,799)	214	(198)

[a] In contrast to the previous presentation of the three strategic business areas Mobile Communications, Broadband/Fixed Network and Business Customers together with Group Headquarters & Shared Services, reporting as of December 31, 2007 is structured in five operating segments for the first time: Mobile Communications Europe, Mobile Communications USA, Broadband/Fixed Network, Business Customers, and Group Headquarters & Shared Services.

[b] Since January 1, 2007, reporting of Magyar Telekom has included a further breakdown of results into the Business Customers and Group Headquarters & Shared Services segments. In previous periods these results were only reported under the Broadband/Fixed Network segment. Prior-year figures have been adjusted accordingly.

		Segment assets millions of €	Segment liabilities millions of €	Segment investments millions of €	Investments accounted for using the equity method millions of €	Depreciation and amortization millions of €	Impairment losses millions of €	Employees (average)
Mobile Communications Europe	2007	35,151	5,263	2,249	0	(3,903)	(338)	30,802
	2006 [a]	36,950	5,187	3,231	0	(3,342)	(25)	25,345
	2005 [a]	31,945	4,493	1,807	1,595	(3,004)	(1,921)	24,536
Mobile Communications USA	2007	30,146	3,441	2,203	10	(1,883)	(9)	31,655
	2006 [a]	33,162	3,070	5,200	6	(1,958)	(33)	28,779
	2005 [a]	33,066	3,092	4,481	4	(1,741)	(30)	24,943
Broadband/ Fixed Network	2007	25,668	7,235	3,176	86	(3,605)	(70)	97,690
	2006 [b]	26,913	8,106	3,251	157	(3,744)	(95)	107,006
	2005 [b]	27,374	7,069	3,389	97	(3,974)	(8)	110,611
Business Customers	2007	9,352	4,699	987	9	(882)	(25)	56,566
	2006 [b]	9,333	4,869	1,223	23	(939)	(7)	56,595
	2005 [b]	8,893	4,010	986	18	(894)	(11)	52,591
Group Headquarters & Shared Services	2007	11,946	8,536	565	4	(708)	(259)	27,023
	2006 [b]	11,882	7,608	594	2	(710)	(237)	30,755
	2005 [b]	11,376	5,563	619	3	(739)	(233)	31,345
Total	**2007**	**112,263**	**29,174**	**9,180**	**109**	**(10,981)**	**(701)**	**243,736**
	2006	**118,240**	**28,840**	**13,499**	**188**	**(10,693)**	**(397)**	**248,480**
	2005	**112,654**	**24,227**	**11,282**	**1,717**	**(10,352)**	**(2,203)**	**244,026**
Reconciliation	2007	(3,201)	(3,619)	(103)	0	48	23	–
	2006	(2,963)	(3,142)	(84)	1	69	(13)	–
	2005	(1,743)	(866)	(182)	108	61	(3)	–
Group	2007	109,062	25,555	9,077	109	(10,933)	(678)	243,736
	2006	115,277	25,698	13,415	189	(10,624)	(410)	248,480
	2005	110,911	23,361	11,100	1,825	(10,291)	(2,206)	244,026

[a] In contrast to the previous presentation of the three strategic business areas Mobile Communications, Broadband/Fixed Network and Business Customers together with Group Headquarters & Shared Services, reporting as of December 31, 2007 is structured in five operating segments for the first time: Mobile Communications Europe, Mobile Communications USA, Broadband/Fixed Network, Business Customers, and Group Headquarters & Shared Services.

[b] Since January 1, 2007, reporting of Magyar Telekom has included a further breakdown of results into the Business Customers and Group Headquarters & Shared Services segments. In previous periods these results were only reported under the Broadband/Fixed Network segment. Prior-year figures have been adjusted accordingly.

millions of €		Net cash from (used in) operating activities	Net cash from (used in) investing activities	Of which: cash capex[c]	Net cash from (used in) financing activities
Mobile Communications Europe	2007	6,494	(3,537)	(1,938)	447
	2006[a]	4,882	(3,166)	(1,950)	(3,049)
	2005[a]	5,271	(667)	(1,717)	(3,120)
Mobile Communications USA	2007	3,622	(2,714)	(1,958)	(831)
	2006[a]	3,388	(5,291)	(5,297)	1,904
	2005[a]	2,846	(3,869)	(3,886)	(837)
Broadband/ Fixed Network	2007	6,673	909	(2,805)	(2,895)
	2006[b]	8,812	(2,575)	(3,250)	(4,802)
	2005[b]	9,391	(2,201)	(2,432)	(6,022)
Business Customers	2007	553	(854)	(921)	1,191
	2006[b]	816	(1,523)	(795)	475
	2005[b]	1,575	(1,034)	(795)	(872)
Group Headquarters & Shared Services	2007	854	(3,766)	(471)	(6,933)
	2006[b]	3,208	(3,952)	(508)	(1,866)
	2005[b]	4,213	(1,246)	(475)	(6,774)
Total	**2007**	**18,196**	**(9,962)**	**(8,093)**	**(9,021)**
	2006	**21,106**	**(16,507)**	**(11,800)**	**(7,338)**
	2005	**23,296**	**(9,017)**	**(9,305)**	**(17,625)**
Reconciliation	2007	(4,482)	1,908	78	2,896
	2006	(6,884)	2,202	(6)	5,277
	2005	(8,238)	(1,101)	36	9,586
Group	2007	13,714	(8,054)	(8,015)	(6,125)
	2006	14,222	(14,305)	(11,806)	(2,061)
	2005	15,058	(10,118)	(9,269)	(8,039)

[a] In contrast to the previous presentation of the three strategic business areas Mobile Communications, Broadband/Fixed Network and Business Customers together with Group Headquarters & Shared Services, reporting as of December 31, 2007 is structured in five operating segments for the first time: Mobile Communications Europe, Mobile Communications USA, Broadband/Fixed Network, Business Customers, and Group Headquarters & Shared Services.
[b] Since January 1, 2007, reporting of Magyar Telekom has included a further breakdown of results into the Business Customers and Group Headquarters & Shared Services segments. In previous periods these results were only reported under the Broadband/Fixed Network segment. Prior-year figures have been adjusted accordingly.
[c] Cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment, as shown in the cash flow statement.

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

millions of €	2007	2006	2005
Total profit (loss) of reportable segments	**5,407**	**4,885**	**7,718**
Reconciliation to the Group	(121)	402	(96)
Profit from operations (EBIT) of the Group	**5,286**	**5,287**	**7,622**
Loss from financial activities	(2,834)	(2,683)	(1,403)
Income taxes	(1,374)	970	(198)
Profit after income taxes	**1,078**	**3,574**	**6,021**

Reconciliation of segment assets and segment liabilities.

millions of €	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Total assets of reportable segments	**112,263**	**118,240**	**112,654**
Reconciliation to the Group	(3,201)	(2,963)	(1,743)
Segment assets of the Group	**109,062**	**115,277**	**110,911**
Cash and cash equivalents	2,200	2,765	4,975
Current recoverable income taxes	222	643	613
Other current financial assets (excluding receivables from suppliers)	1,862	1,677	1,225
Investments accounted for using the equity method	109	189	1,825
Other non-current financial assets (excluding receivables from suppliers)	599	657	779
Deferred tax assets	6,610	8,952	8,140
Assets in accordance with the consolidated balance sheet	**120,664**	**130,160**	**128,468**
Total liabilities of reportable segments	**29,174**	**28,840**	**24,227**
Reconciliation to the Group	(3,619)	(3,142)	(866)
Segment liabilities of the Group	**25,555**	**25,698**	**23,361**
Current financial liabilities (excluding liabilities to customers)	8,930	7,374	10,139
Income tax liabilities	437	536	1,358
Non-current financial liabilities	33,831	38,799	36,347
Deferred tax liabilities	6,676	8,083	8,331
Other liabilities	–	–	333
Liabilities in accordance with the consolidated balance sheet	**75,429**	**80,490**	**79,869**

Information by geographic area.

millions of €	Non-current assets			Net revenue		
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	2007	2006	2005
Germany	44,808	47,449	48,661	30,694	32,460	34,183
International	52,702	57,151	54,220	31,822	28,887	25,421
Of which:						
Europe (excluding Germany)	25,238	26,786	23,568	17,264	14,823	13,272
North America	27,407	30,344	30,628	14,159	13,700	11,858
Other countries	57	21	24	399	364	291
Group	**97,510**	**104,600**	**102,881**	**62,516**	**61,347**	**59,604**

40 Contingencies and other financial obligations.

Contingencies.

millions of €	Dec. 31, 2007	Dec. 31, 2006
Contingent liabilities relating to lawsuits and other proceedings	350	178
Other contingent liabilities	25	6
	375	**184**

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

Other financial obligations.

millions of €	Dec. 31, 2007	Dec. 31, 2006
Obligations arising from non-cancelable operating leases (including rental agreements and leases)	20,276	20,247
Present value of payments to special pension fund	7,267	8,300
Purchase commitments and similar obligations	4,452	3,501
Purchase commitments for interests in other companies	1,815	94
Miscellaneous other obligations	356	125
	34,166	**32,267**

At December 31, 2007 the obligations arising from non-cancelable operating leases (including rental agreements and leases) remained stable year-on-year. While the lease obligations especially at T-Mobile USA increased due to the expansion of telecommunications networks, exchange rate effects in particular from the translation of U.S. dollars had an offsetting effect.

The present value of payments to be made by Deutsche Telekom to the special pension fund or its successors pursuant to the provisions of the Posts and Telecommunications Reorganization Act amounted to EUR 7.3 billion at December 31, 2007 (please refer to Note 29).

The increase in purchase commitments is mainly a result of higher obligations for the acquisition of property, plant and equipment, and similar obligations. These are largely related to network expansion at T-Mobile UK and T-Mobile USA and network infrastructure services in the Broadband/Fixed Network operating segment.

The rise in purchase commitments for interests in other companies is mainly attributable to T-Mobile USA, which is expected to acquire the regional mobile communications provider SunCom Wireless Holdings, Inc. in the first half of 2008. The total value of the transaction is approximately EUR 1.6 billion.

41 Disclosures on leases.

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

millions of €	Dec. 31, 2007	Of which: sale and leaseback transactions	Dec. 31, 2006	Of which: sale and leaseback transactions
Land and buildings	1,207	692	1,283	740
Technical equipment and machinery	102	–	171	–
Other	35	2	42	21
Net carrying amounts of leased assets capitalized	**1,344**	**694**	**1,496**	**761**

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

The following table provides a breakdown of these amounts:

millions of €	Minimum lease payments		Interest component		Present values	
	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback
December 31, 2007						
Maturity						
Within 1 year	275	117	121	71	154	46
In 1 to 3 years	431	206	229	131	202	75
In 3 to 5 years	372	209	196	119	176	90
After 5 years	1,765	1,069	661	436	1,104	633
	2,843	**1,601**	**1,207**	**757**	**1,636**	**844**
December 31, 2006						
Maturity						
Within 1 year	337	119	131	74	206	45
In 1 to 3 years	452	221	235	137	217	84
In 3 to 5 years	376	208	212	125	164	83
After 5 years	1,959	1,173	763	494	1,196	679
	3,124	**1,721**	**1,341**	**830**	**1,783**	**891**

Operating leases. Beneficial ownership of a lease is attributed to the lessor if this is the party to which all the substantial risks and rewards incidental to ownership of the asset are transferred. The lessor recognizes the leased asset in their balance sheet. Deutsche Telekom recognizes the lease payments made during the term of the operating lease in profit or loss. Deutsche Telekom's obligations arising from non-cancelable operating leases are mainly related to long-term rental or lease agreements for network infrastructure, radio towers and real estate. Some leases include extension options and provide for stepped rents. The operating lease expenses recognized in profit or loss amounted to EUR 1.8 billion as of the end of 2007 (2006: EUR 1.6 billion; 2005: EUR 1.6 billion).

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

millions of €	Dec. 31, 2007	Dec. 31, 2006
Maturity		
Within 1 year	2,285	2,158
In 1 to 3 years	3,702	3,643
In 3 to 5 years	2,729	2,695
After 5 years	11,560	11,751
	20,276	**20,247**

For further details, please refer to Note 40.

Deutsche Telekom as lessor.

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

millions of €	Dec. 31, 2007	Dec. 31, 2006
Minimum lease payments	321	308
Unguaranteed residual value	–	–
Gross investment	321	308
Unearned finance income	(51)	(27)
Net investment (present value of the minimum lease payments)	**270**	**281**

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

millions of €	Dec. 31, 2007		Dec. 31, 2006	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
Maturity				
Within 1 year	113	95	114	102
In 1 to 3 years	124	104	135	124
In 3 to 5 years	42	33	32	29
After 5 years	42	38	27	26
	321	**270**	**308**	**281**

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

The future minimum lease payments arising from non-cancelable operating leases are shown in the following table:

millions of €	Dec. 31, 2007	Dec. 31, 2006
Maturity		
Within 1 year	229	161
In 1 to 3 years	185	202
In 3 to 5 years	120	135
After 5 years	312	340
	846	**838**

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

42 Stock-based compensation plans.

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

Entity	Plan	Year of issuance	Stock options granted (thousands)	Vesting period (years)	Contractual term (years)	Weighted exercise price	Share price at grant date	Maximum price for SARs	Comments	Classification/ accounting treatment
Deutsche Telekom AG	SOP 2001	2001	8,221	2 – 3	10	€ 30.00	€ 19.10			Equity-settled
		2002	3,928	2 – 3	10	€ 12.36	€ 10.30			Equity-settled
	SARs	2001	165	2 – 3	10	€ 30.00	€ 19.10	€ 50.00		Cash-settled
		2002	3	2 – 3	10	€ 12.36	€ 10.30	€ 20.60		Cash-settled
T-Online International AG	SOP 2001	2001	2,369	2 – 3	10	€ 10.35	€ 8.28			Cash-settled
		2002	2,067	2 – 6	10	€ 10.26	€ 8.21			Cash-settled
T-Mobile USA	Acquired SOPs	2001	24,278	up to 4	max. 10	USD 15.36				Equity-settled
		2002	5,964	up to 4	max. 10	USD 13.35				Equity-settled
		2003	1,715	up to 4	max. 10	USD 12.86				Equity-settled
	Powertel	2001	5,323	up to 4	max. 10	USD 20.04				Equity-settled
	T-Mobile USA/ Powertel	2004	230	up to 4	max. 10	USD 19.64			Plans merged	Equity-settled
Magyar Telekom	SOP 2002	2002	3,964	1 – 3	5	HUF 933 or HUF 950	HUF 833			Equity-settled

During the 2007 exercise period, the average share price of Deutsche Telekom AG shares (T-Shares) was EUR 13.65 and the average share price of Magyar Telekom shares was HUF 961.12.

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

For the 2001 Stock Option Plan, the shareholders' meeting in May 2001 resolved to increase the share capital of Deutsche Telekom AG by EUR 307,200,000 by issuing up to 120,000,000 new no par value registered shares. This contingent capital increase was exclusively for the purpose of allowing up to 120,000,000 stock options to be issued to members of the Board of Management and other executives and specialists of the Company and its subsidiaries as part of the Deutsche Telekom 2001 Stock Option Plan.

50 percent of the options granted to each beneficiary may only be exercised following the end of a vesting period of two years, starting from the day on which the options are granted. The remaining 50 percent of the options granted to each beneficiary may be exercised at the earliest following the end of a vesting period of three years, starting from the day on which the options are granted. All options are vested. The options may not legally be sold, transferred, pledged, or otherwise disposed of except in the event of death, in which case the options are transferred to the beneficiary's heirs.

The exercise price payable upon exercise of the options granted serves as the performance target. The exercise price per share is 120 percent of the reference price, which corresponds to the higher of the non-weighted average closing prices of Deutsche Telekom shares in Xetra trading at the Frankfurt Stock Exchange (Deutsche Börse AG; or a successor system to the Xetra system) over the last 30 trading days before the grant date of the options and the closing price of Deutsche Telekom shares on the grant date of the options.

Deutsche Telekom AG reserved the right, at its election, to settle the options through the payment of a cash amount instead of issuing new shares. The exercise of an SAR cancels the related option, and the exercise of an option cancels the related SAR. As of December 31, 2007, no resolution on conversion had been passed to this effect.

On August 13, 2001, Deutsche Telekom granted 8,220,803 options for the purchase of 8,220,803 shares at an exercise price of EUR 30.00 (based on a reference price of EUR 25.00) to the beneficiaries of the stock option plan on the basis of a resolution adopted by the shareholders' meeting in May 2001. The Xetra closing price of Deutsche Telekom's common stock quoted at the Frankfurt Stock Exchange on the grant date was EUR 19.10 per share. The term of the options runs until August 12, 2011.

In the 2002 financial year, Deutsche Telekom granted additional stock options to certain employees. On July 15, 2002, Deutsche Telekom granted a further 3,927,845 options for the purchase of 3,927,845 shares at an exercise price of EUR 12.36 to the beneficiaries of the stock option plan on the basis of a resolution adopted by the shareholders' meeting in May 2001.

The Xetra closing price of Deutsche Telekom's common stock quoted at the Frankfurt Stock Exchange on the grant date, based upon which the exercise price was calculated, was EUR 10.30 per share. The term of the options runs until July 14, 2012.

At the time they were granted, the options of the 2001 and 2002 tranches of the stock option plan had a fair value of EUR 4.87 and EUR 3.79, respectively.

The 2004 shareholders' meeting rescinded the authorization of the Board of Management and the Supervisory Board to issue additional options for the 2001 Stock Option Plan, and partially canceled the contingent capital.

In 2001 and 2002 Deutsche Telekom continued to grant 167,920 stock appreciation rights to employees in countries where it was legally not possible to issue stock options. 7,020 stock appreciation rights were forfeited in the reporting year and 141,620 stock appreciation rights were still outstanding at December 31, 2007.

No new stock option plans have been set up since 2003.

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

Deutsche Telekom AG	SOP 2001		SARs	
	Stock options (thousands)	Weighted average exercise price (€)	SARs (thousands)	Weighted average exercise price (€)
Stock options outstanding at January 1, 2007	**10,790**	**24.62**	**149**	**29.78**
Of which: exercisable	10,790	24.62	149	29.78
Granted	0	–	0	–
Exercised	179	12.36	0	–
Forfeited	865	28.83	7	30.00
Stock options outstanding at December 31, 2007	**9,746**	**24.47**	**142**	**29.76**
Of which: exercisable	9,746	24.47	142	29.76
Supplemental information for 2007				
Remaining contractual life of options outstanding at end of period (years, weighted)	3.9		3.6	
Expected remaining life of options outstanding at end of period (years, weighted)	3.9		3.6	

The characteristics of the options outstanding and exercisable as of the reporting date (December 31, 2007) are as follows:

Deutsche Telekom AG

	Options outstanding as of Dec. 31, 2007			Options exercisable as of Dec. 31, 2007	
Range of exercise prices (€)	Number (thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (€)	Number (thousands)	Weighted average exercise price (€)
10 – 20	3,054	4.5	12.36	3,054	12.36
21 – 40	6,692	3.6	30.00	6,692	30.00
10 – 40	**9,746**	**3.9**	**24.47**	**9,746**	**24.47**

T-Online International AG (prior to merger). In May 2001, the shareholders' meeting approved the introduction of the 2001 Stock Option Plan, resulting in the granting of stock options in August 2001 and July 2002. The shareholders' meeting on May 30, 2001 contingently increased the share capital of T-Online International AG by EUR 51,000,000 for the 2001 Stock Option Plan and authorized the Supervisory Board to issue preemptive rights to the members of the Board of Management of T-Online International AG. It also authorized the Board of Management to issue preemptive rights to managers below the Board of Management. These included directors, senior managers, selected specialists at T-Online International AG, and members of the board of management, members of the management and other directors, senior managers, and selected specialists at Group entities within and outside Germany in which T-Online International AG directly or indirectly held a majority shareholding.

The stock option plan was structured as a premium-priced plan with the exercise price serving as a performance target. The exercise price per share was 125 percent of the reference price. The reference price corresponded to the non-weighted average closing price of T-Online shares in Xetra trading at the Frankfurt Stock Exchange (Deutsche Börse AG; or a successor system to the Xetra system) over the last 30 trading days before the day on which the options are granted.

The exercise rules specified that 50 percent of the options granted were only exercisable after a vesting period of two years – calculated from the grant date of the options. The remaining 50 percent of the options granted to each beneficiary could be exercised at the earliest following the end of a vesting period of three years, starting from the day on which the options were granted. The options had a life of ten years from the date on which they are granted. All options had been vested. The options may not legally be sold, transferred, pledged, or otherwise disposed of except in the event of death, in which case the options are transferred to the beneficiary's heirs.

Preemptive rights were issued in annual tranches for the years 2001 and 2002. On August 13, 2001, 2,369,655 options were granted in the first tranche on the basis of a resolution adopted by the shareholders' meeting in May 2001 at an exercise price of EUR 10.35. The options are forfeited without replacement or compensation on August 12, 2011 at the latest. A further 2,067,460 options were granted in the second tranche on July 15, 2002 at an exercise price of EUR 10.26. The options granted in the second tranche are forfeited without replacement or compensation on July 14, 2012 at the latest.

The 2004 shareholders' meeting rescinded the authorization of the Board of Management and the Supervisory Board to issue additional options for the 2001 Stock Option Plan, and partially canceled the contingent capital II.

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

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

T-Online International AG (prior to merger)	SOP 2001	
	Stock options (thousands)	Weighted average exercise price (€)
Stock options outstanding at January 1, 2007	**3,392**	**10.30**
Of which: exercisable	3,374	10.30
Granted	0	–
Exercised	0	–
Forfeited	307	10.32
Stock options outstanding at December 31, 2007	**3,085**	**10.30**
Of which: exercisable	3,067	10.30

T-Mobile USA. Before its acquisition on May 31, 2001, T-Mobile USA (formerly VoiceStream) had granted stock options to its employees under the 1999 Management Incentive Stock Option Plan (MISOP). On May 31, 2001, all unvested, outstanding options of T-Mobile USA employees were converted from T-Mobile USA options into Deutsche Telekom options at a conversion rate of 3.7647 per option. The Deutsche Telekom shares linked to these options are administered in a trust deposit account that has been established for the benefit of holders of T-Mobile USA stock options. The exercise price for each Deutsche Telekom ordinary share corresponds to the applicable exercise price per T-Mobile USA ordinary share divided by 3.7647.

The MISOP provides for the issue of up to 8 million Deutsche Telekom ordinary shares, either as non-qualified stock options or as incentive stock options, plus the number of ordinary shares deliverable upon the exercise of the T-Mobile USA rollover options in accordance with the Agreement and Plan of Merger between Deutsche Telekom and T-Mobile USA. The vesting period and option terms relating to the option plan are determined by the MISOP administrator. The options typically vest for a period of four years and have a term of up to ten years.

Before its acquisition on May 31, 2001, Powertel had granted stock options to its employees. On May 31, 2001, as a consequence of the acquisition, all outstanding Powertel options were converted into Deutsche Telekom options at a conversion rate of 2.6353. The Deutsche Telekom AG shares linked to these options are administered in a trust deposit account established for the benefit of holders of Powertel stock options. The exercise price for each Deutsche Telekom ordinary share corresponds to the applicable exercise price per Powertel ordinary share divided by 2.6353. No further options were granted under any other Powertel stock option plans. The plan was combined with the T-Mobile USA plan on January 1, 2004. At December 31, 2007, 7,079,479 shares were available for outstanding options of the converted stock option plans of T-Mobile USA.

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

T-Mobile USA	Stock options (thousands)	Weighted average exercise price (USD)
Stock options outstanding at January 1, 2007	**10,234**	**20.39**
Of which: exercisable	10,073	20.50
Granted	0	–
Exercised	2,237	10.29
Forfeited	918	26.81
Expired	0	–
Stock options outstanding at December 31, 2007	**7,079**	**22.75**
Of which: exercisable	7,079	22.75
Supplemental information for 2007		
Remaining contractual life of options outstanding at end of period (years, weighted)	3.0	
Expected remaining life of options outstanding at end of period (years, weighted)	1.3	

The characteristics of the options outstanding and exercisable as of the reporting date (December 31, 2007) are as follows:

T-Mobile USA

	Options outstanding as of Dec. 31, 2007			Options exercisable as of Dec. 31, 2007	
Range of exercise prices (USD)	Number (thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (USD)	Number (thousands)	Weighted average exercise price (USD)
0.02 – 3.79	70	1.9	2.51	70	2.51
3.80 – 7.59	186	2.7	4.84	186	4.84
7.60 – 11.39	169	1.6	8.87	169	8.87
11.40 – 15.19	1,452	4.2	13.31	1,452	13.31
15.20 – 18.99	24	1.7	17.19	24	17.19
19.00 – 22.79	8	1.8	19.73	8	19.73
22.80 – 26.59	2,536	3.2	23.26	2,536	23.26
26.60 – 30.39	1,761	2.4	29.51	1,761	29.51
30.40 – 34.19	780	2.4	31.03	780	31.03
34.20 – 38.00	93	2.1	37.07	93	37.07
0.02 – 38.00	**7,079**	**3.0**	**22.75**	**7,079**	**22.75**

Magyar Telekom.
2002 Stock Option Plan. On April 26, 2002, the shareholders' meeting of Magyar Telekom approved the introduction of a new management stock option plan.

In order to satisfy the exercise of options granted, the annual shareholders' meeting of Magyar Telekom authorized Magyar Telekom's Board of Directors to purchase 17 million "A" series registered ordinary shares, each with a nominal value of HUF 100, as treasury shares.

On July 1, 2002, Magyar Telekom granted 3,964,600 stock options to participants in its stock option plan implemented on the basis of a shareholders' resolution adopted in April 2002. The options of the first of three equal tranches were granted at an exercise price of HUF 933 (exercisable between July 1, 2003 and the forfeiture date of the options) and the options of the second and third tranches at an exercise price of HUF 950 (exercisable between July 1, 2004 or July 1, 2005 and the forfeiture date of the options). The closing price of Magyar Telekom common stock quoted on BET (Budapest Stock Exchange) on the grant date was HUF 833 per share. The options had a life of five years from the grant date, meaning that the options were forfeited without replacement or compensation on June 30, 2007. The options could not be sold, transferred, assigned, charged, pledged, or otherwise encumbered or disposed of to any third person.

No more stock options were issued from the Magyar Telekom stock option plan after those granted in 2002. The plan was ended prematurely in 2003. This stock option plan expired on June 30, 2007.

The following table provides an overview of the development of Magyar Telekom stock options:

Magyar Telekom	SOP 2002	
	Stock options (thousands)	Weighted average exercise price (HUF)
Stock options outstanding at January 1, 2007	**1,307**	**944.00**
Of which: exercisable	1,307	944.00
Granted	0	–
Exercised	414	944.00
Forfeited	893	944.00
Stock options outstanding at June 30, 2007	**0**	**–**
Of which: exercisable	0	–
Supplemental information for 2007		
Remaining contractual life of options outstanding at end of period (years, weighted)	0.0	
Expected remaining life of options outstanding at end of period (years, weighted)	0.0	

Mid-Term Incentive Plan (MTIP)/ Long-Term Incentive Plan (LTIP).

Mid-term incentive plans (MTIPs) exist at Deutsche Telekom AG (including the plans at the former T-Online International AG issued prior to the merger) T-Mobile USA, T-Mobile UK and Magyar Telekom to ensure competitive total compensation for members of the Board of Management, senior executives and other beneficiaries at the Deutsche Telekom Group.

Additionally, T-Mobile USA and PTC have established performance cash plan programs with long-term incentive plans (LTIPs).

Deutsche Telekom AG.
Mid-Term Incentive Plan 2004/2005/2006/2007. In the 2004 financial year, Deutsche Telekom introduced its first MTIP to ensure competitive total compensation for members of the Board of Management, senior executives of the Deutsche Telekom Group, and for other beneficiaries mainly in the United States and the United Kingdom. The MTIP is a global, Group-wide compensation instrument for Deutsche Telekom and other participating Group entities that promotes mid- and long-term value creation in the Group, and therefore combines the interests of management and shareholders.

The MTIP as a revolving plan launched annually for five years takes the form of a compensation component with long-term incentives. A decision will be made each year on whether to re-launch the plan, as well as on the specific terms of the plan, in particular the performance targets.

The ambitiousness and strategic relevance of the performance targets are reviewed and adjusted if necessary prior to each new rolling issue of the MTIP. The nature or thresholds of the performance targets cannot be changed once the plan has begun.

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

At the end of the term of the individual plans, the General Committee of Deutsche Telekom AG's Supervisory Board will establish whether the absolute and relative performance targets for the Board of Management have been achieved. Based on the findings of the Supervisory Board General Committee, the Board of Management will establish whether the target has been achieved for Deutsche Telekom AG and all participating companies as a whole and will communicate this decision. Once it has been established whether one or both targets have been achieved, the relevant amounts will be paid out to the beneficiaries.

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

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

The annual reviews of performance targets referred to above have not brought about any changes. The aforementioned targets have therefore been applied to all plans issued to date.

The MTIPs 2004 through 2006 entered into force in the respective years. The plans have a term of three years each and maximum budgets of EUR 80 million, EUR 83 million, and EUR 85.5 million, respectively. The proportionate amount to be expensed and recognized as a provision is calculated based on the Monte Carlo model.

The starting price for the absolute performance target of the MTIP 2004 is EUR 14.08 per Deutsche Telekom share. Consequently, the absolute performance target is achieved if an average share price of at least EUR 18.30 is reached during the defined period before the end of the plan. For the MTIP 2005, the relevant starting price is EUR 16.43, and the absolute performance target EUR 21.36. For the MTIP 2006, the relevant starting price is EUR 14.00, and the absolute performance target EUR 18.20. The starting value of the index for the relative performance target is 317.95 points for the MTIP 2004, 358.99 points for the MTIP 2005, and 452.02 points for the MTIP 2006. The starting value of the total return of Deutsche Telekom shares corresponds to the share price prior to the beginning of the plan (EUR 14.08 for the MTIP 2004; EUR 16.43 for the MTIP 2005 and EUR 14.00 for the MTIP 2006).

The MTIP 2004 expired on December 31, 2006. Since the performance target was not met, no payments were made.

The MTIP 2007 became effective on January 1, 2007. The plan has a term of three years. The plan has a maximum budget of EUR 83.4 million.

The starting price for the absolute performance target of the MTIP 2007 is EUR 13.64 per Deutsche Telekom share. Consequently, the absolute performance target is achieved if an average share price of at least EUR 17.73 is reached during the defined period before the end of the plan.

The starting value of the index for the relative performance target of the MTIP 2007 is 551.91 points and the starting value of the total return of the Deutsche Telekom share is EUR 13.64.

T-Online International AG (prior to merger).
Mid-Term Incentive Plan 2004/2005/2006. T-Online's MTIP was also based on the same terms and conditions as Deutsche Telekom AG's MTIP, with the exception that performance was measured in terms of the development of T-Online's shares and the TecDAX share index.

As a result of the merger and the consequent delisting of T-Online shares, it is no longer possible to measure the performance targets of the individual MTIPs. In this respect, these plans were adjusted in line with those of Deutsche Telekom AG.

T-Mobile USA.
Mid-Term Incentive Plan 2004/2005/2006. T-Mobile USA's MTIP is based on the same terms and conditions as Deutsche Telekom AG's MTIP.

Long-Term Incentive Plan 2004/2005/2006/2007. In addition to the MTIP, T-Mobile USA has established a performance cash plan as a Long-Term Incentive Plan (LTIP) on a revolving basis for the years 2004 through 2007, which is aimed at the top management from vice presidents upwards.

Additional customer growth and profit targets have been agreed for this group of persons under LTIP 2005. The LTIPs set up in 2006 and 2007 take into consideration customer growth and the development of the company's performance, based on certain defined financial criteria.

T-Mobile UK.
Mid-Term Incentive Plan 2005/2006/2007. The MTIP set up by T-Mobile UK (T-Mobile UK Ltd./T-Mobile International UK Ltd.) is also based on the same terms and conditions as Deutsche Telekom AG's MTIP. In addition to the two performance targets of Deutsche Telekom AG, however, these plans introduced a third target for a defined group of participants, which is based on the cash contribution (EBITDA less cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment). The third performance target can only become relevant after the two other performance targets have been met.

In 2006, T-Mobile UK (T-Mobile UK Ltd./T-Mobile International UK Ltd.) established a non-recurring incentive scheme (cash plan) with a term of two years (January 1, 2006 through December 31, 2007). This scheme is open to all members of staff employed with one of the aforementioned companies during the term of the plan. Upon achievement of certain targets (at the end of 2006 and 2007 respectively) for service revenue and EBITDA (at T-Mobile UK Ltd.) or total costs and EBITDA (at T-Mobile International UK Ltd.), amounts are paid into a bonus fund in accordance with a defined matrix. The bonus fund built up over the two years of the plan, 2006 and 2007, will be paid out to the employees after the end of the plan (December 31, 2007) in line with the defined allocation ratios (as a percentage of basic salary).

Magyar Telekom.
Mid-Term Incentive Plan 2005/2006/2007. Magyar Telekom's MTIP is also based on the same terms and conditions as Deutsche Telekom AG's MTIP, with the exception that performance is measured in terms of the development of Magyar Telekom's shares and the Dow Jones EURO STOXX Total Return Index. In addition, the absolute performance target is achieved if, at the end of the individual plans, Magyar Telekom's share price has risen by at least 35 percent compared with Magyar Telekom's share price at the beginning of the plan.

Polska Telefonia Cyfrowa.
Long-Term Incentive Plan 2005/2006/2007. As of November 1, 2006, Deutsche Telekom included the Polish mobile services provider Polska Telefonia Cyfrowa Sp.z o.o. (PTC) in the consolidated financial statements for the first time.

PTC has established a performance cash plan program with long-term incentive plans (LTIPs). The program provides for additional pay in the form of deferred compensation under the terms and conditions of the LTIP and is aimed at employees whose performance is of outstanding significance for the company's shareholder value. The LTIP is generally open to high-performers at specific management levels. Participants in the plans are selected individually by the management of PTC.

Each plan encompasses three consecutive cycles, each running from January 1 through December 31. Participants receive payments from the plan after three years, provided the defined EBITDA target has been achieved (EBITDA hurdle). In addition, a bonus is paid at the end of each cycle. The amount of the bonus is determined for each cycle individually and depends on the level of target achievement. The plans for 2006 through 2008 and 2007 through 2009 are currently running.

Impacts of all MTIPs and LTIPs. For LTIPs and MTIPs linked to the performance of the T-Share, an expense of EUR 79 million was recognized (2006: EUR 15 million; 2005: EUR 30 million). Provisions total EUR 99 million (2006: EUR 43 million).

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

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

The fundamentals of Deutsche Telekom's financial policy are established each year by the Board of Management and overseen by the Supervisory Board. Group Treasury is responsible for implementing the finance policy and for ongoing risk management. Certain transactions require the prior approval of the Board of Management, which is also regularly briefed on the severity and amount of the current risk exposure.

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

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

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

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

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

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

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

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

The currency sensitivity analysis is based on the following assumptions:

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

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

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

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

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

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

If the euro had gained (lost) 10 percent against the U.S. dollar at December 31, 2007, the hedging reserve in shareholders' equity and the fair value of the hedging transactions would have been EUR 82 million lower (higher) (December 31, 2006: EUR 125 million lower (higher)).

If the euro had gained (lost) 10 percent against all currencies at December 31, 2007, other financial income and the fair value of the hedging transactions would have been EUR 11 million lower (higher) (December 31, 2006: EUR 29 million higher (lower)). The hypothetical effect on profit or loss of EUR –11 million results from the currency sensitivities EUR/USD: EUR –13 million; EUR/HUF: EUR – 6 million; EUR/PLN: EUR + 6 million; EUR/SKK: EUR + 3 million; EUR/SGD: EUR –1 million.

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

Due to the derivative hedges, an average of 63 percent (2006: 66 percent) of the net financial liabilities in 2007 denominated in euros, 55 percent (2006: 60 percent) of those denominated in sterling, and 65 percent (2006: 61 percent) of those denominated in U.S. dollars had a fixed rate of interest. The average value is representative for the year as a whole.

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

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

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

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

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

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

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

If the market interest rates had been 100 basis points higher (lower) at December 31, 2007, profit or loss would have been EUR 170 million (December 31, 2006: EUR 254 million) lower (higher). The hypothetical effect of EUR –170 million on income results from the potential effects of EUR –113 million from interest rate derivatives and EUR – 57 million from non-derivative, variable-interest financial liabilities. If the market interest rates had been 100 basis points higher (lower) at December 31, 2007, shareholders' equity would have been EUR 50 million (December 31, 2006: EUR 27 million) higher (lower).

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

As of December 31, 2007, Deutsche Telekom did not hold any material investments to be classified as available for sale.

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

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

The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets that are carried in the balance sheet, including derivatives with positive market values. Except for the collateral agreements mentioned in Note 24, no significant agreements reducing the maximum exposure to credit risk (such as contractual netting) had been concluded as of the reporting date. In addition, Deutsche Telekom is exposed to a credit risk through the granting of financial guarantees. Guarantees amounting to a nominal total of EUR 206 million had been pledged as of the reporting date (2006: EUR 216 million).

Liquidity risks. Please refer to Note 25.

Hedge accounting.
Fair value hedges. To hedge the fair value risk of fixed-interest liabilities, Deutsche Telekom used interest rate swaps and forward interest rate swaps (receive fixed, pay variable) denominated in EUR, GBP, and USD in the 2007 and 2006 financial years. Fixed-income bonds denominated in EUR, USD, and GBP were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the Euribor, USDLibor, or GBPLibor swap rate are offset against the changes in the value of the interest rate swaps. The aim of this hedging is to transform the fixed-income bonds into variable-interest debt, thus hedging the fair value of the financial liabilities. Credit risks are not part of the hedging.

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

As the list of the fair values of derivatives shows (please refer to table under Derivatives), Deutsche Telekom had interest rate derivatives in a net amount of EUR + 82 million (2006: EUR –1 million) designated as fair value hedges at December 31, 2007. The remeasurement of the hedged items results in losses of EUR 115 million being recorded in other financial income in the 2007 financial year (2006: gains of EUR 124 million); the changes in the fair values of the hedging transactions result in gains of EUR 112 million (2006: losses of EUR 126 million) being recorded in other financial income.

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

The following table shows the contractual maturities of the payments, i.e., when those hedged items newly incorporated into a hedging relationship in 2007 will be recognized in profit or loss:

Start	End	Nominal volume: millions of €	Reference rate
December 1, 2008	May 23, 2012	500	3-month Euribor
December 1, 2008	January 11, 2012	500	3-month Euribor
December 1, 2008	August 1, 2013	100	3-month Euribor

Start	End	Nominal volume: millions of USD	Reference rate
December 21, 2007	December 23, 2008	400	3-month USDLibor

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

As the list of the fair values of derivatives shows (please refer to table under Derivatives), Deutsche Telekom had interest rate derivatives in a net amount of EUR + 22 million (2006: EUR 13 million) designated as hedging instruments for cash flow hedges at December 31, 2007. The recognition directly in equity of the change in the fair value of the hedging transactions resulted in gains of EUR 21 million being recorded in the revaluation reserve in the 2007 financial year (2006: gains of EUR 13 million). Gains of EUR 7 million recognized in shareholders' equity were transferred to other financial income/expense in the 2007 financial year.

Cash flow hedges – currency risks. In the 2007 financial year, losses totaling EUR 140 million (2006: losses of EUR 66 million) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve). These changes constitute the effective portion of the hedging relationship. Losses amounting to EUR 4 million recognized in shareholders' equity were transferred to other financial income/expense in the 2007 financial year (2006: gains of EUR 7 million). Deutsche Telekom expects that, within the next twelve months, gains recognized in equity (hedging reserve) in the amount of EUR 1 million will be transferred to the income statement when payments are made. There was no material ineffectiveness of these hedges recorded as of the balance sheet date.

As the list of the fair values of derivatives shows (please refer to table under Derivatives), Deutsche Telekom had currency forwards in the amount of EUR – 90 million (2006: EUR – 55 million netted) designated as hedging instruments for cash flow hedges at December 31, 2007.

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

millions of €	Net carrying amounts Dec. 31, 2007	Net carrying amounts Dec. 31, 2006
Assets		
Interest rate swaps		
– Held for trading	81	100
– In connection with fair value hedges	131	64
– In connection with cash flow hedges	24	13
Currency forwards/currency swaps		
– Held for trading	68	3
– In connection with cash flow hedges	0	3
Cross-currency swaps held for trading	128	176
Other derivatives in connection with cash flow hedges	25	0
Liabilities and shareholders' equity		
Interest rate swaps		
– Held for trading	81	154
– In connection with fair value hedges	49	65
– In connection with cash flow hedges	2	–
Currency forwards/currency swaps		
– Held for trading	51	20
– In connection with cash flow hedges	90	58
Cross-currency swaps held for trading	704	245
Embedded derivatives	25	20

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

An important indicator of capital management is the gearing ratio of net debt to shareholders' equity as shown in the consolidated balance sheet. Deutsche Telekom considers net debt to be an important measure for investors, analysts, and rating agencies. It is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. The gearing remained constant year-on-year at 0.8 as of December 31, 2007. The target corridor for this indicator is between 0.8 and 1.2.

Calculation of net debt and shareholders' equity.

millions of €	Dec. 31, 2007	Dec. 31, 2006
Bonds	32,294	36,288
Liabilities to banks	4,260	2,348
Promissory notes	690	680
Liabilities from derivatives	977	562
Lease liabilities	2,139	2,293
Liabilities arising from ABS transactions	–	1,139
Other financial liabilities	502	377
Gross debt	**40,862**	**43,687**
Cash and cash equivalents	2,200	2,765
Available-for-sale/held-for-trading financial assets	75	122
Derivatives	433	359
Other financial assets	918	886
Net debt	**37,236**	**39,555**
Shareholders' equity in accordance with consolidated balance sheet	**45,235**	**49,670**

44 Related party disclosures.

The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds 31.70 percent (2006: 31.70 percent) of the share capital of Deutsche Telekom AG. The Federal Republic represents a solid majority at the shareholders' meeting despite its minority shareholding due to the average attendance at the latter. The Federal Republic of Germany has a significant influence on Deutsche Telekom AG, and is thus deemed to be a related party to Deutsche Telekom AG.

Federal Republic of Germany. The Federal Posts and Telecommunications Agency (Federal Agency) has been assigned certain tasks by law that affect cross-company issues at Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The Federal Agency's responsibilities include the continuation of the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the recreation service (Erholungswerk), the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost – VAP), and the welfare service (Betreuungswerk) for Deutsche Telekom AG, Deutsche Post AG, Deutsche Postbank AG, and the Federal Agency. The coordination and administrative tasks are performed on the basis of agency agreements. For the 2007 financial year, Deutsche Telekom made payments in the amount of EUR 52 million (2006: EUR 53 million; 2005: EUR 49 million).

Payments are made according to the provisions of the Posts and Telecommunications Reorganization Act (please refer to Note 29).

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

The Company's Dutch financing subsidiary, Deutsche Telekom International Finance, has taken out two loans for GBP 150 million each with KfW Bankengruppe. The loans were extended at the normal market rate of interest which is based on Deutsche Telekom AG's current rating. The loans have remaining lives of up to one and up to two years, respectively.

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

In 2007, Deutsche Telekom generated revenues from its joint venture Toll Collect amounting to EUR 0.1 billion (2006: EUR 0.1 billion; 2005: EUR 0.2 billion).

As of December 31, 2007, the total amount of trade receivables from related companies decreased year-on-year and is immaterial from Deutsche Telekom's point view (2006: EUR 0.1 billion; 2005: EUR 0.2 billion). At the same date, trade payables due to related companies amounted to EUR 0.1 billion (2006: EUR 0.1 billion; 2005: EUR 0.1 billion).

Related individuals. No major transactions took place between Deutsche Telekom and persons in key management positions, including close members of their families.

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

Compensation of the Board of Management.

The following information concerning the compensation of the Board of Management comprises notes required by law under the German Commercial Code (see § 314 HGB) as well as information specified in the guidelines set out in the German Corporate Governance Code.

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

Dr. Karl-Gerhard Eick's service contract with the Company was extended by 5 years effective December 1, 2007. Thomas Sattelberger was appointed as a new member of the Board of Management on May 3, 2007, Reinhard Clemens effective December 1, 2007. Lothar Pauly resigned from the Board of Management and left the Company effective June 1, 2007.

Board of Management compensation system and review. The compensation of Board of Management members is comprised of various components. Under the terms of their service contracts, members of the Board of Management are entitled to fixed and annual variable remuneration, a long-term variable remuneration component (Mid-Term Incentive Plan), and fringe benefits and deferred benefits based on a company pension commitment. The structure of the compensation system and the appropriateness of compensation for the Board of Management are reviewed and established by the General Committee of the Supervisory Board at regular intervals.

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

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

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

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

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

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

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

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

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

Company pension entitlement. The members of the Board of Management are entitled to a company pension based on their respective annual salaries. This means that Board of Management members receive a company pension based on a fixed percentage of their last fixed annual salary for each year of service rendered prior to their date of retirement. The key features of the pension plan for Board of Management members active in 2007 are described below:

Board of Management members are entitled to pension payments in the form of a life-long retirement pension upon reaching the age of 62, a disability pension or in the form of an early retirement pension upon reaching the age of 60 (subject to the usual actuarial deductions). The amount of the company pension is calculated on the basis of the eligible period of service rendered as a Board of Management member until the date of departure. In addition, Messrs. Clemens and Sattelberger were granted imputed periods of service of 24 and 17 months, respectively, when they joined the Company, reflecting the provisions of their service contracts with their previous employers.

The annual retirement pension is comprised of a base percentage (6 percent for Mr. Obermann and Dr. Eick and 5 percent for the remaining Board of Management members) of the fixed annual salary upon termination of the service relationship multiplied by the eligible service period expressed in years. After ten years of Board of Management membership, the maximum percentage of the pension level is achieved (60 percent or 50 percent, respectively). Pension payments are subject to a standard annual adjustment (1 percent for Messrs. Clemens, Höttges and Sattelberger, and 3 percent for the remaining Board of Management members). In the event of a permanent inability to work (invalidity), the respective period of service through the scheduled end of the current period of appointment serves as the basis for the period of service eligible for calculating the pension. Since he joined the Company, Thomas Sattelberger has been granted an additional old-age pension in the form of a one-time pension payment of EUR 1,700,000.00, provided his service relationship with the Company is terminated on or after his 62nd birthday. This special one-time pension payment is to compensate him for the stock options he forfeited by leaving his previous employer. A "pension plan substitute" was agreed with Hamid Akhavan in lieu of a pension commitment due to his U.S. citizenship. The resulting annual payment for each full year of service rendered is included in the table "Total compensation and expense" under "Other remuneration."

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

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

Components with mid- and long-term incentives. Mid-Term Incentive Plan. Members of the Board of Management participate in the Deutsche Telekom AG Mid-Term Incentive Plan (MTIP) introduced in the 2004 financial year (please refer to the explanations regarding the MTIP under Note 42). Messrs. Akhavan and Höttges participate in the MTIP 2005 and 2006 as a result of their prior activities as members of the Board of Management of T-Mobile International AG.

The targets for the MTIP 2005 were not achieved according to the results determined by the General Committee of the Supervisory Board on February 6, 2008. Therefore, no incentive was awarded to the Board of Management from this tranche of the plan.

Incentive-based compensation from the MTIP.

€ [a]	MTIP 2007 [c] Maximum award amount	MTIP 2007 Fair value at grant date	Total expense for share-based payments 2007	MTIP 2006 Maximum award amount	Total expense for share-based payments 2006
René Obermann	750,000.00	16,981.09	97,580.53	504,000.00	20,969.11
Dr. Karl-Gerhard Eick	596,250.00	13,499.97	84,736.99	596,250.00	24,807.20
Hamid Akhavan	480,000.00	10,867.90	61,625.55	300,000.00	12,481.61
Timotheus Höttges	450,000.00	10,188.65	56,263.65	240,000.00	9,985.29
Lothar Pauly	450,000.00	10,188.65	63,952.44	450,000.00	18,722.41
Thomas Sattelberger [b]	457,777.78	10,364.75	35,528.96	0.00	0.00
	3,184,027.78	**72,091.01**	**399,688.12**	**2,090,250.00**	**86,965.62**

[a] Fair value calculated using the so-called Monte Carlo model.
[b] Since Mr. Sattelberger joined the Group as of May 3, 2007, the MTIP 2007 was awarded on a time proportionate basis.
[c] Under the provisions of the plan, Mr. Clemens was not eligible to participate in the MTIP tranche 2007 as he was appointed effective December 1, 2007.

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

Dr. Karl-Gerhard Eick participated in the 2001 tranche.

René Obermann also participated in the 2001 tranche of the 2001 Stock Option Plan.

Hamid Akhavan, Timotheus Höttges and René Obermann continue to participate in the 2002 tranche of the 2001 Stock Option Plan as a result of their prior activities at T-Mobile.

The stock options that have been granted can be exercised under the terms of the stock option plans. However, no options have yet been exercised. The number of stock options held by the Board of Management members active in the 2007 financial year is unchanged year-on-year.

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

Incentive-based compensation from stock option plans.

		Number of options 2001 SOP tranche 2001	Value of options on issue (2001) (€)	Number of options 2001 SOP tranche 2002	Value of options on issue (2002) (€)	Weighted average exercise price of stock options (€)
René Obermann	2007	48,195	4.87	28,830	3.79	23.40
	2006	48,195		28,830		
Dr. Karl-Gerhard Eick	2007	163,891	4.87	0	0.00	30.00
	2006	163,891		0		
Hamid Akhavan	2007	–	0.00	19,840	3.79	12.36
	2006	–		19,840		
Timotheus Höttges	2007	–	0.00	17,050	3.79	12.36
	2006	–		17,050		
Total *	**2007**	**212,086**		**65,720**		
	2006	**212,086**		**65,720**		

* Messrs. Clemens, Pauly and Sattelberger are not shown in this table, since there were not eligible to participate in any stock option plan due to their respective dates of appointment.

The range of exercise prices of René Obermann's options varied between EUR 12.36 and EUR 30.00.

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

The average remaining term of the outstanding options for Board of Management members as of December 31, 2007 is 3.8 years.

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

Board of Management compensation for the 2007 financial year.
In reliance on legal requirements and other guidelines, a total of EUR 11,549,060.77 (2006: EUR 15,328,555.72) is reported in the following table as compensation for the 2007 financial year for the current and former members who left the Board of Management in 2007. This compensation comprises the fixed annual salary, other benefits, non-cash benefits, remuneration in kind, variable remuneration for the 2007 financial year and the fair value of the MTIP 2007 at the grant date. The pension expense resulting from the company pension plan is shown as service costs. All other remuneration is totally unrelated to performance.

Regarding the column showing the fixed annual 2007 salary, the Board of Management in office in May 2007 waived remuneration against the background of the imminent spin-off of the service companies to underline that this step will not only curtail the salaries of the employees affected. René Obermann – in his special responsibility as Chairman of the Board of Management – waived two monthly basic salaries. The remaining members of the Board of Management waived one monthly basic salary of their fixed annual remuneration. Since Thomas Sattelberger joined the Group in the course of the 2007 financial year, he waived remuneration on a time proportionate basis.

When comparing figures with those of the prior year, it should be taken into consideration that René Obermann was appointed Chairman of the Board of Management effective November 13, 2006, after having been an ordinary member of the Board of Management until that date, and that Messrs. Akhavan and Höttges became ordinary members of the Board of Management effective December 5, 2006 and thus are included in the prior-year figures with less than a twelfth of their annual remuneration. Since Thomas Sattelberger and Reinhard Clemens were appointed to the Board of Management of Deutsche Telekom AG in the course of the 2007 financial year (in May and December, respectively) no prior-year figures are available. For this reason, the overall increase in compensation of the Board of Management shown in the following table is due to the lack of prior-year figures for currently active Board of Management members and to the compensation of three Board of Management members included in the prior-year figures who left Deutsche Telekom in November and December 2006.

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

€		Fixed annual remuneration	Other remuneration	Variable remuneration	MTIP (Fair value at grant date)	**Total**	Service costs
René Obermann	2007	1,041,666.60	224,479.59	1,375,000.00	16,981.09	**2,658,127.28**	745,770.00
	2006	894,666.66	28,730.71	805,537.00	20,969.11	1,749,903.48	378,979.00
Dr. Karl-Gerhard Eick	2007	915,625.00	56,529.37	1,098,281.25	13,499.97	**2,083,935.59**	819,060.00
	2006	993,750.00	88,962.04	894,375.00	24,807.20	2,001,894.24	747,257.00
Hamid Akhavan	2007	733,333.37	608,693.26 [a]	934,000.00	10,867.90	**2,286,894.53**	0.00
	2006	58,064.52	43,238.07	53,260.27	12,481.61	167,044.47	0.00
Reinhard Clemens	2007	54,166.67	0.00	68,750.00	0.00	**122,916.67**	32,881.00
(from December 1, 2007)	2006	0.00	0.00	0.00	0.00	0.00	0.00
Timotheus Höttges	2007	687,500.00	20,482.41	825,000.00	10,188.65	**1,543,171.06**	345,366.00
	2006	54,435.48	949.44	49,931.51	9,985.29	115,301.72	28,315.00
Lothar Pauly	2007	250,000.00	98,830.66	0.00	10,188.65	**359,019.31**	444,469.00
(until May 31, 2007)	2006	750,000.00	77,131.26	600,000.00	18,722.41	1,445,853.67	283,286.00
Thomas Sattelberger	2007	484,587.84	1,328,742.13 [b]	671,301.61	10,364.75	**2,494,996.33**	2,095,720.00 [c]
(from May 3, 2007)	2006	0.00	0.00	0.00	0.00	0.00	0.00
Total	**2007**	**4,166,879.48**	**2,337,757.42**	**4,972,332.86**	**72,091.01**	**11,549,060.77**	**4,483,266.00**
	2006	**2,750,916.66**	**239,011.52**	**2,403,103.78**	**86,965.62**	**5,479,997.58**	**1,437,837.00**

[a] In addition to the pension substitute paid to Hamid Akhavan due to his U.S. citizenship, he also receives a monthly lump-sum payment to compensate for different tax regulations in Germany and the United States.
[b] This amount includes a payment of EUR 1,300,000.00 granted to Thomas Sattelberger to compensate him for the stock options he forfeited by leaving his previous employer when he joined Deutsche Telekom AG.
[c] This amount includes the one-time special pension payment to compensate for the loss of stock option rights when joining Deutsche Telekom AG.

The additions to provisions for pensions recognized in 2007 amounted to EUR 4,887,064.00 (2006: EUR 4,558,910.23). This amount includes service costs of EUR 4,483,266.00 (2006: EUR 3,803,797.23) and interest costs of EUR 403,798.00 (2006: EUR 755,113.00).

Lothar Pauly resigned from his position as member of the Board of Management of Deutsche Telekom AG by completely mutual agreement effective June 1, 2007. Under the agreement signed with him for his early departure from the Board of Management, he receives monthly payments of EUR 117,188.00 until January 31, 2009 to settle his entitlement to fixed and variable remuneration components from the ongoing service contract. Any further entitlements to fixed or variable remuneration from the service contract are settled by a one-time payment of EUR 2,125,000.00 rather than by monthly payments. The payment is due in February 2009. The termination agreement does not affect his participation in ongoing tranches of the Mid-Term Incentive Plan. Any payments from these tranches result from the provisions of the plan. The eligible period for the company pension entitlement expires on September 30, 2010. The existing prohibition of competition was cancelled in line with the existing contractual provisions without compensation.

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

Former members of the Board of Management. A total of EUR 15,014,605.30 (2006: EUR 11,852,133.15) was recorded for payments to and entitlements for former members of the Board of Management and their surviving dependents.

Provisions totaling EUR 72,675,181.00 (2006: EUR 89,309,072.00) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents in accordance with IFRS.

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

Compensation of the Supervisory Board.

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

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

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

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

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

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

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

The total remuneration of the members of the Supervisory Board in 2007 amounted to EUR 709,066.66 (plus VAT).

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

The **compensation of the individual members of the Supervisory Board** for 2007 is as follows:

€ **Member of the Supervisory Board**	Fixed remuneration plus attendance fee	Short-term variable	Total (net)	Imputed long-term remuneration entitlement [a]
Brandl, Monika	21,600.00	0.00	21,600.00	0.00
Falbisoner, Josef	21,400.00	0.00	21,400.00	0.00
Dr. von Grünberg, Hubertus	32,000.00	0.00	32,000.00	0.00
Guffey, Lawrence H.	42,600.00	0.00	42,600.00	0.00
Hocker, Ulrich	21,600.00	0.00	21,600.00	0.00
Holzwarth, Lothar [b]	21,400.00	0.00	21,400.00	0.00
Kühnast, Sylvia (since May 3, 2007)	14,333.33	0.00	14,333.33	0.00
Litzenberger, Waltraud	21,400.00	0.00	21,400.00	0.00
Löffler, Michael	21,400.00	0.00	21,400.00	0.00
Matthäus-Maier, Ingrid	21,400.00	0.00	21,400.00	0.00
Dr. Mirow, Thomas	34,000.00	0.00	34,000.00	0.00
Prof. Dr. Reitzle, Wolfgang	21,200.00	0.00	21,200.00	0.00
Prof. Dr. von Schimmelmann, Wulf	21,400.00	0.00	21,400.00	0.00
Dr. Schlede, Klaus G.	62,400.00	0.00	62,400.00	0.00
Schmitt, Wolfgang	42,600.00	0.00	42,600.00	0.00
Schröder, Lothar (Deputy Chairman) [c]	75,400.00	0.00	75,400.00	0.00
Sommer, Michael	21,400.00	0.00	21,400.00	0.00
Steinke, Ursula (until May 3, 2007)	8,733.33	0.00	8,733.33	0.00
Walter, Bernhard	42,400.00	0.00	42,400.00	0.00
Wegner, Wilhelm	65,600.00	0.00	65,600.00	0.00
Dr. Zumwinkel, Klaus (Chairman)	74,800.00	0.00	74,800.00	0.00
	709,066.66	**0.00**	**709,066.66**	**0.00**

[a] In determining the amount to be recognized as provision it was assumed that net profit per no par value share in 2009 would equal that in 2007. Based on this assumption, members were not entitled to long-term variable remuneration for the period 2006 to 2009, so the provision was set at EUR 0.00.
[b] Mr. Holzwarth received compensation of EUR 4,466.67 from T-Systems Business Services GmbH, Bonn, a wholly-owned subsidiary of Deutsche Telekom AG, for the 2007 financial year for a mandate as member of the supervisory board of this company.
[c] Mr. Schröder received compensation of EUR 17,400.00 from T-Mobile Deutschland GmbH, Bonn, a wholly-owned subsidiary of Deutsche Telekom AG, for the 2007 financial year for a mandate as member of the supervisory board of this company.

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

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

47 Events after the balance sheet date.

Further sites of Vivento Customer Services GmbH sold. Vivento Customer Services GmbH sold five additional sites – Göppingen, Freiburg, Stralsund, Schwerin and Chemnitz, including the Dresden branch – currently employing around 640 people to the arvato group in January 2008. The transfer of operations is scheduled for March 1, 2008. This transfer of operations is accompanied by a contract commitment by Deutsche Telekom for five years, thus safeguarding the jobs of the staff concerned.

Sale of Media&Broadcast completed. After the European Commission granted approval in January 2008 for Deutsche Telekom AG to sell T-Systems Media&Broadcast GmbH to Télédiffusion de France, the transaction was completed by both companies. The enterprise value, i.e., the total price underlying the transaction, is EUR 0.85 billion.

T-Systems Media&Broadcast GmbH was a wholly-owned subsidiary of T-Systems Business Services GmbH. Media&Broadcast plans, creates, markets and operates specific services for customers in the broadcasting and media industries. Its portfolio comprises terrestrial broadcasting equipment and networks, as well as satellite transmission services.

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

The following table provides a breakdown of auditing fees recognized as expenses in the 2007 financial year:

PricewaterhouseCoopers Aktiengesellschaft.

millions of €	2007
Professional fees for audits	10.6
Professional fees for other accounting services	9.4
Tax consulting fees	0.1
Other professional fees	4.0

Ernst & Young AG.

millions of €	2007
Professional fees for audits	8.6
Professional fees for other accounting services	7.9
Tax consulting fees	0.7
Other professional fees	0.1

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

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

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

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

Responsibility statement.

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

Bonn, February 11, 2008

Deutsche Telekom AG
Board of Management

René Obermann

Dr. Karl-Gerhard Eick

Hamid Akhavan

Reinhard Clemens

Timotheus Höttges

Thomas Sattelberger

Auditors' report.

We have audited the consolidated financial statements prepared by Deutsche Telekom AG, Bonn, comprising the income statement, balance sheet, cash flow statement, statement of recognized income and expense, and the notes to the consolidated financial statements, together with the Group management report for the financial year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) of the German commercial Code (Handelsgesetzbuch – HGB) are the responsibility of the parent company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit. In addition, we have been instructed to express an opinion as to whether the consolidated financial statements comply with IFRS as issued by the IASB.

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

Our audit has not led to any reservations.

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

Stuttgart/Frankfurt (Main), February 11, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Prof. Dr. Pfitzer) Wirtschaftsprüfer	(Forst) Wirtschaftsprüfer

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Frings) Wirtschaftsprüfer	(Menke) Wirtschaftsprüfer