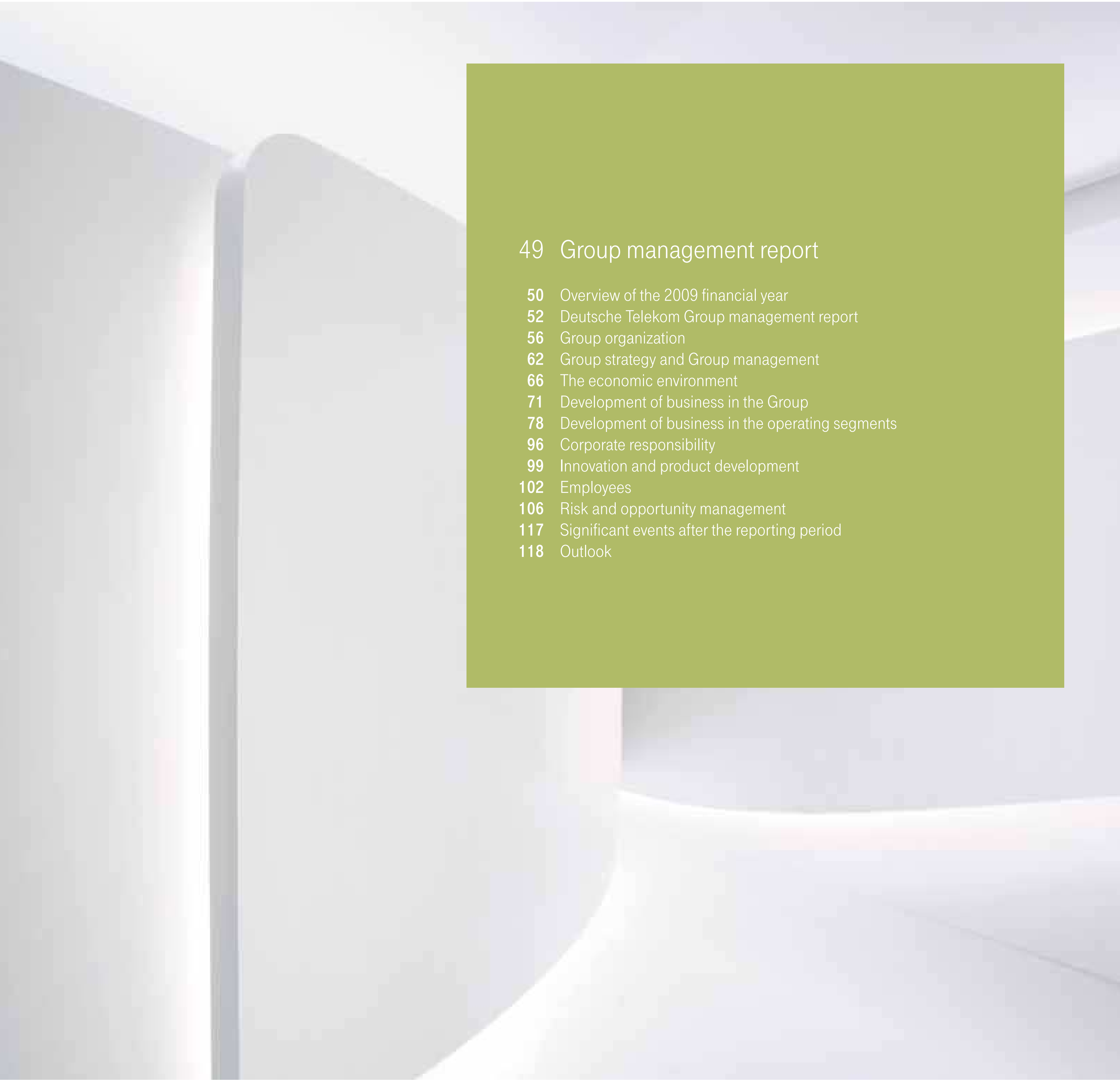
Group management focuses on the expectations Deutsche Telekom's four groups of stakeholders – shareholders, providers of debt capital, employees, and "entrepreneurs within the enterprise" – have of the Group. Its purpose is to strike a balance between these contrasting expectations and interests so that sufficient funding is available for investment, socially responsible staff restructuring, debt repayment, and an attractive dividend policy.



49 Group management report

Overview of the 2009 financial year.

What we have achieved.

Deutsche Telekom recorded stable results in a challenging economic environment.

Net revenue.
billions of €

EBITDA (adjusted for special factors).
billions of €

Free cash flow (before dividend payments).
billions of €

The proportion of net revenue generated outside Germany amounted to 56.6 percent, with OTE contributing EUR 5.4 billion in the 2009 financial year.

Net revenue of the Group increased by 4.8 percent to EUR 64.6 billion.

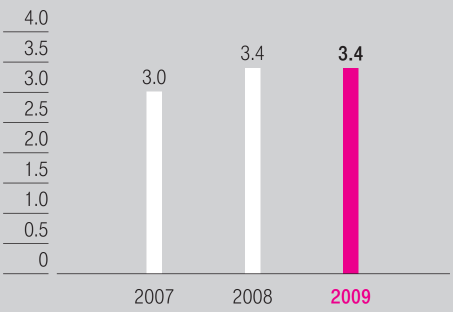
Proportion of international revenue increased to 56.6 percent.

Group EBITDA EUR 19.9 billion; EBITDA adjusted for special factors EUR 20.7 billion.

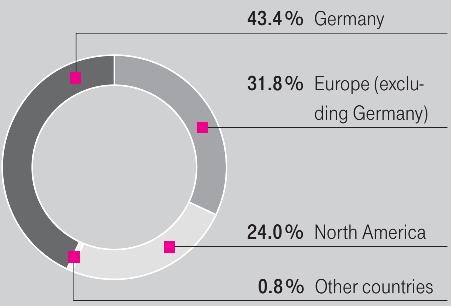
Net profit EUR 0.4 billion. Adjusted net profit EUR 3.4 billion.

Free cash flow before dividend payments EUR 7.0 billion.

Net profit (adjusted for special factors).
billions of €



Contribution of the regions to net revenue.
%



Deutsche Telekom Group management report.

Stable results in a challenging economic environment.

In the 2009 financial year, despite the difficult economic environment Deutsche Telekom achieved its guidance for adjusted EBITDA (excluding OTE), which it had revised in April 2009, of between 2 and 4 percent below prior-year level.

Deutsche Telekom generated a year-on-year net revenue increase of EUR 2.9 billion or 4.8 percent. The first-time full consolidation of the Greek company Hellenic Telecommunications S.A., Athens, Greece (OTE) was the primary driver behind this increase, contributing EUR 5.4 billion. Adjusted for the effects of changes in the consolidated group (EUR 5.5 billion) and negative exchange rate effects (EUR 0.4 billion), net revenue decreased compared with the prior year in the face of a challenging economic environment.

The proportion of net revenue generated outside Germany increased to 56.6 percent (2008: 53.2 percent). While the Group's revenue in the United States and Southern and Eastern Europe operating segments increased, revenue in the Germany, Europe and Systems Solutions operating segments declined.

Group EBITDA generated by Deutsche Telekom in the 2009 financial year totaled EUR 19.9 billion (2008: EUR 18.0 billion). Adjusted EBITDA totaled EUR 20.7 billion in the 2009 financial year (2008: EUR 19.5 billion). OTE, which was fully consolidated for the first time, contributed EUR 2.0 billion to both EBITDA and adjusted EBITDA.

In the 2009 financial year, EBITDA was negatively affected by special factors totaling EUR 0.8 billion. These special factors primarily consisted of expenses for staff-related measures and non-staff-related restructuring in the Germany and Systems Solutions operating segments.

Deutsche Telekom generated a net profit of EUR 0.4 billion in the 2009 financial year, compared with EUR 1.5 billion in the prior-year period. This decrease is mainly attributable to higher levels of depreciation, amortization and impairment losses, primarily as a result of impairment losses on goodwill. Adjusted net profit amounted to EUR 3.4 billion.

Free cash flow (before dividend payments and including OTE) of EUR 7.0 billion remained at prior-year level. While cash generated from operations increased slightly, cash outflows for intangible assets and property, plant and equipment also increased.

Connected life and work with innovative products and network infrastructure.

Deutsche Telekom intends to add further convergence products to its product portfolio in the context of connected life and work and increase the number of high-value customer relationships over the long term. Investment priorities in Germany are growth and innovation, particularly the further integrated and value-enhanced broadband expansion in fixed-network and mobile communications as well as quality and service initiatives.

The **Germany** operating segment is affected by continuing intense competition and regulatory measures.

Packages consisting of fixed-network and mobile communications products for business customers were presented for the first time at CeBIT 2009. These Business Bundles enable seamless, efficient interaction between mobile and fixed-network information and communication and are aimed at the self-employed, small companies, and medium-sized and large enterprises.

Fixed network. Since 2006, Deutsche Telekom's fixed-network operations have offered products that combine telephony with Web surfing and television. The individual packages have been continuously refined, geared towards customers' needs, and their bandwidths increased. Deutsche Telekom launched its new LIGA total! product range in the 2009 financial year. With Entertain, the Deutsche Telekom Group's German IPTV product, customers can now watch all first- and second-division Bundesliga soccer matches on television for an additional charge.

The Entertain Pur package, which was launched in late 2009, consists purely of TV and voice services.

The product range is complemented by the Scout group's and Load family's download portals such as Gamesload, Softwareload, Videoload and Musicload which, according to the market research company Gesellschaft für Konsumforschung (GfK), ranked very highly in German customer evaluation surveys.

Since April 2009, customers have been able to use the new terminal equipment service package. For a low monthly flat rate, customers receive the latest terminal devices and a comprehensive package of services including software updates, remote maintenance and installation support, plus a lifelong equipment warranty.

The Wholesale Services unit serves other German network operators and service providers as well as internal customers, supplying them with upstream and other services from various product segments, such as access, interconnection, IP data, and network services. Network operators and service providers implement their own business models based on Deutsche Telekom's wholesale services, such as unbundled local loop (ULL) lines, bitstream access or resale, including the Wholesale Internet Access (WIA) and WIA Gate product options.

The service platforms of the German fixed network offer a wide range of voice, video, and data services plus other value-added services for consumers, business, and corporate customers, though capital spending remains focused on IP-based technologies for the network infrastructure. These investments, which began in 2005, are preparing the ground for the roll-out of the Next Generation Network (NGN). As Deutsche Telekom is still obliged to provide services for customers who use the PSTN (Public Switched Telephone Network), the corresponding parts of the existing network infrastructure must be used alongside the NGN.

In Germany, Deutsche Telekom already supplies around 1,000 towns and cities with ADSL2+ and, in the 50 largest cities, it also offers services via its VDSL infrastructure. As it continues to expand the infrastructure, the Group is increasingly looking to cooperation models with local authorities and competitors. In 2009, 722 cooperation agreements with municipalities and capacity expansion as part of the scheduled network build-out added the scope to connect around 374,000 additional households to the broadband network.

Deutsche Telekom opened up its VDSL network to competitors even before being required to do so by the regulator and is planning collaborations to roll out fiber-optic access networks in German cities.

Mobile communications. In order to make connected life and work as easy as possible any time and any place, T-Mobile Deutschland is systematically improving its network performance and extending corresponding bandwidth coverage on a demand-oriented basis. T-Mobile Deutschland is working intensively on the further development of the NGMN (Next Generation Mobile Network), the network technology of the future. This new technology will support transmission rates that are five to ten times higher than HSDPA and HSUPA. One potential NGMN technology is LTE (Long-Term Evolution), which can reach data download speeds of up to 170 Mbits/s. T-Mobile Deutschland gave live demonstrations of the power of LTE in the 2009 financial year.

T-Mobile Deutschland introduced a number of quality improvements for the Mobile TV service in spring 2009. The technical platform now offers five different quality profiles that allow the video stream to be geared to the features of the mobile device used and the cell's current bandwidth, thus achieving clearly higher image and sound quality. T-Mobile Deutschland is the only network operator in Germany to broadcast all first- and second-division Bundesliga soccer matches live to mobile handsets with its LIGA total! service.

T-Mobile Deutschland is setting the pace in the field of double play, with the Complete and Combi calling plans offering flat rates for telephony and mobile high-speed Internet access. These integrated voice/data rates give customers maximum convenience and cost control. The outstanding acceptance of the current calling plan portfolio is helping Deutsche Telekom build up high-value customer relationships. Alongside traditional cell phones and smartphones, netbooks with integrated mobile communications technology and USB modems are key products for mobile data usage. Since these mini-notebooks are particularly small and light, they are ideal for convenient mobile surfing at high speeds.

February 2009 saw the German market launch of the T-Mobile G1, the world's first cell phone to use the Android operating system. The Android handset range has since been extended to include the T-Mobile G2 Touch and the T-Mobile Pulse. Thousands of programs and games can be downloaded from the online Android Market.

In June 2009, T-Mobile Deutschland exclusively introduced the Apple iPhone 3GS – currently the most powerful iPhone in the market. Approximately 1.5 million iPhones were delivered to customers in Germany between the launch and the end of 2009.

Launching the first two Windows-based cell phones in November 2009, T-Mobile Deutschland continued to lead the way in connected life and work on the move. The Microsoft Windows Mobile 6.5 Professional operating system is the hallmark of the HTC Touch2 and the HTC HD2, which are ideally equipped for Windows Marketplace applications that users can easily download.

The introduction of the latest version of the web'n'walk mobile Internet service platform underscores T-Mobile Deutschland's leading position in the mobile Internet. Users in Germany can, for instance, access their favorite personalized services with a single click using widgets, small Web applications on the handset's home screen.

In the course of the financial year, T-Mobile Deutschland again strengthened its reputation as a pioneer in the M2M business (machine-to-machine communication), for example in the field of smart metering technology, which allows residential meter readings such as electricity and gas to be recorded digitally, helping utility companies to design more efficient energy packages for their customers and to improve utility delivery. On the basis of strategic partnerships, T-Mobile Deutschland offers additional elements of the value chain from a single source from hardware and mobile communications through to solution enabling.

3G network expansion in the United States.

In the **United States** operating segment (T-Mobile USA) the number of customers at the end of 2009 increased to 33.8 million with a total of 1.0 million net new customers added in the year. T-Mobile USA ended the year with a nationwide 3G network covering over 205 million people, almost doubling T-Mobile USA's 3G network coverage in 2009. T-Mobile USA also upgraded its national 3G network during the year from 3.6 Mbit/s to 7.2 Mbit/s. In 2010, T-Mobile USA intends to further expand and upgrade the 3G mobile communications network, including an upgrade of the top 30 U.S. markets to HSPA+ with a top download speed of 21 Mbit/s.

With the expanded and upgraded 3G network, customers have increased their adoption of 3G-enabled converged devices driving data revenue growth. In 2009, T-Mobile USA delivered an innovative handset line-up which now includes eleven 3G-enabled converged devices. Following the success of the 2008 launch of the T-Mobile G1TM, T-Mobile USA launched the T-Mobile MyTouch TM 3G, and ended the year with a market-leading four Android TM devices in its handset lineup.

During the year, T-Mobile USA delivered market-leading value in wireless with its launch of Even More rate plans. Some of these plans feature unlimited nationwide voice, text and data services, and include rate plans with and without subsidized handsets. Additionally, in 2009 T-Mobile USA continued to expand its retail distribution network, including a sales agreement with the American electronics retail store chain RadioShack which expanded the number of locations carrying T-Mobile USA products and services by almost a third and regained its leadership in customer service as demonstrated by independent consumer ratings.

Encouraging development in the contract customer business.

In the **Europe** operating segment, the structure and, in turn, the quality of the customer base continuously improved in the course of the 2009 financial year. At the end of the reporting year, the segment served 44.2 million customers, the same level as in the prior year. The contract customer base rose against the previous year in both absolute and relative terms, compensating for the lower customer figures in the prepaid business. This success is partly attributable to intense marketing efforts to acquire and retain customers. Moreover, improvements in the product portfolio attracted new groups of customers. New mobile Internet applications and attractive smartphones contributed to this success. Most contract customer growth came from the countries with successful Apple iPhone, T-Mobile G1 and T-Mobile G2 Touch sales.

In addition to the products offered, strategic partnerships with multinational corporations safeguarded Deutsche Telekom's status as the leading provider for connected life and work.

In November 2009, Deutsche Telekom AG and France Télécom S.A. agreed to merge their British companies, T-Mobile UK and Orange UK, in a 50 : 50 joint venture. According to competitors' figures published in the third quarter of 2009, once the transaction has been completed the joint venture will have a total customer market base of around 32.7 million customers (including Virgin Mobile), which would make it the leading mobile carrier in the United Kingdom.

Customer additions in mobile communications and broadband growth in fixed-network communications.

The first-time full consolidation of OTE in the **Southern and Eastern Europe** operating segment strengthened Deutsche Telekom's position in the region. Significant growth in customer numbers was recorded in the broadband and mobile communication business. The global economic crisis, which caused gross domestic product (GDP) declines and major currency fluctuations, created a challenging economic environment that exerted enormous pressure.

In Hungary, for example, the further integration of fixed-network, broadband and mobile communications plus satellite TV helped the Deutsche Telekom Group to play a leading role in gaining "access to all the customers' screens" and to boost innovation in the Hungarian market. Other markets in the Southern and Eastern Europe operating segment also have been prepared for integration.

The bundling of telecommunications services with entertainment/TV services boosts the benefit to the customer, thus reducing churn and creating an environment that will ultimately contribute to Deutsche Telekom's connected life and work strategy.

The investments in high-performance broadband infrastructures created the foundation, for example, for doubling the number of IPTV customers to more than 400,000 lines.

New forward-looking projects for corporate customers.

The **Systems Solutions** operating segment has identified five key issues – core beliefs – on the basis of which it intends to face the challenges of the ever-increasing competition in the information and communication technology (ICT) market: Dynamic Net-Centric Sourcing, Collaboration, Mobile Enterprise, Security & Governance, and Sustainability & Corporate Responsibility. T-Systems has aligned its portfolio and services with these five issues, paving the way for the networked future of business and society.

The focus on corporate customers' systems business translated into a number of large-scale orders in and outside Germany in the reporting year, with MAN (commercial vehicle, engine and mechanical engineering) and Linde AG (gas and engineering) both signing up to purchase key ICT services from T-Systems for seven years. In Germany, T-Systems manages the network connecting the branches of the REWE Group, including its tourism arm with 900 DER and Atlas travel agencies. T-Systems is implementing one of its largest-ever SAP projects for automotive supplier Continental, consolidating and operating its entire SAP landscape. T-Systems also secured large orders from the public sector: In Baden-Württemberg, for example, it will install computers and printers at several government departments and associated public authorities. In North Rhine-Westphalia, T-Systems is introducing a new budgeting and accounting system for the regional administration.

International business was also boosted by a number of major deals abroad. In the future, T-Systems will provide all telecommunications services for the global energy group BP. Under the five-year contract, T-Systems and its partner Siemens Enterprise Communications will migrate BP's international network to next-generation voice and data communications. T-Systems has been contracted to provide worldwide computing center and SAP services for Royal Philips Electronics. In South Africa, T-Systems is responsible for all information and communications technology of Eskom, a power utility, and Transnet, a transportation company. T-Systems will also take over SAP's hosting customers in Europe and will support the software applications of almost 90 SAP customers in its computing centers.

T-Systems is acquiring a strong footprint in the growing healthcare market. Through T-Venture, Deutsche Telekom's venture capital company, T-Systems has acquired a stake in Portavita, the Netherlands' leading provider of solutions for the IT-based integrated care of chronically ill patients. Through T-Venture, T-Systems is also taking over shares in the Dutch software developer MGRID, a Portavita partner specializing in developing hardware and software for medical database applications. Together, the companies intend to tailor the tried and tested solutions from the Netherlands to the German and other European markets.

Group organization.

Realignment of the management structure // Expansion of the portfolio of shareholdings to include OTE // Joint venture in the United Kingdom

Organizational structure and business activities.

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

Since July 1, 2009, Deutsche Telekom's organizational structure has reflected the realigned management structure approved by the Supervisory Board on April 29, 2009. The new structure increases regional market responsibility in the combined fixed-network and mobile communications business. The realignment also resulted in a change to the structure of the operating segments from July 1, 2009. Since July 1, 2009, Deutsche Telekom has reported on the five operating segments Germany, United States, Europe, Southern and Eastern Europe, and Systems Solutions, as well as on Group Headquarters & Shared Services.

Fixed-network business includes all voice and data communications activities based on fixed-network and broadband technology. This includes the sale of terminal equipment and other hardware, as well as the sale of services to resellers.

The mobile communications business offers mobile voice and data services to consumers and business customers. Mobile terminals and other hardware are sold 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 (MVNOs).

The business activities in four of these five operating segments are assigned by regions and in the fifth by customers and products. The **Germany** operating segment comprises all fixed-network and mobile activities in Germany. Fixed-network business consists of consumers and business customers, after the latter had been reassigned effective January 1, 2009 from the Systems Solutions operating segment (until December 31, 2008 called the Business Customers operating segment) to fixed-network operations. Fixed-network services are also sold to resellers and to other operating segments of the Group.

The **United States** operating segment (T-Mobile USA) comprises all of Deutsche Telekom's wireless activities in the U.S. market and offers mobile voice and data services to consumers and business customers. Mobile devices and accessories are usually sold in connection with the services offered. In addition, T-Mobile USA offers its customers a number of service options, including rate plans with and without contracts, the ability to pay in advance or subsequent to service, and rate plans with and without subsidized handsets. T-Mobile USA uses a mix of direct and indirect distribution channels to market its mobile voice and mobile data products and services. T-Mobile USA services are also sold to wholesale entities such as MVNOs and machine-to-machine operators and are a growing distribution channel for T-Mobile USA unbranded products and services.

The **Europe** operating segment covers all activities of the mobile communications companies in the United Kingdom, Poland, the Netherlands, the Czech Republic and Austria, as well as the International Carrier Sales and Solutions unit, which mainly provides wholesale telecommunications services for the Group's other operating segments.

The **Southern and Eastern Europe** operating segment comprises all fixed-network and mobile communications operations of the national companies in Hungary, Croatia, Slovakia, Greece, Romania, Bulgaria, Albania, the F.Y.R.O. Macedonia, and Montenegro.

The **Systems Solutions** operating segment offers products and solutions for major public-sector institutions and large multinational corporations (corporate customers) under the T-Systems brand. The operating segment offers its customers information and communication technology (ICT) from a single source. It develops and operates infrastructure and industry solutions for corporate customers. Drawing on a global infrastructure of computing centers and networks, T-Systems operates ICT systems and provides integrated solutions for the networked future of business and society.

Group Headquarters & Shared Services comprises all Group units and subsidiaries that cannot be allocated directly to one of the operating segments. Group Headquarters is responsible for strategic and cross-segment management functions. The Shared Services unit is responsible for all other operating functions that are not directly related to the aforementioned operational segments' core business. These include Vivento, which provides employees with new employment opportunities as part of the staff restructuring program, Real Estate Services, whose activities include managing Deutsche Telekom AG's real estate portfolio, and DeTeFleetServices GmbH, a full-service provider of fleet management and mobility services. In addition, Group Headquarters & Shared Services includes the Products & Innovation unit and other Group-wide functions in the area of technology, IT and mobile communications that report to the Chief Operating Officer. Shared Services is primarily active in Germany. The main subsidiaries in Shared Services are GMG Generalmietgesellschaft mbH, DeTeFleetServices GmbH, and Vivento Customer Services GmbH.

Legal structure of the Deutsche Telekom Group.

Deutsche Telekom AG, Bonn, is the parent of the Deutsche Telekom Group. Its **shares** are traded on several stock exchanges, including Frankfurt, New York, and Tokyo. Information on the share capital in accordance with § 315 (4) No. 1 of the German Commercial Code (Handelsgesetzbuch – HGB) can be found in Note 14 of the notes to the consolidated financial statements.

Voting rights are restricted in relation to the treasury shares (around 2 million as of December 31, 2009) and the trust shares (around 19 million as of December 31, 2009). The trust shares are connected with the acquisitions of VoiceStream and Powertel in 2001. As part of these acquisitions, Deutsche Telekom AG issued new shares from authorized capital to trustees for the benefit of holders of warrants, options, and conversion rights, among others. As regards the shares issued to trusts, the trustees in question waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence. The shares issued to the trusts can be sold on the stock exchange on the instruction of Deutsche Telekom AG if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom AG.

The shareholders' meeting on April 30, 2009 authorized the Board of Management to increase the share capital with the approval of the Supervisory Board by up to EUR 2,176,000,000 by issuing up to 850,000,000 no par value registered shares against non-cash capital contributions in the period ending April 29, 2014. This authorization may be exercised either in full or in one or several partial amounts. The Board of Management is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' preemptive rights when issuing new shares for business combinations or acquisitions of companies, parts thereof or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions, including receivables from Deutsche Telekom AG. The Board of Management is also authorized, subject to the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares (2009/I authorized capital).

The shareholders' meeting on April 30, 2009 authorized the Board of Management to increase the share capital with the approval of the Supervisory Board 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 ending April 29, 2014. This authorization may be exercised either 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 another company meeting the requirements of § 186 (5), sentence 1 of the German Stock Corporation Act (Aktiengesetz – AktG) that assumes the obligation to use these shares for the sole purpose of granting employee shares. Where permitted by law, the employee shares may also be issued in such a way that the contribution to be paid in return is taken from the part of the net profit that the Board of Management and the Supervisory Board may transfer to other retained earnings in accordance with § 58 (2) AktG. 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, subject to the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares (2009/II authorized capital).

The 2004 and 2006 authorized capital that existed as of December 31, 2008, were canceled in favor of the aforementioned 2009/I and 2009/II authorized capital with effect from May 26, 2009, the date of entry in the commercial register.

The share capital has been contingently increased by up to EUR 31,813,089.28 as of December 31, 2009, composed of up to 12,426,988 new no par value registered shares (contingent capital II). 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. It will be implemented only to the extent that the holders of stock options exercise these options. The share capital has been contingently increased by EUR 600,000,000 as of December 31, 2009, composed of up to 234,375,000 no par value registered shares (contingent capital IV). 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.

The shareholders' meeting on April 30, 2009 authorized the Board of Management to purchase up to 436,131,999 no par value shares in Deutsche Telekom AG by October 29, 2010, with the amount of share capital accounted for by these shares totaling up to EUR 1,116,497,917.44, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of Deutsche Telekom AG which it has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Deutsche Telekom AG's share capital.

This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The purchase takes place without prejudice to the principle of equal treatment through the stock exchange or a public purchase offer addressed to all shareholders. By resolution of the shareholders' meeting of April 30, 2009, the Board of Management is authorized to redeem Deutsche Telekom AG's shares purchased on the basis of the aforementioned authorization, without such redemption or its implementation requiring a further resolution of the shareholders' meeting.

The main agreements entered into by Deutsche Telekom AG, which include a **clause in the event of a change of control,** principally relate to bilateral credit lines and several loan agreements. In the event of a takeover, the individual lenders have the right to terminate the credit line and, if necessary, serve notice or demand repayment of the loans. A takeover is assumed when a third party, which can also be a group acting jointly, acquires control over Deutsche Telekom AG.

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

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

In the 2009 financial year Deutsche Telekom AG and France Télécom S.A. agreed to merge their British companies, T-Mobile UK and Orange UK, in a 50 : 50 joint venture. Under the terms of the joint venture agreement, if a third party were to take a controlling stake in Deutsche Telekom, for a period of one year France Télécom would be relieved of all restrictions imposed on the shareholders relating to the transfer of their shares. Transferring shares to competitors would remain prohibited even in this situation, however.

The principal subsidiaries of Deutsche Telekom AG are listed in the notes to the consolidated financial statements in the section "Summary of accounting policies" under **"Consolidated group."** In addition to Deutsche Telekom AG, 62 German and 182 foreign subsidiaries are fully consolidated in Deutsche Telekom's consolidated financial statements (December 31, 2008: 65 and 164). 12 associates (December 31, 2008: 14) and 5 joint ventures (December 31, 2008: 5) are also included using the equity method.

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

In the 2008 financial year, Deutsche Telekom acquired 25 percent plus one share in Hellenic Telecommunications Organization S.A., Athens, Greece (OTE). In May 2008, the Greek government and Deutsche Telekom signed a shareholders' agreement regarding an investment in the telecommunications company. Together, the two shareholders hold a majority of 50 percent plus two votes in OTE, with Deutsche Telekom being granted the possibility of controlling OTE's financial and operating policies once all necessary steps of the transaction have been completed. The changes to OTE's Articles of Incorporation necessary for full implementation of the shareholders' agreement were approved at the extraordinary shareholders' meeting of OTE on February 6, 2009. Upon implementation of the shareholders' agreement on February 6, 2009, OTE is no longer accounted for using the equity method, but fully consolidated in the Southern and Eastern Europe operating segment. Under the share purchase agreement, Deutsche Telekom has additionally granted the Hellenic Republic two put options for an additional 5 percent (put option I) and 10 percent (put option II) of the shares. The Hellenic Republic exercised the first put option on July 31, 2009. As a result of the aforementioned transactions, Deutsche Telekom holds a stake in OTE of 30 percent plus one share. For further details, please refer to the disclosures on "Business combinations" in the notes to the consolidated financial statements.

Deutsche Telekom acquired the Spanish IT service provider Metrolico S.A. on May 28, 2009. It is fully consolidated in the Systems Solutions operating segment. The integration of Metrolico (with revenue of approximately EUR 54 million in 2008) has boosted T-Systems' presence in Southwestern Europe.

OTE acquired the Romanian mobile communications provider Telemobil S.A. (Zapp) effective July 8, 2009 (2008: approx. EUR 61 million in revenue).

On November 5, 2009, Deutsche Telekom AG and France Télécom S.A. signed the agreement for the merger of their British companies, T-Mobile UK and Orange UK, in a 50 : 50 joint venture. The transaction is subject to approval by the responsible authorities. T-Mobile UK in the Europe operating segment is now classified as held for sale in the consolidated statement of financial position.

On November 19, 2009, Deutsche Telekom signed an agreement with Freenet AG to take over 100 percent of the shares in the Web hosting provider Strato AG and Strato Rechenzentrum AG. The transaction will make Deutsche Telekom a leading provider of Web hosting products, especially for consumers and small business customers in the German market. The companies' supervisory boards already approved the planned transaction.

The extraordinary shareholders' meeting on November 19, 2009 approved the spin-off and takeover agreement under which Deutsche Telekom AG transferred the T-Home business area to T-Mobile Deutschland GmbH by way of a spin-off with accounting effect as of January 1, 2010. Fixed-network and mobile communications business will be bundled in the future company for Germany to increase competitiveness.

Management and supervision.

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

Board of Management responsibilities are distributed across eight Board departments. In addition to the five central management areas assigned to the Chairman of the Board of Management, the Board member responsible for Finance, the Board member responsible for Human Resources, the Board member responsible for Data Privacy, Legal Affairs and Compliance, and the Chief Operating Officer (COO), who is also responsible for the Europe operating segment, there are three more segment-based Board of Management departments: Germany, Southern and Eastern Europe, and T-Systems (Systems Solutions operating segment).

Changes in the composition of the Board of Management. In agreement with the Supervisory Board, Dr. Karl-Gerhard Eick resigned from the Board of Management with effect from midnight on February 28, 2009.

At the Supervisory Board meeting on February 26, 2009, the Supervisory Board appointed Timotheus Höttges as the new member of the Board of Management for Finance effective March 1, 2009 and Niek Jan van Damme as the new member of the Board of Management for T-Home and Sales & Service, also effective March 1, 2009. The establishment of a new Board of Management department for Southern and Eastern Europe with effect from March 1, 2009 was also approved at the meeting on February 26, 2009 to account for the growing significance of the Southern and Eastern European region and to combine responsibility for the existing, integrated operations in the region following the takeover of management control of the Greek company OTE. The new department is headed by Guido Kerkhoff, who was appointed to the Group Board of Management effective March 1, 2009. On April 29, 2009, the Supervisory Board decided to merge responsibility for standard fixed-network and mobile communications business for consumers and business customers in Germany into a single Board of Management department – Germany – effective July 1, 2009. This department is headed by Niek Jan van Damme. Reinhard Clemens retains responsibility for the ICT solution business with corporate customers – T-Systems. In addition, the position of Chief Operating Officer was established effective July 1, 2009. The new department, headed by Hamid Akhavan, brings together the Group-wide responsibility for technology, IT, procurement, products and innovations for standard business for consumers and business customers. Hamid Akhavan is also responsible for the Group's mobile communications subsidiaries in the United Kingdom, the Netherlands, Austria, the Czech Republic and Poland.

The Deutsche Telekom Supervisory Board agreed to Hamid Akhavan's request to resign on February 15, 2010 at its meeting on December 17, 2009. On January 29, 2010, the Supervisory Board approved the proposal by the Board of Management to reassign Hamid Akhavan's responsibilities on a temporary basis. Board of Management members Guido Kerkhoff and Reinhard Clemens will assume Hamid Akhavan's responsibilities in an acting capacity. Effective February 15, 2010, Guido Kerkhoff will assume temporary responsibility for the Europe region (United Kingdom, Netherlands, Austria, Poland and Czech Republic) and International Sales & Service. Reinhard Clemens will, also in an acting capacity, assume Group-wide responsibility for the remaining COO units, such as Products & Innovation, Technology, IT and Procurement effective the same date.

The Supervisory Board of Deutsche Telekom oversees the management of business by the Board of Management and advises the Board. The Supervisory Board is composed of 20 members, of whom 10 represent the shareholders and the other 10 the employees.

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

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

The total compensation of Supervisory Board members is governed by § 13 of the Articles of Incorporation and includes a fixed annual component plus variable, performance-related remuneration with short-term and long-term components, depending on the development of net income per share. The compensation of the members of the Board of Management and the Supervisory Board is reported individually in the notes to the consolidated financial statements under Note 38, broken down by the various components.

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	2009	1,250,000	37,233	1,365,000	76,613	**2,728,846**	549,326
	2008	1,250,000	86,262	1,762,500	116,738	**3,215,500**	495,302
Dr. Karl-Gerhard Eick	2009	183,750	17,371	183,750	0	**384,871**	753,839
(until February 28, 2009)	2008	1,054,375	49,290	1,513,028	98,060	**2,714,753**	704,526
Hamid Akhavan	2009	800,000	611,878*	789,600	49,032	**2,250,510**	0
	2008	800,000	613,588*	1,178,400	74,712	**2,666,700**	0
Dr. Manfred Balz	2009	660,000	19,204	468,600	33,710	**1,181,514**	423,373
	2008	127,742	4,641	122,485	26,149	**281,017**	117,570
Reinhard Clemens	2009	658,333	31,531	825,750	42,903	**1,558,517**	302,817
	2008	650,000	33,463	1,106,250	65,373	**1,855,086**	261,469
Timotheus Höttges	2009	750,000	21,583	803,250	45,968	**1,620,801**	244,599
	2008	750,000	24,506	1,116,000	70,043	**1,960,549**	204,936
Gudio Kerkhoff	2009	433,333	11,874	692,250	36,774	**1,174,231**	230,190
(from March 1, 2009)	2008	–	–	–	–	**–**	–
Thomas Sattelberger	2009	800,000	5,687	976,250	52,607	**1,834,544**	865,667
	2008	800,000	44,221	1,292,500	80,160	**2,216,881**	948,713
Niek Jan van Damme	2009	366,667	31,538	549,450	30,134	**977,789**	231,583
(from March 1, 2009)	2008	–	–	–	–	**–**	–
Total	**2009**	**5,902,083**	**787,899**	**6,653,900**	**367,741**	**13,711,623**	**3,601,394**
	2008	**5,432,117**	**855,971**	**8,091,163**	**531,235**	**14,910,486**	**2,732,516**

* 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.

Accounting-related internal control system.

Deutsche Telekom AG's internal control system (ICS) is based on the internationally recognized COSO framework (The Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework. The effectiveness of the ICS is monitored by the Audit Committee of Deutsche Telekom AG in accordance with the provisions of the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG), which entered into force in May 2009. The Board of Management determines and assumes responsibility for the scope and form of the specific requirements for Deutsche Telekom. Internal Audit is responsible for independently reviewing the effectiveness of the Group's ICS and to this end has comprehensive information, audit and access rights. It is generally true of any ICS that regardless of its specific structure there can be no absolute guarantee that it will achieve its objectives. Regarding the accounting-related ICS, there can only ever be relative certainty, rather than absolute certainty, that material accounting misstatements can be prevented or detected.

The accounting-related ICS, which is continuously refined, comprises the principles, methods, and measures used to ensure compliant Group accounting.

At Deutsche Telekom AG, the Group Accounting department is responsible for managing the processes of Group accounting and the preparation of the management report. Laws, accounting standards, and other pronouncements are continuously analyzed for their relevance to and impact on the consolidated financial statements. The relevant requirements are defined in the Group Accounting Manual, for example, communicated to the relevant units and, together with the financial reporting calendar that is binding throughout the Group, forms the basis of the financial reporting process. In addition, supplementary process directives, standardized reporting formats, IT systems, as well as IT-based reporting and consolidation processes support the process of uniform and compliant Group accounting.

Deutsche Telekom AG draws on the services of external service providers as needed, e.g., for measuring pension obligations. Group Accounting establishes appropriate processes to ensure that these requirements are implemented uniformly in all areas of the Group. The staff involved in the Group accounting process receive regular training. The individual Group companies are responsible for complying with the Group policies and procedures and for the compliant, timely execution of their accounting-related processes and systems, and are supported and monitored in these activities by Group Accounting.

Internal controls are embedded in the accounting process depending on risk levels. The accounting-related ICS comprises both preventive and detective controls, which include IT-based and manual agreements, the segregation of functions, double-checking, general IT controls such as access regulations in IT systems or change management, and the monitoring of such controls.

In 2006 Deutsche Telekom introduced a standardized process across the Group for monitoring the effectiveness of the accounting-related ICS. The process systematically addresses the risks of possible misstatements in the consolidated financial statements and meets the strict capital market requirements of Section 404 of the Sarbanes-Oxley Act in the United States. In order to ensure a high-quality accounting-related ICS, Internal Audit is closely involved in all stages of the process. The effectiveness of the accounting-related ICS is measured by analyzing selected high-risk elements in cascaded self-assessments that are performed by all parties involved in the process, including those with lead responsibility for the accounting process through to the Group Board of Management. Internal Audit performs independent spot-checks on the self-assessments.

Group strategy and Group management.

Successful implementation of Deutsche Telekom's strategy

Group strategy.

Telecommunications is an industry marked by constant change in fixed-network business, mobile communications, and the Internet, a momentum that even economic upheaval is unable to suppress. This affects key areas of the macroeconomy, technology, consumers, the markets, and our competitors. At the same time, the boundaries to related industries – IT, the media, entertainment, and software – are becoming blurred, creating new competitive constellations and increasingly requiring strategic partnerships.

Deutsche Telekom's aim is to position itself successfully in this complex environment and become a market leader in connected life and work in the long term. In the 2009 financial year, Deutsche Telekom continued to systematically implement its "Focus, fix and grow" strategy successfully with the following four strategic areas of action:

- Improve competitiveness in Germany and in Southern and Eastern Europe.
- Grow abroad.
- Mobilize the Internet.
- Roll out network-centric ICT.

Improve competitiveness.

Markets in Germany and in Southern and Eastern Europe are becoming saturated, particularly in the fixed-network area, and competition is intense. In this challenging environment, Deutsche Telekom holds its own by focusing capital expenditure on the broadband infrastructure, first-rate products and excellent service, and continuously streamlining its cost base. Deutsche Telekom expects its integrated market strategy to make the Group more competitive.

Focused network expansion. As Deutsche Telekom aims to retain its broadband and innovation leadership it is focusing its investments on network expansion. In its footprint markets, the Group is continuously expanding and upgrading its UMTS networks and enabling fast mobile Internet usage with HSPA+ and other technologies. In the German fixed network, Deutsche Telekom already supplies around 1,000 towns and cities with ADSL2+ and 50 towns and cities with VDSL. As it continues to expand the broadband network, the Group has not only launched cooperation projects with local authorities but is also entering into partnerships with competitors.

Innovative entertainment products. Since 2009, Entertain customers in Germany have been able to link up several media receivers using the connected video recorder, share photos with friends and relatives, and subscribe to LIGA total! to watch Bundesliga soccer games on TV or while on the move. Three years after the launch of the Dolce satellite service, OTE's Romanian subsidiary Romtelecom expanded its entertainment range and introduced its new Dolce Interactive IPTV product in ten towns and cities around the country in 2009. In Slovakia, the expansion of satellite broadcasting will permit nationwide reception of Magio TV's digital television.

Service and quality. Entertain has received several awards from customers and neutral experts. The readers of "connect" magazine (May 2009 issue) named Entertain the best triple-play provider in 2009. Deutsche Telekom also beat the competition in a ranking published in the September 2009 issue of "Computer Bild." Furthermore, the Company topped the one-million mark with the marketing of Entertain, the Apple iPhone, and the terminal equipment service package, demonstrating that with excellent service and high-quality products Deutsche Telekom can make a lasting impression on customers even in saturated markets. In the 2010 financial year the Company will introduce the ACCI/ICCA (After Customer Contact Interview; International Customer Contact Analysis) study to measure customer perception in other national companies and customer contact channels and improve customer service further.

Fixed-mobile convergence. The Company is also improving competitiveness by integrating fixed-network and mobile operations. As part of the One Company project, Deutsche Telekom intends to boost its presence in the market as an integrated provider offering convergent products from a single source. To this end, the Group is currently realigning its activities in Croatia, Slovakia, and Germany with a new organization and strategy. This move will improve Deutsche Telekom's customer service, safeguard jobs, and unlock potential for more innovation, additional revenue, and cost synergies.

Improved cost base. In addition to tapping growth potential, Deutsche Telekom needs to work steadily on improving its cost base. To this effect, the Save for Service program was launched in 2006 with the goal of achieving savings of up to EUR 4.7 billion by 2010. By the end of 2009, this target had already been exceeded at EUR 5.9 billion on a cumulative basis. Savings of EUR 1.8 billion were made in the 2009 financial year alone, mainly in the Germany and Systems Solutions operating segments, of which EUR 0.4 billion was reinvested. Deutsche Telekom will usher in the next phase of Save for Service in early 2010 and bring its international activities into the program's scope, too.

Operational strength. To enhance customer satisfaction, quality and efficiency, in 2006 Deutsche Telekom began applying the methods of Six Sigma and Lean Management/Office Lean. Several hundred improvement projects have since been carried out, with many business processes optimized long-term across business units, and additional revenue and cost cutting in the high triple-digit millions realized.

Grow abroad.

The proportion of net revenue generated abroad has grown rapidly over the last few years. While Deutsche Telekom's home market, Germany, generated 46.8 percent of net revenue in 2008, the figure had decreased to 43.4 percent one year later. The main contributing factor is the first-time consolidation of the Greek company Hellenic Telecommunications Organization S.A., Athens, Greece (OTE) and its mobile subsidiary COSMOTE S.A. (Cosmote). Deutsche Telekom intends to continue to leverage international economies of scale and synergies in the future and grow further. A higher stake in OTE, other minor acquisitions in footprint markets, joint ventures, and the focused expansion of its broadband infrastructure form part of Deutsche Telekom's ongoing international growth strategy.

Increased stake in OTE and leveraged synergies. In 2009, Deutsche Telekom acquired an additional 5 percent in the Greek company OTE, bringing its shareholding up to around 30 percent. During the 2009 financial year, the two companies concentrated on leveraging synergies in various areas including procurement, where contracts were renegotiated and lower prices agreed, and innovative devices and services.

Acquisition of Zapp in Romania. The Cosmote group had finalized its acquisition of Zapp in Romania. The takeover will enable the company to offer new mobile broadband services with the 3G license it acquired in the process, enlarge its customer base, and maintain its footprint in the business customer market.

Merger in the United Kingdom. Deutsche Telekom AG and France Télécom S.A. have signed an agreement to merge their British companies, T-Mobile UK and Orange UK, in a 50 : 50 joint venture. The authorities are expected to approve the transaction in the course of the 2010 financial year. The joint venture will be the leading mobile operator in the UK market.

Network expansion in the United States. In 2009, Deutsche Telekom continued to invest in the expansion of its mobile communications network in the United States and doubled its 3G network coverage. By the end of the year, the new data network covered 205 million U.S. citizens. The rapid upgrade of the mobile network is set to continue in 2010 and coverage with HSPA+ and other technologies will be further improved.

Mobilize the Internet.

Deutsche Telekom is continuing to lead the way in connected life and work on the move. Thanks to state-of-the-art terminal devices and innovative applications, mobile internet access, e-mails, communication, and photo and video sharing is now easier than ever before. Deutsche Telekom is very well positioned in this field and will continue to benefit strongly from future growth in mobile Internet usage.

Expansion of the handset portfolio. Deutsche Telekom launched numerous innovative handsets in 2009, including the T-Mobile G1, the world's first Android-based smartphone, and Apple's latest iPhone 3GS. These were followed by other exclusive devices such as T-Mobile G2 Touch, the T-Mobile Pulse, and RIM's BlackBerry Bold™ 9700. T-Mobile also introduced the first Windows-based cell phones, the HTC Touch2 and the HTC HD2, which use the new operating system Microsoft Windows Mobile 6.5 Professional.

Innovative applications. In 2009, Deutsche Telekom also rolled out a large number of innovative applications for mobile Internet usage. MyCommunity is one such service, which allows mobile customers to see their contacts immediately on their device's home screen and contact them even faster via an intuitive user interface. Via the Media Center, Deutsche Telekom's customers can access their personal content anytime and anywhere – be it digital photos, videos, music, or constantly updated contacts and e-mails.

International roll-out. Besides new equipment the Group has also introduced a range of new and innovative services such as Music Zone, which was launched in Greece and will bring T-Mobile's music services also to Cosmote customers. This music project is the first in a series of international packages of Deutsche Telekom products services that are set to be launched on the Greek market.

Mobile TV. Deutsche Telekom added further channels to its MobileTV service and improved image and sound quality. The service is now also available on most UMTS-enabled handsets, such as the Apple iPhone 3G and 3GS, the T-Mobile G1, and the T-Mobile G2 Touch. In 2009, Deutsche Telekom began to exclusively broadcast all first- and second-division Bundesliga soccer matches live to cell phones with LIGA total!

Roll out network-centric ICT.

T-Systems identified the trend toward convergent IT and telecommunications services and applications at an early stage and realigned its strategy to focus on customized solutions for corporate customers. The entity manages networks and computing centers worldwide and develops solutions for global corporate networks, mobility, security, and sustainability. On this basis, T-Systems successfully continued its international growth strategy in 2009 and won a large number of tenders for cloud services, dynamic SAP services, and telecommunications and data services. Such large-scale contracts give T-Systems the critical mass it needs to continue offering multinational corporations in key markets attractive services locally.

Growth through targeted acquisition. In May 2009, T-Systems expanded its operations in Southwestern Europe with the acquisition of IT service provider Metrolico.

Cloud computing. In the future, corporate customers will obtain the software, storage capacity and bandwidth they need online. T-Systems already provides more than 300 corporate customers with IT services from the cloud and plans to continue growing in this area. From January 2010, T-Systems will also provide global computing center and SAP services for Philips. In the future, international T-Systems locations will provide services using a secure proprietary network – a "private cloud" – on an as-needed basis.

SAP services. T-Systems is the world leader for customized SAP solutions, as confirmed in studies by analysts at Forrester Research and AMR Research. T-Systems scored points for customer satisfaction, SAP expertise, and also revenue strength thanks also to large-scale deals with the Nuance Group and Komatsu in South Africa and the acquisition of SAP AG's hosting business in Europe.

Telecommunications and data services. Many large corporations such as Linde and Deutsche Post DHL already benefit from T-Systems' experience and expertise in telecommunications solutions and data services. In December 2009, T-Systems was commissioned by BP to migrate the petroleum giant's data network to the next generation, in the course of which it will provide all telecommunications services in over 50 countries.

Strategic partnerships. T-Systems participates in selected partnerships to safeguard its long-term competitiveness and global delivery capacity. T-Systems and Microsoft signed an exclusive partnership agreement to offer business software from the Internet for companies with over 5,000 users. T-Systems is the only German sales partner for such cloud services with Microsoft products. The partnership with Cognizant concluded back in 2008 resulted in orders for systems integration services, e.g., from the R&D unit of Continental's tire division.

Deutsche Telekom will continue to hold its own in the dynamic competitive environment in the 2010 financial year and concentrate on achieving its long-term vision of becoming a global leader in connected life and work. Nevertheless, the Group is using its success in implementing the "Focus, fix and grow" Group strategy with its four strategic areas of action and, not least, its more integrated structure acquired under the One Company approach as an opportunity to review and refine its strategy in the first quarter of 2010.

Group management.

Group management focuses on the expectations Deutsche Telekom's **four groups of stakeholders** (shareholders, providers of debt capital, employees, and the Group's "entrepreneurs within the enterprise") have of the Group:

1. Shareholders expect an appropriate, reliable return on their capital employed.
2. Providers of debt capital and banks expect an appropriate return and that Deutsche Telekom is able to repay its debts.
3. Employees expect long-term, secure jobs with prospects for the future and that any staff restructuring that may be necessary will be done in a socially responsible manner.
4. "Entrepreneurs within the enterprise" expect to be given sufficient investment funding to be able to shape Deutsche Telekom's future business and to develop products, innovations, and services for the customer.

The purpose of Group management is to strike a balance between these contrasting stakeholder expectations and interests so that sufficient funding is available for investment, socially responsible staff restructuring, debt repayment, and an attractive dividend policy.

The key performance indicators (KPIs) for **operational management** are revenue, EBIT, EBITDA, free cash flow, and the return on capital employed (ROCE).

The development of Deutsche Telekom's **revenue** is essential to ensuring its success and programs to improve the top line are a fundamental building block of the Company's future.

EBITDA corresponds to **EBIT** (profit/loss from operations) before depreciation, amortization and impairment losses. The Group uses the development of EBIT and EBITDA to measure its short-term operational performance and the success of its individual operations. The Group also uses the EBIT and EBITDA margins to show how these indicators develop in relation to revenue. These relative indicators make it possible to compare the earnings performance of profit-oriented units of different sizes. The goal is to reach or exceed competitors' EBIT or EBITDA margins.

Deutsche Telekom defines **free cash flow** as net cash from operating activities less net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment. It is the key measure used by providers of debt capital and equity as stakeholders in Deutsche Telekom. Free cash flow is indicative both of the Company's potential for further development, such as the generation of organic and inorganic growth, and of its ability to pay a dividend and repay debt.

A centralized free cash flow management unit set up in the 2009 financial year is responsible for transparency, steering, forecasting, and measuring performance. Centralized reporting and decentralized steering instruments were put in place and working capital projects carried out in 2009. These steps are the foundation for effective free cash flow management that will continue in the future. The focus is on additional steps to optimize working capital, further develop planning and forecasting instruments, and refine the steering process.

ROCE is the main benchmark for focusing all operational measures on superior value. It represents the result a company has achieved in relation to the assets employed in achieving that result. ROCE is calculated using the ratio of profit from operations after depreciation, amortization and impairment losses, and the ratio of taxes (i.e., net operating profit after taxes, or NOPAT) to the average value of the assets tied up for this purpose in the course of the year (i.e., net operating assets, or NOA). Deutsche Telekom's goal is to achieve or exceed the return targets imposed on it by providers of debt capital and equity on the basis of capital market requirements and thus to generate value. Deutsche Telekom measures return targets using the weighted average cost of capital (WACC).

A stable rating, the Company's gearing, and its relative debt are the relevant factors for fulfilling the requirements of debt capital providers and ensuring **financial stability.** Relative debt is the ratio of net debt to adjusted EBITDA, while gearing is the ratio of net debt to equity. Deutsche Telekom has set itself a target of between 2 and 2.5 for its relative debt and between 0.8 and 1.2 for its gearing. The Group's financial stability is also safeguarded by constantly maintaining a liquidity reserve (unused credit lines and cash deposits) that ensures the Group can repay its debts for at least the next 24 months.

The financial stability targets were reached in the 2009 financial year:*

Relative debt (net debt/adj. EBITDA)	2 – 2.5 x	✓
Equity ratio (%)	25 – 30	✓
Gearing	0.8 – 1.2	✓

* For the calculation of these KPIs, please refer to the section on "Development of business in the Group."

The economic environment.

World economy starting to stabilize // Intense competition in the markets

Global economic development.

By the end of 2009, the financial and capital markets had begun to stabilize, helping the global economy to recover from the severe recession witnessed in the first few months of the year. The measures adopted to support the banking sector, along with the highly expansive monetary and economic policies in most industrialized and emerging nations helped underpin a rapid recovery of the production and trade sectors. Compared with the previous quarters, global production had already picked up by the second and third quarters of 2009 and, according to estimates by the Kiel Institute for the World Economy (IfW), was growing at an annual rate of around 4 percent. The International Monetary Fund (IMF) also expects the global economy to grow by 3.9 percent in the 2010 financial year.

Unlike previous economic recoveries, the timing and geographic spread of the upturn varied enormously in 2009. In the emerging Asian nations in particular, led by China, production began to expand again at the start of 2009. Growing demand in Asia then helped kick-start the global economy in early 2009. Throughout the course of 2009, the upturn gathered momentum in more and more countries. In the second quarter of 2009, the real gross domestic product (GDP) had already increased in a number of countries while some industrialized nations were still experiencing a sharp contraction of production in various areas. In the third and fourth quarters of 2009, there were only a few countries where the economy did not expand compared with the previous quarters.

In 2009, the development of GDP varied considerably across the euro zone. According to the IfW's latest forecasts, the euro zone economy whose production had recovered most strongly by the end of 2009 was Slovakia; Slovenia, Austria and Portugal also recorded significant increases in production. GDP in the United States has also been growing since the third quarter of 2009; the very significant increase of 2.8 percent was the result of expansion-oriented economic policies and was mainly driven by private consumption.

Among the larger national economies in the euro zone, Germany and Italy in particular recorded low-level growth in the second half of 2009, whereas production declined once more in Spain and Greece, for example.

Seen over the entire year, the decrease in production was considerable in some industrialized countries. According to the Federal Statistical Office, provisional GDP figures for Germany in 2009 were down 5 percent on the previous year. Estimates put the decrease at 4.0 percent in the national economies of the euro zone overall, 3.3 percent in euro zone accession countries, and 4.6 percent in the United Kingdom. The decline in GDP in the United States is currently estimated at 2.5 percent.

Unemployment rose sharply in most industrialized countries in 2009, particularly in the United States, the United Kingdom and several euro zone economies. The German national economy is a positive exception, where unemployment increased only moderately thanks to the widespread introduction of short-time work.

The finance sector is still not fully stabilized, which is one of several significant risks facing the global economy. The restricted access to credit could rob the worldwide increase in production of its momentum. Moreover, the global economy may well face additional pressures as governments abandon their expansionary monetary and financial policies or existing programs run their course. Should governments decide to pursue a neutral monetary policy for the coming years and should high budget deficits force them to put their financial policy firmly on the consolidation track, inflation expectations could increase and capital market interest rates could rise quickly and slow any economic recovery.

The sharp rise in unemployment in industrialized countries may lead to demand-induced risks in the production and trade sectors in particular. Thanks to moderate pay rises the increase in labor costs has been curbed, but the continuing rise in unemployment may provoke marked cut-backs in private consumption.

Telecommunications market.

Toward the end of 2009, upward trends also became apparent in the information and telecommunications market. The Bitkom sector index of the German Association for Information Technology, Telecommunications and New Media (Bundesverband Informationswirtschaft, Telekommunikation und neue Medien – Bitkom) recorded an increase of 18 points for the ICT sector in the third quarter of 2009 – the strongest growth in the last five years. According to other recent Bitkom sector surveys, the IT and telecommunications sector has weathered the crisis very well compared to other sectors of the economy, with only one in three high-tech companies having suffered from the economic crisis.

The international delphi study, which surveyed 551 decision-makers from politics, industry, and science on key developments in their sectors, also shows that the IT and telecommunications sectors are emerging from the crisis with renewed strength. 58 percent of German industry observers firmly believe that the German IT sector will come out of the current economic crisis stronger than before. 37 percent of respondents expect the importance of the telecommunications sector to increase after the economic crisis. U.S. experts hold a similar view. 70 percent expect the IT sector to emerge from the crisis with renewed strength and 74 percent say the same of the telecommunications sector.

The high-tech companies surveyed by Bitkom see further positive economic signs for 2010. Four out of five companies expect demand to rise noticeably. Much of the growth may well come from Germany in 2010, as 92 percent of companies expect strong domestic demand. 62 percent of companies also expect international business to be strong, with Western Europe at the forefront, followed by Asia, Eastern Europe and the United States.

Germany.

According to the Federal Network Agency's Activity Report, revenue in Germany's telecommunications market is down 2.5 percent compared with the full 2008 financial year. This is mainly due to falling consumer prices caused by the increasing proliferation of complete packages and the fact that the market is essentially saturated. These effects are giving rise to predatory competition and consolidation attempts in the market. Providers are reducing costs by integrating key value creation processes, thus securing themselves a competitive edge. According to the Federal Network Agency, the number of employees in the German telecommunications market is decreasing.

Average consumer prices for telecommunications services in the fixed network and in mobile communications in Germany were once again lower than in the prior year. The price index for fixed-network and Internet telephony was down 2.3 percent, while rates for mobile telephony were 2.5 percent lower. Aside from pure call charges, prices for mobile data services also decreased.

The significance of the traditional telephone line is declining in the **fixed-network market** due to the rising number of new ways of making calls using the fixed network, such as IP telephony via DSL lines or the cable TV network. The total number of voice communications accesses in the fixed network has remained relatively constant in recent years.

The broadband market is still growing, albeit at a much slower pace than in the last few years, since demand for broadband lines is nearing saturation point. In terms of broadband coverage, Germany has now exceeded the European average. At the same time, however, demand for higher bandwidths continues to grow, driven by various factors including multimedia applications in ever-increasing quality (high definition) which often have to be transported via the network simultaneously.

The growing appeal of cable TV lines is due to the very large bandwidths that are already available – in some cases up to 100 Mbit/s – at attractive prices.

In Germany, there is a broad range of wholesale products for putting together broadband packages, including access to the unbundled local loop (ULL) line, bitstream access, WIA and WIA Gate. These products enable competitors, whether they have their own network infrastructure or not, to draw up business models at various points in the value chain. A rising number of alternative providers are able to offer their customers complete packages from a single source.

The Federal Government's broadband strategy for nationwide coverage in Germany set ambitious targets. High-performance broadband lines shall be available all around the country by the end of 2010 at the latest. By 2014, lines with transmission rates of at least 50 Mbit/s shall be available for 75 percent of households, the aim being to achieve full nationwide coverage as soon as possible. In addition, authorities at local, regional and federal level as well as industry are called upon to become involved in implementing these measures.

In the 2009 financial year, Germany's **mobile communications market** experienced intense competition and regulatory intervention. The reduction in termination rates on April 1, 2009 and the EU's roaming regulation effective July 1, 2009 impacted the revenues of all market players. Service revenues in the German mobile communications market contracted by approximately 2 percent in 2009.

T-Mobile Deutschland (TMD) maintained its strong position in this difficult market environment, expanding its service revenue market leadership in the 2009 financial year. In the market as a whole, the significant growth in non-voice (data and messaging) revenues continued, largely compensating for the decline in voice revenues. TMD is making a substantial contribution to the upturn in the non-voice market.

As subscriber market penetration continues to rise, competitors are increasingly concentrating on boosting customer retention. The increase in TMD's data revenues is also attributable to the rising number of high-value customer relationships, one of the core aims of the company's marketing strategy.

In addition, TMD benefited from machine-to-machine (M2M) technology in 2009 by entering into new strategic partnerships.

Deutsche Telekom is forecasting further market consolidation over the coming years, with new alliances allowing market players to leverage synergy effects. At the same time, however, the change in network structures (open access) will lead to the emergence of additional local players. With an extensive, innovative product portfolio comprising mobile and fixed-network products plus first-class customer service they will, however, increasingly set themselves apart from their competitors in terms of market and customer perception. The basic requirement is a high-performance infrastructure with a high bit rate so these products and services can be delivered quickly and at low cost. Deutsche Telekom is ideally equipped to respond to these market trends, thanks to initiatives such as the planned integration of fixed-network and mobile operations, ongoing improvements in essential service parameters since 2007 that are essential from the customers' perspective (e.g., availability, deadline compliance, first contact resolution rate), and a proposed infrastructure upgrade to create a next-generation network on the basis of optical fiber and LTE.

United States.

The United States operating segment (T-Mobile USA) competes with three major national providers, Verizon, AT&T, and Sprint, all having a significantly larger national customer base than T-Mobile USA, and various regional operators offering unlimited service. Verizon, AT&T and Sprint together represented an estimated 78 percent of the total United States mobile communications market in terms of customers as of September 30, 2009.

These companies have potential advantages through size, scale and bundling with other non-wireless communication services. These advantages could allow them to deliver services in a more cost-efficient manner and disproportionately increase their customer base, thereby negatively affecting T-Mobile USA's competitive position. Furthermore, AT&T has had a competitive advantage in the past two years with the exclusive distribution of the Apple iPhone. Verizon and AT&T, in particular, achieved proportionately higher net customer additions and increased their market share, which combined with pressure from the regional unlimited wireless carriers resulted in T-Mobile USA's slight decline in market share in 2009. Despite the competitive environment and economic climate, T-Mobile USA again recorded growth, albeit at a slower rate, in its customer base in 2009.

Europe.

Europe's mobile communications markets witnessed uneven development in 2009. In the largely saturated markets, market penetration was somewhat higher in Austria, the Netherlands, the Czech Republic, and Poland but down slightly in the United Kingdom (based on the most recent competition figures from the end of the third quarter of 2009). The ongoing intense price war and regulatory price cuts impacted on revenues in all markets. In spite of this difficult environment, revenue market shares expanded marginally in Austria, the Czech Republic, and Poland, while revenue market shares in the United Kingdom and the Netherlands contracted compared with the previous year.

The key competitive factors in the mobile communications markets are prices, contractual options, applications, network coverage, and quality of service. In addition, competition in mobile communications increased at European level, partly due to the introduction of Europe-wide services. As market penetration continues to rise, providers are increasingly concentrating on boosting customer retention.

Three main groups of providers compete for customers in the European mobile communications markets: network operators, resellers, and companies that buy network services and market them independently to third parties (MVNOs). A precondition for operating mobile communications networks, and hence for offering mobile communications services, is a frequency spectrum license issued by the public authorities. In Europe such licenses are normally awarded by the national authorities. The number of licenses limits the number of network operators in each market.

Southern and Eastern Europe.

The macroeconomic situation in Southern and Eastern Europe was considerably influenced by the global economic crisis. The total decrease in the GDP of individual countries was considerable. Initial forecasts for 2010, however, predict the first signs of overall economic recovery.

The economic crisis also had a negative impact on Deutsche Telekom's operations. Visitor and roaming revenues decreased as a result of fewer people traveling. Business was also impacted by intensified price competition, regulatory intervention and special taxes.

The product side, by contrast, showed a positive development. In mobile communications, attractive handsets, and in particular the Apple iPhone, were a growth driver in the high-value customer segment in a number of countries. The growing significance of mobile data services also became apparent. On the other hand, however, mobile operations were impacted in some countries by cuts in termination charges imposed by regulation and special mobile communications taxes. Intensifying price competition also contributed to revenue declines. The fixed-network business recorded positive trends on the broadband market, with IPTV business developing particularly well. By contrast, lines were lost in the traditional fixed-network business.

Systems Solutions.

2009 was completely dominated by the global economic crisis. Companies experienced a sharp increase in cost pressure. Many companies postponed IT upgrading and adjustment plans or trimmed their ICT budgets. This general trend impacted the individual segments of the market in very different ways.

The economic crisis had little effect on the telecommunications business, a market that has experienced intense competition and price erosion for years. In IT services, however, projects were thinned out or put off until 2010. This resulted in a rapid decline in the IT projects business, the core business of Systems Integration. The outsourcing business, on the other hand, continued to develop at a stable rate, though prices are increasingly coming under pressure.

Demand on the whole has continued to change, however, with customers increasingly interested in full-service solutions and new billing models that will improve processes within companies and help enhance value. Innovations such as cloud services (e.g., dynamic application services) and dynamic infrastructure services are changing the face of the market.

As the economy recovers in 2010 and beyond, analysts and industry associations expect the ICT market to start growing again, mainly driven by clearing the backlog of investments that has built up in recent years plus the transition to cloud services and consumption-based billing models.

Regulatory influence on Deutsche Telekom's business.

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

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

Deutsche Telekom was again subject to extensive regulation in its **fixed-network business** in 2009. Despite the deregulation of national calls in the retail market, telephone lines continue to be subject to ex-post regulation by the Federal Network Agency. According to the Federal Network Agency's current draft, the regulation of telephone lines is to be extended to include pure IP networks.

The most important wholesale markets, such as access to the unbundled local loop (ULL) line, interconnection, leased lines and bitstream access, remain subject to extensive ex-ante regulation and price approval by the Federal Network Agency. The roll-out of the fiber-optic network subjected Deutsche Telekom to new obligations. Firstly, access to VDSL networks is subject to obligations that have existed since 2007 and were refined in 2009 to cover passive infrastructure components of the new network, such as multi-functional street cabinets, underground cable conduits and dark fiber. Secondly, in a current draft consultation paper, the Federal Network Agency also provides for ex-post regulation of a bitstream-based wholesale product.

Besides sector-specific regulation, Deutsche Telekom is generally also subject to supervision by the Federal Cartel Office under competition law. In 2009, for example, the Federal Cartel Office launched investigations into the gap between the prices of regulated and unregulated wholesale products.

In spite of intense competition, mobile termination in the German **mobile communications market** will continue to be regulated ex-ante and therefore be subject to price control by the Federal Network Agency. In May 2009, the Agency conducted a survey among all mobile network operators about mobile VoIP and determined in September 2009 that no regulatory action was needed. It will nevertheless continue to monitor developments in this field and intervene where required.

With the disclosure of its **broadband strategy** in February 2009, the Federal Government set specific broadband goals and established "regulation geared to growth and innovation" as one of the key pillars. The new government's coalition agreement relies on modern regulation that does not just ensure low usage charges but also creates incentives for rapid, longer-term investments. The effect this will have on Deutsche Telekom will depend on the precise nature and implementation of this new approach. The Agency has already examined the matter in a relevant policy paper.

Regulation by the European Union. The European Union (EU) defines the fundamental principles of European telecommunications market regulation. The European Commission reviewed the directives and recommendations adopted in 2002 as part of the EU Review.

This reform package includes amendments to the existing legal framework that must be transposed into national law by mid-2011.

The revised directives will result in the creation of a new European regulatory body (BEREC), which will replace the existing European Regulators Group (ERG) and act as an advisor to the European Commission and the national regulatory authorities, especially in matters of regulatory harmonization. Furthermore, the revised directives generally permit a functional separation of network operation and services as an additional regulatory measure.

To promote investment in fiber-optic access networks, the revised legal framework provides for individual risk-sharing mechanisms between investors and the holders of access rights. To what extent these modified approaches will be able to promote investment in new access networks will depend to a large extent on the practical implementation and transposition into national law.

In other areas, the European Commission intervened directly in the pricing policy. The new "Second" Roaming Regulation dated June 18, 2009 will further reduce voice rates (for outgoing and incoming calls) for consumers step by step over the coming years. Wholesale data roaming prices will also gradually be cut, as will wholesale and consumer text messaging prices.

With its Recommendation on the Regulatory Treatment of Fixed and Mobile Termination Rates of May 2009, the European Commission is attempting to bring about further harmonization in the reduction of termination rates.

In October 2008, the European Commission launched a preliminary investigation into possible anti-competitive behavior of European mobile communications operators with regard to mobile VoIP services in order to verify whether operators are setting negative incentives for the use of VoIP services, thus creating competition barriers for VoIP providers. So far, the European Commission has not taken any further action.

International regulation. Deutsche Telekom is not only subject to regulation in Germany and the EU. Its subsidiaries abroad are also regulated by national authorities. For the fixed network, this applies in particular to subsidiaries in Hungary, Greece, Romania, Slovakia, and Croatia. In mobile communications, all subsidiaries are subject to regulation, in particular regarding termination charges and use of frequency spectrum.

In the United States, a requirement for operating mobile communications networks, and hence for offering mobile communication services, are frequency spectrum licenses issued by the Federal Communications Commission (FCC). Whereas these are normally awarded on a national basis in Europe, the United States has a large number of license areas. The number of licenses awarded limits the number of network operators in each market.

Development of business in the Group.

Proportion of revenue generated outside Germany continues to rise // Slight increase in adjusted EBITDA // Net profit EUR 0.4 billion // Free cash flow before dividend payments stable

Earnings situation of the Group.

The first-time full consolidation of the Greek company OTE was the primary driver behind the rise in **net revenue** in the 2009 financial year, contributing EUR 5.4 billion. Adjusted for the effects of changes in the composition of the Group totaling EUR 5.5 billion and negative exchange rate effects (EUR 0.4 billion), net revenue was below prior-year level.

While the Group's revenue in the United States and Southern and Eastern Europe operating segments increased, revenue in the Germany, Europe and Systems Solutions operating segments declined. Revenue in Deutsche Telekom's operating segments developed as follows:

The revenue increase in the United States operating segment was primarily the result of positive exchange rate effects from the translation of U.S. dollars to euros totaling EUR 0.8 billion. After elimination of these exchange rate effects, revenue decreased by EUR 0.3 billion, particularly as a result of lower revenue per customer.

Revenue in the Southern and Eastern Europe operating segment increased principally as a result of the full consolidation of OTE for the first time. Exchange rate effects reduced the revenue generated by the Southern and Eastern Europe operating segment by EUR 0.2 billion. The most significant effect was from the translation of Hungarian forints to euros.

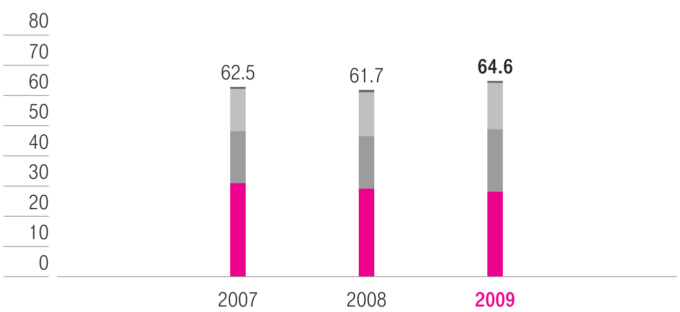
The decline in revenue in the Germany operating segment was primarily a result of intense competition and price intervention by the regulator.

Besides the continued high level of competitive pressure, the decline in revenue in the Europe operating segment was mainly attributable to exchange rate effects of EUR 0.9 billion from the translation of pounds sterling, Polish zlotys, and Czech korunas to euros.

Revenue in the Systems Solutions operating segment decreased, particularly within Germany, as a result of price erosion. Negative exchange rate effects had a further negative impact on revenue of EUR 0.1 billion.

The proportion of international revenue continued to increase, rising by 3.4 percentage points year-on-year to 56.6 percent of net revenue.

Breakdown of revenue by regions.
billions of €



Contribution of the operating segments to net revenue.

	2009 millions of €	Proportion of net revenue of the Group %	2008 millions of €	Proportion of net revenue of the Group %	Change millions of €	Change %	2007 millions of €
Net revenue	**64,602**	**100.0**	**61,666**	**100.0**	**2,936**	**4.8**	**62,516**
Germany	23,813	36.9	24,754	40.1	(941)	(3.8)	26,134
United States	15,457	23.9	14,942	24.3	515	3.4	14,050
Europe	9,486	14.7	10,798	17.5	(1,312)	(12.2)	10,675
Southern and Eastern Europe	9,510	14.7	4,497	7.3	5,013	n.a.	4,458
Systems Solutions	6,083	9.4	6,368	10.3	(285)	(4.5)	6,911
Group Headquarters & Shared Services	253	0.4	307	0.5	(54)	(17.6)	288

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

millions of €	2009	Special factors	2009 excluding special factors	2008	Special factors	2008 excluding special factors
Net revenue	64,602	(37)[b]	64,639	61,666		61,666
Cost of sales	(36,259)	(436)[c]	(35,823)	(34,592)	(937)[k]	(33,655)
Gross profit (loss)	**28,343**	**(473)**	**28,816**	**27,074**	**(937)**	**28,011**
Selling expenses	(15,863)	(83)[d]	(15,780)	(15,952)	(485)[l]	(15,467)
General and administrative expenses	(4,653)	(206)[e]	(4,447)	(4,821)	(224)[m]	(4,597)
Other operating income	1,504	86[f]	1,418	1,971	510[n]	1,461
Other operating expenses	(3,319)	(2,470)[g]	(849)	(1,232)	(644)[o]	(588)
Profit (loss) from operations (EBIT)	**6,012**	**(3,146)**	**9,158**	**7,040**	**(1,780)**	**8,820**
Profit (loss) from financial activities	(3,357)	(232)[h]	(3,125)	(3,588)	(652)[p]	(2,936)
Profit (loss) before income taxes	**2,655**	**(3,378)**	**6,033**	**3,452**	**(2,432)**	**5,884**
Income taxes	(1,782)	320[i]	(2,102)	(1,428)	461[q]	(1,889)
Profit after income taxes	**873**	**(3,058)**	**3,931**	**2,024**	**(1,971)**	**3,995**
Profit (loss) attributable to non-controlling interests	520	(21)	541	541	(28)	569
Net profit (loss)	**353**	**(3,037)**	**3,390**	**1,483**	**(1,943)**	**3,426**
Profit (loss) from operations (EBIT)	6,012	(3,146)	9,158	7,040	(1,780)	8,820
Depreciation, amortization and impairment losses	(13,894)	(2,384)[j]	(11,510)	(10,975)	(336)[r]	(10,639)
EBITDA	**19,906**	**(762)**	**20,668**	**18,015**	**(1,444)**	**19,459**
EBITDA margin (%)	**30.8**		**32.0**	**29.2**		**31.6**

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

Special factors in 2009:

[b] Revenue credit in the fourth quarter of 2009 for fixed-network support services performed in previous years in the Germany operating segment.

[c] Mainly expenses for staff-related measures in the Germany operating segment (EUR – 0.2 billion) and non-staff-related restructuring in the Systems Solutions operating segment (EUR – 0.1 billion). The Southern and Eastern Europe operating segment includes expenses for staff-related measures at Hellenic Telecommunications Organization S.A. (OTE), which are offset by proceeds from the involvement of the Hellenic Republic in a staff-related program at OTE.

[d] Mainly expenses for staff-related measures in the Germany operating segment (EUR – 0.1 billion). The Southern and Eastern Europe operating segment includes expenses for staff-related measures at OTE, which are offset by proceeds from the involvement of the Hellenic Republic in a staff-related program at OTE.

[e] Expenses for staff-related measures (EUR – 0.1 billion) and non-staff-related restructuring (EUR – 0.1 billion).

[f] Mainly gains on the disposal of Vivento Technical Services at Group Headquarters & Shared Services. Furthermore, income from the reversal of a provision resulting from the completion of the staff restructuring program and gain on the disposal of CAP Customer Advantage Program GmbH in the Germany operating segment.

[g] Mainly impairment losses recognized on the goodwill of the cash-generating unit T-Mobile UK in the Europe operating segment in the first quarter of 2009 (EUR – 1.8 billion) and on the goodwill of cash-generating units in the Southern and Eastern Europe operating segment (EUR – 0.5 billion).

[h] Mainly expenses for interest added back to provisions for staff-related measures (EUR – 0.2 billion).

[i] Mainly tax benefits from expenses for staff-related measures (EUR 0.2 billion) and non-staff-related restructuring (EUR 0.1 billion).

[j] Mainly impairment losses recognized on the goodwill of the cash-generating unit T-Mobile UK in the first quarter of 2009 and on the goodwill of cash-generating units in the Southern and Eastern Europe operating segment.

Special factors in 2008:

[k] Mainly expenses for staff-related measures in the Germany (EUR – 0.5 billion) and Systems Solutions (EUR – 0.2 billion) operating segments as well as non-staff-related restructuring in the Systems Solutions operating segment (EUR – 0.2 billion).

[l] Mainly expenses for staff-related measures in the Germany (EUR – 0.2 billion) and Systems Solutions (EUR – 0.1 billion) operating segments.

[m] Mainly expenses for staff-related measures in the Germany (EUR – 0.1 billion) and Systems Solutions (EUR – 0.1 billion) operating segments as well as at Group Headquarters & Shared Services (EUR 0.1 billion).

[n] Income from the disposal of Media&Broadcast in the Systems Solutions operating segment (EUR 0.5 billion).

[o] Mainly expenses related to the disposal of DeTe Immobilien (EUR – 0.3 billion) at Group Headquarters & Shared Services and impairment losses on goodwill in the Europe (EUR – 0.1 billion) and Southern and Eastern Europe (EUR – 0.2 billion) operating segments.

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

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

[r] Mainly impairment losses on goodwill in the Southern and Eastern Europe (EUR – 0.2 billion) and Europe (EUR – 0.1 billion) operating segments.

2007	Special factors	2007 excluding special factors
62,516		62,516
(35,337)	(1,252)[s]	(34,085)
27,179	**(1,252)**	**28,431**
(16,644)	(498)[t]	(16,146)
(5,133)	(701)[u]	(4,432)
1,645	419[v]	1,226
(1,761)	(769)[w]	(992)
5,286	**(2,801)**	**8,087**
(2,833)	(9)[x]	(2,824)
2,453	**(2,810)**	**5,263**
(1,373)	364[y]	(1,737)
1,080	**(2,446)**	**3,526**
509	(12)	521
571	**(2,434)**	**3,005**
5,286	(2,801)	8,087
(11,611)	(372)[z]	(11,239)
16,897	**(2,429)**	**19,326**
27.0		**30.9**

Special factors in 2007:

[s] Mainly expenses for staff-related measures and non-staff-related restructuring in the Germany (EUR – 0.7 billion), Systems Solutions (EUR – 0.3 billion), and Europe (EUR – 0.1 billion) operating segments.

[t] Expenses for staff-related measures and non-staff-related restructuring in the Germany (EUR – 0.4 billion) and Systems Solutions (EUR – 0.1 billion) operating segments.

[u] Mainly expenses for staff-related measures and non-staff-related restructuring at Group Headquarters & Shared Services (EUR – 0.5 billion) and in the Germany (EUR – 0.1 billion) and Systems Solutions (EUR – 0.1 billion) operating segments.

[v] Mainly gain on the disposal of T-Online France and T-Online Spain in the Germany operating segment (EUR 0.3 billion).

[w] Mainly expenses from the disposal of Vivento business units at Group Headquarters & Shared Services (EUR – 0.4 billion) and impairment losses on goodwill at T-Mobile Netherlands in connection with the subsequent recognition of tax loss carryforwards in the Europe operating segment (EUR – 0.3 billion).

[x] Mainly expenses for interest added back to provisions for staff-related measures. These were partially offset by income from the disposal of the remaining shares in Sireo at Group Headquarters & Shared Services as well as income attributable to other periods from associates and joint ventures accounted for using the equity method in the Southern and Eastern Europe operating segment.

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

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

Group EBITDA totaled EUR 19.9 billion, up from EUR 18.0 billion in the prior year. Compared with the prior year, the decrease of EUR 0.7 billion in special factors had a positive effect on the development of EBITDA. These mainly involved expenses in connection with staff-related measures and non-staff-related restructuring.

Group EBITDA adjusted for special factors amounted to EUR 20.7 billion compared with EUR 19.5 billion in the prior year. The increase is mainly attributable to the first-time full consolidation of OTE which contributed EUR 2.0 billion to adjusted EBITDA. While adjusted EBITDA generated by the United States and Southern and Eastern Europe operating segments increased, the Germany and Europe operating segments recorded decreases. Adjusted EBITDA in the operating segments developed as follows:

The increase in adjusted EBITDA in the United States operating segment was attributable to positive exchange rate effects. After elimination of these effects, adjusted EBITDA decreased, mainly as a result of lower revenue. Adjusted EBITDA in the Southern and Eastern Europe operating segment increased by EUR 1.8 billion as a result of the first-time full consolidation of OTE. Restructuring and efficiency enhancement measures offset the effect of the decline in revenue on the adjusted EBITDA of the Systems Solutions operating segment. The slight year-on-year decrease in the adjusted EBITDA of the Germany operating segment primarily resulted from a reduction in fixed-network revenue, which was not fully offset despite cost cutting. The Europe operating segment recorded a decrease in adjusted EBITDA as a result of negative exchange rate effects, as well as a decline in revenue at T-Mobile UK and PTC in particular.

Net profit decreased by EUR 1.1 billion in the 2009 financial year to EUR 0.4 billion, primarily as a result of impairment losses recognized on goodwill.

An impairment loss of EUR 1.8 billion was recognized on goodwill of the cash-generating unit T-Mobile UK in the Europe operating segment in the first quarter of 2009, mainly as a consequence of the significant economic slowdown, tough competition, and regulatory decisions in the United Kingdom. On the basis of information available at the reporting date and expectations with respect to the market and competitive environment, the impairment tests performed at the cash-generating units in the fourth quarter of 2009 identified the need for impairment losses totaling EUR 0.5 billion to be recognized in the Southern and Eastern Europe operating segment in particular and at the Europe operating segment. These impairment losses were largely due to the country-specific risk in connection with the current financial and national crisis in Greece. Other impairment losses were primarily recognized as a result of the negative developments in connection with the financial market crisis.

Financial position of the Group.

In 2009, total assets of the Deutsche Telekom Group increased by EUR 4.7 billion year-on-year to EUR 127.8 billion.

On the **assets** side, an increase was recorded primarily as a result of the acquisition of OTE, which was fully consolidated for the first time in the reporting year. In turn, this caused a reduction of EUR 3.4 billion in the amount shown in other non-current assets accounted for using the equity method in the statement of financial position. In addition, intangible assets decreased as a result of impairment losses on goodwill.

Liabilities were affected by an increase of EUR 4.6 billion in current and non-current financial liabilities. **Shareholders' equity** decreased by EUR 1.2 billion, primarily as a consequence of the dividend payment (EUR 4.3 billion).

Consolidated statement of financial position.

as of Dec. 31 of each year	2009 millions of €	2009 %	2008 millions of €	2008 %	Change millions of €	2007 millions of €	2007 %
Assets							
Current assets	**23,012**	**18.0**	**15,431**	**12.5**	**7,581**	**15,845**	**13.1**
Cash and cash equivalents	5,022	3.9	3,026	2.4	1,996	2,200	1.8
Trade and other receivables	6,757	5.3	7,393	6.0	(636)	7,696	6.4
Other assets	11,233	8.8	5,012	4.1	6,221	5,949	4.9
Non-current assets	**104,762**	**82.0**	**107,709**	**87.5**	**(2,947)**	**104,828**	**86.9**
Intangible assets	51,705	40.5	53,927	43.8	(2,222)	54,404	45.1
Property, plant and equipment	45,468	35.6	41,559	33.7	3,909	42,531	35.3
Other assets	7,589	5.9	12,223	10.0	(4,634)	7,893	6.5
Total assets	**127,774**	**100.0**	**123,140**	**100.0**	**4,634**	**120,673**	**100.0**
Liabilities and shareholders' equity							
Current liabilities	**24,794**	**19.4**	**24,242**	**19.7**	**552**	**22,504**	**18.6**
Financial liabilities	9,391	7.4	9,584	7.8	(193)	8,364	6.9
Trade and other payables	6,304	4.9	7,073	5.7	(769)	6,823	5.6
Provisions	3,369	2.6	3,437	2.8	(68)	3,365	2.8
Miscellaneous liabilities	5,730	4.5	4,148	3.4	1,582	3,952	3.3
Non-current liabilities	**61,043**	**47.8**	**55,786**	**45.3**	**5,257**	**52,924**	**43.9**
Financial liabilities	41,800	32.7	37,010	30.0	4,790	34,542	28.6
Provisions	8,340	6.5	8,461	6.9	(121)	9,019	7.5
Miscellaneous liabilities	10,903	8.6	10,315	8.4	588	9,363	7.8
Shareholders' equity	**41,937**	**32.8**	**43,112**	**35.0**	**(1,175)**	**45,245**	**37.5**
Total liabilities and shareholders' equity	**127,774**	**100.0**	**123,140**	**100.0**	**4,634**	**120,673**	**100.0**

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

The primary instruments used for the Group's medium- to long-term financing are bonds and medium-term notes (MTNs). Deutsche Telekom issued bonds for EUR 3.1 billion, MTNs for EUR 2.0 billion and promissory notes for EUR 0.2 billion. The individual terms and conditions for the most important financial instruments are explained in the notes to the consolidated financial statements under Note 9.

To guarantee the solvency and financial flexibility of Deutsche Telekom at all times, a liquidity reserve in the form of credit lines and, where necessary, cash is maintained. For this purpose, the Company has entered into standardized bilateral credit agreements with 24 banks amounting to a total of EUR 14.4 billion. The bilateral credit agreements have an original maturity of 36 months and can, after each period of 12 months, be extended by a further 12 months to renew the maturity of 36 months. No drawdowns under these agreements had been made as of December 31, 2009.

Net debt increased by EUR 2.8 billion year-on-year to EUR 40.9 billion, primarily as a result of the first-time full consolidation of OTE in February 2009 and the exercise of the Hellenic Republic's put option I for a further 5 percent of the shares in OTE effective July 31, 2009, dividend payments, and the acquisition of Zapp. The positive free cash flow of EUR 7.0 billion had a decreasing effect on net debt.

The rating of Deutsche Telekom AG.

as of Dec. 31 of each year	Standard & Poor's	Moody's	Fitch
Long-term rating			
2007	A –	A3	A –
2008	BBB+	Baa1	A –
2009	**BBB+**	**Baa1**	**BBB+**
Short-term rating	A – 2	P – 2	F2
Outlook	stable	stable	stable

Net debt.*

millions of €, as of Dec. 31 of each year	2009	2008	2007
Bonds	38,508	34,302	32,294
Liabilities to banks	4,718	4,222	4,260
Liabilities to non-banks from promissory notes	1,057	887	690
Derivative financial liabilities	924	1,053	977
Lease liabilities	1,909	2,009	2,139
Other financial liabilities	1,001	974	502
Gross debt	**48,117**	**43,447**	**40,862**
Cash and cash equivalents	5,022	3,026	2,200
Available-for-sale/held-for-trading financial assets	162	101	75
Derivative financial assets	1,048	1,598	433
Other financial assets	974	564	918
Net debt	**40,911**	**38,158**	**37,236**

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

Financial flexibility.*

as of Dec. 31 of each year	2009	2008	2007
Relative debt			
Net debt / EBITDA (adjusted for special factors)	2.0	2.0	1.9
Equity ratio	30.2	32.3	34.7
Gearing			
Net debt / Shareholders' equity	1.0	0.9	0.8

* Calculated and rounded on the basis of millions for greater precision. KPI definitions may differ from those used by third parties.

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

Condensed consolidated statement of cash flows.

millions of €	2009	2008	2007
Net cash from operating activities	**15,795**	**15,368**	**13,714**
Cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment	(9,202)	(8,707)	(8,015)
Free cash flow before proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	**6,593**	**6,661**	**5,699**
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	376	372	761
Adjustment [a]	–	–	121
Free cash flow (before dividend payments) [b]	**6,969**	**7,033**	**6,581**
Net cash used in investing activities	**(8,649)**	**(11,384)**	**(8,054)**
Net cash used in financing activities	**(5,123)**	**(3,097)**	**(6,125)**
Effect of exchange rate changes on cash and cash equivalents	58	(61)	(100)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	(85)	–	–
Net increase (decrease) in cash and cash equivalents	1,996	826	(565)
Cash and cash equivalents	5,022	3,026	2,200

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

Net cash from operating activities. Net cash from operating activities amounted to EUR 15.8 billion in the 2009 financial year, an increase of EUR 0.4 billion over the prior year. While cash generated from operations improved by EUR 0.6 billion, net interest paid increased by EUR 0.2 billion.

The increase in cash generated from operations is the result of several factors, some of which offset each other. The Group's EBITDA increased by EUR 1.9 billion year-on-year. Taking into consideration the effects of the disposal of fully consolidated companies, this increase is EUR 0.4 billion higher. The change in assets carried as working capital increased by EUR 1.7 billion, mainly as a result of inflows of EUR 0.8 billion from the sale of receivables (factoring) and as a result of the decrease of EUR 0.5 billion in trade receivables (excluding receivables from construction contracts) which is due to improved receivables management. By contrast, the changes in provisions and other liabilities carried as working capital decreased by EUR 3.1 billion year-on-year, mainly due to lower additions to provisions for restructuring measures in combination with higher cash outflows for restructuring measures, increased utilization of provisions for personnel costs and provisions for litigation risks, as well as a reduction in trade payables. In addition, income tax payments increased by EUR 0.4 billion year-on-year, in particular as a result of the first-time full consolidation of OTE from February 2009. The increase in net interest paid is also largely attributable to this effect.

Net cash used in investing activities. Net cash used in investing activities totaled EUR 8.6 billion as compared with EUR 11.4 billion in the previous year. This development was mainly due to the addition of OTE's cash and cash equivalents amounting to EUR 1.6 billion as part of the first-time full consolidation of OTE, whereas the prior year saw outflows for the acquisition of shares in OTE amounting to EUR 3.1 billion. Cash outflows for intangible assets and property, plant and equipment increased by EUR 0.5 billion in 2009. In addition, cash outflows were impacted by EUR 0.3 billion for the deposit of cash collateral in 2009 for the acquisition of Strato AG, whereas in 2008 net cash used in investing activities was positively impacted by EUR 0.6 billion cash inflows from short-term investments.

The net cash outflows for investments in fully consolidated companies and business units increased by EUR 0.6 billion. Whereas cash outflows amounting to EUR 1.0 billion for the acquisition of SunCom and cash inflows of EUR 0.8 billion from the sale of Media&Broadcast were recorded in the 2008 financial year, the 2009 financial year saw cash outflows of EUR 1.0 billion in particular for the acquisition of additional shares in OTE in connection with put option I, and the acquisition of Zapp, and cash inflows of EUR 0.1 billion from the sale of Cosmofon.

Net cash used in financing activities. Net cash used in financing activities amounted to EUR 5.1 billion in the reporting period, compared with EUR 3.1 billion in the prior year.

This change was mostly attributable to EUR 1.1 billion lower year-on-year proceeds from the issue of non-current financial liabilities and EUR 0.6 billion higher net repayments of current financial liabilities. In addition, dividend payments increased by EUR 0.3 billion compared with 2008, in particular as a result of the first-time full consolidation of OTE in February 2009 and higher dividend payments at Slovak Telekom. The considerable decrease in issuance and repayment of current financial liabilities year-on-year is primarily attributable to the issuance of commercial paper in 2009 to finance short-term liquidity needs. This is contrasted by the drawdown of several short-term credit lines in the prior year.

The issue of financial liabilities in the 2009 financial year consisted in particular of the issue of a Eurobond for EUR 2.0 billion, medium-term notes for EUR 2.0 billion, U.S. dollar bonds for EUR 1.1 billion, and promissory notes for EUR 0.2 billion. Medium-term notes for an amount of EUR 3.7 billion, a U.S. dollar bond for an amount of EUR 0.7 billion, commercial paper for a net amount of EUR 0.6 billion, a medium-term note of OTE for an amount of EUR 0.6 billion and promissory notes and other loans for EUR 0.4 billion were repaid during the same period.

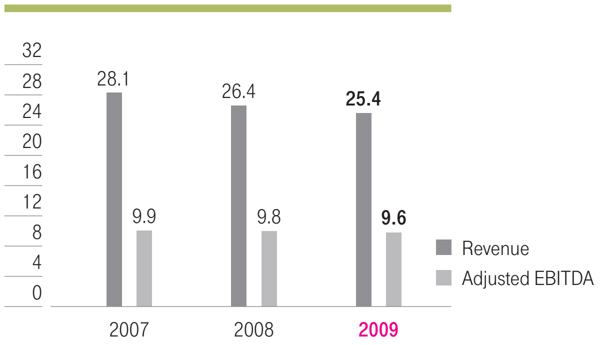
Statement on business development in 2009.

Despite a difficult economic environment, Deutsche Telekom achieved the 2009 guidance after it had been revised in April. Efficiency enhancements and saving initiatives continue to bear fruit. The Group's adjusted EBITDA increased and free cash flow remained stable. These results confirm Deutsche Telekom's successful continuation of its "Focus, fix and grow" strategy. The Board of Management therefore proposes a dividend of EUR 0.78 for each no par value share carrying dividend rights.

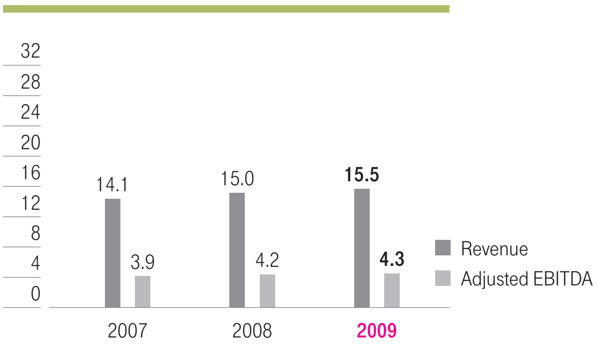
Development of business in the operating segments.

Revenue and adjusted EBITDA.

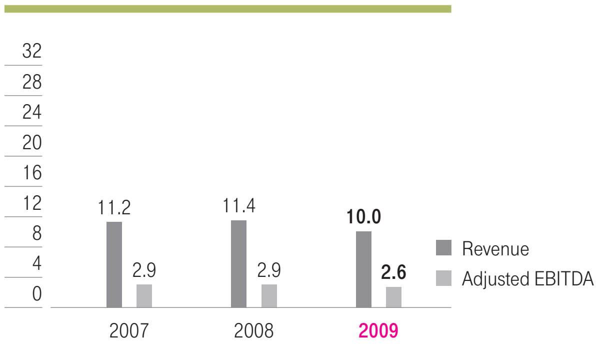
Germany.
billions of €



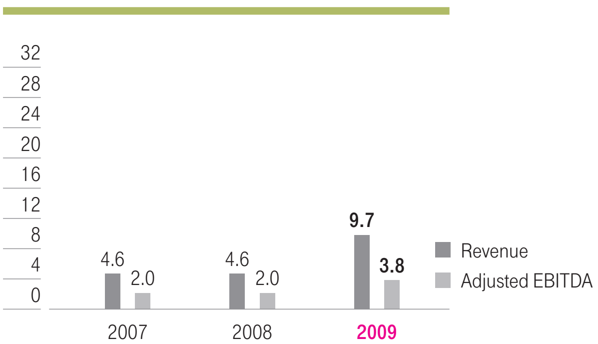
United States.
billions of €



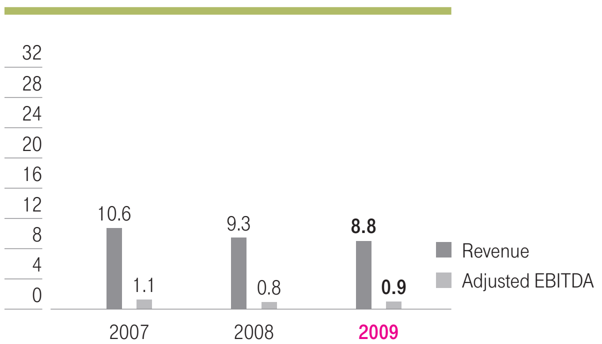
Europe.
billions of €



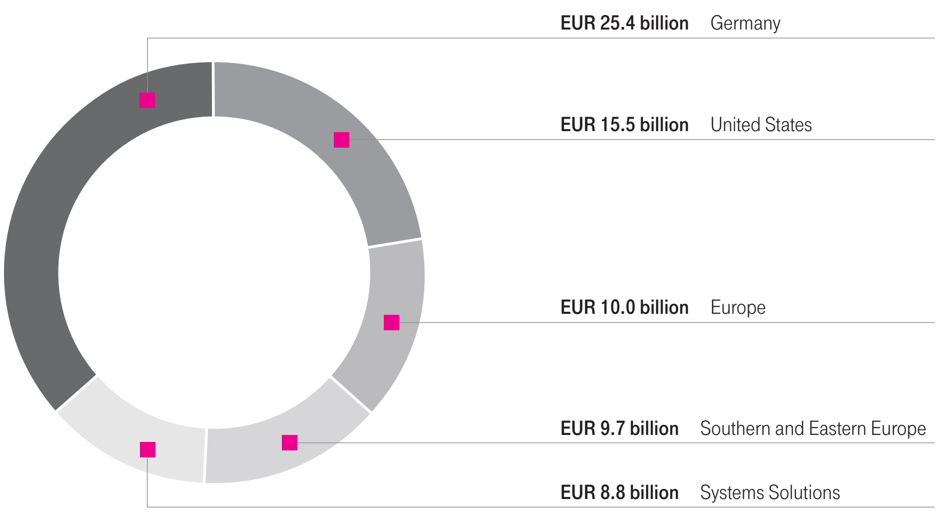
Southern and Eastern Europe.
billions of €



Systems Solutions.
billions of €

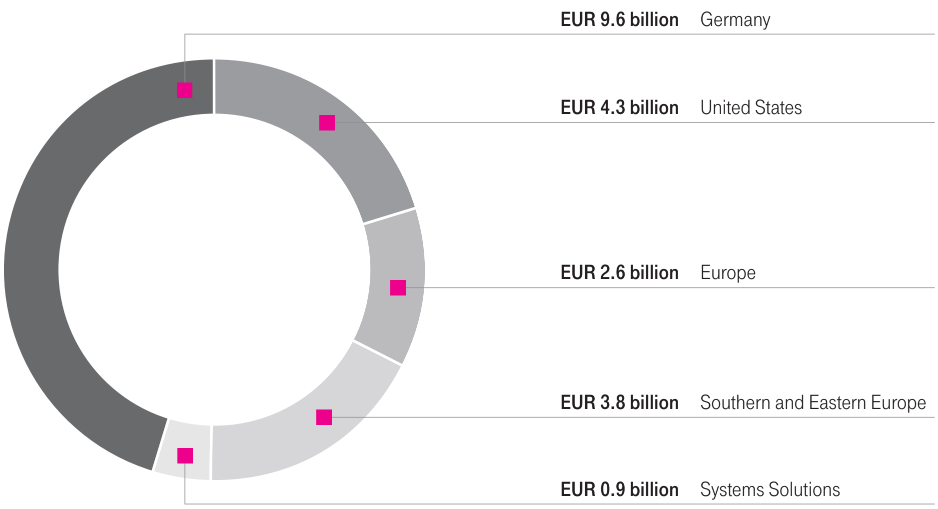


Share of operating segments in net revenue of the Group in 2009.



Share of Group Headquarters & Shared Services of EUR 2.4 billion and reconciliation of EUR –7.2 billion.

Share of operating segments in adjusted EBITDA in 2009.



Share of Group Headquarters & Shared Services of EUR – 0.3 billion and reconciliation of EUR – 0.2 billion.

Germany.

Broadband market share retained // Data revenues increased // Mobile market leadership extended

Customer development and selected KPIs.

	Dec. 31, 2009 millions	Dec. 31, 2008 millions	Change millions	Change %	Dec. 31, 2007 millions
Fixed network					
Fixed-network lines [a]	26.2	28.3	(2.1)	(7.4)	30.8
Retail broadband lines [a]	11.5	10.6	0.9	8.5	9.0
Wholesale bundled lines [b]	1.6	2.5	(0.9)	(36.0)	3.5
ULLs [c]	9.1	8.3	0.8	9.6	6.4
Wholesale unbundled lines [d]	0.6	0.2	0.4	n.a.	0.0
Mobile communications					
Mobile customers [e,f]	39.1	39.1	0.0	0.0	36.0

Totals were calculated on the basis of precise figures and rounded to millions. Percentages were calculated on the basis of figures shown. The Business Customers unit was transferred from the Systems Solutions operating segment into the former Broadband/Fixed Network operating segment effective January 1, 2009 and has been reported under the Germany operating segment since July 1, 2009. All prior-year figures have been adjusted for better comparability.

[a] Lines in operation excluding internal use and public telecommunications systems, including IP-based lines and congstar.
[b] Sale of broadband lines based on DSL technology to alternative providers outside Deutsche Telekom, including bundled IP-Bitstream Access (IP-BSA). In the case of IP-BSA, Deutsche Telekom leases DSL lines to the competitor and transports the datastream carried over these lines.
[c] Unbundled local loop lines: Deutsche Telekom wholesale service that can be leased by alternative telecommunications operators without upstream technical equipment in order to offer their own customers a telephone or DSL line.
[d] Wholesale unbundled lines (e.g., IP-BSA Stand Alone): wholesale service not bundled with a PSTN line. Allows competitors to offer an all-IP product range. Including IP-BSA Stand Alone.
[e] One mobile communications card corresponds to one customer.
[f] Due to various rulings on the expiry of prepaid credit and the limited validity of prepaid cards, T-Mobile Deutschland changed its terms of contract and, as a result, its deactivation policy in the first quarter of 2007 in favor of its prepay customers. These customers can now use their prepaid credit longer than before. As a result of the change in the terms of contract, prepaid contracts no longer end automatically, but run for an unlimited duration and can be terminated by the customer at any time and by T-Mobile with one month's notice. T-Mobile Deutschland reserves the right to make use of this right of termination and to deactivate cards in the system.

Business in Germany made good progress despite the challenging economic environment, regulatory requirements, and intense competition, with a market share of new broadband customers of 45 percent and market leadership in service revenues extended in the mobile communications sector.

Fixed network. As growth on the broadband market in Germany became more restrained in the 2009 financial year, the number of retail lines increased by 0.9 million year-on-year to a total of 11.5 million. Since 2007, Deutsche Telekom's broadband market share has remained stable at around 46 percent (according to internal calculations) despite increasingly intense competition. More than 1.0 million Entertain packages had been sold and around 0.8 million connected by the end of 2009.

Fixed-network line losses in Germany totaled 2.1 million in the 2009 financial year, 0.4 million lines down on the prior year. The line losses include fixed-network lines previously operated by Deutsche Telekom but now run as IP-based lines by other providers on the basis of the unbundled local loop (ULL) line. Other line losses are mainly attributable to customers switching to cable companies, alternative telecommunications carriers, and mobile operators.

Growth in ULLs slowed down compared with the previous year. In 2009, the number of ULLs rose by 0.8 million to 9.1 million. The decrease of 0.9 million in wholesale bundled lines (e.g., Resale/IP-BSA lines) since the end of 2008 has partially been offset by the growth in wholesale unbundled lines (e.g., IP-BSA Stand Alone lines), around 0.6 million of which had been sold between the market launch in mid-2008 and the end of 2009.

Mobile communications. In the German mobile communications market, which is saturated in terms of customers with a penetration rate of approximately 132 percent, the focus is mainly on value-driven growth.

The higher-value contract customer business developed positively in the 2009 financial year. The number of customers increased by 1.1 percent year-on-year to 17.2 million. The share of contract customers increased to 44 percent of the total customer base compared with the figure at the end of the previous year, encouraged by attractive smartphones like the Apple iPhone. The proportion of customers with integrated flat-rate plans for telephony and data usage increased substantially.

The focus on value-driven growth is also reflected in the stabilization of average revenue and increased usage per customer compared with the prior year.

Development of operations.

	2009 millions of €	2008 millions of €	Change millions of €	Change %	2007 millions of €
Total revenue	25,423	26,400	(977)	(3.7)	28,116
Of which: fixed network	18,736	19,782	(1,046)	(5.3)	21,309
Of which: mobile communications	8,109	8,069	40	0.5	8,293
EBIT (profit from operations)	5,062	4,624	438	9.5	4,691
EBIT margin (%)	19.9	17.5		2.4	16.7
Depreciation, amortization and impairment losses	(4,196)	(4,180)	(16)	(0.4)	(4,341)
EBITDA	9,258	8,804	454	5.2	9,032
Special factors affecting EBITDA	(349)	(960)	611	63.6	(903)
Adjusted EBITDA [a]	9,607	9,764	(157)	(1.6)	9,935
Of which: fixed network	6,247	6,400	(153)	(2.4)	6,645
Of which: mobile communications	3,373	3,364	9	0.3	3,292
Adjusted EBITDA margin (%)	37.7	37.0			35.3
Of which: fixed network	33.3	32.4			31.2
Of which: mobile communications	41.6	41.7			39.7
Cash capex [b]	(3,158)	(3,038)	(120)	(3.9)	(3,014)
Number of employees [c]	84,584	89,961	(5,377)	(6.0)	94,460
Of which: fixed network	78,507	83,932	(5,425)	(6.5)	86,155
Of which: mobile communications	6,077	6,029	48	0.8	8,305

The contributions of the operating segments generally show the unconsolidated view, and do not take into consideration consolidation effects at the operating segment level.
Totals were calculated on the basis of precise figures and rounded to millions. Percentages were calculated on the basis of figures shown.
Effective July 1, 2009 the Germany operating segment includes the fixed-network and mobile communications business. The fixed-network figures include PASM (Power and Air Condition Solution Management GmbH & Co. KG) without Global Network, International Carrier Services & Solutions (ICSS) and the share of Deutsche Telekom AG in the Product House. The mobile communications figures include DFMG (Deutsche Funkturm GmbH). All prior-year figures have been adjusted for better comparability.

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

Total revenue.

Total revenue in the Germany operating segment decreased by 3.7 percent year-on-year to EUR 25.4 billion, mainly caused by the continuing losses of fixed-network lines due to competition and by regulatory pricing measures in fixed-network and mobile communications.

Fixed network. Total revenue in the fixed network declined by 5.3 percent year-on-year to EUR 18.7 billion in the full year 2009, compared with a decline of 7.2 percent in the 2008 financial year. The decrease in revenue was thus 1.9 percentage points lower year-on-year. The increased number of complete broadband packages and unbundled local loop lines had a positive effect on the development of revenue.

This volume growth only partially offset the decline in revenue, however, which was mainly attributable to continuing line losses resulting from increased competition, falling usage-related charges, and volume-driven decreases in revenues from resale and network services and from interconnection services.

Mobile communications. In the 2009 financial year, the operating segment maintained and extended its market leadership in service revenues. In addition, continued growth in non-voice (data and messaging) revenue had a positive effect. Non-voice revenue increased as a proportion of service revenues by 4 percentage points in the course of one year. Data revenues developed positively in the 2009 financial year, increasing 46 percent year-on-year. For the overall market in Germany, Deutsche Telekom estimates the mobile data revenue growth rate to be 25 to 30 percent in 2009.

Total mobile communications revenue rose by EUR 40 million or 0.5 percent to EUR 8.1 billion. The increase in revenue was partially offset by more restrictive regulation, in particular lower termination charges from April 1, 2009, new EU roaming regulation as of July 1, 2009, and continuing intense price competition. The national roaming agreement with O_2 expired at the end of 2009. The national roaming revenues generated with O_2 in 2009 were on a par with the prior-year level.

EBIT, adjusted EBITDA.

EBIT in the Germany operating segment increased by 9.5 percent year-on-year to approximately EUR 5.1 billion. The reduction in revenue was compensated by cost savings and fewer special factors. Adjusted EBITDA totaled EUR 9.6 billion in the 2009 financial year. The year-on-year decrease of around EUR 0.2 billion was caused primarily by a reduction in fixed-network revenue, which was not fully offset despite systematic cost cutting.

In the fixed network, adjusted EBITDA of EUR 6.2 billion was generated in the 2009 financial year; the adjusted EBITDA margin rose 0.9 percentage points year-on-year to 33.3 percent. Lower revenue-driven costs and reduced costs in particular for third-party services, rental, energy, IT and personnel made up for a major part of the decrease in revenue in the traditional fixed-network business.

Adjusted EBITDA and the adjusted EBITDA margin remained on a par with the prior-year level in the 2009 financial year although regulation and the consistently high level of competition in Germany had a negative effect on EBITDA. Factoring out the disposal of an intangible asset in the third quarter of the prior year (positive EBITDA effect of EUR 0.1 billion), both adjusted EBITDA and the EBITDA margin increased in 2009.

Cash capex.

Cash capex increased EUR 0.1 billion year-on-year in the 2009 reporting year to EUR 3.2 billion, mainly as a result of capital expenditures in the fixed network for the IP transport platform, broadband roll-out and IT systems. Cash capex in mobile communications mainly resulted from capital expenditures for the network build-out, mainly UMTS sites, capacity increases, and investments in IT products.

Personnel.

The average headcount decreased by 6 percent year-on-year to 84,584 employees, primarily due to staff reductions in the fixed-network area.

United States.

3G network build-out // Increase in data revenue

Customer development.

	Dec. 31, 2009 millions	Dec. 31, 2008 millions	Change millions	Change %	Dec. 31, 2007 millions
United States					
Mobile customers *	33.8	32.8	1.0	3.0	29.8

* One mobile communications card corresponds to one customer. The total was calculated on the basis of precise figures and rounded to millions. Percentages were calculated on the basis of figures shown.

The United States operating segment increased its customer base during the year. The number of customers at the end of 2009 increased to 33.8 million with a total of 1.0 million net additions. Net customer additions decreased year-on-year, with strong growth in wholesale (including MVNOs and machine-to-machine customers) which were partially offset by losses in T-Mobile USA branded customers. Blended churn increased to 3.2 percent from 2.9 percent due to competitive intensity during the year, including handset innovation and market launches by regional unlimited wireless carriers.

Development of operations.

	2009 millions of €	2008 millions of €	Change millions of €	Change %	2007 millions of €
Total revenue	15,471	14,957	514	3.4	14,075
EBIT (profit from operations)	2,233	2,299	(66)	(2.9)	2,017
EBIT margin (%)	14.4	15.4			14.3
Depreciation, amortization and impairment losses	(2,028)	(1,884)	(144)	(7.6)	(1,892)
EBITDA [a]	4,261	4,183	78	1.9	3,909
Special factors affecting EBITDA [a]	–	(57)	n.a.	n.a.	–
Adjusted EBITDA [a]	4,261	4,240	21	0.5	3,909
Adjusted EBITDA margin [a] (%)	27.5	28.3			27.8
Cash capex	(2,666)	(2,540)	(126)	(5.0)	(1,958)
Number of employees [b]	38,231	36,076	2,155	6.0	31,655

[a] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses.
For a detailed explanation of the special factors affecting EBITDA, adjusted EBITDA, and the adjusted EBITDA margin, please refer to the section on “Development of business in the Group.”
[b] Average of all employees.

Total revenue.

Total revenue in the United States operating segment grew by 3.4 percent. However, revenue declined slightly when measured in local currency (–1.6 percent), due primarily to the decrease in T-Mobile USA branded customers. Additionally, variable voice revenues decreased due to lower roaming revenues and an increase in the proportion of customers on unlimited rate plans. These decreases were partially offset by strong growth in data revenue, as customers adopt 3G converged devices and utilize Web access plans.

EBIT, adjusted EBITDA.

Adjusted EBITDA rose by EUR 21 million year-on-year driven by changes in the currency exchange rates. In U.S. dollars, adjusted EBITDA decreased year-on-year primarily due to lower revenues. In addition, higher cost of sales related to the 3G network were more than offset by lower commissions costs resulting from fewer T-Mobile USA retail customer gross additions and various cost saving initiatives. EBIT declined by EUR 66 million year-on-year driven by the factors described above including changes in the currency exchange rate, and higher network-related depreciation expense.

Cash capex.

Cash capex increased year-on-year to EUR 2.7 billion from EUR 2.5 billion. In U.S. dollars, cash capex decreased slightly year-on-year driven by decreases in information technology and spectrum purchases. Network-related capex remained consistent year-on-year due to the continued focus on the improvement of network quality and coverage as well as the roll-out of the 3G (UMTS/HSPA) network. By the end of 2009, T-Mobile USA’s 3G network covered over 205 million people, almost doubling 3G coverage in 2009.

Personnel.

The average number of employees rose year-on-year, related to retail distribution growth. By the end of 2009, T-Mobile USA had over 2,000 branded retail locations.

Europe.

Pleasing development in contract customer business // Increase in non-voice revenues

Customer development.

	Dec. 31, 2009 millions	Dec. 31, 2008 millions	Change millions	Change %	Dec. 31, 2007 millions
Europe [a]	44.2	44.2	0.0	0.0	43.7
Of which: T-Mobile UK [b]	17.2	16.8	0.4	2.4	17.3
Of which:T-Mobile NL [c]	4.6	5.3	(0.7)	(13.2)	4.9
Of which: PTC	13.5	13.3	0.2	1.5	13.0
Of which: T-Mobile CZ	5.5	5.4	0.1	1.9	5.3
Of which: T-Mobile A	3.4	3.4	0.0	0.0	3.3

[a] One mobile communications card corresponds to one customer. The total was calculated on the basis of precise figures and rounded to millions. Percentages were calculated on the basis of figures shown.
For a detailed explanation of "SIM card," please refer to the Glossary.
[b] Including Virgin Mobile.
[c] The consolidation of Online (formerly Orange Nederland Breedband B.V.) in the second quarter of 2008 has no effect on the number of customers of the T-Mobile Netherlands group, as only mobile communications customers are shown.

In the Europe operating segment, the number of customers at the end of the 2009 financial year remained stable at the prior-year level. Slight customer growth in the mobile communications companies in the United Kingdom, Poland and the Czech Republic fully compensated the decline in the number of customers at T-Mobile Netherlands.

PTC, T-Mobile CZ and T-Mobile Austria each recorded growth in their contract customer business, sufficient to fully offset, or even more than offset, the slight decline in their respective prepay business.

The year-on-year increase in the total customer base at T-Mobile UK was mainly attributable to the fact that higher numbers of T-Mobile UK's own customers in the prepay sector compensated for the decrease in Virgin Mobile customers. Virgin Mobile customers are assigned to the prepay sector at T-Mobile UK. T-Mobile UK also recorded a slight year-on-year increase in the number of contract customers.

The decrease in the total customer base at T-Mobile Netherlands was related to the prepay sector. Inactive customers were added to the customer base due to the acquisition of Orange Nederland and the migration in the 2009 financial year of Orange Nederland customers to T-Mobile's customer base. After a period of inactivity of 180 days, these customers were churned in the fourth quarter of 2009, substantially reducing prepay customer figures.

Overall, the high-value contract customer business generated satisfactory results in 2009, again driving growth in the overall customer base. All mobile communications companies contributed to the increase in the number of contract customers. The percentage of contract customers in the total customer base increased at all companies except T-Mobile UK. The percentage of contract customers in the total customer base for the Europe operating segment rose by around 2 percentage points compared with the end of 2008 to 41.0 percent (including Virgin Mobile).

This sound development is due to the focused customer acquisition strategy which appeals to high-value contract customers with calling plans with minute buckets, flat-rate plans, and new hardware offered in conjunction with a fixed-term contract. In addition, innovative mobile Internet services installed on high-performance cell phones and introduced as part of the connected life and work strategy successfully attracted new groups of customers. The launch of the T-Mobile G1, the T-Mobile G2 Touch, and the Apple iPhone was a strong boost to the contract customer business. The market launch in October 2009 of the T-Mobile Pulse, the third Android-based smartphone, marked a further milestone in the T-Mobile product portfolio and had a positive impact on net additions in the fourth quarter of 2009.

Development of operations.

	2009 millions of €	2008 millions of €	Change millions of €	Change %	2007 millions of €
Total revenue	10,034	11,354	(1,320)	(11.6)	11,234
Of which: T-Mobile UK	3,390	4,051	(661)	(16.3)	4,812
Of which: T-Mobile NL[a]	1,807	1,806	1	0.1	1,318
Of which: PTC	1,757	2,260	(503)	(22.3)	1,965
Of which: T-Mobile CZ	1,191	1,329	(138)	(10.4)	1,171
Of which: T-Mobile A	1,038	1,085	(47)	(4.3)	1,182
Of which: Other[b]	909	896	13	1.5	858
EBIT (profit (loss) from operations)	(905)	496	(1,401)	n.a.	86
EBIT margin (%)	(9.0)	4.4			0.8
Depreciation, amortization and impairment losses	(3,411)	(2,357)	(1,054)	(44.7)	(2,700)
EBITDA[c]	2,506	2,853	(347)	(12.2)	2,786
Special factors affecting EBITDA[c]	(51)	(86)	35	40.7	(130)
Adjusted EBITDA[c]	2,557	2,939	(382)	(13.0)	2,916
Of which: T-Mobile UK	611	888	(277)	(31.2)	1,183
Of which: T-Mobile NL[a]	430	352	78	22.2	279
Of which: PTC	616	785	(169)	(21.5)	646
Of which: T-Mobile CZ	614	634	(20)	(3.2)	513
Of which: T-Mobile A	283	285	(2)	(0.7)	336
Of which: Other[d]	1	(12)	13	n.a.	(32)
Adjusted EBITDA margin[c] (%)	25.5	25.9			26.0
Cash capex[e]	(879)	(1,152)	273	23.7	(1,148)
Number of employees[f]	18,105	17,945	160	0.9	17,189

The contributions of the national companies generally correspond to their respective unconsolidated financial statements and do not take into consideration consolidation effects at the operating segment level.

[a] Including consolidation of Orange Nederland from October 2007 and Online Netherlands from June 2008.
[b] “Other”: primarily International Carrier Sales and Solutions (ICSS).
[c] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses.
For a detailed explanation of the special factors affecting EBITDA, adjusted EBITDA, and the adjusted EBITDA margin, please refer to the section on “Development of business in the Group.”
[d] “Other”: primarily ICSS, headquarters of the Europe operating segment, T-Mobile International UK.
[e] Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the statement of cash flows.
[f] Average of all employees.

Total revenue.

Total revenue in the Europe operating segment decreased by EUR 1.3 billion or 11.6 percent year-on-year. 68 percent of the revenue decline were due to negative exchange rate effects from the Polish zloty, the pound sterling and the Czech koruna. Revenue in the Europe operating segment in 2009 was also negatively affected by the strained economic situation, continuing high competitive pressure and regulatory intervention.

Adjusted for exchange rate fluctuations, PTC did not achieve the same revenue figure as in the previous year, which was primarily attributable to a regulation-induced reduction in revenue from termination charges. There is a similar picture at T-Mobile Austria, where falling revenues from termination charges were also the main reason for the decline in revenue. The reduction in revenue at T-Mobile UK and T-Mobile CZ – after elimination of exchange rate effects – was largely related to service revenues in the prepay sector. Regulatory decisions and continued intense competition also impacted revenue. At T-Mobile Netherlands, revenue remained stable at the prior-year level. Although T-Mobile Netherlands was also affected by a regulation-induced reduction in revenues from termination charges, this decline was offset by revenue growth in broadband fixed-network business at Online (formerly: Orange Nederland Breedband B.V.). The year-on-year increase in non-voice revenue at all mobile operations in the Europe operating segment also helped to offset the revenue decrease from voice telephony.

EBIT, adjusted EBITDA.

EBIT in the Europe operating segment declined by EUR 1.4 billion year-on-year in 2009. This includes the impairment loss of EUR 1.8 billion recognized on the goodwill of the cash-generating unit T-Mobile UK in the first quarter of 2009. EBIT was also reduced year-on-year by the same negative factors that impacted EBITDA. On the other hand, lower depreciation, amortization and impairment losses at PTC, T-Mobile Netherlands, T-Mobile CZ, and T-Mobile Austria had an offsetting effect on the EBIT decline.

Adjusted EBITDA in the Europe operating segment decreased by EUR 0.4 billion or 13.0 percent in the 2009 financial year compared with the prior year, mainly caused by the negative exchange rate effects of the Polish zloty, the pound sterling, and the Czech koruna. After elimination of these exchange rate effects, the operating segment's EBITDA still decreased, mainly impacted by T Mobile UK and PTC. In 2009, EBITDA generated at T-Mobile Austria was on a par with the prior-year level and an increase in EBITDA was recorded at T-Mobile CZ (in local currency) and T-Mobile Netherlands, partially offsetting the effects of lower EBITDA at the UK and Polish companies.

At T-Mobile UK, the decrease in EBITDA in local currency primarily resulted from lower service revenues. This effect was only partially offset by systematic cuts in customer acquisition costs and overheads. At PTC, the year-on-year reduction in EBITDA was mainly driven by a regulation-induced reduction in revenues from termination charges. Lower revenue-related costs as well as savings in customer acquisition costs and overheads only partially compensated for the negative impact of lower revenues.

Due to strict cost management mainly in overheads, and cuts in customer retention costs, T-Mobile Austria fully offset the negative effects of the year-on-year reduction in revenue, which stabilized EBITDA at T-Mobile Austria. T-Mobile CZ generated a year-on-year increase in EBITDA adjusted for exchange rate effects, mainly as a result of a reduction in overheads and customer retention and acquisition costs. EBITDA also increased year-on-year at T-Mobile Netherlands due to expenditure cuts and higher earnings from broadband fixed-network business.

Cash capex.

Cash capex in the Europe operating segment decreased by EUR 0.3 billion year-on-year to EUR 0.9 billion due to lower capital expenditures in Poland, the United Kingdom, Austria and the Netherlands, whereas capital expenditures increased only slightly in the Czech Republic.

Personnel.

The average number of employees in the Europe operating segment remained largely stable compared with the prior year, but the development of headcount figures varied at the individual companies. At T-Mobile CZ, the number of employees increased compared with the prior year due to the transfer of temporary customer service staff to permanent contracts. At T-Mobile Nederland, the year-on-year headcount increase was mainly attributable to technical integration projects associated with the acquisition of Orange Nederland. At PTC, the number of employees remained almost unchanged year-on-year, whereas average staff numbers at T-Mobile Austria declined in Sales and Customer Care. Headcount at T-Mobile UK declined at the call centers and in the technology area as a result of outsourcing measures.

Southern and Eastern Europe.

First-time full consolidation of OTE // Increase in mobile customer base // Positive developments in the broadband market

Customer development and selected KPIs.

		Dec. 31, 2009 millions	Dec. 31, 2008 millions	Change millions	Change %	Dec. 31, 2007 millions
Southern and Eastern Europe	Fixed-network lines [a]	11.9	12.8	(0.9)	(7.0)	13.6
	Retail broadband lines	3.5	3.0	0.5	16.7	2.1
	Wholesale bundled lines [b]	0.2	0.3	(0.1)	(33.3)	0.4
	ULLs [c]	1.1	0.7	0.4	57.1	0.3
	Mobile customers [d]	34.6	31.6	3.0	9.5	26.2
Hungary	Fixed-network lines [a]	1.8	2.0	(0.2)	(10.0)	2.2
	Broadband lines [e]	0.8	0.8	0	–	0.7
	Mobile customers [d]	5.1	5.4	(0.3)	(5.6)	4.9
Croatia	Fixed-network lines [a]	1.5	1.6	(0.1)	(6.3)	1.6
	Broadband lines [e]	0.6	0.5	0.1	20.0	0.3
	Mobile customers [d]	2.9	2.7	0.2	7.4	2.4
Slovakia	Fixed-network lines [a]	1.1	1.1	0	–	1.1
	Broadband lines [e]	0.4	0.3	0.1	33.3	0.3
	Mobile customers [d]	2.4	2.3	0.1	4.3	2.4
Greece	Fixed-network lines [a]	4.2	4.6	(0.4)	(8.7)	5.0
	Broadband lines [e]	1.1	1.0	0.1	10.0	0.8
	Mobile customers [d]	9.2	7.9	1.3	16.5	6.3
Romania	Fixed-network lines [a]	2.8	3.0	(0.2)	(6.7)	3.1
	Broadband lines [e]	0.8	0.7	0.1	14.3	0.4
	Mobile customers [d, g]	7.3	5.9	1.4	23.7	3.6
Other [f]	Fixed-network lines [a]	0.5	0.6	(0.1)	(16.7)	0.6
	Broadband lines [e]	0.2	0.1	0.1	100.0	0.1
	Mobile customers [d]	7.7	7.4	0.3	4.1	6.6

The Southern and Eastern Europe (SEE) operating segment includes the fixed-network and mobile communications subsidiaries of T-Hrvatski Telekom, Slovak Telekom, Magyar Telekom, Makedonski Telekom, Crnogorski Telekom and the OTE group: OTE, Cosmote, Romtelecom, Cosmote Romania, Globul (Bulgaria) and AMC (Albania). OTE has been fully consolidated since February 1, 2009. Prior-year figures have been adjusted accordingly on a pro forma basis.

[a] Lines in operation excluding internal use and public telecommunications, including IP-based lines.
[b] Sale of broadband lines based on DSL technology to alternative providers outside Deutsche Telekom, including bundled IP-Bitstream Access (IP-BSA). In the case of IP-BSA, Deutsche Telekom leases DSL lines to the competitor and transports the datastream carried over these lines.
[c] Unbundled local loop lines: Deutsche Telekom wholesale service that can be leased by alternative telecommunications operators without upstream technical equipment in order to offer their own customers a telephone or DSL line.
[d] One mobile communications card corresponds to one customer.
[e] Total of retail and resale broadband lines.
[f] “Other” includes the companies AMC (Albania), Globul (Bulgaria), Makedonski Telekom (the F.Y.R.O. Macedonia), T-Mobile Macedonia (the F.Y.R.O. Macedonia) and Crnogorski Telekom (Montenegro: mobile communications and fixed network).
[g] Including the Romanian company Zapp since November 1, 2009, prior-year figures not adjusted.

Deutsche Telekom boosted its position in this region despite the tough economic environment due to the first-time full consolidation of OTE and the marked increase in the customer base in both broadband and mobile communications.

Total. In the 2009 financial year, customer development in Southern and Eastern Europe was influenced by the first-time consolidation of the OTE group, which has fixed-network operations in Greece and Romania, and mobile communications operations in Greece, Romania, Bulgaria and Albania.

Fixed network. The broadband market in Southern and Eastern Europe continued to grow in the 2009 financial year. With a total of 3.8 million broadband lines, including bundled and unbundled wholesale lines, the operating segment recorded an increase of 0.5 million lines compared with the same period last year. The 0.9 million line losses in the fixed network were slightly above the prior year figure. The 2009 figure includes 1.9 million (pro forma 2008: 1.7 million) broadband lines in the fixed network of OTE (Greece) and Romtelecom (Romania). Growth in the broadband market was also driven by the ongoing success in the marketing of IPTV, with the number of IPTV customers almost doubling.

Mobile communications. The mobile communications market in Southern and Eastern Europe exhibited slow growth in several countries in the 2009 financial year, reflecting macroeconomic trends. In Slovakia, customer numbers stagnated compared with the prior year. In Hungary, the number of customers decreased as a result of the overall economic situation. All mobile communications companies contributed to the increase in customer numbers in absolute terms. The percentage of contract customers in the total customer base remained at the prior-year level. In all countries except Greece and Albania, the share of contract customer business grew, however. The acquisition of the Romanian mobile communications operator Zapp by the Cosmote group resulted in an expansion on the Romanian market. The company was consolidated for the first time in November 2009.

Total revenue.

Total revenue in the Southern and Eastern Europe operating segment increased year-on-year by EUR 5.0 billion in the 2009 financial year. This positive revenue trend is attributable to the first-time full consolidation of OTE in early February 2009. Adjusted for the consolidation of OTE, revenue decreased by EUR 0.4 billion, mainly as a result of negative exchange rate effects from the translation of Hungarian forints to euros. The strained economic situation and the continued intense competition in mobile communications and in the traditional fixed network also impacted revenue. Broadband growth in all countries did not make up for the decline in revenue in the traditional fixed-network area.

Hungary. The decline in revenue related to both mobile communications and fixed-network business due to the difficult economic situation. The main driver (accounting for around 70 percent) of this revenue decrease in euros was exchange rate effects owing to the substantially weakened Hungarian forint, which recovered to a certain extent in the course of the year.

Croatia. The Croatian business underwent a small downward trend because of the slight weakness of the Croatian kuna and the overall economic situation. Mobile communications was more seriously affected than the fixed network, partly because of the recently introduced mobile communications tax set at 6 percent of revenue.

Slovakia. Revenue from both the fixed network and mobile communications were slightly down year-on-year. Currency effects partially offset this trend compared with the prior year.

EBIT, adjusted EBITDA.

EBIT in the Southern and Eastern Europe operating segment rose by just EUR 0.1 billion year-on-year, despite the positive contribution from the consolidation of the OTE group. The rise was partially offset by impairment losses as follows:

On the basis of information available at the reporting date and expectations with respect to the market and competitive environment, the impairment tests performed at the cash-generating units in the fourth quarter of 2009 identified the need for impairment losses totaling EUR 0.5 billion to be recognized in Greece (mobile communications and fixed network), Romania (mobile communications), the F.Y.R.O. Macedonia and Slovakia (fixed network). These impairment losses were largely due to the country-specific risk in connection with the current financial and national crisis in Greece. Other impairment losses were primarily recognized as a result of negative developments in connection with the financial market crisis.

In the 2009 financial year, adjusted EBITDA in the Southern and Eastern Europe operating segment increased year-on-year by EUR 1.8 billion. Adjusted for the positive contribution of the first-time full consolidation of the OTE group in February 2009, adjusted EBITDA in the operating segment decreased by around EUR 0.2 billion or 8.7 percent. The negative exchange rate effects in Hungary, and to a lesser extent in Croatia, were a major cause of this decrease. The impact of negative revenue trends on adjusted EBITDA was reduced and in Slovakia more than offset by cost cutting measures.

EBITDA for the 2009 financial year includes a one-time positive effect from the first quarter amounting to EUR 0.2 billion from the Greek government's contribution to the costs of a voluntary early retirement program. This was offset by provisions of approximately the same volume for severance payments recognized at OTE in the second quarter of 2009.

Development of operations.

	2009 millions of €	2008 millions of €	Change millions of €	Change %	2007 millions of €
Total revenue	9,685	4,645	5,040	n.a.	4,600
Of which: Hungary	1,682	2,006	(324)	(16.2)	2,047
Of which: Croatia	1,161	1,223	(62)	(5.1)	1,202
Of which: Slovakia	974	994	(20)	(2.0)	932
Of which: Greece	3,899	–	–	–	–
Of which: Romania	1,104	–	–	–	–
Of which: Other [a]	976	435	541	n.a.	436
EBIT (profit from operations)	1,037	915	122	13.3	1,010
EBIT margin (%)	10.7	19.7			22.0
Depreciation, amortization and impairment losses	(2,747)	(1,034)	(1,713)	n.a.	(937)
EBITDA [b]	3,784	1,949	1,835	94.2	1,947
Special factors affecting EBITDA	(42)	(65)	23	35.4	(93)
Adjusted EBITDA [b]	3,826	2,014	1,812	90.0	2,040
Of which: Hungary	675	820	(145)	(17.7)	822
Of which: Croatia	525	557	(32)	(5.7)	555
Of which: Slovakia	439	427	12	2.8	440
Of which: Greece	1,447	–	–	–	–
Of which: Romania	293	–	–	–	–
Of which: Other [a]	445	211	234	n.a.	223
Adjusted EBITDA margin (%)	39.5	43.4			44.3
Cash capex	(1,610)	(865)	(745)	(86.1)	(732)
Number of employees [c]	51,172	21,229	29,943	n.a.	23,442

The contributions of the national companies generally correspond to their respective unconsolidated financial statements and do not take into consideration consolidation effects at the operating segment level. Southern and Eastern Europe (SEE) includes the fixed network and mobile communications companies T-Hrvatski Telekom, Slovak Telekom, Magyar Telekom, Makedonski Telekom, Crnogorski Telekom and the OTE group: Fixed Network Greece and Cosmote Greece (financial figures include the domestic mobile operator Cosmote and the sales company Germanos); Romtelecom and Cosmote Romania (financial figures include the domestic mobile operator Cosmote and the sales company Germanos); and Zapp since November 1, 2009; Cosmote Bulgaria (financial figures include the domestic mobile operator Globul and the sales company Germanos) and Cosmote Albania (includes the national operator AMC).

[a] "Other" includes revenue and EBITDA at the companies AMC (Albania), Globul (Bulgaria), Makedonski Telekom (the F.Y.R.O. Macedonia), T-Mobile Macedonia (the F.Y.R.O. Macedonia) and Crnogorski Telekom (Montenegro: mobile communications and fixed network).
[b] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses.
For a detailed explanation of the special factors affecting EBITDA, adjusted EBITDA, and the adjusted EBITDA margin, please refer to the section on "Development of business in the Group."
[c] Average of all employees.

Cash capex.

Cash capex in the Southern and Eastern Europe operating segment rose by EUR 0.7 billion year-on-year to EUR 1.6 billion. This increase was substantially due to the first-time consolidation of the OTE group. Slightly higher investments in Croatia and Montenegro relate to broadband roll-out. Otherwise cash capex in the 2009 financial year was down on the prior year, due in part to exchange rate effects.

Personnel.

The average number of employees increased sharply in 2009 compared with the prior year, mainly due to the first-time full consolidation of the OTE group, whose headcount at the date of consolidation was 33,600. Apart from this, the number of employees was reduced in Croatia and Slovakia by the improvement of performance processes. In the 2009 financial year, this was also true of the fixed-network parts of the OTE group. Some 550 employees were included for the first time in the fourth quarter of 2009 due to the first-time consolidation of the Romanian company Zapp.

Systems Solutions.

Numerous big deals landed // Effects of financial crisis felt in revenue // Comprehensive Save for Service program improved adjusted EBITDA // Clear increases in adjusted EBIT and EBITDA margins

Selected KPIs.

	Dec. 31, 2009	Dec. 31, 2008	Change	Change %	Dec. 31, 2007[d]
New orders (millions of €)	9,305	10,235	(930)	(9.1)	12,936
Computing & Desktop Services					
Number of servers managed and serviced	47,092	56,734	(9,642)	(17.0)	39,419
Number of workstations managed and serviced (millions)	1.86	1.51	0.35	23.2	1.46
Systems Integration[a]					
Hours billed[b] (millions)	9.6	10.7	(1.1)	(10.3)	11.4
Utilization rate[c] (%)	81.3	80.9		0.4p	80.2

[a] Domestic: excluding changes in the composition of the Group.
[b] Cumulative figures as of the reporting date.
[c] Ratio of average number of hours billed to maximum possible hours billed per period.
[d] 2007 figures not adjusted.

The Systems Solutions operating segment (T-Systems) signed several new large-scale contracts in the ICT business customer market in 2009. The worldwide finance and economic crisis also left its mark on the level of new orders, however, resulting in a year-on-year decrease of 9.1 percent. It should be remembered that the level of new orders in 2008 was exceptionally high due to the major contract with Royal Dutch Shell. T-Systems signed several important new deals in 2009, particularly in the fourth quarter, such as those with BP, Phillips, Linde, MAN, and Eskom/Transnet in South Africa. All of these deals have terms of five years or more and volumes well into the triple-digit millions, making them the building blocks for the coming years. The deals signed in 2009 underline T-Systems' ability to provide ICT services worldwide, as does its focus on large, often international outsourcing activities. In South Africa Deutsche Telekom's corporate customer arm signed major deals with the utility company Eskom and the transport company Transnet. T-Systems also bought the Spanish IT provider Metrolico in 2009 to boost its market position in the public and finance sector on the Iberian peninsula. T-Systems also acquired SAP AG's European hosting operations.

The number of servers managed and serviced decreased in 2009 as a result of the consolidation of systems taken over from customers and of the growing trend toward Dynamic Services.

The number of workstations managed and serviced increased significantly in the reporting year, mainly due to new orders. Systems Integration customers, on the other hand, have canceled or postponed projects due to the economic crisis and have been slow to place new orders, with the result that fewer hours were billed than in the prior year, leading to a decrease in revenue. This was partially offset by a higher utilization rate.

Total revenue.

Total revenue in the Systems Solutions operating segment in 2009 amounted to EUR 8.8 billion, a year-on-year decrease of 5.8 percent as a result of the finance and economic crisis. The positive development of international business, as a result of several contracts with corporate customers, continued in the reporting period, and at – 2.4 percent fared better than revenue. In Germany, revenue decreased 7.3 percent. The decrease in revenue in Germany is attributable both to the postponement or cancelation of projects in the Systems Integration business and the price trend in IT and telecommunications. The Systems Solutions operating segment generated revenue of EUR 6.1 billion in 2009 from business with customers outside the Deutsche Telekom Group, a decrease of 4.5 percent compared with the prior year.

Development of operations.

	2009 millions of €	2008 millions of €	Change millions of €	Change %	2007 millions of €
Total revenue	8,798	9,343	(545)	(5.8)	10,571
EBIT (profit (loss) from operations)	(11)	81	(92)	n.a.	(229)
Special factors affecting EBIT [a]	(240)	12	(252)	n.a.	(397)
Adjusted EBIT [a]	229	69	160	n.a.	168
Adjusted EBIT margin [a] (%)	2.6	0.7			1.6
Depreciation, amortization and impairment losses	(721)	(781)	60	7.7	(888)
EBITDA [b]	710	862	(152)	(17.6)	659
Special factors affecting EBITDA [b]	(213)	36	(249)	n.a.	(397)
Adjusted EBITDA [b]	923	826	97	11.7	1,056
Adjusted EBITDA margin [b] (%)	10.5	8.8			10.0
Cash capex [c]	(681)	(823)	142	17.3	(903)
Number of employees [d]	45,328	46,095	(767)	(1.7)	49,433

The Systems Solution operating segment, excluding the 160,000 small and medium-sized business customers transferred as of January 1, 2009. Prior-year figures have been adjusted accordingly.

[a] For a detailed explanation of the special factors affecting EBIT, adjusted EBIT, and the adjusted EBIT margin, please refer to the section on "Development of business in the Group."
[b] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses.
For a detailed explanation of the special factors affecting EBITDA, adjusted EBITDA, and the adjusted EBITDA margin, please refer to the section on "Development of business in the Group."
[c] Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the statement of cash flows. In the first half of 2007 these included outflows totaling EUR 112 million for parts of Centrica PLC taken over by T-Systems UK as part of an asset deal.
[d] Average of all employees.

T-Systems' revenue as a service provider for Deutsche Telekom was impacted to a large extent by IT cost-cutting projects in the Deutsche Telekom Group. T-Systems standardizes and improves the IT environment for the Group and, in doing so, makes a major contribution to the Save for Service programs of the operations in Germany, the mobile operations in Europe and at Group Headquarters & Shared Services in particular. Revenue generated with the Deutsche Telekom Group amounted to EUR 2.7 billion in 2009, a decrease of 8.7 percent year-on-year.

Revenue from the Public & Health sector also developed positively.

EBIT, adjusted EBITDA.

A comprehensive restructuring and efficiency enhancement program called Save for Service offset the revenue decline the 2009 financial year. As a result, adjusted EBIT increased from EUR 0.1 billion in the prior year to EUR 0.2 billion. The EBIT margin improved from 0.7 percent in 2008 to 2.6 percent in the 2009 financial year.

The restructuring and efficiency enhancement measures also had a positive effect on adjusted EBITDA, which grew by EUR 0.1 billion to EUR 0.9 billion. Here, too, the margin increased considerably to 10.5 percent.

It should be noted that the sale of Media&Broadcast had a positive impact on EBITDA and EBIT in 2008 and Media&Broadcast's figures had been a positive element in the figures for 2007.

Cash capex.

Cash capex in the reporting year was much lower than in the previous year. The fact that the efficiency enhancement measures, for example in procurement, are taking effect was also reflected in the development of cash capex. The steady standardization of platforms also contributed to this positive development.

Personnel.

The average headcount in the Systems Solutions operating segment declined by 767 to 45,328, a decrease of 1.7 percent compared with the prior year. The average number of employees declined by 2,452 to 25,547 in 2009 as a result of staff restructuring measures in Germany. In addition to the restructuring measures, this decrease of 8.8 percent is also a result of offshoring at Computing & Desktop Services. The average headcount abroad rose by 1,685 – an increase of 9.3 percent. This is principally due to the fact that employees were taken over under the terms of large-scale contracts and the increase in offshore activities.

Group Headquarters & Shared Services.

Development of operations.

	2009 millions of €	2008 millions of €	Change millions of €	Change %	2007 millions of €
Total revenue	2,410	2,781	(371)	(13.3)	3,143
EBIT (loss from operations)	(1,249)	(1,266)	17	1.3	(2,243)
Depreciation, amortization and impairment losses	(833)	(773)	(60)	(7.8)	(924)
EBITDA [a]	(416)	(493)	77	15.6	(1,319)
Special factors affecting EBITDA [a]	(101)	(312)	211	67.6	(845)
Adjusted EBITDA [a]	(315)	(181)	(134)	(74.0)	(474)
Cash capex [b]	(449)	(426)	(23)	(5.4)	(340)
Number of employees [c]	20,181	23,581	(3,400)	(14.4)	27,557
Of which: at Vivento [d]	9,600	8,200	1,400	17.1	10,200

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

During the reporting period, Vivento, Deutsche Telekom's personnel service provider, focused on securing additional external employment opportunities for civil servants and employees, predominantly in the public sector, as well as on sustainable placement management to support staff restructuring. In addition, Vivento offers Group employees temporary and permanent employment opportunities at Vivento Customer Services GmbH with the aim of further improving the deployment of personnel resources.

The workforce at Vivento totaled around 9,600 employees at December 31, 2009. These included around 4,200 employees who were deployed externally, mainly in the public sector, for example at the Federal Employment Agency. Another 2,600 or so people were employed within the Group, especially in call centers, and around 2,800 employees were placed in Vivento's operational and strategic units or continued to be managed by Vivento. Vivento took on a total of around 3,700 employees from the Group in 2009. Around 2,300 employees left Vivento in the reporting period to pursue new employment opportunities. The employment rate remained high in 2009. During the reporting period, around 78 percent of the approximately 9,200 employees (excluding Vivento's management) were in employment or undergoing training.

Streamlining and improving the real estate portfolio remained a key property management issue in the 2009 financial year. In the 2009 reporting year, Deutsche Telekom closed a total of 202 sales deals involving 218,000 square meters of floor space and 1.2 million square meters of land. Cash inflows from the disposal of real estate totaled EUR 0.2 billion in 2009. Deutsche Telekom reduced leased floor space by another 113,000 square meters under an ongoing drive to optimize floor space and corporate sites. Overall, the Group again cut its leasing and facility management costs in 2009.

Total revenue.

Total revenue at Group Headquarters & Shared Services declined by 13.3 percent year-on-year in 2009. The revenue decrease was primarily attributable to the deconsolidation of DeTe Immobilien effective September 30, 2008 and the more efficient use of floor space by the operating segments. Revenue declined also due to lower prices and volumes at Group-wide technical functions and Vivento and lower proceeds from vehicle sales compared with the previous year. This was partially offset by an increase in revenues from the billing of accounting services to the operating segments by Deutsche Telekom Accounting GmbH, which was established on April 1, 2008.

EBIT, adjusted EBITDA.

EBIT (loss from operations) improved slightly by EUR 17 million year-on-year in 2009, mainly as a result of the non-recurrence of expenses incurred in the prior year in connection with the disposal of DeTe Immobilien and call centers. The decline in adjusted EBITDA, the increase in expenses for staff-related measures, and the higher level of depreciation, amortization and impairment losses had an offsetting effect. The latter related mainly to Deutsche Telekom's real estate portfolio.

Adjusted EBITDA at Group Headquarters & Shared Services decreased by EUR 0.1 billion year-on-year in the reporting period, primarily as a result of the more efficient use of floor space, especially in technical facilities, by the operating segments. Higher maintenance costs and lower revenue from Group-wide technical functions and Vivento also impacted EBITDA. Another negative factor was the non-recurrence of the positive EBITDA contribution from DeTe Immobilien as a result of the company's deconsolidation effective September 30, 2008. The decrease was partially compensated by higher income from the reversal of provisions. As in the prior year, the Real Estate unit benefited in the reporting period from income from the reclassification of real estate from assets held for sale to non-current assets in particular.

Personnel.

The average number of employees during the reporting period was 20,181. The decrease of 3,400 employees compared with the 2008 financial year is primarily attributable to the sale of DeTe Immobilien, although offsetting effects came from a headcount increase at Vivento, mainly due to newly identified employment opportunities for civil servants and employees, and the merger of the operating segments' accounting activities into Deutsche Telekom Accounting GmbH.

Corporate responsibility.

The printed CR report for 2009 and the online CR report at www.cr-report.telekom.de contain further information on the CR strategy and the core CR topics.*

Responsible corporate governance // Study on CO_2 emissions // Sustainability drive

Responsible corporate governance.

The Group has been developing a broad-based Corporate Responsibility (CR) program since 2008 with the strategic goal of becoming a world leader in CR. The object of the program is to structure and manage all CR-relevant processes along the Group's entire value chain. In 2009 Deutsche Telekom defined clear targets within the scope of ongoing program development. It also identified CR-relevant projects along with packages of measures and initiatives, systemizing these in relation to the three principal fields of activity in CR (Connected Life and Work, Connect the Unconnected, and Low Carbon Society). Deutsche Telekom has set itself a timeframe for project implementation and adopted ten quantitative key performance indicators (KPIs) for CR. One is the KPI for sustainable procurement, a measure that is based on the ratio of the procurement volume that was matched against sustainability criteria to the Group's total procurement volume, and which compares actual with target values. This allows Deutsche Telekom to review target achievement at all times.

Another important part of the implementation of CR across the Group is the international roll-out of the CR strategy in the respective national companies. To this end, in 2009 the CR department organized local roadshows in seven national companies to discuss with local management and CR managers how to embed CR in the respective national company and what contribution it can make. At least seven further local roadshows are scheduled for 2010. Deutsche Telekom's international network of CR managers plays a valuable role in the process. In July and November 2009, two networking meetings were held alongside a number of regular telephone conference calls, during which CR managers from the individual companies and the central CR department discussed progress and continued to develop the CR program.

New CR projects and initiatives.

As part of the **Connect the Unconnected** initiative, in April 2009 Deutsche Telekom launched the flagship project "Yes, I Can!" that will initially run for three years and is designed to strengthen the skills of young people from difficult economic and social backgrounds. Each year the Group will invite entries from projects and institutions across Germany that help children and adolescents aged 9 to 14 from disadvantaged backgrounds to acquire new skills. A jury of experts from academia and politics, as well as individuals from public life, selected 66 projects from over 600 applications for financial support. The maximum amount of funding was EUR 15,000 per project, with more than EUR 500,000 paid out in total.

In September 2009, Reinhard Clemens, CEO of T-Systems, Deutsche Telekom's corporate customer arm, signed the Copenhagen Communiqué of the European Leaders Group on Climate Change (EU CLG) on behalf of Deutsche Telekom. The initiative, launched by HRH The Prince of Wales, calls for an ambitious and fair agreement for a global reduction of CO_2 emissions. In November 2009, Reinhard Clemens met with the President of the European Commission, Manuel Barroso, in Brussels ahead of the Climate Change Conference in Copenhagen. At this meeting, which was organized by the EU CLG, Clemens emphasized Deutsche Telekom's commitment to combating climate change and underlined the potential of ICT as an enabler for many industries and sectors to reduce CO_2 emissions. He also argued in favor of a strong climate change agreement in Copenhagen and encouraged the Commission to take the same line.

Another important initiative on the road to a **Low Carbon Society** is Deutsche Telekom's Climate Change Group, which was set up on November 25, 2009. This body, which comprises climate experts and executives in the Group as well as external experts, devises Group-wide solutions for reducing CO_2 emissions and saving energy, and develops binding regulations for their implementation.

* Where the management report refers to Internet pages, the content of these pages does not constitute part of the management report.

New study on the reduction of CO_2 emissions by Germany's ICT industry.

At the IT summit in December 2009, the Chairman of the Deutsche Telekom Board of Management handed over the Germany Addendum to SMART 2020 to the German Chancellor. This study, which was drawn up under the lead of Deutsche Telekom, identifies the ICT sector as the driving force on the road to sustainably addressing climate change. Preparation of the study was managed and financed by Deutsche Telekom, the main sponsor. The study was carried out, authored and partially funded by The Boston Consulting Group. Content support was provided by the Federal Ministry of Economics and Technology and the Potsdam Institute for Climate Impact Research. The background to the study is the Federal Government's Integrated Energy and Climate Program – also known as the Meseberg Program – which specifies 29 key elements and measures for reducing greenhouse gas emissions in Germany. The goal of these key elements is to reduce greenhouse gas emissions in Germany by around 40 percent by 2020 compared to 1990 levels.

The Germany Addendum to SMART 2020 focuses on identifying and assessing specific business concepts. Around 50 potential services and solutions were identified, of which 26 were classified and described as particularly attractive business concepts. The business value of these concepts is estimated to reach up to EUR 84 billion by 2020.

In total, the Germany Addendum to SMART 2020 identifies a potential reduction of up to 207 or so Mt of CO_2 by 2020 through direct and indirect ICT solutions. ICT could thus reduce CO_2 emissions in Germany by around 25 percent by 2020, provided certain general conditions are met and all potential is tapped. This would not only achieve the objectives of the Meseberg Program, but even exceed them by around 110 Mt.

Stakeholder dialog: Sustainability drive and e-learning platform.

Continuing the dialog with Deutsche Telekom's different stakeholder groups is an essential part of the Group's CR strategy. Two initiatives with the customer and employee stakeholder groups are presented below as examples of the Group's multifaceted activities.

"Big changes start small." This was the theme of a large-scale campaign for environmental protection and sustainable action that was launched in 2009. The Group was the first telecommunications provider in Germany to initiate such a campaign, which is all about presenting Deutsche Telekom products and services that help customers to act responsibly and make their lives easier at the same time. For example, using the Internet platform Musicload to download 1 million albums saves around 64,000 kg of plastic that would otherwise be used to produce traditional CDs. The idea behind the initiative is that each Deutsche Telekom customer can do a lot for sustainable development by making a modest contribution.

This long-term campaign, which will run for at least two years, will present over 16 topics that illustrate the concept of sustainability and will be advertised on television, in the print media and online. The campaign website at www.millionen-fangen-an.de contains in-depth information and also various online options for communicating with customers.

E-learning platform. As communicating with the Company's employees is also crucial for the continued Group-wide implementation of CR, a new intranet e-learning platform for CR went live in 2009. Existing in both German and English, the language platform is aimed at our national and international employees. It explains what Deutsche Telekom associates with the term CR, makes suggestions on how to integrate sustainability into people's day-to-day work, and provides an overview of the broad spectrum of CR at Deutsche Telekom.

Further achievements: Sustainability ratings and awards.

In 2009, Deutsche Telekom qualified again for the most renowned sustainability indexes, the Dow Jones Sustainability Index World and Dow Jones Sustainability STOXX®. The Group was evaluated for the first time in the mobile communications sector and was immediately awarded the coveted title of sector leader.

Deutsche Telekom has made substantial progress in data privacy compared with the evaluation in 2008. SAM experts honored this achievement by awarding a 98.6 percent mark, the highest grade in this sector. Deutsche Telekom is also sector leader in terms of its commitment to stakeholders, HR development, and in the Impact of Telecommunications Services category. The Group's Hungarian subsidiary Magyar Telekom received a Silver Class rating from SAM in 2009 and a "Prime" rating from the rating agency Oekom. In the sustainability ranking of the FTSE4Good series, both Deutsche Telekom and the Greek company OTE were also successful – both were once again included in the FTSE4Good Global Index 2009 and are hence among the leaders in their sector. Inclusion in this index requires participation in the survey conducted by the imug/EIRIS rating agency in the first quarter of every year. Current topics are added during the year. The results of the ratings surveys are analyzed and any need for action identified.

Listing of the T-Share in sustainability indexes/"Prime" ratings.

Rating agency	Indexes/ratings/ranking	Successfully listed in index			
		Fulfilled in 2009	Fulfilled in 2008	Fulfilled in 2007	Fulfilled in 2006
SAM	DJSI World	✓	✓	✓	✓
	DJSI STOXX®	✓	✓	✓	✓
Oekom	"Prime"	✓	(✓)	✓	(✓)
Vigeo	ASPI	✓	✓	✓	✓
	ESI	✓	✓	✓	✓
imug/EIRIS	FTSE4Good	✓	✓	✓	✓
CDP	CD Leadership Index	–	–	✓	✓
Sarasin	DAX Glob. Sar. Sust.	(✓)	✓	✓	n.a.
Innovest (RiskMetrics Group)	Global 100 List	–	–	–	✓
RiskMetrics	FTSE KLD Global Climate 100	✓	✓	✓	✓
	FTSE KLD Global Sustainab.	(–)	–	✓	✓

✓ = Successfully listed.
– = Not successfully listed.
( ) = Biennial cycle.

The volume of the approximately 300 sustainable funds authorized for public sale in Germany, Austria and Switzerland comprised around EUR 30 billion in December 2009.

According to the Sustainable Business Institute, the proportion of T-Shares held by sustainable investment funds rose sharply last year. At around 5.4 percent in 2008, their portion of the overall stock portfolio almost doubled compared with the previous year (2.87 percent).

Innovation and product development.

International research and development activities // Cooperation with research institutions // Open innovation

Networking shapes innovation.

The Products & Innovation unit is responsible for Group-wide research and development, innovation marketing, product development and management, and product portfolio management. The aim is to develop innovative and competitive products, services and business models. In addition to aspects such as customer focus, simplicity and user experience, a high-value product portfolio and sustainable profitability also play a key role.

Deutsche Telekom Laboratories, a privately-organized research institute affiliated to the Berlin University of Technology (TU Berlin), conducts all of the Group's research and development activities. Its researchers and experts work at sites in Berlin, Darmstadt, Beer Sheva (Israel), and Los Altos (California, United States) on developing new technologies for innovative products and services that are expected to be rolled out or market-ready within 18 months to five years.

To identify customer needs at an early stage, the institute's Innovation Forum has recruited over 900 households in Berlin to participate in product tests and surveys. StreetLabs, by contrast, studies communication habits and attitudes out on the street. They deliver new ideas that the Group can exploit and turn them into real benefits for its customers in the medium term.

The Strategic Research Laboratory carries out long-term, applied research. It also makes a significant contribution to teaching at TU Berlin with four professorships at the university appointed in cooperation between TU Berlin and Deutsche Telekom. Business ideas from Deutsche Telekom Laboratories that do not make it into Deutsche Telekom's product portfolio but nevertheless offer a clear benefit for customers and are likely to succeed in the market are spun off from Deutsche Telekom as independent companies. These are equipped with the resources and equity capital they need to operate independently in the market. Examples of Deutsche Telekom Laboratories spin-offs are Zimory and, in 2009, Yoochoose.

Innovation cycles are shortening.

In addition to its own R & D and joint activities with partners, Deutsche Telekom follows the principle of open innovation in response to the challenge of shorter and shorter innovation cycles in the telecommunications sector. A well-known example of open innovation is the Android project, which Deutsche Telekom worked on in its capacity as founding member of the Open Handset Alliance. Android led to the development of an innovative, thoroughly user-oriented operating system for mobile devices which Deutsche Telekom has installed on the T-Mobile G1 smartphone and its successor models T-Mobile G2 Touch and T-Mobile Pulse.

Innovative products.

Numerous product launches in the 2009 financial year aimed to network customers across all user interfaces. Examples include the "person-centric view" of the new E-Mail Center and the Media Center with its integrated music shop. The Entertain product has also been integrated into the convergence scenario of connected life and work and expanded accordingly. Using an enhanced digital video recorder, Entertain customers can now watch recorded content on a second box in the same household. Other services, such as photo sharing on PCs, smartphones and TV sets, have become a reality. Entertain customers on the move can use the new Program Manager 3.0 to browse through the entire range of Entertain services and program recordings for the set-top box. Customers' viewing experience has been enhanced now that the first live TV channels in high definition (HD) are on air and the prerequisites for a broad HD portfolio are in place. With LIGA total! Entertain customers can now watch all first- and second-division Bundesliga soccer matches live and in full length, in the round-up or in the archives.

Connected life and work was also the focus in mobile communications. The application-based web'n'walk platform was refined to offer enhanced access to personalized Web services, photos, videos, and music stored on mobile devices. The MyCommunity service gives T-Mobile customers easy, convenient access to essential personal communication services such as e-mail, text messaging, and their personal social networks. A network-centric address book displays the user's personal contacts – any time, anywhere – both on the cell phone and in the E-Mail Center on their home PC.

Since September 2009, VDSL lines with bandwidths of up to 50 Mbit/s have also been available for double-play customers. Deutsche Telekom is using this future-proof technology to strengthen its position as a quality leader and hold its ground against the advances of cable network operators. The VDSL double-play packages include a telephone line and Internet access with VDSL 25 or VDSL 50, plus an Internet and telephone flat rate. VDSL speeds mean faster downloads and uploads of photos, music files and other media.

In the 2009 financial year, Deutsche Telekom continued to pursue a systematic differentiation strategy in mobile communications, launching new services and applications in combination with high-performance, exclusive terminal equipment. With LIGA total! for instance, Deutsche Telekom launched a Bundesliga soccer application for the Apple iPhone that has already attracted over 375,000 customers in Germany. The web'n'walk function has been expanded to include localized services and a navigation client, the latter developed as part of a strategic partnership. Just in time for CeBIT Deutsche Telekom set up an exclusive partnership with the German online student community StudiVZ that is aligned with the Group's mobile Internet differentiation strategy. In addition, the international community Facebook is now accessible via a wide variety of access channels such as the fixed network, mobile portal and address book, offering Deutsche Telekom customers a familiar product experience when they sign into their social network.

Medical Exchange is Deutsche Telekom's secure solution for physicians exchanging electronic data with the Associations of Statutory Health Insurance Physicians. The National Association of Statutory Health Insurance Physicians (Kassenärztliche Bundesvereinigung – KBV) has certified Deutsche Telekom as one of the first providers to comply with its most recent framework directive (Version 3.0). Medical Exchange provides physicians with an online billing solution ahead of the introduction of mandatory electronic billing on January 1, 2011.

In 2009, T-Systems' innovation activities were reorganized and their scope extended to prepare them for the challenge of actively shaping the future of business and society with innovative ICT solutions. One milestone was the establishment in mid-2009 of the T-Systems Innovation Center, part of the equally new Portfolio & Offering Management unit. The Innovation Center will identify and manage innovation projects and deliver clear information on innovation opportunities to customers, analysts and partners. T-Systems' new Innovation Radar, a joint project with Deutsche Telekom Laboratories in 2009, will boost systematic innovation scouting activities. The radar was extended to cover the dynamic and flexible use of online software, services, platforms and processes, user-centric standardized communication and collaboration, and solutions for mobile working. Other development areas included autonomous communication between distributed devices and sensors, a concept used in smart energy metering. Environmental issues, sustainability, security and innovative industry solutions, such as ICT for motor vehicles, were among the high-priority topics in 2009.

The vision behind the research project, which was launched in 2008 and continued into 2009, is secure, intelligent mobility. The project has attracted numerous companies from the automotive and telecommunications industries, the government of the state of Hesse and respected universities and research institutes as partners. The project receives support and funding from the Ministries of Economics and Technology, Education and Research, and Transport, Construction and Urban Development. T-Systems and Deutsche Telekom Laboratories are involved in evaluating the system and contributing their expertise as a telecommunications, service, integration and operation provider.

T-City is the joint future lab of Deutsche Telekom and the city of Friedrichshafen. It works with national and regional partners to develop solutions for citizens, institutions and companies alike. In 2009, T-Systems was involved in various local projects including De-Mail, a system facilitating reliable, unforgeable and legally binding communication between citizens, business and public administrations via the Internet.

Cooperation with research institutions in Germany and abroad.

Deutsche Telekom is represented in various international forums and committees that shape future products and services, where it ensures that its own interests and the needs of its customers are served and, through its standardization activities, ensures high service quality and interoperability.

Deutsche Telekom Laboratories is part of an international network of renowned research institutes and also assists Ph.D. students at various universities.

Research and development expenditure and investment.

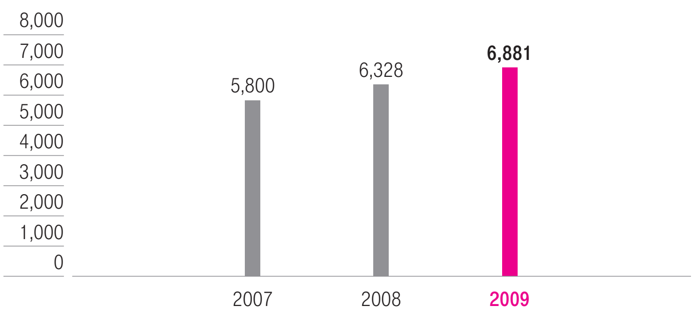
Research and development expenditure amounted to EUR 0.2 billion in the 2009 financial year, the same level as in previous years. The investments in internally generated intangible assets to be capitalized came to EUR 0.2 billion (2008: EUR 0.4 billion). These investments relate mainly to internally developed software and the majority relates to the Germany operating segment. In the reporting year, over 2,600 employees were involved in projects and activities to create new products and market them more efficiently.

Patent applications and intellectual property rights.

In the market for mobile and fixed-network telephony, intellectual property rights play an extremely important role, both nationally and internationally. The Group is hence strongly engaged in the in-house development and third-party acquisition of such rights.

The number of patent applications increased in 2009 by 7.2 percent year-on-year to 713. At the end of 2009, the Group held 6,881 intellectual property rights (inventions, patent applications, patents, utility models, and design models). The portfolio is reviewed on a regular basis, and the rights that are no longer relevant are eliminated. The intellectual property rights are managed in line with strict cost/benefit considerations.

Deutsche Telekom intellectual property rights.



Employees.

Competitive workforce // Service culture // Talent agenda // HR@2012

One mission, four cornerstones, twelve projects.

Deutsche Telekom operates in dynamic markets and competitive environments where structural conditions vary widely from one country to another. The global upheaval in the telecommunications industry, the speed of technological development, and intense competition are presenting Deutsche Telekom with intense HR policy challenges.

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

Competitive workforce: Staff reduction, restructuring and expansion.

Staff reduction continued on a socially responsible basis.

In the Group's German operations, socially responsible measures were used for further staff reduction in 2009, essentially by means of voluntary redundancies, partial and early retirement, and alternative employment opportunities for civil servants and employees offered by Vivento, especially in the public sector. In addition to existing voluntary staff adjustment measures, T-Systems is offering a limited-term voluntary severance package between September 1, 2009 and January 31, 2010 for Systems Integration and between September 1, 2009 and March 31, 2010 for ICTO.

In August 2009, the service industry trade union ver.di, the Central Works Council and employer representatives of T-Systems agreed on a joint approach for necessary staff restructuring activities in terms of timing and content. Preference will be given to voluntary instruments in order to make the changes as socially responsible as possible. In the first quarter of 2010, T-Systems will examine how many employees responded to the voluntary offers. If the employees in question have not found alternative employment or made use of the voluntary program by then, they will be offered fixed-term employment in a transitional company. If they do not take up the offer they will be made redundant.

However, Deutsche Telekom will continue its staff reduction activities to the extent necessary in response to intense competition, the very rapid pace of technological progress, the regulatory environment in Germany, and personnel costs that are too high in some areas compared with its peers.

Internationally, the picture at Deutsche Telekom is mixed. In the United States operating segment, new staff were taken on to harness further growth. In the Systems Solutions operating segment, workforce growth was primarily attributable to the implementation of the internationalization strategy. Staff numbers grew considerably in the Southern and Eastern Europe operating segment due to the first-time full consolidation of OTE. By contrast, staff levels in the Germany operating segment were reduced to improve competitiveness.

In addition to staff reductions, restructuring and increases are also necessary to improve the age structure, to attract people with the skills the Company lacks or needs more of, and to be able to grow in new business areas. The Group recruited 3,664 new staff in Germany under its 2009 recruitment drive. Another approximately 565 junior staff joined the workforce on fixed-term or permanent contracts at Vivento Interim Services GmbH (VIS), which was formerly part of the Deutsche Telekom Group and has operated a successful business model in a joint venture with the temporary employment agency Manpower since 2007. After completing their training, junior staff who are not immediately offered a job at Deutsche Telekom can gain professional experience at VIS and may still be offered permanent employment at Deutsche Telekom.

Vivento made an important contribution to staff restructuring in Germany during the 2009 financial year by placing some 1,300 employees in external jobs, primarily in the public sector. Around 4,200 employees had been deployed externally by the end of 2009, mainly in the public sector, for example at the Federal Employment Agency. In addition, in the reporting year Vivento systematically strengthened its position in the public sector through cooperative ventures and master agreements with partners at national, regional, and municipal level. These partnerships allow Vivento to offer interested employees a wide range of job prospects outside the Group.

The **Total Workforce Management** project aims to optimize the deployment of internal and external staff capacity and to respond early on to demographic changes in order to cut personnel costs, raise productivity and handle the skill shift in the best way possible. The Workforce Quality (Qualität des Personalkörpers - QdP) sub-project has developed a qualitative workforce clustering system that enables the Company to produce qualitative forecast data using staffing and headcount simulations. This helps to highlight quantitative and qualitative workforce shortfalls and surpluses over the medium and long term, and define an HR planning process that includes far more qualitative elements in addition to the quantitative component. For instance, the process makes specific statements on qualifications that will be needed going forward, on the training structures required to build these qualifications, and on the structure of expert careers. Greater transparency and more active HR management is the only way to ensure that HR can respond early and effectively to shortfalls in trained staff who are crucial to the business. QdP was included as a qualitative component in the Group's HR planning in the reporting year for the first time.

The adjusted personnel cost ratio for the Group as a whole in the 2009 financial year was 21.4 percent of revenue. Expenses for staff-related measures, which mainly consist of expenses for staff reduction tools, totaled approximately EUR 0.5 billion in the reporting year. The increase in adjusted personnel costs is mainly attributable to the first-time full consolidation of OTE.

Collective bargaining in the Deutsche Telekom Group.

In the reporting year, collective bargaining was concluded for Deutsche Telekom AG, the service companies Deutsche Telekom Netzproduktion, Deutsche Telekom Technischer Service, and Deutsche Telekom Kundenservice, and for Vivento Customer Services, T-Direkt, Deutsche Funkturm Management GmbH, Telekom Shop Vertriebsgesellschaft, and DeTeFleetServices GmbH.

On March 13, 2009, the negotiating parties reached an agreement in the arbitration proceedings governing the 2009 collective bargaining for employees of **Deutsche Telekom AG and its service companies** Deutsche Telekom Netzproduktion, Deutsche Telekom Technischer Service, and Deutsche Telekom Kundenservice. Salaries for employees at Deutsche Telekom and its service companies will gradually increase by a total of 5.5 percent over 24 months, with pay rising by 3 percent retroactively from January 1, 2009 and increasing by an additional 2.5 percent in 2010. The wage increase effective January 1, 2010 was also extended to cover all pay-scale employees who were integrated into the new Deutsche Telekom AG in the context of the One Company project.

Headcount development.

Employees in the Group, as of Dec. 31 of each year	2009	2008	2007
Total	**259,920**	**227,747**	**241,426**
Of which: Deutsche Telekom AG	49,122	44,645	51,863
Germany operating segment	81,336	85,637	91,337
United States operating segment	40,697	38,031	33,750
Europe operating segment	17,631	18,255	18,043
Southern and Eastern Europe operating segment	53,532	20,885	22,491
Systems Solutions operating segment	46,021	45,862	49,835
Group Headquarters & Shared Services	20,703	19,077	25,970
Breakdown by geographic area			
Germany	127,487	131,713	148,938
International	132,433	96,034	92,488
Of which: other EU Member States	76,196	45,115	45,709
Of which: rest of Europe	10,061	7,908	8,179
Of which: North America	41,235	38,621	34,297
Of which: rest of world	4,941	4,390	4,303
Productivity trend *			
Net revenue per employee (thousands of €)	251	263	257

* Average of all employees.

Personnel costs in the Group.

billions of €	2009	2008	2007
Personnel costs in the Group	14.3	14.1	15.4
Special factors	0.5[a]	1.1[b]	2.0[c]
Personnel costs in the Group adjusted for special factors	13.8	13.0	13.4
Net revenue	64.6	61.7	62.5
Adjusted personnel cost ratio (%)	**21.4**	**21.1**	**21.5**

Special factors (billions of €):
Calculated and rounded on the basis of millions for greater precision.
[a] Expenses for staff-related measures (early retirement arrangements, severance and voluntary redundancy payments, compensation payments, etc.) primarily in the Germany (– 0.3), and Systems Solutions (– 0.1) operating segments, as well as at Group Headquarters & Shared Services (– 0.1).
[b] Expenses for staff-related measures (early retirement arrangements, severance and voluntary redundancy payments, compensation payments, etc.) primarily in the Germany (– 0.8) and Systems Solutions (– 0.3) operating segments.
[c] Expenses for staff-related measures (early retirement arrangements, severance and voluntary redundancy payments, compensation payments, etc.) primarily in the Germany (–1.1), Southern and Eastern Europe (– 0.1), and Systems Solutions (– 0.2) operating segments, as well as at Group Headquarters & Shared Services (– 0.5).

In addition, protection from compulsory redundancy was extended by another year. Pay-scale employees at Deutsche Telekom AG are guaranteed employment until the end of 2010, while their counterparts in the service companies have job security until the end of 2013. The no-sale agreement concerning the service companies was extended by another year; it will now expire at the end of 2011.

Employees of the service companies who personally contributed to improving the companies' cost efficiency by accepting a pay cut negotiated with the service industry trade union ver.di in 2007 in the course of establishing the service companies will receive an additional top-up of 3.1 percent, comprising 2.0 percent initially for 2009, and a further 1.1 percent for 2010. All employees whose gross increase was less than EUR 840 in 2009 will receive a one-time payment to make up the difference.

In February 2009, **Vivento Customer Services (VCS)** reached an agreement with the union stating that in addition to a one-time payment of EUR 1,000 for full-time salaried employees – though not for civil servants on leave, as they benefit from the collective provisions on civil service pay increases – staff would be granted extensive protection rights. Protection against compulsory redundancy was extended up until the end of December 2010, as was the commitment not to sell the service companies. Furthermore, the agreement included a guarantee that no site would be closed before the end of 2010. In return, employees will not be granted release from work on December 24 and 31. Special provisions were also agreed for employees who are moving from Deutsche Telekom Kundenservice to VCS as part of the central reconciliation of interests.

Telekom Shop Vertriebsgesellschaft (TSG) and the service industry trade union ver.di reached an accord on a collective agreement for the 5,000 or so employees of TSG on June 9, 2009. After a three-month salary freeze, salaries for all pay-scale employees increased by 2.5 percent in August 2009 and will rise by another 1.8 percent in May 2010. For May to July 2009, the percentage increases were realized through a one-time payment calculated from each individual's annual target salary. The new collective agreement has a term of 24 months.

Provisions for civil servants in the Deutsche Telekom Group.

The Act for the Reform of Civil Service Law (Dienstrechtsneuordnungsgesetz – DNeuG) came into force on February 12, 2009. The change in pay took effect on July 1, 2009. The Act includes a gradual postponement of the retirement age of federal civil servants to 67. This postponement does not apply, however, to those civil servants who chose to take early retirement, meaning eligible civil servants can still take early retirement when they turn 55.

The Act provides the legal opportunity to extend early retirement arrangements until December 31, 2012; at Deutsche Telekom this arrangement is currently limited until December 31, 2010. Exercise of the early retirement option in 2011 and 2012 is subject to a decision by the Board of Management.

Health & safety.

Occupational health and safety forms an integral part of Deutsche Telekom's corporate culture. The company health improvement program raises health literacy and health awareness among all employees. To this end, preventive Group-wide measures and preventive medical care (such as colon cancer prevention, medical check-ups, flu vaccinations) are offered, and local campaigns such as health days are organized.

The Company's pandemic contingency plan aims to maintain a healthy workforce and the critical infrastructure. Employees are given hygiene tips and instructions on what to do if they fall ill. Hand disinfecting devices have been installed, first aiders trained as pandemic helpers, and medicines and protective goods stockpiled.

Service culture.

Our strategy can only be implemented if supported by the corporate culture. Our strategy describes what we wish to achieve, whereas the guiding principles lay down how we need to work together to make strategy implementation more successful and more sustainable. Since January 2009, our common culture has therefore been based on the following five guiding principles:

- Customer delight drives our action.
- Respect and integrity guide our behavior.
- Team together – Team apart.
- Best place to perform and grow.
- I am T – count on me.

These guiding principles are gradually being rolled out in all Deutsche Telekom subsidiaries. By the end of the reporting year, they had been launched or fully implemented in 33 entities in 21 countries. Implementation in the remaining 12 entities in seven countries has begun in January 2010. The goal of the guiding principles is to bring together the various parts of Deutsche Telekom under the One Company initiative. The principles are in full alignment with our vision, aspiration, and strategy.

Ideas management. The Idea Management (IDM) Center was established on July 1, 2008 as a uniform Group-wide organization that has managed and implemented all IDM processes since January 1, 2009. These include the launch of a uniform, state-of-the-art IT platform for entering, processing, and reviewing ideas up to their realization. Investing in innovative platforms, e.g., Internet-based platforms, creates instruments that increase people's willingness to develop and submit ideas and provide the opportunity to further improve the quality of the ideas submitted.

In close cooperation with the patents and innovation departments, an enhanced innovation culture is being created that permits a broad spectrum between spontaneous and structured innovation and the development of ideas.

The employees have responded positively to the ideas management system. In 2005 the number of ideas submitted was 7,821 and savings of EUR 98 million were generated; in 2009 the savings generated by 5,592 submitted ideas amounted to EUR 122 million.

Talent agenda.

Vocational training commitment remains strong. For years Deutsche Telekom has been the largest vocational training provider in Germany. At the end of the reporting year, Deutsche Telekom AG had 10,546 trainees and students on degree courses with integrated practical phases. The proportion of trainees in the workforce is well above the average of the DAX 30 companies. Deutsche Telekom intends to maintain this high level of commitment to junior-staff training. By September 1, 2009, Deutsche Telekom had given around 3,600 young people a career opportunity by accepting them for training or a study program. Training positions are available in ten different professions and on various "dual" training courses. For 2008 to 2010, Deutsche Telekom and the service industry trade union ver.di agreed on an above-average annual trainee ratio of 2.9 percent of the headcount of permanent employees in Germany (excluding Vivento and its subsidiaries).

At the end of 2009 the parties agreed to exceed this quota in 2010 as the Group takes the realization of its social responsibility to an even higher level. The Group trainee ratio was 9 percent of staff in Germany, excluding Vivento, at the end of 2009.

Deutsche Telekom's training programs are high quality and attract a large number of applicants. Every year, the chambers of commerce number Deutsche Telekom-trained staff among the best in their profession. In the interests of developing prospects for the younger generation, Deutsche Telekom's training goes far beyond its own staffing requirements. Unions and management agreed in June 2007 that more than 4,000 junior staff would be given permanent positions in the Group in Germany by the end of 2009. The Group gave around 1,300 trainees permanent positions in 2007, adding another approximately 1,800 in 2008. A total of approximately 2,300 junior staff completing vocational training at Deutsche Telekom were given permanent positions in the 2009 financial year.

Further training at Deutsche Telekom. Telekom Training, the further-training provider for the Group and the external German market, coordinates and designs training programs for expert and executive staff. In total, Telekom Training held 23,428 seminars for 155,457 participants in 2009. Most of these took place in the eight Deutsche Telekom conference hotels, all of which were rebranded on September 7, 2009 and are now referred to as Commundo Conference Centers. The Group, the main user of these conference hotels, accounted for 67.2 percent (of which Telekom Training accounted for 49.5 percent) of the 292,477 overnight stays and 38,127 event days.

Performance & Potential Review. In the 2009 financial year, the existing Performance & Potential Review (PPR) process for the around 2,500 executives in the Group was implemented for the first time on the basis of the new uniform competency model that is focused on the Group's new guiding principles and describes the requirements for employee action that are critical to success. Follow-up processes in talent and succession management were also redefined and closely linked to the PPR. The requirements of the PPR process for the One Company initiative with its more pronounced matrix organization were met by piloting and holding additional functional PPR sessions throughout the Group for the first time in the areas of Technology, Procurement, Finance, and IT.

HR@2012.

Quality and efficiency in human resources work through HR@2012. As part of the successfully concluded HR@2009 project, a number of essential milestones have already been implemented and pioneering steps taken. The FTE targets were reached and a three-role model introduced that makes HR activities more efficient and caters specifically to internal customers.

This course will now be continued. HR@2012 will attune the Human Resources department to current and future requirements and help it to develop a more clear-cut profile as a "partner for business" and to further enhance both customer satisfaction and efficiency. One important aspect of the initiative is that it considers costs, processes, and quality all at the same time. HR@2012 will be instrumental in achieving the Group's efficiency targets.

Risk and opportunity management.

Retail prices still falling // Ongoing staff restructuring // Infrastructure roll-out risks

Deutsche Telekom's operating environment is characterized by rapid technological progress, increasingly intense competition, and regulatory decisions in mobile and fixed-network communications. Deutsche Telekom is mastering these challenges by systematically managing risks and opportunities using a holistic risk early warning system.

The Group-wide risk management system covers all strategic and organizational control and monitoring measures for managing risks and seeks to identify and assess risks and opportunities early on. This enables the Group to initiate appropriate measures in good time to prevent or manage risks. Comprehensive market analyses, part of the Group's strategy and innovation development, help to identify segment and market potential.

Deutsche Telekom regularly analyzes risks and opportunities, both centrally and in the operating segments. The early warning systems used in this process are based on prescribed Group-wide methods and are tailored to specific requirements. Risks are identified in the form of scenarios, for example, and assessed on the basis of their size and probability of occurrence. The reference variables for the potential scope are the Group's target values (including EBITDA).

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

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

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

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

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

As part of the internal control system, the Group's risk management system for the internal accounting process comprises control and monitoring systems for Group accounting that record the Company's risk hedging. Clear internal Group regulations and guidelines in connection with the internal control system ensure that the consolidated financial statements are compliant. The Group's risk management unit ensures that risks that could present an obstacle to compliance with regulations are identified at an early stage, assessed, and promptly communicated and minimized.

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

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

The risks.

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

Economic environment. By the end of 2009, the financial and capital markets of the global economy had stabilized. However, full market stabilization is still far off, which constitutes a major risk to the future development of the global economy. Among the factors affecting the development of production worldwide are the credit crunch and the expiry of expansionary fiscal policy programs. If governments focus their fiscal policy on long-term consolidation in response to high budget deficits, this may have an impact on economic development. Waiting too long or picking the wrong time to exit the expansive monetary policy could also have a negative effect and lead to increases in inflationary expectations and capital market interest rates. Extremely volatile exchange rates, particularly in the United States and the Southern and Eastern European countries, also entail considerable translation risks for Deutsche Telekom.

Industry and competition. Unrelenting stiff competition and technological progress in 2009 continued to depress prices for voice and data services in both fixed-network and mobile communications. There is a general risk that price reductions cannot be compensated by corresponding volume growth.

Competitive pressure could rise even further as a result of significantly expanded coverage by (regional) telecommunications carriers and the continuing trend toward bundled products. Technological innovations and increasing fixed-mobile substitution are also exacerbating competition. Moreover, previously pure-play mobile communications providers in Germany are increasingly offering fixed-network and DSL products. Rival DSL providers offer bundled products integrating broadband and VoIP that do not require a fixed-network line.

Competition is becoming more intense on account of cable network operators offering higher data transmission rates. These companies can provide private homes and smaller companies throughout Germany with telecommunications products that require neither the build-out of their own network nor unbundled local loop lines from Deutsche Telekom. In certain regions competitors are extending their own fiber-optic network to the home so that they are independent of Deutsche Telekom's network there, too. Cable companies are expanding their range of services to include triple-play products, for example. A significant competitive trend is emerging where Deutsche Telekom has to compete with players outside the telecommunications sector as such, including major consumer electronics and Internet players. Despite having lost some market share already, Deutsche Telekom continues to be exposed to the risk of a further loss of market share and falling margins.

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

In the Systems Solutions operating segment, the ICT market is experiencing intense competition, declining prices and long sales cycles with the risk of lower revenue and margin erosion for T-Systems. Against the background of restrained economic growth, the creditworthiness of corporate customers could deteriorate, causing them to postpone investments, which would have an adverse effect on T-Systems' ICT business. Furthermore, mounting cost pressure could result in greater expansion of nearshore and offshore capacity in IT outsourcing and in the Systems Integration business area. T-Systems' international footprint and brand awareness are limited, especially compared with some of its competitors. This could adversely affect T-Systems' ability to leverage growth potential, especially considering the growing importance of business with multinational corporations outside Germany. In this context, the scarcity of resources may delay planned international growth.

Products, services, and innovations. As a result of rapid technological progress and increasing technological convergence, new and established technologies and products may to some extent substitute one another. This could lead to lower prices and revenues in both voice and data traffic. On the other hand, new and refined smartphones will be new sources of mobile Internet income revenue.

Improved transmission technology and innovative products and services are driving demand for broadband lines. Against the background of strong market penetration, market growth will begin to slow, indicating the onset of market saturation in Germany. Deutsche Telekom may not be able to convince customers sufficiently of the benefits of the new, innovative products and services or raise acceptance among customers. Sales of IPTV services such as Entertain will also be influenced by the prevalence of cable TV connections in Germany and a wider range of free-to-air television channels than in other countries.

Deutsche Telekom is boosting the potential of the mobile Internet by continuously expanding its high-performance mobile communications network. If mobile data applications do not develop as expected, revenue targets may be missed. Furthermore, investments in network construction and build-out and in existing and future mobile communications licenses may pay off later than expected. If competitors prove more successful than Deutsche Telekom at convincing customers of the added value of mobile products and services, this could lead to the loss of particularly high-revenue customers. Deutsche Telekom is continuing to focus on improving service quality, which will remain a critical factor in achieving customer satisfaction and lasting economic success.

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

Regulation gives extensive powers to government agencies to intervene in product design and pricing, which can have a drastic effect on operations. Deutsche Telekom is able to anticipate such interventions, which may intensify existing price and competitive pressure, only to a limited extent. There are concerns that regulatory interventions could impact the revenue trend in the fixed-network core market and in the mobile communications market in the medium and long term.

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

The Federal Network Agency will soon present key elements of the regulatory framework governing the continued development of modern telecommunications networks and the creation of a powerful broadband infrastructure. The Federal Government has assured that this framework will be designed to promote growth and innovation.

The legislative process to transpose the new EU Framework Directives into national law will begin in 2010. The review of the EU’s regulatory framework for telecommunications (EU Review) provides for – at least in principle – the opportunity for specific risk-sharing mechanisms between investors and holders of access rights. To what extent this will actually encourage investment in NGA, however, will depend largely on how the revised Directives are transposed into national law (by mid-2011 at the latest) and adequately applied by the national regulatory authorities. Under its NGA Recommendation the European Commission is planning to issue guidelines regulating new network investments probably by mid-2010. There is a risk that the European Commission will interpret the modified NGA regulatory approaches identified in the EU Review very restrictively, which would considerably limit the practical relevance of possible risk-sharing mechanisms.

As a general rule, VDSL wholesale services are anticipated to be subject to stricter regulatory control. According to a draft by the Federal Network Agency, Deutsche Telekom’s VDSL bitstream product will be subject to ex-post regulation by the Agency from 2010. Regulated rates for access to multi-functional street cabinets and cable ducts are likely to be introduced in early 2010, enabling competitors to build their own VDSL networks using Deutsche Telekom’s infrastructure.

Regulated rates give clear signals to the market. The level of regulated rates for wholesale access will also determine whether competitors build out their own networks or purchase services from Deutsche Telekom. The price of unbundled local loop (ULLs) lines is an important signal as it can reduce incentives to invest in access networks. ULL rates have been progressively reduced over the last few years, most recently in 2009, discouraging all market players from investing in new optical fiber access networks.

In spite of rate regulation by the Federal Network Agency, there is still legal uncertainty about the level of rates since the Federal Network Agency’s rate rulings are only final if not challenged in court. The 1999 ruling on ULL rates was revoked, for example. The Federal Network Agency must now decide again on monthly ULL charges for the period 1999 to 2001. The court has not formally stipulated preliminary rates with which the Federal Network Agency has to agree, so it is still unclear whether and to what extent rates will be changed.

The European Commission's Recommendation on the Regulatory Treatment of Fixed and Mobile Termination Rates adopted in May 2009 will continue to put pressure on the national regulatory authorities to further reduce termination rates in Germany and at foreign subsidiaries. The continuation of this regulatory policy is expected to result in mobile communications revenue losses. The European Commission is still pressing for a reduction of international roaming rates and an extension to new services (e.g., retail rates for data services), which is also expected to result in mobile communications revenue losses.

Once agreement had been reached with the Federal Network Agency's Advisory Council on the terms and conditions and also the auction rules governing the award of spectrum in the 800 MHz, 1.8 GHz, 2 GHz, and 2.6 GHz bands, the Federal Network Agency began the award proceedings. Although individual companies have filed complaints against the decision by the President's Chamber, the Federal Network Agency does not anticipate any delay in the proceedings. The registration period for the auction ends on January 21, 2010. The actual bidding process is scheduled for the start of the second quarter of 2010.

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

Personnel. Staff restructuring within the Deutsche Telekom Group in Germany continued on a socially responsible basis in 2009. It was implemented essentially by means of voluntary redundancies, partial and early retirement, and employment opportunities for civil servants and employees offered by Vivento, especially in the public sector. Deutsche Telekom will also continue to restructure its workforce as required. If it is not possible to implement the corresponding measures as planned or at all, this may have negative effects on the Group's financial targets and profitability.

In August 2009, the service industry trade union ver.di, the Central Works Council and employer representatives of T-Systems agreed on a joint approach for necessary staff restructuring activities in terms of timing and content. Preference will be given to voluntary instruments in order to make the changes as socially responsible as possible. In the first quarter of 2010, T-Systems will examine how many employees responded to the voluntary offers. If the employees in question have not found alternative employment or made use of the voluntary program by then, they will be offered fixed-term employment in a transitional company. If they do not take up the offer they will be made redundant.

When Group units that employ civil servants are disposed of, it is generally possible to continue to employ them at the Group unit to be sold, subject to the consent or initiative of the civil servants themselves. However, there is a risk that they may return from the unit sold to Deutsche Telekom after the end of their temporary leave from civil servant status. At present, around 3,500 civil servants have the right to return to Deutsche Telekom. This risk can be reduced by compensation payments, for example, but not completely ruled out.

Year-end bonus for civil servants. In November 2004, the Federal Republic of Germany passed the first Act to amend the Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz – PostPersRG), which removed the obligation on Deutsche Telekom and other private companies to pay active civil servants an annual year-end bonus under the German Federal Act on Bonus Payments (Bundessonderzahlungsgesetz). This Act was reviewed at several court instances. In December 2008, the Federal Administrative Court decided to refer the case to the Federal Constitutional Court for a judicial review pursuant to Art. 100 of the German Basic Law. It is not known when the Federal Constitutional Court will announce its ruling. If the court rules that the abolition of the bonus payment was unconstitutional, a supplementary payment for the period 2004 to 2009 may have to be made.

Reduced pay tables. With the entry into force of the reform of civil service law on February 11, 2009, the legislator integrated the previous year-end bonus paid annually in accordance with the German Federal Act on Bonus Payments (Bundessonderzahlungsgesetz) into the basic monthly salary for all federal civil servants. In accordance with § 78 of the Federal Civil Service Remuneration Act, this does not apply for civil servants employed by the Deutsche Bundespost successor companies. Civil servants affected appealed the new, reduced pay tables. The Stuttgart Administrative Court has submitted two test cases to the Federal Constitutional Court to evaluate whether this legal provision is constitutional. Depending on the outcome, the Company may have to make supplementary payments for the period between July 2009 and the date of the court's verdict.

IT/telecommunications infrastructure. In the 2009 financial year, Deutsche Telekom launched comprehensive programs to adapt its IT systems and IT infrastructure to changing customer needs and new organizational structures. These programs will continue in 2010. Inadequate planning and management of these Group-wide programs could lead to disruptions in business processes, resulting in revenue losses or increased costs.

For information on the current status of data privacy at Deutsche Telekom, please refer to www.telekom.com/datenschutz (site available in German only).

The Group-wide Next Generation IT (NG IT) project was launched in February 2008 as part of the updated IT strategy. NG IT is the framework for all IT-related components in the Group's transformation programs. The aim of the program is to develop the future IT architecture in the Group. NG IT looks at the Group's information technology at all architectural levels: IT infrastructure, applications, data, and systems. Group-wide projects prepare the joint product data model, solutions for forward-looking, comprehensive customer relationship management, and future IT support for the Finance, Human Resources, and Procurement functions. Once the transition is complete, fewer network nodes and hence fewer sites will be required.

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

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

In its provision of smartphone services, under its "extended network" concept T-Mobile USA uses third-party firms for some of the storage and transport of customer data (master data and customer-own content). At the beginning of October 2009, the failure of a critical customer database managed by a Microsoft subsidiary led to a massive interruption in T-Mobile USA's Sidekick service. The "extended network" may also be affected by faults of various kinds and durations in the future which are outside T-Mobile USA's control.

Data security and data privacy. The security of customer data is a top priority for the Group and is a vital precondition of a trusting relationship between the Company and its customers. In the reporting year, Deutsche Telekom faced allegations of data misuse and flaws in the security system. Deutsche Telekom created a new Board of Management department for Data Privacy, Legal Affairs and Compliance in the 2008 financial year and put together a comprehensive action package for improving data privacy, increasing data security and enhancing transparency, thus underlining the significance of these issues. The new department ensures that Deutsche Telekom harmonizes and implements the necessary measures related to data privacy and security and monitors compliance throughout the Group. The Group also set up an independent Data Privacy Advisory Council comprising leading experts from academia, industry and other organizations. The Data Privacy Advisory Council met a total of six times in the reporting year; further meetings have been scheduled for 2010.

To guarantee the highest standards in operational data privacy, Deutsche Telekom has launched comprehensive action plans and is pressing on with existing measures. Deutsche Telekom has further tightened its customer support structures and limited employees' access to data. User IDs now have to be renewed at shorter intervals. In addition, Deutsche Telekom extended the use of fixed IP addresses to ensure that employees and sales partners can access the systems from specific computers only. Access for external sales partners and our staff to internal IT systems now requires the use of transaction authentication numbers (TANs). Sales staff can only access mobile customers' personal data once they receive a valid transaction number from the customer. Customers are sent an automatically generated TAN via text message to their cell phone whenever they wish to carry out any modifications to their contract. Access to sensitive data is also subject to automatic threshold monitoring. This enables Deutsche Telekom to make a substantial contribution to improving customer data privacy in everyday business. To increase the awareness of data privacy and data security among employees, in particular executives, the Company stepped up its existing training programs and the annual data audits. In addition, the Group will give even more serious consideration to cases of misuse and impose severe disciplinary measures.

The Deutsche Telekom Group regularly publishes a voluntary report prepared by the Group privacy officer and submits it to the Supervisory Board of Deutsche Telekom and the Federal Commissioner for Data Protection. The report, which is also available to the public, is designed to sustainably increase transparency in the area of data privacy. The first data privacy report was issued in April 2009. Important IT systems used in sales and sections of the billing chain have been certified by the German Technical Inspection Association (TÜV). In addition to its own investigations, Deutsche Telekom will continue to commission a certified company to systematically audit its systems in order to detect weaknesses. By implementing these two measures, Deutsche Telekom is set to assume a pioneering role in the industry. In October 2008, Deutsche Telekom launched the website www.telekom.com/datenschutz (in German only) which provides information on the current status of data privacy at Deutsche Telekom in Germany and on data privacy incidents that are the subject of criminal investigations. The cases are published in agreement with the relevant authorities and the supervisory bodies are informed of the details. By launching this site, Deutsche Telekom has voluntarily satisfied a requirement since early 2009 that became law on September 1, 2009 through the amendment to § 42a of the German Federal Data Protection Act.

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

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

Deutsche Telekom aims to overcome doubts among the general public by pursuing an objective, scientifically well-founded, and transparent information policy. For instance, the Group is an active contributor to Informationszentrum Mobilfunk (IZMF), an industry initiative by German mobile communications enterprises that provides a broad-based platform for information and dialog for the general public. The Deutsche Telekom Group's efforts to provide state-of-the-art technologies also include funding scientific research that aims to detect possible risks at an early stage. Aside from long-term involvement in the Research Association for Radio Applications (Forschungsgemeinschaft Funk – FGF), this specifically entails funding the Federal Government's research activities within the scope of the German Mobile Telecommunications Research Programme and the Environmental Research Plan. In addition, under the Group's EMF policy of 2004 T-Mobile has launched transparency, information, participation, and research measures at all national companies that are designed to minimize potential legal and regulatory problems and respond adequately to the public's concerns.

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

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

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

- **Lawsuit on prospectus liability.** There are around 2,600 ongoing lawsuits from around 16,000 alleged buyers of T-Shares sold on the basis of the prospectuses published on May 28, 1999 and May 26, 2000. The amount in dispute totals approximately EUR 80 million. Some of the actions are also directed at Kreditanstalt für Wiederaufbau and/or the Federal Republic of Germany as well as the banks that handled the issuances. Additional supposed buyers of T-Shares have initiated conciliatory proceedings with a state institution in Hamburg, the "Öffentliche Rechtsauskunfts- und Antragsstelle der Freien und Hansestadt Hamburg." Approximately 11,250 conciliatory requests have been submitted to Deutsche Telekom to date. Around 4,000 of these lawsuits have not yet been finally closed.

The Regional Court has issued certified questions to the Higher Regional Court in accordance with the German Capital Investor Model Proceedings Act (KapMuG) relating to IPOs DT2 and DT3 and has temporarily suspended the initial proceedings

Over a total of 18 days since the beginning of the proceedings, the Higher Regional Court has heard a large number of witnesses in oral hearings on the certified questions for the DT3 model proceedings. One point to be proved was whether the decision to acquire VoiceStream had already been taken or whether negotiations on the transaction had already far advanced by the time the subscription period ended on June 16, 2000. Witnesses were also interviewed on the same topic in the United States. The Higher Regional Court obliged Deutsche Telekom to submit various depositions from the class action suit in the United States that ended with a settlement. The last hearing took place on November 6, 2009. In light of several applications for an extension (particularly relating to the item "contribution of Sprint shares into the U.S. subsidiary") to the Frankfurt/Main Regional Court in early December (some of which have yet to be decided upon), the hearing that was scheduled for December 11, 2009 was canceled. A new date will be set ex officio, as soon as a decision has been made on a successor to the presiding judge, who retired at the end of 2009. The DT3 model proceedings are not expected to be completed before the fall of 2010.

To all intents and purposes, the proceedings for a preliminary ruling on DT2 are currently suspended.

- **T-Online merger.** After the merger of T-Online International AG into Deutsche Telekom AG became effective on June 6, 2006, Deutsche Telekom AG was served around 250 applications for a court review of the fairness of the exchange ratio stipulated in the merger agreement dated March 8, 2005. Under the German Reorganization and Transformation Act (Umwandlungsgesetz), former shareholders of T-Online can request the Frankfurt/Main Regional Court to review the fairness of the exchange ratio in the course of appraisal rights proceedings (Spruchverfahren). The court ruled on March 13, 2009 that the exchange ratio for the T-Online shares was not fair and deemed a supplementary payment of EUR 1.15 per share fair. This ruling is not legally binding. Deutsche Telekom filed an appeal against this ruling within the period stipulated.

- **Toll Collect.** In the arbitration proceedings between the principle members of the Toll Collect consortium (Daimler Financial Services AG, Deutsche Telekom and the consortium company Toll Collect GbR) on the one hand and the Federal Republic of Germany on the other regarding disputes relating to the truck toll collection system, Deutsche Telekom received the Federal Republic's statement of claim on August 2, 2005. In the statement of claim, the Federal Republic maintained its claim to lost toll revenues of approximately EUR 3.51 billion plus interest for the delayed commencement of operations on September 1, 2003. The total claim for contractual penalties was increased to EUR 1.65 billion plus interest. The contractual penalties are based on alleged violations of the operator agreement (lack of consent to subcontracting, delayed provision of on-board units and monitoring equipment). In a letter dated May 16, 2008, the Federal Republic recalculated its claim for damages for lost toll revenues and reduced it minimally by EUR 169 million. The new claim is approximately EUR 3.3 billion plus interest. The main claims by the Federal Republic (including contractual penalties) amount to around EUR 4.98 billion.

  The defendants responded on June 30, 2006. The plaintiff responded in writing on February 14, 2007. Following further exchanges of submissions between the parties, a first hearing took place in June 2008 during which the arbitration court discussed legal issues with the parties, yet shed no light on the possible outcome of the case. Under orders from the arbitration court, each party submitted various documents to the other party at the end of September 2008. Furthermore, the arbitration court ordered each party to prepare another written statement by the end of November 2008 addressing the legal issues discussed during the hearing and in the submitted documents. Each party also had the opportunity to submit further written responses to the relevant statement from the other party, by the beginning of April 2009. The arbitration court also scheduled another hearing (including witness examinations) for the fall of 2009 (October 19 – 22), ordered the submission of further documents and papers, and appointed three experts to evaluate by September 30, 2009 the plausibility of the expert opinions presented by the parties. Following the disclosure by the defendants in July and August 2009 of circumstances that gave rise to doubts about the ability of the arbitrator appointed by the Federal Republic to perform the duties of his office with the necessary objectivity, care and independence, and following an application by the defendants to remove the arbitrator, the arbitration court decided on September 4, 2009 to cancel the appointed date for examining evidence and continuing the hearing. The arbitration court also postponed the completion date for the plausibility reports. The arbitration court rejected the application for rejection on September 30, 2009. This ruling can be appealed before a state court. The defendants filed a rejection application to this effect with the Berlin Administrative Court on November 6, 2009. A new date for continuing the hearing will be set after the conclusion of the rejection procedure.

- **Lawsuit filed by Vivendi SA (Paris), discontinuation of negotiations.** On May 3, 2005, Vivendi SA ("Vivendi") took legal action against Deutsche Telekom AG and T-Mobile International AG & Co. KG (now merged into Deutsche Telekom AG). Vivendi alleges that the defendants unlawfully broke off negotiations on the acquisition of a 48-percent stake in Polska Telefonia Cyfrowa Sp.z o.o. (PTC) in order to later obtain these shares at a lower price. The value in dispute has been put at approximately EUR 2.27 billion. The case was dismissed in March 2008 by the Paris Commercial Court in the first instance. Vivendi has given notice of appeal against this decision. In the grounds of appeal dated August 20, 2008, Vivendi initially pursued claims for approximately EUR 1.9 billion, which it has since reduced to around EUR 53 million.

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

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

  Numerous other lawsuits and arbitration proceedings are pending in connection with the disputed PTC shares. However, they are not presented in detail here.

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

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

- **Minimum contract terms for bundled products.** In a ruling dated October 14, 2009, the Düsseldorf Higher Regional Court – unlike the court of lower instance – upheld a complaint by Tele2 against minimum contract terms for bundled products. Under this ruling, Deutsche Telekom is prohibited from offering bundled retail products comprising a calling plan for a fixed-network line, including calls on that line, a DSL line, and Deutsche Telekom's DSL access service (bundled product) with a minimum contract term of twelve or more months and a tacit contract extension of twelve months in each case subject to termination with due notice. Furthermore, the Higher Regional Court ruled that Deutsche Telekom is obligated to pay Tele2 damages that have arisen or will arise as a result of the prohibited conduct. An appeal to the Federal Court of Justice has been permitted. Deutsche Telekom appealed against the ruling of the Düsseldorf Higher Regional Court within the period stipulated. Tele2 has also filed an application to the Higher Regional Court to have the verdict extended to include minimum contract terms of twelve months or more. This application has not yet been ruled upon.

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

– **Regulation of ULL, access to cable ducts, dark fiber.** In June 2007, the Federal Network Agency had obliged Deutsche Telekom AG to give its competitors access to its cable ducts (empty conduits) or, should there be no empty conduits, to dark fiber and to grant access to the unbundled local loop, where required also in cable distributors. In a temporary injunction in January 2008 and a ruling in April 2008, the Cologne Administrative Court largely upheld the Agency's decision. Deutsche Telekom AG has filed an appeal with the Federal Administrative Court. The Federal Administrative Court granted the appeal in part with its ruling dated January 27, 2010 and lifted the regulatory order with legally binding effect insofar as it concerned access to dark fiber.

– **ULL rate approvals.** In November 2008, the Cologne Administrative Court revoked the rates approval for the unbundled local loop line (ULL) from 1999 with regard to the monthly charges. Both Deutsche Telekom AG and the Federal Network Agency filed complaints against non-allowance of appeal. In a ruling dated October 5, 2009, the Federal Administrative Court rejected these complaints because the points raised relate to the old legal framework. The rulings of the Cologne Administrative Court revoking the approvals thus became legally effective and the rate approval proceedings from 1999 were revived, i.e., the Federal Network Agency must decide again on ULL monthly charges for the period from February 1999 to March 2001. Under its rulings dated August 27, 2009, the Cologne Administrative Court revoked the 2001 ULL rate approval, which relates to monthly charges for the period April 2001 through March 2003 and one-time charges for the period April 2001 through March 2002. In its rulings dated November 19, 2009, the Cologne Administrative Court then revoked the 2002 rate approval, which relates to one-time charges for the period April 2002 through June 2003. These rulings are not legally effective because both Deutsche Telekom AG and the Federal Network Agency have filed complaints against non-allowance of appeal. If the rulings become legally effective, the Federal Network Agency would have to decide again on the rates for the period April 2001 to March 2003 or June 2003. All other rulings of the Federal Network Agency on ULL rates since 1999 have been challenged and, apart from the 1999 ULL one-time charges, are therefore not final.

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

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

OTE. Deutsche Telekom holds 30 percent plus one share in OTE and has management control under the terms of a shareholder agreement. The party of the socialist movement in Greece, PASOK, had expressed criticism of the partial sale of OTE to Deutsche Telekom ahead of its success in the elections on October 4, 2009. Nevertheless, the risk that the new government may seek to renegotiate aspects of the shareholder agreement is small as under normal circumstances amendments to the shareholder agreement can only be made by consensus. In addition, a risk exists in the area of infrastructure roll-out (VDSL, FTTX). The Greek government has special plans in this respect concerning the structure of competition. The impact on OTE cannot yet be estimated.

Joint venture between T-Mobile UK/Orange UK. In November 2009, Deutsche Telekom AG and France Télécom S.A. signed the agreement to merge T-Mobile UK and Orange UK to form a 50 : 50 joint venture. The transaction is subject to the approval of the relevant authorities (including the European Commission), which is expected to be given in the course of 2010. For Deutsche Telekom there is a risk that the transaction may only be approved subject to significant conditions (such as relinquishing frequency spectrum).

One Company project. The extraordinary shareholders' meeting on November 19, 2009 approved the spin-off and takeover agreement under which Deutsche Telekom AG will transfer the T-Home business area to T-Mobile Deutschland GmbH in the 2010 financial year by way of a spin-off. Bringing together the Group's fixed-network and mobile communications activities in Germany is a cornerstone of the One Company project that is preparing the Group for further growth. The integrated company for Germany will be responsible for 27 million fixed-network lines – of which some 13 million support DSL – and more than 39 million mobile lines. Approximately 85,000 employees work in the Germany operating segment. Sweeping changes are needed in the organizational structure and workflow if the One Company project is to be successfully completed in the second quarter of 2010. If these goals cannot be achieved, there is a risk that the transition will last longer than expected and that operations will be temporarily impacted.

Financial risks. The financial risks for the Group arise mainly from liquidity, credit, and currency and interest rate risks. Risky investments by subsidiaries in Southern and Eastern Europe in particular exist on account of transfer restrictions and shareholder resolutions. Following the first-time full consolidation of OTE, investments deposited with various, mostly Greek, banks were also taken over and reduced substantially with the aim of spreading these investments and also gradually switching to government bonds.

To remain solvent and financially flexible at all times, Deutsche Telekom maintains a liquidity reserve in the form of credit lines and cash. The primary instruments used for medium- to long-term financing are bonds and medium-term notes (MTNs) issued in a variety of currencies and jurisdictions.

As of December 31, 2009, 24 banks granted Deutsche Telekom credit lines totaling EUR 14.4 billion. The situation on the international financial markets eased considerably during 2009. From today's perspective, access to the international debt capital markets is not seriously jeopardized. The 2009 financial year was marked by substantial new issuances. In 2009, Deutsche Telekom raised debt capital of just under EUR 5.3 billion in various markets.

Although a number of banks had refused to extend credit lines in 2008, partly due to lending restrictions and consolidation in the banking sector in connection with the financial crisis, all bilateral lines were extended after February 2009.

Rating agency Fitch cut Deutsche Telekom's long-term rating from A– in 2008 to BBB+. Moody's and Standard & Poor's ratings for Deutsche Telekom are still Baa1 and BBB+, respectively. The outlook of all three agencies is stable. If Deutsche Telekom's rating falls below certain defined levels, interest rates for some of the bonds and medium-term notes issued will rise.

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

In the countries of the Southern and Eastern Europe operating segment in particular, future trends in the difficult macroeconomic situation, ongoing intense competition and mobile communications taxes recently imposed or increased in some of these countries might have a stronger and/or negative effect.

Sales of shares by the Federal Republic and KfW. As of December 31, 2009, the Federal Republic and KfW held approximately 31.7 percent of Deutsche Telekom's shares, while the Blackstone Group held 4.4 percent. On April 24, 2006, the Blackstone Group purchased an interest in Deutsche Telekom AG's share capital from KfW.

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

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

Aggregate risk position. The assessment of the aggregate risk position is based on a consolidated review of all significant risks or risk areas. Despite severe competition and price pressure, the regulatory framework, the deterioration in economic conditions, and major challenges in terms of personnel restructuring and service quality, the Company's aggregate risk position has not changed significantly over the previous year. As it stands today, there is no risk to the Company's continued existence as a going concern.

The opportunities.

Deutsche Telekom has successfully implemented its "Focus, fix and grow" strategy over the past three years. This strategy is being developed further to shape the long-term future of the Group, with the focus on developing new market opportunities through modernization and investments in networks and IT.

The aforementioned One Company project also aims to seize new market opportunities. The project focus is on enhancing Deutsche Telekom's competitive position by offering products and services from a single source, improving customer service, safeguarding jobs, and leveraging revenue and cost synergies.

These days, customers want everything at the same time: phoning, communicating in social communities, and downloading music – services for connected life and work are being developed based on next-generation networks and IT to meet these requirements. Innovative bundled products and convergence products provide potential opportunities for Deutsche Telekom. As a large, integrated telecommunications group, Deutsche Telekom is not only able to cope with substitution risks better than specialized providers; it can also implement new bundled products. These also include mobile data applications on the basis of mobile broadband technologies.

LTE, the fourth generation of mobile communications, will substantially increase transmission rates in mobile communications networks, enabling faster use of mobile data services such as mobile e-mail and social networking. The mobile Internet thus provides significant growth opportunities for Deutsche Telekom.

Social and demographic changes and environmental requirements call for the development of new, promising products and services, such as new technologies for a state-of-the-art health care system, efficient environmental protection services, mobility services for seniors, citizen-oriented administration, mobile working, and connected cars, i.e., vehicles equipped with SIM cards, e-mail and TV. Services will be structured dynamically in the future to adapt them to the needs of the customer, as with cloud computing.

Projects such as T-City in Friedrichshafen are proof of the innovative strength of the Deutsche Telekom Group, a company that stands for service quality, state-of-the-art networking technology, and innovative products with a genuine customer benefit.

In 2009, Deutsche Telekom acquired an additional 5 percent of the Greek company Hellenic Telecommunications S.A., Athens, Greece (OTE), bringing its shareholding up to 30 percent plus one vote. The two companies aim to leverage synergies in areas such as procurement, where contracts will be renegotiated and lower prices agreed, or the introduction of innovative devices and services.

The joint venture to merge T-Mobile UK and Orange UK in the United Kingdom will create the leading mobile carrier in the market and generate considerable benefits for customers. For instance, the integration of Orange Broadband will make it possible to deliver convergence solutions. The joint venture will also allow network coverage to be expanded and network quality for voice, data and future services to be improved. Customer service and proximity will also improve as a result of a dense network of the joint venture's own outlets. The new company will be better positioned to invest in innovative service and to benefit to a greater extent from new technologies. The joint venture also aims to leverage considerable synergies, for example by cutting the cost of site rental and network/IT maintenance and consolidating its capital expenditure and marketing costs.

Significant events after the reporting period.

Changes in the composition of the Board of Management.

On January 29, 2010, the Supervisory Board of Deutsche Telekom approved the proposal by the Board of Management to reassign Hamid Akhavan's responsibilities on a temporary basis. Board of Management members Guido Kerkhoff and Reinhard Clemens will assume Hamid Akhavan's responsibilities in an acting capacity. Effective February 15, 2010, Guido Kerkhoff will assume temporary responsibility for the Europe region (United Kingdom, Netherlands, Austria, Poland and Czech Republic) and International Sales and Service. Reinhard Clemens will, also in an acting capacity, assume Group-wide responsibility for the remaining COO units, such as Products & Innovation, Technology, IT and Procurement effective the same date.

Regulation of ULL, access to cable ducts, dark fiber.

The Federal Administrative Court granted the appeal in part with its ruling dated January 27, 2010 and lifted the regulatory order with legally binding effect insofar as it concerned access to dark fiber. The reason for the ruling was that Deutsche Telekom's initial investment in the roll-out of optical fiber had not sufficiently been taken into account.

Outlook.*

Deutsche Telekom well positioned in spite of modest economic recovery // Markets remain intensely competitive // Further expansion of growth areas

Economic outlook.

The global economy is not expected to improve significantly in 2010 and 2011. The global economy recovered in the second half of 2009, although European national economies and the United States only experienced a low-level recovery. Leading economic indicators such as the business climate indexes or the Baltic Dry Index and the Air Freight Traffic Growth Index suggest that the global economy will continue to stabilize in 2010 and growth rates will rise. Lagging indicators such as unemployment levels or the development of retail consumption are still showing a more restrained economic upswing in Europe and the United States.

A moderate level of inflation is expected in 2010 in the European Union and the United States. Short-term interest rates may also settle at a low level as only a moderate increase in interest rates is forecast.

According to estimates by the Institute for the World Economy (IfW), the economic upturn will remain moderate in 2010 and national growth rates will vary greatly in some areas. While production in the emerging nations is expected to increase again sharply in 2010, the economies in the industrialized nations may be slow off the mark. For 2010 the IfW forecasts moderate real GDP growth of 1.4 percent in the industrialized countries overall, with 0.8 percent for the European Union and 2.0 percent for the United States. Overall global production is expected to increase by 3.6 percent in 2010. Production growth will accelerate slightly in 2011. The IfW forecasts growth of 1.7 percent for the European Union in 2011, 2.2 percent for the United States, and 3.9 percent for the global economy.

Market expectations.

The effects of the follow-on economic trends, driven by the continued rise in unemployment and the resulting negative consumption climate, may impact retail business in particular in Europe and the United States and, on a lagging basis, also lead to restraint in expenditure on telephone and data services.

Austerity measures in fiscal policy – made necessary by higher levels of national debt – in the form of higher taxes or lower expenditure may have direct or indirect effects on retail consumption and public demand for telecommunications products and services. In Greece the high level of national debt and the government's enforced austerity measures may have an impact on consumer business.

The modest pace of economic recovery in the relevant domestic and international markets may continue to force companies around the world to cut costs, which in turn may impact business with corporate and business customers in telecommunications and IT.

Deutsche Telekom's main sales markets will face intense competition and a continuing decline in prices, as large competitors expand their telecommunications business into further product areas. In addition to market expectations based on the economic environment, there will also be opportunities with generally positive market trends. The global trends toward digitization and connected life and work are accelerating all the time. An increase in demand for mobile Internet and data services is expected in the United States and Europe. Demand among business customers for cloud computing and telecommunications and data services from a single source is growing considerably.

Deutsche Telekom therefore expects a moderate positive development in the telecommunications market.

Expectations for the Group.

Deutsche Telekom will focus its investment activities in 2010 and 2011 on safeguarding its competitiveness and future viability, including in its home market, Germany, where capital expenditure will increase significantly. At the same time, the aim is to have a stable rating in order to have unrestricted access to the debt capital market. In addition, the financial performance indicators have to allow sustainable and appropriate shareholder remuneration. Taking this into consideration, Deutsche Telekom expects its capital expenditure to increase slightly year-on-year in 2010 to around EUR 9.1 billion (excluding any spectrum investment), which will strengthen the Group's position in its core markets. Deutsche Telekom aims to generate adjusted EBITDA of approximately EUR 20 billion and free cash flow of around EUR 6.2 billion in the 2010 financial year. These expectations are based on the assumption, for planning purposes, that the UK subsidiary T-Mobile UK, which will be merged to create a joint venture following approval by the relevant authorities, will be fully consolidated. In 2011 Deutsche Telekom expects sustainable high levels of adjusted EBITDA and free cash flow.

Deutsche Telekom intends to continue to realize international economies of scale and synergies through appropriate acquisitions in its footprint markets and through joint ventures. There are, however, no plans for major acquisitions or expansion into emerging markets.

The situation on the international financial markets eased up in 2009 and there were large issuances on the debt capital markets. Deutsche Telekom also took advantage of this situation to issue debt amounting to approximately EUR 5.3 billion. Deutsche Telekom expects the markets to remain accessible and stable in 2010, with a slight increase in interest rates over the course of the year. The high liquidity reserve of bilateral credit lines and short-term cash deposits mean that the Group was already financed right through 2010 at the end of 2009. This in turn means the Group has no material exposure to any increase in interest rates. With its reliable access to the capital markets, Deutsche Telekom will take advantage of favorable conditions for issuances in 2010 when needed.

Expectations for the operating segments.

Germany.

Deutsche Telekom will continue to optimize its product portfolio in the context of connected life and work to increase the number of high-value customer relationships over the long term.

In 2010 and 2011, Deutsche Telekom's operating business in Germany will focus on the following activities:

- Defending and consolidating Deutsche Telekom's leadership in the fixed-network and mobile communications markets, for example through stronger cross-selling and upselling
- Expanding the growing Entertain and mobile data business
- Increasing customer satisfaction, for example by improving customer service
- Significantly enhancing network quality and coverage, for example by increasing 3G coverage and improving network stability
- Further improving processes and quality with the goal of trimming the cost base
- Using the new One Company organizational structure to enhance competencies

In the Germany operating segment, Deutsche Telekom expects the decline in revenue to decelerate and adjusted EBITDA to further stabilize in 2010 and 2011.

Deutsche Telekom will defend its market leadership in the fixed-network business, even though its traditional access business will continue to suffer competition-driven losses of market share. One of the key issues will be the further development of the mass market with Entertain products through a combination of high-speed broadband lines and attractive content and features, including high-performance packages with TV and Entertain content via DSL and fixed-network lines with flat rates. The range of high-definition (HD) services for TV will be extended in the 2010 financial year, allowing customers to benefit from a fully HD-enabled infrastructure.

In the mobile communications market, Deutsche Telekom will be able to maintain its market position in a highly competitive environment. Mobile Internet will be one of the principal growth drivers. The high level of growth is expected to continue in 2010, due in part to the sale of smartphones. With a portfolio of intelligent handsets, attractive rate plans and innovative applications, Deutsche Telekom will further develop the consumer and business customer markets through data services for cell phones and laptops. In addition, Deutsche Telekom will offer machine-to-machine solutions which will make a positive contribution to the mobile non-voice growth area.

Capital expenditure in Germany will focus on growth and innovation, particularly the further integrated and value-enhanced broadband expansion in fixed-network and mobile communications as well as quality and service initiatives. In view of the general market and financial situation, bidding at the mobile communications spectrum auction is expected to be less intense than at the UMTS auction in 2000. Demanding coverage requirements facing the winners of the spectrum auction as well as spectrum usage restrictions support this expectation.

United States.

In 2010, the United States operating segment (T-Mobile USA) will focus on attracting and retaining a loyal customer base. Data growth and the higher utilization of the 3G network will form the basis for the future development. With a continued focus on cost efficiencies, but offset by market-driven declines in voice revenues per customer in an increasingly mature U.S. market, revenue and adjusted EBITDA are expected to be broadly stable in 2010. For 2011, Deutsche Telekom expects to begin to experience positive developments in revenues and adjusted EBITDA. However, exchange rate changes, regulatory changes and competitive pressures may significantly affect revenues and adjusted EBITDA.

The focus of capital expenditure for T-Mobile USA will continue to be the enhancement of network quality and coverage. In particular T-Mobile USA intends to expand and upgrade the 3G mobile communications network, including an upgrade of the top 30 U.S. markets to HSPA+ with a top download speed of 21 Mbit/s in 2010.

Europe.

Deutsche Telekom expects customer numbers to continue growing in the Europe operating segment. Ongoing development of the mobile Internet with innovative data services and new, intelligent mobile handsets at attractive prices are proving to be important and consistent growth drivers. Nevertheless, the Europe operating segment is facing ongoing intense competition in a continued challenging macroeconomic situation. Regulatory measures and exchange rate fluctuations in the countries may have a negative effect on revenue and earnings on a euro basis.

Against this background, in 2011 Deutsche Telekom expects revenue and adjusted EBITDA in the Europe operating segment to increase again slightly, after a challenging 2010 financial year, provided the composition of the operating segment remains unchanged (in particular assuming the full consolidation of T-Mobile UK). This development will be supported by cost-cutting initiatives.

The key areas of capital expenditure in the Europe operating segment will be improvements in GSM network quality and the further roll-out of UMTS networks as part of the drive to introduce the technology for next-generation mobile networks.

Southern and Eastern Europe.

The acquisition of a stake in OTE has given Deutsche Telekom a foothold in further Southern and Eastern European markets. On a like-for-like basis, Deutsche Telekom expects revenue and adjusted EBITDA in the Southern and Eastern Europe segment to decrease slightly compared with the past financial year until 2011, in particular due to the continuing difficult macroeconomic situation and ongoing intense competition. The slight decline in adjusted EBITDA on a like-for-like basis that will continue until 2011 will be partially offset by Group-wide strategic initiatives and cost-cutting measures. In particular regulatory measures and exchange rate fluctuations in the individual countries as well as the recently imposed or increased mobile communications taxes may have an additional adverse effect.

Capital expenditures in Southern and Eastern Europe will focus on the network infrastructure to expand broadband coverage and for the further build-out of the 3G network and TV infrastructure (satellite and IP). Further investments have been scheduled to improve and refine customer service and raise process efficiency.

Systems Solutions.

T-Systems focuses on the growing ICT services market where it provides solutions for corporate customers. Demand for international ICT solutions is increasing – not least as a result of the further globalization of corporations. Using a global infrastructure of data centers and networks, T-Systems manages information and communication services for some 400 corporate customers, including multinational corporations and public-sector and public health institutions, and provides integrated solutions for the networked future of business and society. Large-scale contracts from renowned industry giants such as MAN, Linde, Philips and BP are indicative of the revenue trends in the coming years. It nevertheless remains to be seen how the business of T-Systems' customers will develop in the wake of the global financial and economic crisis.

T-Systems' cost-cutting measures showed encouraging effects in the past financial year and will be continued. Revenue and adjusted EBITDA are expected to improve slightly in this operating segment until 2011 in view of the measures described.

Group Headquarters & Shared Services.

Adjusted EBITDA at Group Headquarters & Shared Services is largely influenced by expenditure at Group Headquarters and staff restructuring activities at Vivento. Measures taken to improve and centralize functions in connection with the realignment of the management structure will enhance efficiency on a Group-wide basis, but will have a negative impact on adjusted EBITDA at Group Headquarters & Shared Services. At the same time, key goals within centralized functions include efficient cost management and increasing efficiency.

* Outlook contains forward-looking statements that reflect management's current views with respect to future events. Words such as "assume," "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "plan," "project," "should," "want" and similar expressions identify forward-looking statements. These forward-looking statements include statements on the expected development of net revenue, adjusted EBITDA, capital expenditure and free cash flow until 2011. Such statements are subject to risks and uncertainties, such as an economic downturn in Europe or North America, changes in exchange and interest rates, the outcome of disputes in which Deutsche Telekom is involved, and competitive and regulatory developments. Some uncertainties or other imponderabilities that might influence Deutsche Telekom's ability to achieve its objectives, are described in the "Risk and opportunities management" section in the management report and in the "Forward Looking Statements" and "Risk Factors" sections in the Annual Report on Form 20-F and the disclaimer at the end of the Annual Report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. We do not guarantee that our forward-looking statements will prove correct. The forward-looking statements presented here are based on the current structure of the Group, without regard to significant acquisitions, dispositions, business combinations or joint ventures Deutsche Telekom may choose to undertake. These statements are made with respect to conditions as of the date of this document's publication. Without prejudice to existing obligations under capital market law, we do not intend or assume any obligation to update forward-looking statements.