Deutsche Telekom AG

Annual financial statements and management report as of December 31, 2008

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Deutsche Telekom AG's single-entity financial statements and management report for the 2008 financial year are published in the electronic Federal Gazette (Bundesanzeiger) and can also be accessed on the website of the register of companies.

Management report of Deutsche Telekom AG

Management report of Deutsche Telekom AG.

Organizational structure and business activities.

Legal and organizational structure.

Deutsche Telekom AG, Bonn, (hereinafter also referred to as Deutsche Telekom or Company) is the parent of the Deutsche Telekom Group. The annual financial statements are prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Act (Aktiengesetz – AktG) and the German version is published[1] in the electronic Federal Gazette (elektronischer Bundesanzeiger).

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

As of December 31, 2008, the **capital stock** of Deutsche Telekom AG totaled EUR 11,164,979,182.08 and was composed of 4,361,319,993 no par value registered ordinary shares. Each share entitles the holder to one vote. The voting rights are nevertheless restricted in relation to the treasury shares (around 2 million as of December 31, 2008) and the trust shares (around 19 million as of December 31, 2008). The trust shares are connected with the acquisitions of VoiceStream and Powertel in 2001. As part of these acquisitions, Deutsche Telekom issued new shares from authorized capital to trustees for the benefit of holders of warrants, options, and conversion rights, among others. As regards the shares issued to trusts, the trustees in question waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence. The shares issued to the trusts can be sold on the stock exchange on the instruction of Deutsche Telekom if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom.

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

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

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

This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG pursuant to § 17 AktG are also entitled to purchase the shares. The purchase may take place without prejudice to the principle of equal treatment through the stock exchange or a public purchase offer addressed to all shareholders. By resolution of the shareholders' meeting of May 15, 2008, the Board of Management is authorized to redeem Deutsche Telekom AG's shares purchased on the basis of the aforementioned authorization, without such redemption or its implementation requiring a further resolution of the shareholders' meeting.

[1] The financial statements are available upon request from Deutsche Telekom AG, Investor Relations, Postfach 2000, D-53105 Bonn, Germany, fax +49 (0) 228 181 88899.
[2] www.telekom.com/articles-of-incorporation

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

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

In 2008, Deutsche Telekom acquired 25 percent plus one share in the Greek company Hellenic Telecommunications Organization S.A. (OTE). In May 2008, the Greek government and Deutsche Telekom signed a shareholders' agreement regarding an investment in the telecommunications company. Together, the two shareholders hold a majority of 50 percent plus two votes in OTE, with Deutsche Telekom being granted the possibility of controlling OTE's financial and operating policies once all necessary steps of the transaction have been completed. The changes to OTE's Articles of Incorporation necessary for full implementation of the shareholders' agreement were approved at the extraordinary shareholders' meeting of OTE on February 6, 2009. It cannot be ruled out that this resolution by the shareholders may be declared invalid by a court, in the event that other shareholders successfully file rescission suit against this resolution.

Under the share purchase agreement, Deutsche Telekom has additionally granted the Hellenic Republic two put options for an additional 5 percent (first put option) and 10 percent (second put option) of the shares.

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. (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.

Management and supervision.

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

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

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

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

The appointment and discharge of members of the Board of Management is in accordance with § 84 and § 85 AktG, and § 31 of 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.

Remuneration report – fundamentals of the compensation system for members of the Board of Management and the Supervisory Board.

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

The total compensation of Supervisory Board members is governed by § 13 of the Articles of Incorporation and includes a fixed annual component plus variable, performance-related remuneration with short-term and long-term components, depending on the development of net income per share. The compensation of the members of the Board of Management and the Supervisory Board is reported individually in the notes to the financial statements under Note 33, broken down by the various components.

Business background.

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

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

A description of the Group's structure and the development of business at major associated and related companies can be found in the Group management report[3].

The legal entity Deutsche Telekom AG has various branch offices in Germany and consists only of parts of the Broadband/Fixed Network and Group Headquarters & Shared Services operating segments.

The part of the **Broadband/Fixed Network** operating segment that is within Deutsche Telekom AG offers consumers and business customers traditional fixed-network services, broadband Internet access, and multimedia services on the basis of a state-of-the-art telecommunications infrastructure. This segment also conducts business with national and international network operators and with resellers (wholesale including resale). In addition, it provides wholesale telecommunications services for Deutsche Telekom's other operating segments.

The **Group Headquarters & Shared Services** operating segment comprises all Group units and subsidiaries that cannot be allocated directly to one of the aforementioned operating segments. Both Group Headquarters and some shared services belong to the legal entity Deutsche Telekom AG. Group Headquarters is responsible for strategic and cross-segment management functions. The Shared Services unit is responsible for all other operating functions not directly related to the aforementioned segments' core business. These include that part of Vivento that is organized within Deutsche Telekom AG, which is responsible for providing employees with new employment opportunities as part of the workforce restructuring program, as well as Real Estate Services, whose activities include the management of Deutsche Telekom AG's real estate portfolio.

Deutsche Telekom AG also employs part of its workforce in its subsidiaries, where civil servants can be assigned work under legal provisions. The instrument of assignment has been used to a significant extent since the transfer of operations to the three service companies Deutsche Telekom Kundenservice GmbH (DT KS), Deutsche Telekom Netzproduktion GmbH (DT NP) and Deutsche Telekom Technischer Service GmbH (DT TS) in the 2007 financial year. The personnel costs incurred in this regard are borne by the respective subsidiaries.

The organizational structure of the Company changed in the reporting year with the assignment of four "Technology production group" centers to Deutsche Telekom Netzproduktion GmbH, Bonn, and the assignment of the organizational units responsible for operational accounting to DeTe Accounting GmbH, Bonn.

[3] The financial statements are available upon request from Deutsche Telekom AG, Investor Relations, Postfach 2000, D-53105 Bonn, Germany, fax +49 (0) 228 181 88899.

Corporate strategy and management.

Corporate strategy.

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

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

As only parts of the Broadband/Fixed Network and Group Headquarters & Shared Services operating segments are within the legal entity Deutsche Telekom AG, the main components of the Group strategy relevant to these units are described below. A detailed description of the Group strategy can be found in the Group management report.

Improve competitiveness.

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

The high-performance broadband infrastructure is the basis for products such as Entertain, which is marketed by T-Home. T-Home already dominates the German Internet-based television market with this service. The richness and exclusivity of the content, coupled with interactive television-related services, easily sets the product apart from the competition. Additional HD content and high-end formats such as live Bundesliga soccer games are further incentives to buy. Improving customer service at all points of customer contact is a core component of Deutsche Telekom's strategy. In this area, there are important achievements to report: The Stiftung Warentest consumer testing organization rated T-Home the best provider of DSL lines and related customer service in the 11/2008 issue of its magazine.

On the cost side, Deutsche Telekom is continuing to work systematically on aligning its structures. The Save for Service cost-cutting program launched in 2006 is running very successfully.

Corporate management.

The financial management is focused on the Group and its operating segments. For this purpose, the legal entity Deutsche Telekom AG is not considered as separate. The financial management of the Group uses an integrated system of key ratios based on a small number of key performance indicators (KPIs). These performance indicators define the delicate balance of growth, profitability and financial flexibility the Group has to maintain as it pursues its primary "Focus, fix and grow" goal.

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

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

To measure the profitability of business development, the Group uses return on capital employed (ROCE) as a relative indicator and economic value added (EVA®) as an indicator of value creation. For further details on the system of key performance indicators, please refer to the Group management report.

The economic environment.

Global economic development.

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

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

Telecommunications market.

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

In 2008, the price index for fixed-network and Internet telephone services in Germany decreased by 3.4 percent compared with 2007, primarily due to competition in the field of complete packages (telephone and DSL lines, telephone flat rate, Internet flat rate). On average, the cost of mobile telephony fell by 2.3 percent in 2008 compared with 2007. A recent industry association study on the development of the German telecommunications market points to a sustained downturn in the market as a whole for 2008. According to the study, revenue from telecommunications services in Germany will amount to around EUR 60.6 billion in 2008, a decrease of 4.1 percent compared with 2007, which is essentially due to competition-induced price cuts in both the fixed and the mobile network.

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

As the operational activities of the Company are mainly concentrated on the German Broadband/Fixed Network market, the development of that market is described in greater detail below.

Broadband/fixed-network market.

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

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

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

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

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

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

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

Regulatory influence on Deutsche Telekom's business.

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

Regulation in Germany.

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

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

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

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

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

Regulation by the European Union.

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

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

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

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

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

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

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

International regulation.

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

Development of business.

Deutsche Telekom AG reported income after taxes for the 2008 financial year of EUR 2.0 billion. Similar to the previous year, the development of business was marked by a number of very different effects, arising from both the Company's day-to-day operations and income related to subsidiaries, associated and related companies, as well as from the restructuring activities carried out in the second half of the prior year.

The restructuring within the Group and the resulting changes to the organizational structure of Deutsche Telekom AG gave rise to effects on the development of business at Deutsche Telekom.

All these effects and developments are discussed in more detail below.

Results of operations.

In June 2007, Deutsche Telekom's Customer Service, Technical Service and Network Production units were transferred to three legally separate service companies: Deutsche Telekom Kundenservice GmbH (DT KS), Deutsche Telekom Technischer Service GmbH (DT TS) and Deutsche Telekom Netzproduktion GmbH (DT NP). Further organizational changes during the reporting year include the transfer of operations of four Deutsche Telekom "Technology production group" centers to DT NP. The prior-year figures have not been adjusted to reflect these changes. Where the effects of these changes are significant and necessary for a better understanding of the business figures, more detailed information can be found in the notes to the statement of income. The factors affecting the development of the results of operations are explained briefly below:

Statement of income.

millions of €	2008	2007	Change
Net revenue	**18,201**	**19,442**	**(1,241)**
Changes in inventories and other own capitalized costs	56	345	(289)
Total operating performance	**18,257**	**19,787**	**(1,530)**
Other operating income	5,284	3,899	1,385
Goods and services purchased	(6,411)	(6,298)	(113)
Personnel costs	(3,871)	(6,258)	2,387
Depreciation, amortization and write-downs	(3,565)	(3,783)	218
Other operating expenses	(8,682)	(7,653)	(1,029)
Operating results	**1,012**	**(306)**	**1,318**
Financial income (expense), net	1,064	(3,669)	4,733
Results from ordinary business activities	**2,076**	**(3,975)**	**6,051**
Extraordinary income	-	17,264	(17,264)
Taxes	(72)	(5)	(67)
Income after taxes	**2,004**	**13,284**	**(11,280)**

Net revenue decreased by 6.4 percent to EUR 18.2 billion as a result of line losses and lower call revenues in the fixed network due to the high acceptance of complete packages with a flat-rate component. The revenue reduction was also attributable to volume effects in network access charges (interconnection services), volume and pricing effects in DSL resale, and a lower level of services purchased by Group companies for voice and data products due to price and volume factors. Volume growth in the broadband business and in unbundled local loop lines only partially offset the decline in revenue.

The decrease in **other own capitalized costs** compared with 2007 is due, in particular, to the formation of the service companies.

Other operating income increased by EUR 1.4 billion to EUR 5.3 billion. A significant proportion of the increase is especially attributable to the higher income from the transfer of personnel and administrative costs to the service companies, since in 2007 this transfer did not start before the date of their establishment in the second half of the year. Other operating income also increased due to a higher currency translation gain and additional income from financial derivatives. This was offset in particular by a decline in income from the reversal of accruals and in income from disposal of property, plant and equipment.

The year-on-year increase in **goods and services purchased** was the net result of a variety of effects, such as an increase of EUR 344 million in expenses for other services purchased, especially as a result of the purchase of services from the service companies, while expenses for raw materials and supplies and for merchandise purchased decreased by EUR 145 million.

Personnel costs decreased by EUR 2.4 billion to EUR 3.9 billion in the reporting period. This was largely due to a headcount reduction resulting from the establishment of the service companies as well as a substantial year-on-year decrease in expenses for the recognition of accruals for staff adjustment measures.

Other operating expenses increased by a total of EUR 1.0 billion to EUR 8.7 billion in the reporting year, principally as a result of the purchase of maintenance services from the service company DT NP and foreign currency translation losses. The losses on the disposal of noncurrent assets and the expenses from rental and lease agreements had an offsetting effect.

Financial income improved year-on-year by EUR 4.7 billion to EUR 1.1 billion, predominantly due to the improvement in income related to subsidiaries, associated and related companies. This increase was primarily the result of higher profit transfers from T-Mobile International AG and T-Systems Business Services GmbH, partly due to special factors. A year-on-year increase in interest expense, write-downs of subsidiaries, associated and related companies, and losses transferred from subsidiaries had an offsetting effect.

The **results from ordinary business activities** improved by EUR 6.1 billion year-on-year to EUR 2.1 billion.

No **extraordinary income or loss** arose in the reporting year. This contrasts with extraordinary income of EUR 17.3 billion in the previous year from the merger of T-Mobile International Holding GmbH into T-Mobile International AG and its measurement at fair value.

Income after taxes decreased by EUR 11.3 billion year-on-year to EUR 2.0 billion mainly as a result of the non-recurrence of this extraordinary income effect.

Net worth.

The following overview of the balance-sheet shows the individual items in condensed form:

Balance sheet.

as of Dec. 31	2008 millions of €	2008 %	2007 millions of €	2007 %	Change millions of €
ASSETS					
Intangible assets	1,030	0.9	750	0.6	280
Property, plant and equipment	18,815	17.3	20,353	18.8	(1,538)
Financial assets	83,277	76.4	81,789	75.4	1,488
Noncurrent assets	**103,122**	**94.6**	**102,892**	**94.8**	**230**
Inventories, materials and supplies	88	0.1	147	0.1	(59)
Receivables	3,344	3.0	3,349	3.1	(5)
Other assets	803	0.7	695	0.7	108
Marketable securities	206	0.2	286	0.3	(80)
Cash and cash equivalents	960	0.9	593	0.5	367
Current assets	**5,401**	**4.9**	**5,070**	**4.7**	**331**
Prepaid expenses and deferred charges	536	0.5	539	0.5	(3)
Total assets	**109,059**	**100.0**	**108,501**	**100.0**	**558**
SHAREHOLDER'S EQUITY AND LIABILITIES					
Capital stock and reserves	53,713	49.2	53,711	49.5	2
Unappropriated net income	5,297	4.9	6,679	6.2	(1,382)
Shareholders' equity	**59,010**	**54.1**	**60,390**	**55.7**	**(1,380)**
Accruals for pensions and similar obligations	2,630	2.4	2,643	2.4	(13)
Tax accruals	179	0.2	288	0.3	(109)
Other accruals	5,049	4.6	5,431	5.0	(382)
Accruals	**7,858**	**7.2**	**8,362**	**7.7**	**(504)**
Debt	6,308	5.8	4,933	4.6	1,375
Other liabilities	35,833	32.8	34,768	32.0	1,065
Liabilities	**42,141**	**38.6**	**39,701**	**36.6**	**2,440**
Deferred income	50	0.1	48	0.0	2
Total shareholders' equity and liabilities	**109,059**	**100.0**	**108,501**	**100.0**	**558**

Total assets increased to EUR 109.1 billion in the reporting year. The changes in the balance sheet were primarily attributable to the following factors.

Assets increased by EUR 558 million compared with December 31, 2007, EUR 230 million of which was accounted for by noncurrent assets and EUR 331 million by current assets. These developments were due in particular to changes in the following balance sheet items:

Intangible assets increased by EUR 280 million compared with December 31, 2007, mainly as a result of investments in various software applications.

Property, plant and equipment decreased by a total of EUR 1.5 billion in the reporting year, primarily due to depreciation and lower investments compared with depreciation.

The investment ratio for property, plant and equipment, i.e., the ratio of net investment (additions less disposals at net carrying amounts) to cost, was 2.3 percent in the 2008 financial year.

As of the balance sheet date, **financial assets** increased by EUR 1.5 billion compared with December 31, 2007. This increase resulted primarily from the acquisition of shares in Hellenic Telecommunications Organization S.A. (OTE), Athens, which are shown under subsidiaries, associated and related companies. The decline in investments in subsidiaries of EUR 660 million was chiefly due to the write-down of the investment in MagyarCom Holding GmbH, Bonn. Disposals included the sale of DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster.

The proportion of noncurrent assets in total assets (asset utilization) decreased by 0.2 percentage points to 94.6 percent. Noncurrent assets are covered by shareholders' equity to 57.2 percent (December 31, 2007: 58.7 percent).

The increase of EUR 331 million in **current assets** to EUR 5.4 billion compared with December 31, 2007 was principally due to the development of cash and cash equivalents. The ratio of current assets to total assets (current asset ratio) was 4.9 percent, up 0.2 percentage points year-on-year.

The increase in **shareholders' equity and liabilities** as against December 31, 2007 is mainly attributable to the rise in liabilities of EUR 2.4 billion. This was offset by the decrease in shareholders' equity and accruals.

Liabilities increased primarily on account of the EUR 1.4 billion rise in debt, which mainly relate to liabilities to banks. The increase in other liabilities is largely attributable to the EUR 1.4 billion rise in miscellaneous liabilities, which was partially offset by the decline in liabilities to subsidiaries by EUR 416 million.

Shareholders' equity decreased by EUR 1.4 billion compared with December 31, 2007, mainly due to the net current income amounting to EUR 2.0 billion and the payment of dividends of EUR 3.4 billion for the previous year. The equity ratio therefore decreased by 1.6 percentage points to 54.1 percent (December 31, 2007: 55.7 percent).

Financial position.

The main elements of the statement of cash flows are summarized to elaborate on the Company's financial position. The selected key figures below give a brief overview of Deutsche Telekom's financial position.

Condensed statement of cash flows.

millions of €	2008	2007	Change
Income after taxes	2,004	13,284	(11,280)
Net cash provided by operating activities	5,681	5,279	402
Net cash used for investing activities	(4,510)	(1,058)	(3,452)
Net cash (used for) provided by investing activities	(804)	(4,953)	4,149
Net change in cash and cash equivalents	367	(732)	-
Cash and cash equivalents, at beginning of period	593	1,325	-
Cash and cash equivalents, at end of period	960	593	-

Income after taxes decreased by EUR 11.3 billion to EUR 2.0 billion especially on account of the non-cash extraordinary income of EUR 17.3 billion in the previous year from the merger of T-Mobile International Holding GmbH into T-Mobile International AG.

Net cash provided by operating activities amounted to EUR 5.7 billion in the 2008 financial year compared with EUR 5.3 billion in the previous year. The increase in net cash provided by operating activities was primarily attributable to a year-on-year improvement in working capital.

Net cash used for investing activities amounted to EUR 4.5 billion in 2008 as compared with EUR 1.1 billion in 2007. This was mainly the result of cash outflows for investments in property, plant and equipment and for financial assets. The cash outflows for investments in property, plant and equipment were mainly related to transmission systems and the outside plant network, while cash outflows for investments in financial assets principally related to the acquisition of shares in Hellenic Telecommunications Organization S.A. (OTE).

Net cash used for financing activities amounted to EUR 804 million in 2008 compared with EUR 5.0 billion in the previous year. This was due, among other factors, to a cash outflow for the payment of dividends which was partially offset by a higher net cash inflow from borrowings and repayments from the increase in medium-term and long-term intragroup debt in particular.

To guarantee the solvency and financial flexibility of Deutsche Telekom at all times, a liquidity reserve in the form of credit lines and cash is maintained. For this purpose, the Company has entered into standardized credit agreements with 28 banks amounting to a total of EUR 16.8 billion. The bilateral credit agreements have a maturity of 36 months and can, after each period of 12 months, generally be extended by a further 12 months to renew the maturity of 36 months.

Off-balance-sheet financial instruments.

The Company uses off-balance-sheet financial instruments. These include derivatives used to hedge interest rate and currency exposures. Deutsche Telekom uses these instruments exclusively for hedging purposes and not for speculative reasons. Such derivatives are reviewed regularly for their effectiveness as hedge instruments. The volume of transactions outstanding as of the balance sheet date was EUR 64.6 billion (December 31, 2007: EUR 46.7 billion); measured at fair value, their total value was negative at EUR -510 million. For more detailed information, please refer to note 28 in the notes to the financial statements.

Statement on business development in 2008.

For Deutsche Telekom, the 2008 financial year was again marked by intense competitive and price pressure in the telecommunications industry and by continuing technological change. On top of this, the restructuring activities carried out in the second half of the prior year together with write-downs on financial assets and the higher year-on-year level of profit and loss transfers, partly as a result of special factors, had a particular impact on income after taxes.

Corporate responsibility.

As part of the further development of its corporate responsibility (CR) strategy in 2008, Deutsche Telekom set itself the goal of becoming an international leader in the field of CR. The strategy defines a common understanding of corporate responsibility throughout Deutsche Telekom, establishing a framework of activities for all Group units. A separate CR department, which also carries out tasks such as environmental management and CR reporting, has provided the interface to a new, efficient organizational structure since early 2008. Assigning this department to the Chairman of the Board of Management has enabled corporate responsibility to be managed uniformly throughout the Group. In the future, CR will focus on three new fields of activity: climate protection ("low-carbon society"), equality of opportunity in the information society ("connect the unconnected"), and "connected life and work." With this approach, Deutsche Telekom intends to unite social and environmental commitments with economic growth in its core business. The printed CR report for 2008 and the CR online report[4] contain further information on the CR strategy and the core CR topics.

New fields of activity for more responsibility.

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

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

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

Further achievements in 2008: Supplier management and rating results.

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

[4] http://www.telekom.com/cr-report2008

Research and development.

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

Deutsche Telekom research and development activities.

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

Innovation Development Laboratory.

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

- Intuitive Usability
- Integrative Service Components
- Intelligent Access
- Infrastructure
- Inherent Security

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

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

Strategic Research Laboratory.

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

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

Successful transfer of results.

The most important goal of these joint efforts is to transfer the results into the Group units, where they can be used to generate new products and services for Deutsche Telekom customers. This transfer gained further momentum in 2008. A host of findings were picked up by the various operating segments of the Group, where they helped to increase revenue and reduce costs way above the initial forecasts. These included findings from the Generation 50+ project which found their way directly into the design of the Sinus A 201 telephone. A value-tracking system regularly checks and monitors the value creation associated with all development projects.

Cooperation with research institutions in Germany and abroad.

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

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

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

Open innovation.

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

Deutsche Telekom embraces open innovation on numerous levels. Examples include Innovation Day, the Deutsche Telekom Interactive TV Award, the BetaBuzz online test lab, and the open development project Helios. At Innovation Day, outstanding start-ups together with Deutsche Telekom teams present their joint project results to a wide circle of industry representatives and partners. This forms the basis for further promising cooperation right through to a joint product. Deutsche Telekom thus utilizes and shapes trends for the mass market from a very early stage. The Deutsche Telekom Interactive TV Award aims to further develop television via DSL. Thanks to interactive services and networked community applications, in future viewers will enjoy a much more convenient experience that delivers far more added value than conventional television. The BetaBuzz online test lab is by no means just an online playground for curious users. It gives start-ups unfiltered responses from a large community and allows them to present their own creations to a wide audience. So in addition to being a potential catalyst for business growth, BetaBuzz also delivers valuable feedback straight from the users. With the Helios development project, developers and programmers have the opportunity to integrate services from Deutsche Telekom and its subsidiaries in their own websites and applications. For the first time Deutsche Telekom is opening up some of its voice, messaging and authentication services as well as interesting back-end solutions to developers and website operators. Using open interfaces (APIs) developers can integrate Deutsche Telekom core services into their own innovative applications and combine these services to create new offerings. At http://developer.telekom.com, developers can download a software development kit (SDK) free of charge and discuss issues with their peers and the Deutsche Telekom experts. All of this gives rise to a wealth of new products – mash-up in Internet parlance. Deutsche Telekom gains access to new business models, innovative services and talented developers. Maximum use of existing services by the entire creative external developer community opens up new sources of revenue. In addition to reinforcing innovative strength, simultaneously shifting the risk associated with developing new products and services to external developers has brought distinct advantages for Deutsche Telekom in the ever-changing telecommunications market.

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

Successful innovation.

Broadband/Fixed Network built on its innovative product portfolio. Transformation of the product landscape into an IP-based platform.

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

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

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

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

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

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

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

Research and development expenditure and investment.

Research and development expenditure amounted to EUR 0.1 billion in the 2008 financial year, lower than in the previous year. In the reporting year, 632 employees at Deutsche Telekom AG were involved in projects and activities to create new products and market them more efficiently.

Patent applications and intellectual property rights.

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

Employees.

Deutsche Telekom AG's personnel costs amounted to EUR 3.9 billion in the 2008 financial year (2007: EUR 6.3 billion). As of December 31, 2008, the Company had 44,645 employees (December 31, 2007: 51,863) measured as full-time equivalents (FTEs).

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

HR strategy - One mission, four drives, eleven projects.

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

Staff restructuring continued on a socially conscious basis.

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

However, staff restructuring and staff increases are also necessary, in addition to staff reductions, to improve the age structure at Deutsche Telekom and its subsidiaries, to attract people with the skills the Company lacks or needs more of, and to be able to grow in new business areas. Deutsche Telekom took on 269 new staff under its 2008 recruitment drive.

Vivento made an important contribution to staff restructuring in the 2008 financial year by placing some 2,900 employees in jobs mostly in the public sector, in particular at the German Federal Employment Agency.

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

Reassignment of technology centers to Deutsche Telekom Netzproduktion GmbH.

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

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

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

Collective bargaining.

The collective remuneration agreement for Deutsche Telekom AG was terminated with due notice effective December 31, 2008. Collective negotiations for employees and trainees began in mid-January 2009.

Pay increase for civil servants in the Deutsche Telekom Group.

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

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

Training commitment remains at a high level.

For years Deutsche Telekom has been the largest vocational training provider in Germany. At the end of the reporting year, it had 11,372 trainees and students on degree courses with integrated practical phases in Germany. The proportion of trainees in the workforce is also well above the average of other companies. Deutsche Telekom intends to maintain this high level of commitment to junior-staff training. By September 1, 2008, Deutsche Telekom gave around 3,800 young people a career development opportunity by accepting them for training or a study program. Training positions are available in twelve different professions and on various 'dual' training courses. For 2008 to 2010, Deutsche Telekom and its subsidiaries reached an agreement with the service industry trade union ver.di upon an above-average trainee ratio of 2.9 percent per year of the headcount of permanent employees in Germany. At the end of 2008 the parties also agreed to exceed this quota in 2009 as Deutsche Telekom and its subsidiaries take the realization of its social responsibility to an even higher level.

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. Deutsche Telekom invests in its future by training junior staff and promotes the necessary change in the Group by employing young people.

Further training at Deutsche Telekom.

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

Service culture: On track to achieve service excellence.

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

Service-oriented approaches are starting to bear fruit:

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

Ideas management.

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

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

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

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

Outstanding customer focus and efficiency as a result of HR@2009.

Deutsche Telekom's new HR organization is based on a clear distribution of roles:

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

Human Resources Service Telekom as a fully integrated service provider.

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

Risk and opportunity management.

In accordance with the provisions of § 91 (2) of the German Stock Corporation Act (Aktiengesetz – AktG), the Board of Management of Deutsche Telekom AG has set up a risk early warning system; the Company's subsidiaries are integrated into the risk management of Deutsche Telekom AG. This risk management system is described in more detail below.

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

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

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

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

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

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

To reduce risks relating to criminal behavior (fraud) within the Group, Deutsche Telekom's Board of Management has set up a standardized Group-wide anti-fraud management system with the aim of creating structures for the prevention, detection, and penalization of fraud in the Company.

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

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

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

Deutsche Telekom's risk management system ensures that business risks and opportunities are identified early on and that the Company 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, directly and materially affect Deutsche Telekom AG's financial position and results are examined in the following sections.

Economic environment.

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

Industry and competition.

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

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

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

Products, services and innovations.

As a result of rapid technological progress and increasing technological convergence, new and established technologies or products may to some extent substitute one another. This could lead to lower prices and revenues in both voice and data traffic.

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

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

Regulation.

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

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

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

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

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

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

Human resources.

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

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

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

IT/telecommunications infrastructure.

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

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

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

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

Data security and data privacy.

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

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

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

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

Health and the environment.

Electromagnetic fields (EMFs) are repeatedly associated with potential environmental and health damage. This is a controversial issue and the subject of public debate. Existing public acceptance problems relate both to networks and to the use of terminal equipment. In the Broadband/Fixed Network operating segment, they affect sales of cordless DECT equipment and devices that use WLAN technology. 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. Deutsche Telekom's efforts to provide state-of-the-art technologies therefore include funding scientific research that aims to detect possible risks at an early stage. Among other things, Deutsche Telekom and its subsidiaries are involved in Informationszentrum Mobilfunk (IZMF), an industry initiative by mobile communications enterprises, as well as in the German Research Association for Radio Applications (Forschungsgemeinschaft Funk – FGF), which supports independent research into the biological effects of EMFs.

Purchasing.

As ICT service providers and operators and providers of IT/telecommunications products, Deutsche Telekom and its subsidiaries cooperate with a variety of suppliers of technical components including software and hardware, transmission and switching technology, outside plant and terminal equipment.

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

Litigation.

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

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

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

On August 2, 2005, the Federal Republic of Germany initiated arbitration proceedings against Deutsche Telekom AG, Daimler Financial Services AG and Toll Collect GbR. The Federal Republic claims to have lost toll revenues of approximately EUR 3.5 billion plus interest (5 percent per year above the applicable base interest rate since the arbitration proceedings were initiated), alleging – among other things – that it was deceived as to the likelihood of operations commencing on September 1, 2003. In May 2008, the Federal Republic of Germany slightly reduced its claim to around EUR 3.3 billion plus interest (5 percent per year above the applicable base interest rate since the arbitration proceedings were initiated). The asserted claims for contractual penalties total approximately EUR 1.7 billion plus interest (5 percent per year above the applicable base interest rate since the arbitration proceedings were initiated). The contractual penalties are based on alleged violations of the operating agreement (lack of consent to subcontracting, delayed provision of on-board units and monitoring equipment). Deutsche Telekom AG believes the claims of the Federal Republic to be unfounded and is contesting them. The statement of defense was submitted to the arbitration court on June 30, 2006. The plaintiff's reply was submitted to the arbitration court on February 15, 2007. The defendant's rejoinder was submitted to the arbitration court on October 1, 2007. Further declarations were received from the Federal Republic of Germany on January 7 and February 6, 2008. The initial hearing took place in June 2008 during which the arbitration court discussed legal issues with the parties. No arbitrational ruling was made on the claims asserted. Under orders from the arbitration court, each party submitted documents to the other party at the end of September 2008. Furthermore, the arbitration court ordered each party to prepare another written statement by the end of November 2008 addressing the legal issues discussed during the hearing and in the submitted documents. Each party also has the opportunity to submit a further written response to the relevant statement from the other party, by April 3, 2009. Toll Collect GmbH filed for arbitration against the Federal Republic of Germany on May 25, 2007 requesting, among other things, the granting of a final operating permit and the payment of outstanding claims. Following an increase in the claim by Toll Collect GmbH on May 16, 2008, the asserted claims for payment total around EUR 560 million plus interest.

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

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

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

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

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

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

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

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

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

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

Financial risks.

Through its subsidiary Deutsche Telekom International Finance B.V., the Company uses bonds and medium-term notes (MTNs) issued in a variety of currencies and jurisdictions as primary instruments for medium to long-term financing.

The financial risks for the Group arise mainly from liquidity, credit, currency and interest rate risks.

- **Currency, interest rate, and price risks.** These risks are hedged in accordance with the guidance specified in the Treasury Guidelines. Derivatives are used exclusively as hedging instruments. Information on the nominal and fair values of these instruments can be found in Note 28 in the Notes to the annual financial statements.

- **Credit risks.** Deutsche Telekom is exposed to a credit risk from its operating activities and certain financing activities. To reduce the credit risk, hedging transactions are generally only concluded with leading financial institutions whose credit rating is at least BBB+/Baa1 and that are subjected to continuous credit management. Collateral agreements have been concluded with some banks in order to hedge instruments with positive fair values. At the level of operations, the outstanding debts are monitored locally in each area. Credit risks are taken into account through specific and general valuation allowances.

- **Liquidity risks.** To guarantee the solvency and financial flexibility of Deutsche Telekom at all times, a liquidity reserve in the form of credit lines and cash is maintained. As of December 31, 2008, 28 banks granted Deutsche Telekom credit lines totaling EUR 16.8 billion. In the current environment, new issues of bonds and medium-term notes are only possible in smaller volumes and within limited windows of opportunity. The financial market crisis is impacting on the extension of bilateral lines. Especially institutions that are being split up, taken over by other banks or do not have sufficient equity are not likely to extend their lines. As a result, the number of facilities available to Deutsche Telekom will decrease over time. Nevertheless, each of these lines will continue to be available to Deutsche Telekom for another two years, from the time they are not extended any further. Of the original 29 bilateral lines only the line provided by the now insolvent Lehman Brothers Commercial Paper Inc. no longer exists.

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

Deutsche Telekom believes it is rather unlikely that it will have difficulty in accessing the capital markets due to a decline in its ratings.

Impairment of Deutsche Telekom’s assets.

The value of the assets of Deutsche Telekom and its subsidiaries is reviewed periodically. These tests may lead to the recognition of impairment losses that do not however result in disbursements. This could impact to a considerable extent on Deutsche Telekom’s results, which in turn may negatively influence the Deutsche Telekom share and ADS price.

Sales of shares by the Federal Republic and KfW Bankengruppe.

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

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

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

Aggregate risk position.

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

The opportunities.

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

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

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

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

Supplemental report.

OTE shareholders' meeting.

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

Deutsche Telekom issues an eight-year bond of EUR 2 billion.

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

Other disclosures.

Closing statement by the Board of Management on the dependent company report.

Since the Federal Republic of Germany, as minority shareholder of Deutsche Telekom AG, represents a solid majority at the shareholders' meeting due to the average attendance at the latter, Deutsche Telekom is a dependent company of the Federal Republic of Germany in accordance with § 17 (1) of the German Stock Corporation Act (Aktiengesetz – AktG).

Deutsche Telekom is not subject to any control or profit and loss transfer agreement with the Federal Republic of Germany. Under § 312 AktG, the Board of Management of Deutsche Telekom has therefore prepared a dependent company report describing relations between the controlling entity and dependent companies. The Board of Management issued the following statement at the end of the report: "The Board of Management hereby declares that under the circumstances known to the Board of Management at the time the business transactions were performed, the Company received appropriate remuneration for such transactions. The Company did not perform or omit any actions on behalf of, or on the instructions of, the controlling company or any dependent companies."

Outlook.[5]

Economic outlook.

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

Market expectations.

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

The Deutsche Telekom Group is well positioned.

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

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

Broadband/Fixed Network.

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

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

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

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

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

Group Headquarters & Shared Services.

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

General statement on the business development.

Despite the effects described above, Deutsche Telekom AG still expects to generate income after taxes.

Annual financial statements of Deutsche Telekom AG

Statement of income.

millions of €	Note	2008	2007
Net revenue	1	18,201	19,442
Changes in inventories and other own capitalized costs	2	56	345
Total operating performance		**18,257**	**19,787**
Other operating income	3	5,284	3,899
Goods and services purchased	4	(6,411)	(6,298)
Personnel costs	5	(3,871)	(6,258)
Depreciation, amortization and write-downs	6	(3,565)	(3,783)
Other operating expenses	7	(8,682)	(7,653)
Financial income (expense), net	8	1,064	(3,669)
Results from ordinary business activities		**2,076**	**(3,975)**
Extraordinary income (loss)		-	17,264
Taxes	9	(72)	(5)
Income after taxes		**2,004**	**13,284**
Unappropriated net income carried forward from previous year		3,293	37
Transfer to retained earnings		-	(6,642)
Unappropriated net income	10	**5,297**	**6,679**

Balance sheet.

millions of €	Note	Dec. 31, 2008	Dec. 31, 2007
ASSETS			
Noncurrent assets	11		
Intangible assets		1,030	750
Property, plant and equipment		18,815	20,353
Financial assets		83,277	81,789
		103,122	**102,892**
Current assets			
Inventories, materials and supplies	12	88	147
Receivables	13	3,344	3,349
Other assets	14	803	695
Marketable securities	15	206	286
Cash and cash equivalents	16	960	593
		5,401	**5,070**
Prepaid expenses and deferred charges	17	**536**	**539**
Total assets		**109,059**	**108,501**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	18		
Capital stock	19	11,165	11,165
Contingent capital of EUR 632 million			
Additional paid-in capital	20	26,648	26,646
Retained earnings	21	15,900	15,900
Unappropriated net income		5,297	6,679
		59,010	**60,390**
Accruals			
Pensions and similar obligations	23	2,630	2,643
Taxes	24	179	288
Other	25	5,049	5,431
		7,858	**8,362**
Liabilities	26		
Debt		6,308	4,933
Other liabilities		35,833	34,768
		42,141	**39,701**
Deferred income		**50**	**48**
Total shareholders' equity and liabilities		**109,059**	**108,501**

Notes to the financial statements.
Summary of accounting policies.

Description of business activities.

Deutsche Telekom AG[1] (also referred to in the following as Deutsche Telekom or the Company) is the parent company of the corporate Group with the same name and operates in the market as a provider of telecommunications services. Its key areas of activity include network communications, data communications, carrier services, and value-added services. Deutsche Telekom also supplies, leases, and services terminal equipment.

Deutsche Telekom's business units are solely part of either the Broadband/ Fixed Network or the Group Headquarters & Shared Services (GHS) operating segments.

In the Broadband/Fixed Network operating segment, the Company offers consumers and small business customers a state-of-the-art network infrastructure for traditional fixed-network services, broadband Internet access, and innovative multimedia services. The Company also conducts business with national and international network operators (carrier services) and with resellers (wholesale including resale). In addition, it provides wholesale telecommunications services for the Group's other operating segments.

Within the Company, the GHS operating segment performs strategic management functions across all segments (Group Headquarters) and all other operating functions not assigned to separate legal entities and not directly related to the core business of the Group's operating segments (Shared Services).

Description of the relationship with the Federal Republic of Germany.

The Federal Republic's total shareholding in Deutsche Telekom amounted to 31.7 percent at the end of the reporting period, of which 16.9 percent was held by KfW Bankengruppe (KfW) and attributable to the Federal Republic in accordance with § 16 (4) AktG (German Stock Corporation Act). There have been no changes in these shareholdings compared with 2007. Since December 2005, the Federal Ministry of Finance has been responsible for administering the Federal Republic's shareholding and exercising its rights as a shareholder.

The Federal Posts and Telecommunications Agency (Federal Agency) has been assigned certain tasks by law that affect cross-company issues at Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The Federal Agency's responsibilities include the continuation of the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the recreation service (Erholungswerk), the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost - VAP), and the welfare service (Betreuungswerk) for Deutsche Telekom AG, Deutsche Post AG, Deutsche Postbank AG, and the Federal Agency. The coordination and administrative tasks are performed on the basis of agency agreements.

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

The Federal Network Agency for Electricity, Gas, Telecommunications, Posts, and Railways (Federal Network Agency) is a separate higher federal authority within the scope of business of the German Federal Ministry of Economics and Technology and was formed from the Federal Ministry of Posts and Telecommunications and the Federal Office for Posts and Telecommunications as the Regulatory Authority for Telecommunications and Posts. The agency was renamed the Federal Network Agency on July 13, 2005. One of the tasks of the Federal Network Agency is to supervise the telecommunications sector in Germany. In this capacity it regulates the business activities of Deutsche Telekom.

Comparability with prior-year figures on account of organizational changes.

In June 2007, Deutsche Telekom's Customer Service, Technical Customer Service and Network Production units were transferred to three legally separate service companies: Deutsche Telekom Kundenservice GmbH (DT KS), Deutsche Telekom Technischer Service GmbH (DT TS) and Deutsche Telekom Netzproduktion GmbH (DT NP).

Further organizational changes took place during the reporting year. Effective as of December 1, 2008, the operations of four Deutsche Telekom AG "Technology production group" centers were transferred to DT NP. In addition, the organizational units in charge of operational accounting were transferred to DeTe Accounting GmbH, Bonn, in 2008. Furthermore, PrimeSeek GmbH, Bonn, T-Com Innovationsgesellschaft mbH, Berlin, and DeTe Berkom Gesellschaft für Forschung und Entwicklung von Anwendungen in der Telekommunikation mbH, Berlin, were merged into Deutsche Telekom AG in the reporting year.

The costs of assets and liabilities taken over in the course of the mergers were recognized using the values reported in the closing balance sheet of the respective company, in accordance with § 24 of the German Reorganization and Transformation Act (Umwandlungsgesetz – UmwG).

The prior-year figures have not been adjusted to reflect these changes. Where the effects are significant and necessary for a better understanding of the figures, the financial impact of these transactions is presented separately in the notes to the individual items in the balance sheet and the statement of income.

[1] Deutsche Telekom was registered with the Commercial Registry of the Bonn District Court (Amtsgericht – HRB 6794) under the name Deutsche Telekom AG on January 2, 1995.

Basis of preparation.

The annual financial statements and the management report of Deutsche Telekom are prepared in accordance with German GAAP, as specified in the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Act (Aktiengesetz – AktG).

The balance sheet and the statement of income are prepared in accordance with the classification requirements of § 266 and § 275 HGB. The statement of income is prepared using the total cost method in accordance with § 275 (2) HGB.

Unless otherwise stated, all amounts shown are in millions of euros (€/EUR). Certain items have been aggregated for presentation purposes in the balance sheet and the statement of income in order to make the financial statements clearer. These items are disclosed separately in the notes. In conformity with international practice, reporting begins with the statement of income.

The German version of the annual financial statements of Deutsche Telekom and the consolidated financial statements of Deutsche Telekom are published in the electronic Federal Gazette and can also be accessed on the website of the register of companies.

This annual report and the Annual Report on Form 20-F, filed with the SEC due to Deutsche Telekom's listing on the NYSE, are available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on the Internet at www.telekom.com.

Accounting policies.

Net revenue includes all revenues from the ordinary business activities of Deutsche Telekom. For example, these include revenues from the rendering of services and the sale of goods and products that are typical for Deutsche Telekom. The primary components of net revenue are revenues from traditional fixed network services, monthly fixed Internet fees, complete packages for telephony and broadband Internet access as well as usage-driven fees and revenues from the sale, leasing and maintenance of telecommunications and Internet installations.

Net revenue is recorded net of value-added tax and sales-related reductions. It is recognized in the accounting period concerned in accordance with the realization principle.

Research and development costs are expensed as incurred.

Pension costs include expenditures in connection with an appropriation of accruals for current employees as well as expenditures for ongoing payments to the joint pension fund at Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom (Bundes-Pensions-Service für Post und Telekommunikation – BPS-PT) on behalf of employed civil servants. Expenditures for the appropriation of pension accruals are presented as the difference in the net present value of the obligations calculated at the beginning and end of the financial year.

The accrual method in accordance with § 6a of the German Income Tax Act (Einkommenssteuergesetz – EStG) used for the measurement of accruals is designed to recognize the expense over the employees' entire working lives and does not take expected increases in wages and salaries and retirement benefits into account.

Marketing expenses are expensed as incurred.

Income tax expense includes current payable taxes on income. Deutsche Telekom has not exercised its option to recognize deferred tax assets in accordance with § 274 (2) HGB.

Purchased **intangible assets** are carried at acquisition cost and are amortized on a straight-line basis over their estimated useful lives.

As permitted by Postreform II, **property, plant and equipment** transferred to Deutsche Telekom on January 1, 1995 was recorded in the opening balance sheet of Deutsche Telekom at fair market values at that date. However, due to the short period of time that had elapsed since the measurement date for property, plant and equipment acquired since January 1, 1993, their carrying amount as of December 31, 1994 was recognized on a historical cost basis. The remaining useful lives and the depreciation methods applicable to these assets were not changed. The fair market values shown in the opening balance sheet have been carried forward as the acquisition costs.

Other items of property, plant and equipment are carried at acquisition or production cost, less scheduled depreciation. Production cost includes directly attributable costs and an appropriate allocation of indirect material and labor cost.

Nonscheduled write-downs to the lower of cost or market value are charged if an impairment of assets is assumed to be permanent.

Depreciation is charged using the straight-line method. The underlying standard useful lives are based on the official depreciation tables for tax purposes.

In deviation from this rule, movable items of property, plant and equipment acquired in the period between January 1, 2006 and December 31, 2007 were depreciated in the financial accounts according to the declining-balance method at the maximum rate permitted by tax law; the straight-line method was applied as soon as this led to higher depreciation amounts.

As the declining-balance method is no longer permitted in the tax accounts following the 2008 Corporate Tax Reform Act, all movable items of property, plant and equipment added after January 1, 2008 are depreciated in the financial accounts using the straight-line method.

The following specific useful lives are applied to depreciation:

	Years
Buildings	25 to 50
Shop improvements and window displays	8
Telephone facilities and terminal equipment	3 to 10
Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment	4 to 10
Outside plant networks and cable conduit lines	15 to 35
Telecommunications power facilities	10
Other equipment, plant and office equipment	3 to 20

Additions to real estate and movable items of property, plant and equipment are depreciated ratably from the year of acquisition.

In accordance with tax regulations, all low-value assets acquired up to December 31, 2007 were written off in full in the financial accounts in the year of acquisition and presented as disposals in the statement of noncurrent assets. Since January 1, 2008, in line with the revised applicable tax value limits following the 2008 Corporate Tax Reform Act dated May 25, 2007, these assets have either been immediately written off in the financial accounts or have been capitalized in the annual omnibus items of immaterial significance and depreciated over five years. These assets are presented as disposals in the statement of noncurrent assets when they are written off in full.

Maintenance and repair costs are expensed as incurred.

Noncurrent assets sold or otherwise disposed of are derecognized at their relevant carrying amount (cost less accumulated depreciation). A gain or loss is recognized in income for the difference between the proceeds from the sale and the carrying amount of the asset concerned.

Equity investments and **other financial assets** are carried at the lower of cost or market value. In the case of financial assets acquired in foreign currency, the exchange rate at the transaction date is used to determine the acquisition cost; in the case of hedges, the hedging rate for the purchased foreign currency is used. Loan receivables correspond to the loan amounts less repayments and – if applicable – less any write-downs to the lower fair value. Nonscheduled write-downs are charged only if the impairment of financial assets is assumed to be permanent.

Raw materials and supplies and **merchandise** are recognized at acquisition cost, while **work in process** is carried at production cost. Based on normal capacity utilization, production cost includes directly attributable costs, such as direct material and labor costs, as well as special direct costs, plus an appropriate pro rata allocation of indirect material and labor costs and depreciation. General administration and selling costs as well as expenses for social amenities, voluntary benefits to personnel, and the corporate pension plan are not included in production cost. The carrying amount of inventories is reduced to the lower of cost or market value at the balance sheet date. Adequate write-downs are charged for inventory risks resulting from obsolescence or impaired marketability.

Receivables, other assets, cash and cash equivalents and **prepaid expenses and deferred charges** are carried at their nominal value. Identified individual risks are accounted for through appropriate individual valuation adjustments, and general credit risks through general valuation adjustments of receivables. Low-interest and non-interest bearing items with more than one year remaining to maturity are discounted.

Marketable securities are carried at the lower of cost or market value at the balance sheet date.

Cash on hand denominated in foreign currencies is translated at the rate applicable at the balance sheet date. Foreign currency receivables and other foreign currency items included under cash and cash equivalents are measured at the lower of the exchange rate applicable on the transaction date or the rate applicable at the balance sheet date. Cash in banks (excluding fixed-term deposits) is measured at the bid rate, fixed-term bank deposits are measured at the middle rate of the bid and ask rates.

Stock options refer to what are known as equity-settled plans granted in the course of a contingent capital increase and are recognized at the date the options are exercised, and not at the grant date. Of the funds received by the Company on the exercise date, a proportionate amount of the shares issued is transferred to capital stock and any excess amount to capital reserves in accordance with § 272 (2) No. 1 HGB. By contrast, the mid-term incentive plans (MTIPs), being what is known as cash-settled plans, are recognized in the statement of income from the time of their implementation. For both cash-settled and equity-settled share-based payment transactions, the fair value is determined using internationally accepted valuation techniques, such as the Monte Carlo model.

Accruals for pensions and similar obligations are based on obligations to non-civil servants. These accruals are calculated on the basis of an actuarial report. Direct and indirect obligations are recognized at the fiscal net present value in accordance with § 6a EStG. If the value of the assets allocated is higher than the amount of the obligations for indirect commitments, the excess is not recognized.

The computations for the obligations are based on the 2005 G life expectancy tables published by Prof. Klaus Heubeck.

Tax and **other accruals**, including those for contingent losses and environmental liabilities, are computed in accordance with prudent commercial practice. Sufficient allowance is made for all identifiable risks when measuring these accruals.

Cost accruals are recognized when there is an obligation to recognize such liabilities under § 249 (1) HGB. This refers in particular to accruals for costs of deferred maintenance related to the financial year, but implemented within the first three months of the following year.

Accruals are not discounted, except for pensions and similar obligations, other employee-related accruals, the accrual for the civil service health insurance fund shortfall, the accrual for a collateral promise for pension and partial retirement obligations, and the accrual for impending losses from pending transactions.

Liabilities are recognized at the higher of nominal value or repayment amount. In instances in which the repayment amount of a liability is greater than the principal amount, the difference is recorded under prepaid expenses and deferred charges, and distributed on a time-proportionate basis over the term of the liability. Liabilities and other financial liabilities denominated in foreign currencies are carried at the higher of the exchange rate applicable on the transaction date or the rate applicable at the balance sheet date. Liabilities to banks, excluding interest liabilities, are measured at the ask rate; interest liabilities and other liabilities (other financial liabilities) are measured at the middle rate of the bid and ask rates at the balance sheet date.

In line with the imparity principle, unrealized losses relating to primary and derivative financial instruments are expensed when incurred. If financial instruments can be qualified as a valuation unit – hedged item and hedge transactions – one measurement at fair value per portfolio less accrued interest is applied as of the balance sheet date. If the financial instruments can be qualified as a valuation unit, the unrealized loss exceeding the positive fair values is recognized in net income or loss through an accrual for contingent losses, whereas unrealized gains are not recognized until realized.

This also applies to prepayment penalties, which are deemed to be receivables or payables. Prepayment penalties are generally agreed within the Group in the form of interest rate swaps, and arise from early loan repayments on the part of Deutsche Telekom. They are recognized in the balance sheet at fair value at the balance sheet date as receivables from/payables to subsidiaries. The receivables or payables are amortized on a straight-line and time proportionate basis. If the market value of the prepayment penalty is less than the carrying amount, an accrual for contingent losses is also recognized.

Settlement gains and losses from expired hedge transactions for rolling hedging (roll-over gains or losses) are reported separately as other assets or other liabilities.

Scope of discretion.

The preparation of financial statements requires the Company to make estimates and assumptions that affect the reported carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the amounts of income and expenses recognized during the reporting period. Actual results could differ from those estimates.

Notes to the statement of income.

1 Net revenue.

Revenue by area of activity.

millions of €	2008	2007
Broadband/Fixed Network	18,201	19,442

Net revenue decreased by 6.4 percent to EUR 18.2 billion as a result of line losses and lower call revenues in the fixed network due to the high acceptance of complete packages with a flat-rate component. The revenue reduction was also attributable to volume effects in network access charges (interconnection services), volume and pricing effects in DSL resale, and a lower level of services purchased by Group companies for voice and data products due to price and volume factors. Volume growth in the broadband business and in unbundled local loop lines only partially offset the decline in revenue.

Revenue by geographic area.

millions of €	2008	2007
Domestic	17,548	18,839
International	653	603
	18,201	**19,442**

Revenue generated abroad resulted entirely from International Carrier Sales & Solutions (ICSS).

2 Changes in inventories and other own capitalized costs.

millions of €	2008	2007
Change in inventories of work in process	(15)	9
Own capitalized costs	71	336
	56	**345**

The decrease in other own capitalized costs compared with 2007 is due, in particular, to the establishment of the service companies. In the reporting year, Deutsche Telekom procured from Deutsche Telekom Netzproduktion GmbH, Bonn, and Deutsche Telekom Technischer Service GmbH, Bonn, services related to the expansion of the network infrastructure which, until June 2007, Deutsche Telekom had performed itself.

3 Other operating income.

millions of €	2008	2007
Cost transfers/reimbursements	1,930	1,343
Foreign currency transaction gains	841	338
Income from rental and lease agreements	667	688
Income from derivatives	600	178
Ancillary services	299	187
Reversal of accruals	278	440
Income from reversal of valuation adjustments	73	60
Income from write-ups of noncurrent assets	61	73
Income from the disposal of noncurrent assets	53	267
Income from insurance compensation	42	51
Income from the elimination of liabilities	23	32
Other income	417	242
	5,284	**3,899**

Income from cost transfers/reimbursements primarily consists of income from the transfer of personnel costs in the amount of around EUR 1.3 billion (2007: EUR 849 million) and income from the transfer of other costs in the amount of EUR 649 million (2007: EUR 494 million). Personnel costs transferred in the reporting period include EUR 936 million for the settlement of personnel costs for civil servants assigned to the service companies. Income from the transfer of other costs particularly encompasses income from the settlement of administrative costs in the amount of EUR 312 million (2007: EUR 327 million), with EUR 251 million relating to the service companies.

Foreign currency transaction gains resulted mainly from exchange rate effects realized upon the maturity of loans granted/taken out (EUR 653 million), and the valuations of accrued interest (EUR 74 million), trade receivables and payables (EUR 44 million), bank accounts (EUR 25 million), and intercompany clearing accounts (EUR 20 million).

Income from rental and lease agreements resulted mainly from the transfer for use of real estate for which Deutsche Telekom was compensated by GMG Generalmietgesellschaft mbH, Münster.

Income from derivatives related to exchange rate effects from currency derivatives.

Income from other ancillary services was mainly generated in connection with the services offered by Telekom Training. The increase in income was primarily a result of services provided to the service companies.

EUR 95 million (2007: EUR 237 million) of the income from the reversal of accruals relates to the reversal of personnel-related accruals and EUR 27 million to accruals for environmental clean-up.

EUR 59 million (2007: EUR 72 million) of the income from write-ups of noncurrent assets in the reporting year was due to reversals of real estate impairment losses.

Income from the disposal of noncurrent assets amounted to EUR 34 million (2007: EUR 214 million) and was mainly attributable to income from the disposal of land and buildings.

Other income includes income from rebates, contractual penalties, the recycling of materials, and logistics services.

Other operating income attributable to other accounting periods relates in particular to the reversal of accruals (EUR 237 million), the reversal of valuation adjustments for accounts receivable (EUR 73 million), income from the write-up of noncurrent assets (EUR 60 million) and income from the disposal of noncurrent assets (EUR 53 million).

4 Goods and services purchased.

millions of €	2008	2007
Goods purchased		
Raw materials and supplies	80	153
Goods purchased	400	472
	480	**625**
Services purchased		
Interconnection rates (Germany)	1,572	1,709
Interconnection rates (international)	691	640
Other services	3,668	3,324
	5,931	**5,673**
	6,411	**6,298**

The expenses for goods and services purchased increased compared with 2007 by EUR 113 million to EUR 6.4 billion. This increase was attributable to a number of effects which, to a certain extent, offset each other.

The level of goods purchased decreased by EUR 145 million, in particular due to the establishment of the service companies in 2007 and a lower procurement volume achieved by means of improved inventory management.

The expenses for services purchased increased by EUR 258 million to EUR 5.9 billion in particular as a result of higher expenses for other services purchased.

The expenses for interconnection rates in Germany, by contrast, decreased by EUR 137 million. This was partly attributable to volume reductions in the area of termination services caused by intensified competition in the domestic market, and partly to regulatory price reductions for termination charges imposed by the Federal Network Agency. By contrast, expenses for international interconnection rates grew by EUR 51 million as a result of an increase in termination services.

Expenses for other services purchased increased by EUR 344 million compared with 2007, EUR 503 million of which related to services purchased from the service companies. These expenses include costs of support and customer service in the form of installations and fault clearance, the cost of providing replacement services for terminal equipment, modules and components, call center services, and product and service sales. By contrast, expenses for the purchase of call center services from third-party service providers and the subsidiary Vivento Customer Services GmbH, Bonn, decreased by EUR 185 million.

5 Personnel costs/Average number of employees.

millions of €	2008	2007
Wages and salaries	**2,636**	**4,837**
Social security contributions and expenses for pension plans and benefits		
Payments to Bundes-Pensions-Service für Post und Telekommunikation e.V.	762	782
Social security contributions	152	253
Expenses for pension plans for non-civil servants	204	264
Support allowances	117	122
	1,235	**1,421**
	3,871	**6,258**

Personnel costs decreased year-on-year by around EUR 2.4 billion, with wages and salaries in particular contributing approximately EUR 2.2 billion to the reduction.

This decline in expenses for wages and salaries was mainly due to the transfer of employment relationships to the service companies as of June 30, 2007 and the year-on-year decrease in expenses for personnel adjustment measures of EUR 311 million (2007: EUR 1.7 billion). The headcount reduction due to personnel adjustment measures also resulted in a decrease in ongoing expenses.

As part of the civil servant pension plans, Deutsche Telekom maintained a special pension fund up until the 2000 financial year. By way of a notarized agreement dated December 7, 2000, this fund was merged with the special pension funds of Deutsche Post AG and Deutsche Postbank AG to form the joint pension fund Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT). On January 11, 2001, the fund was entered in the Register of Associations with retroactive effect from July 1, 2000. The registered office of BPS-PT is Bonn. BPS-PT works for the funds of all three companies and also handles the financial administration of the pension plan for the Federal Republic on a trust basis. It carries out all transactions for pension and allowance payments in respect of civil servants for Deutsche Post AG, Deutsche Postbank AG, and Deutsche Telekom AG. In accordance with the provisions of the German Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz - PTNeuOG), BPS-PT makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil-servant status.

In accordance with the PTNeuOG, the Federal Republic provides suitable compensation for any differences between the ongoing payment obligations of BPS-PT and the ongoing amounts received from successor companies of the former Deutsche Bundespost or returns on assets, and guarantees that BPS-PT is always in a position to fulfill the obligations it has assumed. The Federal Republic cannot demand reimbursement from Deutsche Telekom of any amounts it pays to BPS-PT in accordance with this provision.

The level of Deutsche Telekom's payment obligations to BPS-PT is stipulated in § 16 of the Act concerning the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz - PostPersRG). Since 2000, Deutsche Telekom has been legally required to make an annual contribution to BPS-PT equal to 33 percent, respectively, of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. This contribution is recognized as ongoing expenses in the respective year and was equal to EUR 762 million in the reporting period (2007: 772 million). The year-on-year reduction in costs was primarily due to the use of early retirement arrangements for civil servants. The 2008 increase in remuneration for civil servants had an offsetting effect.

The decrease in social security contributions and expenses for pension plans for employees is largely due to the headcount reduction.

The average number of employees (FTEs) developed as follows:

FTEs	2008	2007
Civil servants	33,851	38,265
Non-civil servants	15,580	31,675
	49,431	**69,940**
Trainees and student interns	10,129	10,391

The average number of employees declined primarily as a result of the transfer of employment relationships to the service companies as of June 25, 2007 and of the transfer of operations of four Deutsche Telekom "Technology production group" centers to Deutsche Telekom Netzproduktion GmbH as of December 1, 2008. In addition, personnel adjustment measures and natural attrition resulted in further headcount reductions year-on-year.

6 Depreciation, amortization and write-downs.

millions of €	2008	2007
Depreciation and amortization		
Amortization of intangible assets	335	315
Depreciation of property, plant and equipment	3,079	3,187
	3,414	**3,502**
Write-downs in accordance with § 253 (2) sentence 3 HGB	151	281
	3,565	**3,783**

EUR 309 million of the amortization of intangible assets related to the amortization of software licenses (2007: EUR 289 million).

Of the total depreciation of property, plant and equipment in the reporting year, EUR 240 million (2007: EUR 260 million) were attributable to buildings, EUR 1.4 billion (2007: EUR 1.4 billion) to the outside plant network, and EUR 1.3 billion (2007: EUR 1.4 billion) to transmission and switching equipment.

The decrease in depreciation compared with 2007 is largely due to the fact that the depreciation method for movable items of property, plant and equipment acquired after January 1, 2008 was changed from the declining-balance method to the straight-line method in the reporting year.

Of the write-downs to the lower fair value, EUR 149 million related to valuation allowances for real estate.

Write-downs on financial assets and marketable securities were recorded in net financial income/expense (please refer to Note 8).

7 Other operating expenses.

millions of €	2008	2007
Marketing expenses	1,518	1,562
Maintenance and repair	1,146	611
Foreign currency transaction losses	1,075	379
Rental and leasing expenses	1,070	1,303
Expenses arising from derivatives	567	274
IT support	544	610
Additions to accruals for contingent losses	453	74
Research and development	442	510
Legal and consulting fees	421	398
Other employee-related costs	281	224
Losses on accounts receivable and provision for doubtful accounts	204	200
Expenses arising from a collateral promise for pension and partial retirement obligations	112	181
Cleaning, transport, surveillance	100	93
Losses on the disposal of noncurrent assets	90	564
Other expenses	659	670
	8,682	**7,653**

Marketing expenses mainly resulted from the MAX08 marketing campaign, the promotion of T-Home Entertain and the umbrella brand campaign.

Expenses for maintenance and repair increased primarily as a result of maintenance services procured in the reporting year as complete service solutions from the service companies for EUR 502 million.

Expenses related to foreign currency transaction losses resulted mainly from exchange rate effects realized upon the maturity of loans granted/taken out (EUR 640 million), and the valuations of intercompany clearing accounts (EUR 178 million), accrued interest (EUR 78 million), bank accounts (EUR 68 million) and trade receivables and payables (EUR 39 million).

Rental and leasing expenses decreased by EUR 233 million in the reporting year, predominantly as a result of the establishment of the service companies in 2007.

The increase since 2007 of EUR 293 million in expenses arising from derivatives to EUR 567 million is mainly due to exchange rate effects of currency derivatives.

Expenses for IT support decreased by a total of EUR 66 million in the reporting year partly as a result of the establishment of the service companies which led in particular to a decrease in expenses for workstation systems and associated network services and a decrease in expenses for call center platforms. Efficiency-enhancing measures and price cuts for network services led to a further decrease in this item.

Expenses from additions to accruals for contingent losses relate especially to agreements concluded with partners outside the Deutsche Telekom Group with the intention of generating a contribution margin for the expenses resulting from the staff surplus.

Expenses for research and development resulted largely from the development of software and products as well as network infrastructure upgrades.

Expenses for legal and consulting fees encompass in particular expenses for management consulting in connection with the acquisition or disposal of companies, for legal consulting, including accruals for litigation risks, as well as the expenses for the preparation and audit of financial statements.

Expenses for other employee-related costs of EUR 281 million recognized in the reporting year include, in particular, expenses for training measures (EUR 94 million) and expenses arising from the allocation of administrative costs payable to the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency) (EUR 87 million).

When the service companies were established, the pension and partial retirement obligations relating to the employees affected by the transfer of operations were also transferred to the new companies. Deutsche Telekom assumed economic liability for the pension obligations by declaration of a collateral promise and performance obligation, and recognized an accrual for this purpose. Ongoing additions to this accrual amounted to an expense of EUR 90 million.

The losses on the disposal of noncurrent assets in the reporting year were mainly the result of disposals of property, plant and equipment amounting to EUR 73 million (2007: EUR 111 million).

Other expenses included travel expenses, insurance policies, postal and freight charges, and temporary employment.

Other operating expenses attributable to other accounting periods relate mainly to disposals of property, plant and equipment (EUR 73 million) and write-downs of trade accounts receivable (EUR 67 million).

8 Financial income/expense, net.

millions of €	2008	2007
Income related to subsidiaries, associated and related companies of which: from subsidiaries € 241 million (2007: € 279 million)	242	281
Income from profit transfer agreements of which: from tax allocations € 0 million (2007: € 1 million)	5,570	634
Expenses arising from loss transfers	(1,998)	(2,930)
Income/loss related to subsidiaries, associated and related companies	**3,814**	**(2,015)**
Income from debt securities and long-term loan receivables of which: from subsidiaries € 20 million (2007: € 46 million)	20	46
Other interest and similar income of which: from subsidiaries € 94 million (2007: € 89 million)	327	189
Interest and similar expenses of which: to subsidiaries € 1.3 billion (2007: € 1.5 billion)	(2,168)	(1,844)
Net interest expense	**(1,821)**	**(1,609)**
Write-downs on financial assets and marketable securities	(929)	(45)
	1,064	**(3,669)**

Income related to subsidiaries, associated, and related companies mainly refers to dividends from HT-Hrvatske telekomunikacije, d.d., Zagreb (EUR 170 million), Slovak Telekom, a.s., Bratislava (EUR 47 million) and Deutsche Telekom International Finance B.V., Amsterdam (EUR 11 million).

Income from profit transfer agreements recognized in the reporting period relates primarily to T-Mobile International AG, Bonn (EUR 4.7 billion), T-Systems Business Services GmbH, Bonn (EUR 431 million), DFMG Holding GmbH, Bonn (EUR 179 million) and DeTeMedien, Deutsche Telekom Medien GmbH, Frankfurt/Main (EUR 100 million).

Expenses arising from loss transfer agreements primarily related to Deutsche Telekom Netzproduktion GmbH, Bonn (EUR 468 million), Deutsche Telekom Technischer Service GmbH, Bonn (EUR 392 million), Deutsche Telekom Kundenservice GmbH, Bonn (EUR 264 million), GMG Generalmietgesellschaft mbH, Münster (EUR 252 million), Vivento Customer Services GmbH, Bonn (EUR 222 million), T-Systems Enterprise Services GmbH, Frankfurt/Main (EUR 193 million) and MagyarCom Holding GmbH, Bonn (EUR 114 million).

Similar to the expenses arising from loss transfer agreements, income from profit transfers was influenced in part by special factors.

The **net interest expense** was mainly the result of interest paid on loans granted to Deutsche Telekom AG by Deutsche Telekom International Finance B.V., Amsterdam.

Write-downs of financial assets mainly related to write-downs of investments in MagyarCom Holding GmbH, Bonn (EUR 660 million) and in Hellenic Telecommunications Organization S.A. (OTE), Athens (EUR 230 million).

9 Taxes.

millions of €	2008	2007
Income taxes		
Current income taxes	(44)	17
Tax allocations	-	4
	(44)	**21**
Other taxes	(28)	(26)
	(72)	**(5)**

No taxable income and no taxable trade income were generated in 2008. For this reason, no current income taxes were incurred for the reporting period. The tax expense recognized in the reporting period relates to prior years.

Other taxes mainly comprised real estate tax expenses.

10 Reconciliation of income after taxes to unappropriated net income.

Income after taxes generated in the financial year amounted to EUR 2.0 billion. Together with unappropriated net income of EUR 3.3 billion carried forward from 2007, this results in net income of EUR 5.3 billion.

Notes to the balance sheet.

11 Noncurrent assets.

Intangible assets increased by EUR 280 million compared with December 31, 2007, mainly as a result of investments in various software applications.

In **property, plant and equipment**, the EUR 1.5 billion decline compared with the 2007 balance sheet date was mainly a result of higher depreciation expenses compared with investments.

Investments in property, plant and equipment in the 2008 financial year totaled EUR 1.8 billion (2007: EUR 1.8 billion). The primary focus of capital expenditure was on transmission equipment and the outside plant network, recognizing additions to the former of EUR 535 million (2007: EUR 715 million) and to the latter of EUR 490 million (2007: EUR 685 million). Additions to equipment and machinery with construction in progress increased year-on-year to EUR 497 million (2007: EUR 289 million).

The section "Comparability with prior-year figures on account of organizational changes" describes individually the mergers and transfers made in the reporting year. The resulting changes in property, plant and equipment are reported separately in the statement of noncurrent assets as the net total of additions and disposals. They were each of immaterial significance.

As of the balance sheet date, **financial assets** increased EUR 1.5 billion compared with December 31, 2007. This increase resulted primarily from the acquisition of shares in Hellenic Telecommunications Organization S.A. (OTE), Athens, which are shown under **subsidiaries, associated and related companies**. By contrast, a decline in **investments in subsidiaries** to EUR 660 million was recorded, in particular due to the write-down of the investment in MagyarCom Holding GmbH, Bonn. Decreases reported under investments in subsidiaries included the disposal of DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster.

Loans to subsidiaries at December 31, 2008 mainly relate to loans to T-Systems Enterprise Services GmbH, Frankfurt/Main (EUR 300 million).

Write-downs on financial assets and marketable securities were recorded in net financial income/expense (please refer to Note 8).

The full list of investment holdings pursuant to § 285 No. 11 HGB is enclosed as an appendix to the notes to the financial statements.[2]

[2] The full list of investment holdings pursuant to § 285 HGB is filed with the annual financial statements in the electronic Federal Gazette.

Statement of noncurrent assets.

millions of €		Acquisition costs: Balance at Jan. 1, 2008	Mergers and transfers	Additions	Disposals	Reclassi-fications	Balance at Dec. 31, 2008
I.	**Intangible assets**						
1.	Concessions, industrial property and similar rights and assets, and licenses in such rights and assets	1,212	6	258	(371)	160	1,265
2.	Advance payments	216	3	362	(1)	(160)	420
		1,428	**9**	**620**	**(372)**	**-**	**1,685**
II.	**Property, plant and equipment**						
1.	Land and equivalent rights and buildings, including buildings on land owned by third parties	12,481	-	36	(280)	1	12,238
2.	Technical equipment and machinery	56,875	18	1,098	(587)	304	57,708
3.	Other equipment, plant and office equipment	919	(18)	129	(65)	10	975
4.	Advance payments and construction in progress	528	-	519	(16)	(315)	716
		70,803	**-**	**1,782**	**(948)**	**-**	**71,637**
III.	**Financial assets**						
1.	Investments in subsidiaries	81,463	(7)	80	(152)	-	81,384
2.	Loans to subsidiaries	1,099	-	1,225	(1,845)	-	479
3.	Investments in associated and related companies	219	-	3,088	(5)	-	3,302
4.	Other long-term loans	10	-	-	(1)	-	9
		82,791	**(7)**	**4,393**	**(2,003)**	**-**	**85,174**
Total noncurrent assets		**155,022**	**2**	**6,795**	**(3,323)**	**-**	**158,496**

	Depreciation, amortization and write-downs							Net carrying amounts	
	Balance at Jan. 1, 2008	Mergers and transfers	Additions	Disposals	Reclassi-fications	Write-ups	**Balance at Dec. 31, 2008**	**Balance at Dec. 31, 2008**	**Balance at Dec. 31, 2007**
	678	3	335	(361)	-	-	655	610	534
	-	-	-	-	-	-	-	420	216
	678	**3**	**335**	**(361)**	**-**	**-**	**655**	**1,030**	**750**
	6,755	-	388	(223)	(4)	(60)	6,856	5,382	5,726
	42,970	17	2,739	(526)	-	-	45,200	12,508	13,905
	725	(17)	101	(47)	4	-	766	209	194
	-	-	2	(2)	-	-	-	716	528
	50,450	**-**	**3,230**	**(798)**	**-**	**(60)**	**52,822**	**18,815**	**20,353**
	855	-	674	-	-	-	1,529	79,855	80,608
	51	-	-	(3)	-	(1)	47	432	1,048
	96	-	230	(5)	-	-	321	2,981	123
	-	-	-	-	-	-	-	9	10
	1,002	**-**	**904**	**(8)**	**-**	**(1)**	**1,897**	**83,277**	**81,789**
	52,130	**3**	**4,469**	**(1,167)**	**-**	**(61)**	**55,374**	**103,122**	**102,892**

12 Inventories.

millions of €	Dec. 31, 2008	Dec. 31, 2007
Raw materials and supplies	11	16
Work in process	12	27
Merchandise	65	104
	88	**147**

Raw materials and supplies primarily included network termination equipment as well as spare parts and components for telecommunications equipment.

Work in process was generated in particular by customer orders in connection with the provision of network access facilities for competitors (collocation).

13 Receivables.

millions of €	Dec. 31, 2008	Dec. 31, 2007
Trade accounts receivable of which: with a remaining maturity of more than one year € 0 million (Dec. 31, 2007: € 0 million)	1,059	1,425
Receivables from subsidiaries of which: with a remaining maturity of more than one year € 177 million (Dec. 31, 2007: € 28 million)	2,277	1,921
Receivables from associated and related companies of which: with a remaining maturity of more than one year € 0 million (Dec. 31, 2007: € 0 million)	8	3
	3,344	**3,349**

The decrease in trade accounts receivable compared with December 31, 2007 was mainly the result of the lower level of receivables from services billed to carriers.

Receivables from subsidiaries mainly included financial receivables amounting to EUR 1.1 billion (December 31, 2007: EUR 1.2 billion) and intercompany trade receivables of EUR 643 million (December 31, 2007: EUR 459 million).

14 Other assets.

millions of €	Dec. 31, 2008	Dec. 31, 2007
Tax receivables		
Income tax receivables		
Corporate income tax	54	89
Trade income tax	148	65
Solidarity surcharge	3	5
	205	**159**
Other tax receivables	46	15
	251	**174**
Accrued interest	288	236
Receivables from derivatives	85	93
Receivables from reimbursements	73	43
Receivables from collateral	28	54
Receivables from employees	15	17
Miscellaneous other assets	63	78
	552	**521**
	803	**695**

Of income tax receivables, EUR 25 million related to the current financial year (December 31, 2007: EUR 31 million) and EUR 180 million to previous years (December 31, 2007: EUR 128 million). Corporate income tax and solidarity surcharge receivables are primarily the result of allowable taxes. Trade tax receivables were mainly comprised of refund claims for prior years that have been conclusively reviewed by the tax authorities.

Other tax receivables related primarily to input tax receivables that did not fulfill the legal requirements for the deduction of input tax at the balance sheet date (EUR 24 million) and to trade capital tax receivables for prior years (EUR 21 million).

Accrued interest is mainly from interest rate derivatives.

Receivables from derivatives include settlement gains and losses from expired hedge transactions for revolving hedging (roll-over gains or losses).

Collateral is used to hedge the credit risk from financial instruments. In this case, Deutsche Telekom transfers collateral in the form of cash to its contracting parties if the fair values of the derivatives exceed a certain limit, the so-called allowance.

Of the receivables reported under miscellaneous other assets, EUR 3 million (December 31, 2007: EUR 6 million) had a remaining maturity of more than one year.

15 Marketable securities.

millions of €	Dec. 31, 2008	Dec. 31, 2007
Treasury shares	5	5
Shares in other companies	-	54
Other marketable securities	201	227
	206	**286**

Treasury shares accounted for 0.04 percent of the capital stock. At 1,881,508 shares, the holding of treasury shares, remaining unchanged since the 2007 balance sheet date, breaks down as follows:

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

Treasury shares were recorded in the balance sheet at acquisition costs.

The shares in Bild.T-Online.de AG & Co. KG, Berlin, and Bild.T-Online.de Verwaltungs AG, Berlin, shown as marketable securities in 2007 were sold to Axel Springer AG, Berlin on January 3, 2008.

The portfolio of other marketable securities comprised securities that had been transferred to a trustee as security for entitlements from partial retirement obligations under what is known as the contractual trust agreement (CTA). The amount of EUR 201 million equaled Deutsche Telekom's outstanding settlement amounts to employees on partial retirement arrangements at December 31, 2008.

16 Cash and cash equivalents.

millions of €	Dec. 31, 2008	Dec. 31, 2007
Cash in hand, cash in banks, checks	960	593

The total time to maturity of the cash and cash equivalents was less than three months. The development of cash and cash equivalents is explained in more detail in the presentation of the Company's financial position in the management report.

17 Prepaid expenses and deferred charges.

Prepaid expenses and deferred charges of EUR 536 million (December 31, 2007: EUR 539 million) mainly included deferred personnel costs amounting to EUR 356 million (December 31, 2007: EUR 304 million), discounts on loans amounting to EUR 80 million (December 31, 2007: EUR 99 million) and other prepaid expenses amounting to EUR 98 million (December 31, 2007: EUR 136 million).

18 Shareholders' equity.

millions of €	Dec. 31, 2008	Dec. 31, 2007
Capital stock	11,165	11,165
Additional paid-in capital	26,648	26,646
Retained earnings		
Treasury stock	5	5
Other retained earnings	15,895	15,895
	15,900	**15,900**
Unappropriated net income	5,297	6,679
Shareholders' equity	**59,010**	**60,390**

Shareholders' equity decreased by EUR 1.4 billion compared with 2007. The changes are described in detail in the following sections.

19 Capital stock.

		Authorized and issued capital		**Authorized capital (not issued)**		**Contingent capital (not issued)**
	thousands of shares	thousands of €	thousands of shares	thousands of €	thousands of shares	thousands of €
As of Dec. 31, 2006	**4,361,119**	**11,164,465**	**952,270**	**2,437,811**	**280,345**	**717,682**
2001 Stock Option Plan	179	457			(179)	(457)
Discontinuation of contingent capital I					(32,318)	(82,734)
Discontinuation of contingent capital III					(1,024)	(2,621)
As of Dec. 31, 2007	**4,361,298**	**11,164,922**	**952,270**	**2,437,811**	**246,824**	**631,870**
2001 Stock Option Plan	22	57			(22)	(57)
As of Dec. 31, 2008	**4,361,320**	**11,164,979**	**952,270**	**2,437,811**	**246,802**	**631,813**

Deutsche Telekom AG's capital stock at December 31, 2008 totaled EUR 11.2 billion. The capital stock was divided into 4,361,319,993 registered no par value shares. Each share entitles the holder to one vote.

The Federal Republic's direct shareholding in Deutsche Telekom AG, represented by the Federal Ministry of Finance, was 14.8 percent (December 31, 2007: 14.8 percent). KfW's shareholding was 16.9 percent (December 31, 2007: 16.9 percent) and the private investment company Blackstone Group's 4.4 percent (December 31, 2007: 4.4 percent). This means that as of December 31, 2008, 646,575,126 no par value shares (EUR 1.7 billion) of the capital stock were held by the Federal Republic; 735,661,686 no par value shares (EUR 1.9 billion) by KfW and 191,700,000 no par value shares (EUR 491 million) by the Blackstone Group. The remaining shares were in free float.

In the course of the acquisition of T-Mobile USA Inc., Bellevue/Powertel Inc., Bellevue, Deutsche Telekom granted options on Deutsche Telekom shares in exchange for the outstanding warrants between Deutsche Telekom and T-Mobile USA/Powertel at the time of the acquisition. As of December 31, 2008, the number of Deutsche Telekom shares reserved for the stock options granted to T-Mobile USA/Powertel employees and still outstanding was 6,060,293.

Authorized capital.

Deutsche Telekom had the following authorized capital as of December 31, 2008:

2004 Authorized capital.

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

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

When the merger took effect, existing shares in T-Online were exchanged at the ratio agreed in the merger agreement of 25 T-Online shares to 13 Deutsche Telekom shares. This resulted in a total increase of around EUR 161 million in capital stock. To prevent the merger from increasing the number of shares of Deutsche Telekom AG permanently, the Board of Management of Deutsche Telekom resolved on August 10, 2006 in accordance with the authorizing resolution of the shareholders' meeting on May 3, 2006 to buy back and retire 62,730,182 shares of the Company (corresponding to the number of new shares issued as a result of the merger of T-Online into Deutsche Telekom). The Supervisory Board approved the share retirement. The corresponding reduction in capital by around EUR 161 million or approximately 1.4 percent of the capital stock at that time was entered into the commercial register on October 6, 2006.

2006 Authorized capital.

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

Contingent capital.

As of December 31, 2008, Deutsche Telekom had the following contingent capital:

Contingent capital II.

The capital stock has been contingently increased by up to EUR 31,813,089.28, composed of up to 12,426,988 new no par value registered shares. The contingent capital increase is exclusively intended 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.

22,390 stock options granted under the 2001 Stock Option Plan were exercised in the 2008 financial year. As a result, contingent capital II amounting to EUR 31,870,407.68 decreased by EUR 57,318.40 (22,390 no par value shares) to EUR 31,813,089.28. The capital stock rose accordingly in the 2008 financial year.

Contingent capital IV.

The capital stock has been contingently increased by EUR 600,000,000, composed of 234,375,000 no par value shares. The contingent capital increase will 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.

Treasury shares.

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

This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG as defined in § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG pursuant to § 17 AktG are also entitled to purchase the shares. The purchase may take place without prejudice to the principle of equal treatment through the stock exchange or a public purchase offer addressed to all shareholders. By resolution of the shareholders' meeting of May 15, 2008, the Board of Management is authorized to redeem Deutsche Telekom AG's shares purchased on the basis of the aforementioned authorization, without such redemption or its implementation requiring a further resolution of the shareholders' meeting.

20 Additional paid-in capital.

Additional paid-in capital increased in 2008 by EUR 2.6 million, mainly as a result of stock options exercised at T-Mobile USA/Powertel.

21 Retained earnings.

In addition to the transfers from income after taxes from prior years to other retained earnings, retained earnings also included the reserve for treasury shares in the amount reported under marketable securities that must be recognized in accordance with § 272 (4) HGB.

22 Stock-based compensation plans.

In view of the merger of T-Online into Deutsche Telekom that became effective in 2006, the stock option plans issued by T-Online International AG prior to the merger are also listed in the following.

Deutsche Telekom stock option plan.

	2001 Stock Option Plan					
	2008		2007		2006	
	Stock options in thousands	**Weighted average exercise price €**	Stock options in thousands	Weighted average exercise price €	Stock options in thousands	Weighted average exercise price €
Outstanding at beginning of reporting period	9,746	24.47	10,790	24.62	11,096	24.59
Granted	-	-	-	-	-	-
Exercised	(22)	12.36	(179)	12.36	(53)	12.36
Forfeited	(718)	25.95	(865)	28.83	(253)	25.98
Outstanding at end of reporting period	**9,006**	**24.38**	**9,746**	**24.47**	**10,790**	**24.62**
Exercisable at end of reporting period	**9,006**	**24.38**	**9,746**	**24.47**	**10,790**	**24.62**

Supplemental disclosures.

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

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

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

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

Deutsche Telekom reserved the right, at its election, to settle the options through the payment of a cash amount (SARs) instead of issuing new shares. The exercise of an SAR cancels the related option, and the exercise of an option cancels the related SAR. As of December 31, 2008, no resolution on conversion had been passed to this effect.

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

In the 2002 financial year, Deutsche Telekom granted additional stock options to certain employees. On July 15, 2002, Deutsche Telekom granted a further 3,927,845 options for the purchase of 3,927,845 shares at an exercise price of EUR 12.36 to the beneficiaries of the stock option plan on the basis of a resolution adopted by the shareholders' meeting in May 2001. The Xetra closing price of Deutsche Telekom's common stock quoted at the Frankfurt Stock Exchange on the grant date, based upon which the exercise price was calculated, was EUR 10.30 per share. The term of the options runs until July 14, 2012.

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

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

In 2001 and 2002, Deutsche Telekom also granted 167,920 SARs to employees in countries in which it was not legally possible to issue stock options. 3,690 SARs were forfeited in the reporting year. 137,930 SARs were still outstanding as of December 31, 2008.

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

During the 2008 exercise period, the average price of Deutsche Telekom shares (T-Shares) was EUR 11.52.

T-Online stock option plan (prior to the merger).

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

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

	2001 Stock Option Plan					
	2008		2007		2006	
	Stock options in thousands	Weighted average exercise price €	Stock options in thousands	Weighted average exercise price €	Stock options in thousands	Weighted average exercise price €
Outstanding at beginning of reporting period	3,085	10.30	3,392	10.30	3,551	10.30
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Forfeited	(245)	10.30	(307)	10.32	(159)	10.31
Outstanding at end of reporting period	**2,840**	**10.30**	**3,085**	**10.30**	**3,392**	**10.30**
Exercisable at end of reporting period	**2,840**	**10.30**	**3,067**	**10.30**	**3,374**	**10.30**

In May 2001, the shareholders' meeting of T-Online International AG approved the introduction of the 2001 Stock Option Plan, resulting in the granting of stock options in August 2001 and July 2002. The shareholders' meeting on May 30, 2001 contingently increased the capital stock of T-Online by EUR 51,000,000 for the 2001 Stock Option Plan and authorized the Supervisory Board to issue preemptive rights to the members of the Board of Management of T-Online. It also authorized the Board of Management to issue preemptive rights to managers below the Board of Management. This included directors, senior managers, selected specialists, as well as members of the boards of management, members of management and other directors, senior managers and selected specialists of domestic and foreign group companies in which T-Online directly or indirectly held a majority interest.

The stock option plan was structured as a premium-priced plan with the exercise price serving as a performance target. The exercise price per share was 125 percent of the reference price, which price corresponds to the non-weighted average closing price of T-Online shares in Deutsche Börse AG's Xetra trading in Frankfurt/Main over the last 30 trading days before the day on which the options are granted.

The exercise rules specified that 50 percent of the options granted were only exercisable after a vesting period of two years - calculated from the grant date of the options. The remaining 50 percent of the options were only exercisable three years after the day they were issued. The options had a life of ten years from the date on which they were granted. All options are vested. The options may not legally be sold, transferred, pledged, or otherwise disposed of except in the event of death, in which case the options are transferred to the heirs.

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

The 2004 T-Online shareholders' meeting rescinded the authorization of the Board of Management and the Supervisory Board to issue additional options for the 2001 Stock Option Plan, and partially canceled the contingent capital II.

Mid-Term Incentive Plan (MTIP).

2004/2005/2006/2007/2008 Mid-Term Incentive Plan.
Deutsche Telekom.

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

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

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

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

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

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

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

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

The 2004 MTIP, 2005 MTIP, 2006 MTIP, 2007 MTIP and 2008 MTIP entered into force in the years 2004 through 2008 and each have a term of three years. The 2004 MTIP and 2005 MTIP expired on December 31, 2006 and December 31, 2007, respectively, without any payments being made. The MTIPs of the years 2006, 2007 and 2008 have maximum budgets of EUR 86 million, EUR 83 million and EUR 83 million, respectively. The proportionate amount to be expensed and recognized as an accrual at each balance sheet date is calculated based on a Monte Carlo simulation.

For the 2006 MTIP, the relevant starting price is EUR 14.00, and the absolute performance target EUR 18.20. The starting value of the index for the relative performance target of the 2006 MTIP is 452.02 points. The starting value of the total return of Deutsche Telekom shares corresponds to the share price prior to the beginning of the plan (EUR 14.08 for the 2004 MTIP; EUR 16.43 for the 2005 MTIP and EUR 14.00 for the 2006 MTIP).

The 2007 MTIP became effective on January 1, 2007. The plan has a term of three years. The starting price for the absolute performance target of the 2007 MTIP is EUR 13.64 per Deutsche Telekom share. Consequently, the absolute performance target is achieved if an average share price of at least EUR 17.73 is reached during the defined period before the end of the plan. The starting value of the index for the relative performance target of the 2007 MTIP is 551.91 points and the starting value of the total return of the Deutsche Telekom share is EUR 13.64.

The starting price for the absolute performance target of the 2008 MTIP is EUR 15.11 per Deutsche Telekom share. Consequently, the absolute performance target is achieved if an average share price of at least EUR 19.64 is reached during the defined period before the end of the plan. The starting value of the index for the relative performance target of the 2008 MTIP is 601.59 points and the starting value of the total return of the Deutsche Telekom share is EUR 15.11.

2004/2005/2006 Mid-Term Incentive Plan.
T-Online.

T-Online's MTIP was also based on the same conditions as Deutsche Telekom AG's MTIP, with the exception that performance was measured in terms of the development of T-Online's shares and the TecDAX share index.

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

23 Accruals for pensions and similar obligations.

The pension obligations to non-civil servant employees were based on indirect and direct pension commitments. The indirect commitments included the obligations of Versorgungsanstalt der Deutschen Bundespost (VAP) and the special pension fund of Deutsche Telekom Betriebsrenten-Service e.V. (DTBS).

Deutsche Telekom's direct pension commitments comprised direct commitments and VAP parallel obligations. The VAP parallel obligations were based on direct legal claims against Deutsche Telekom which were originally attributable to VAP. VAP's obligations are therefore suspended.

The VAP benefits, which supplement statutory pension benefits up to the level specified by the pension benefits formula, are generally calculated on the basis of the level of employee compensation during specific periods of their employment. As part of the restructuring of the corporate pension plan in 1997, the employer and the trade unions entered into an agreement stipulating measures for the protection of vested VAP benefits.

Pursuant to this agreement, the benefit obligations due to retirees and employees approaching retirement will remain unchanged. For younger employees with vested benefits, the obligations have been converted into an initial amount based on the number of years of coverage to date, which was then credited to a capital account held by the employer (cash balance plan). Deutsche Telekom credits this account on an annual basis; when the insured event occurs, the account balance is paid out in full or in installments, or can be converted into a pension. If the relevant employees have not yet reached the age of 35 and have been insured for less than ten years (for pension commitments before January 1, 2001), or have not yet reached the age of 30 and have been insured for less than five years (for pension commitments after January 1, 2001), their benefit obligations are paid directly from Deutsche Telekom.

The form of implementation changed as a result of the collective agreement on the restructuring of the corporate pension plan at Deutsche Telekom signed on August 17, 2005. According to this agreement, all corporate pension services for active and inactive employees will henceforth be granted directly and with a legal claim.

For the purposes of commercial law, pension accruals were accounted for under pension obligations in accordance with § 6a EStG. The level of these accruals was substantiated by an actuarial report.

The actuarial computations for the pension commitments were based on the new 2005 G tables published by Prof. Dr. Klaus Heubeck. In accordance with § 6a EStG, the interest rate used for the calculation of the pension obligations was 6 percent.

On the basis of the actuarial reports, the carrying amounts of the pension obligations at the respective balance sheet dates were as follows:

millions of €	Dec. 31, 2008	Dec. 31, 2007
Direct pension obligations of which: parallel obligation € 1.4 billion (Dec. 31, 2007: € 1.5 billion)	2,455	2,498
Indirect pension obligations	172	142
	2,627	**2,640**
Obligations in accordance with Article 131 GG	3	3
	2,630	**2,643**

24 Tax accruals.

millions of €	Dec. 31, 2008	Dec. 31, 2007
Corporate income tax	106	220
Trade income tax	1	1
Other taxes	72	67
	179	**288**

25 Other accruals.

millions of €	Dec. 31, 2008	Dec. 31, 2007
Employee benefits		
Early retirement (BPS-PT)	1,334	1,820
Partial retirement arrangement	251	343
Civil Service Health Insurance Fund	283	278
Staff adjustment measures	34	162
Other obligations	243	233
Other obligations		
Accruals for collateral promise for pension and partial retirement obligations	1,238	1,265
Loss contingencies from pending transactions	458	91
Outstanding invoices	403	524
Litigation risks	366	257
Loss contingencies from interest rate derivatives	169	41
Loss contingencies from foreign currency forward contracts	49	106
Restoration commitments	20	18
Deferred maintenance	18	18
Miscellaneous other accruals	183	275
	5,049	**5,431**

The Second Act to Amend the Act for the Improvement of the Staff Structure at the Residual Special Asset of the Federal Railways and the Successor Companies of the Former Deutsche Bundespost (Zweites Gesetz zur Änderung des Gesetzes zur Verbesserung der personellen Struktur beim Bundeseisenbahnvermögen und in den Unternehmen der Deutschen Bundespost) was adopted in 2006. Under this legislation, civil servants can apply for early retirement upon reaching the age of 55, provided that they meet all the criteria stipulated in the Act. Deutsche Telekom partially offsets the resulting early payments for the retirement pensions of civil servants by advance payments to BPS-PT as well as other expenses. The accrual recognized for the early retirement of civil servants decreased by EUR 486 million at the reporting date following the retirement of 3,267 civil servants. For details of the effect this had on liabilities, please refer to Note 26.

The accrual for partial retirement decreased primarily as a result of the lower level of partial retirement agreements and the progression of employees into the passive phase of partial retirement.

The accruals for collateral promise for pension and partial retirement obligations covered the economic obligations assumed by Deutsche Telekom with respect to the liabilities for pension (EUR 1,033 million) and partial retirement benefit claims (EUR 205 million) of the service companies.

Accruals for loss contingencies from pending transactions relate especially to agreements concluded with partners outside the Deutsche Telekom Group with the intention of generating a contribution margin for the expenses resulting from the staff surplus.

The decrease in accruals for outstanding invoices at December 31, 2008 was a result, for example, of the lower year-on-year level of commissions (EUR 31 million), the reassignment of sales activities to T-Mobile Deutschland GmbH, Bonn, and the establishment of the service companies in 2007.

The increase of EUR 128 million in accruals for loss contingencies from interest rate derivatives to EUR 169 million was mainly the result of the development of the market value of interest rate swaps.

Miscellaneous other accruals include accruals for environmental clean-up, accruals for rebates from discounts and bonuses, accruals for contributions to professorships sponsored by Deutsche Telekom, and accruals for annual reporting and archiving expenses.

26 Liabilities.

	Dec. 31, 2008				Dec. 31, 2007			
	Total	of which			Total	of which		
millions of €		Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years		Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years
Debt								
Bonds and debentures	1,438	205	377	856	1,164	111	254	799
Liabilities to banks	4,870	1,636	1,269	1,965	3,769	2,038	1,025	706
	6,308	**1,841**	**1,646**	**2,821**	**4,933**	**2,149**	**1,279**	**1,505**
Other liabilities								
Advances received	4	4	-	-	4	4	-	-
Trade accounts payable	886	885	1	-	839	837	2	-
Payables to subsidiaries	30,625	12,401	7,154	11,070	31,041	14,269	10,107	6,665
Liabilities to associated and related companies	13	13	-	-	16	16	-	-
Other liabilities	4,305	1,967	1,304	1,034	2,868	889	918	1,061
of which: from taxes	541	541	-	-	282	282	-	-
of which: from social security	22	4	12	6	10	1	4	5
	35,833	**15,270**	**8,459**	**12,104**	**34,768**	**16,015**	**11,027**	**7,726**
Total liabilities	**42,141**	**17,111**	**10,105**	**14,925**	**39,701**	**18,164**	**12,306**	**9,231**

Bonds and debentures relate primarily to treasury notes of Deutsche Post AG, Bonn, (EUR 856 million), bonds (EUR 299 million) and medium-term notes (EUR 270 million).

Bonds and debentures were composed of the following items:

Due by December 31 millions of €	up to 4 %	up to 5 %	up to 6 %	up to 7 %	up to 8%	Total
2009	-	-	-	205	-	205
2010	12	-	-	-	-	12
2011	37	-	-	-	-	37
2012	-	-	-	-	-	-
2013	299	29	-	-	-	328
2014 to 2020	-	-	-	-	856	856
Total	**348**	**29**	**-**	**205**	**856**	**1,438**

The increase of EUR 1.1 billion in **liabilities to banks** was mainly attributable to the issue of loan notes and commercial papers which increased compared with 2007 by EUR 1.2 billion and EUR 945 million, respectively. In addition, a EUR 300 million loan was taken out with the European Investment Bank. Short-term loan repayments of EUR 1.4 billion had an offsetting effect.

Payables to subsidiaries mainly consisted of financial liabilities (EUR 21.0 billion) and liabilities arising from cash pooling (EUR 8.3 billion).

The largest item under payables to subsidiaries was the liability to Deutsche Telekom International Finance B.V., Amsterdam, which amounts to EUR 14.7 billion (December 31, 2007: EUR 19.6 billion). This liability related primarily to bonds issued by Deutsche Telekom International Finance B.V. The decrease was attributable to the repayments.

Deutsche Telekom International Finance B.V. (DT IF) issues bonds and medium-term notes that it generally passes on to Deutsche Telekom. The resulting liabilities to DT IF are as follows:

2001 tranche	Nominal amount in currency	Interest rate in %	Maturity
EUR	1,645,718,223	7.215	2011

2002 tranche	Nominal amount in currency	Interest rate in %	Maturity
EUR	1,841,269,841	8.195	2012
GBP	250,000,000	7.195	2012
USD	500,000,000	9.330	2032

2003 tranche	Nominal amount in currency	Interest rate in %	Maturity
EUR	365,000,000	3.624	2010
USD	626,865,000	5.335	2013

2004 tranche	Nominal amount in currency	Interest rate in %	Maturity
EUR	500,000,000	3.669	2009

2005 tranche	Nominal amount in currency	Interest rate in %	Maturity
EUR	500,000,000	3.075	2009
GBP	250,000,000	4.950	2014
EUR	1,750,000,000	4.075	2015

2006 tranche	Nominal amount in currency	Interest rate in %	Maturity
USD	1,000,000,000	1.498	2009
USD	500,000,000	5.450	2011
GBP	250,000,000	5.700	2013
EUR	1,099,063,254	4.575	2013
USD	1,000,000,000	5.825	2016
EUR	500,000,000	4.825	2016

2008 tranche	Nominal amount in currency	Interest rate in %	Maturity
USD	650,000,000	5.950	2013
EUR	200,000,000	5.926	2023
GBP	250,000,000	8.950	2028

The following table shows the composition of other liabilities:

millions of €	Dec. 31, 2008	Dec. 31, 2007
Liabilities from early retirement arrangements	1,602	1,221
Liabilities from loan notes	911	770
Tax liabilities	541	282
Liabilities from collaterals	515	-
Liabilities from interest	446	247
Liabilities from derivatives	121	223
Liabilities to employees	27	10
Miscellaneous other liabilities	142	115
	4,305	**2,868**

Liabilities from the early retirement arrangements for civil servants existed vis-à-vis BPS-PT and arose from payment obligations under agreements that had already been concluded. The obligations are payable in up to seven annual installments.

Liabilities from loan notes related to insurance companies and other institutional investors. With the exception of the loans received in 2002 (EUR 248 million) in 2006 (EUR 30 million), in 2007 (EUR 20 million), and in 2008 (EUR 141 million), all loan notes are secured by the Federal Republic of Germany.

Tax liabilities mainly comprise income tax liabilities amounting to EUR 297 million and liabilities from other taxes amounting to EUR 244 million which in turn consisted primarily of value-added tax liabilities (EUR 196 million), wage tax liabilities (EUR 19 million), and liabilities from backdated trade capital tax payments (EUR 27 million). The increase of EUR 259 million in tax liabilities compared with December 31, 2007 was mainly attributable to the recognition in the reporting year of trade income tax liabilities amounting to EUR 295 million and trade capital tax liabilities EUR 27 million for prior years that have been conclusively reviewed by the tax authorities. This was primarily offset by a decrease of EUR 58 million in value-added tax liabilities.

Collateral is used to hedge the credit risk from financial instruments. In this case, Deutsche Telekom receives collateral in the form of cash from its contracting parties if the fair values of the derivatives exceed a certain limit, the so-called allowance.

Liabilities from interest related to deferred interest on loan notes, bonds and debentures, interest derivatives and other liabilities.

Liabilities from derivatives included settlement gains and losses from expired hedge transactions for revolving hedging (roll-over gains or losses).

Liabilities to employees related in particular to severance agreements concluded in connection with the staff restructuring program.

Other disclosures.

27 Guarantees and commitments, and other financial obligations.

Guarantees and commitments

millions of €	Dec. 31, 2008	Dec. 31, 2007
Liabilities from guarantees	575	234
Liabilities arising from warranty agreements of which: to subsidiaries € 0 million (Dec. 31, 2007: € 0 million)	27,271	19,470
	27,846	**19,704**

Guarantees included litigation and security deposit guarantees, and warranties. Liabilities arising from warranty agreements related to third parties and in some cases were incurred for subsidiaries.

Liabilities arising from collateral granted and from warranty agreements included guarantees and comfort letters, and relate predominantly to Deutsche Telekom International Finance B.V. (DT IF), Amsterdam (EUR 18.9 billion), T-Mobile Deutschland GmbH, Bonn (EUR 4.0 billion) and T-Systems Enterprise Services GmbH, Frankfurt/Main (EUR 737 million). Deutsche Telekom guarantees the liabilities of DT IF to external third parties – mostly originating from bonds and medium-term notes. In cases where the funds were not passed on to Deutsche Telekom and therefore recognized as a liability, an obligation arising from warranty agreements had to be recorded. The increase in obligations arising from warranty agreements was mainly attributable to the repayment of liabilities to DT IF (please refer to Note 26).

Deutsche Telekom sold DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (DTI), to a subsidiary of STRABAG SE, Vienna, in the reporting year and concluded a framework purchasing agreement with the company sold, renamed STRABAG Property and Facility Services GmbH, Münster (STRABAG PFS, formerly DTI). Deutsche Telekom was thus able to establish a long-term contractual relationship with a highly specialized service provider for real estate management and maintenance of technical installations. Under the terms of this agreement, Deutsche Telekom guarantees to purchase from STRABAG PFS services, to be used either by Deutsche Telekom directly or by its domestic subsidiaries, to a minimum equivalent value of EUR 2.8 billion over the next ten years. This amount is reported under obligations arising from warranty agreements.

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

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

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

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

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

Bank loans guarantee: Deutsche Telekom AG guarantees to third parties bank loans of up to a maximum amount of EUR 230 million granted to Toll Collect GmbH; this amount corresponds to Deutsche Telekom's 50-percent stake in Toll Collect GmbH's borrowing volume guaranteed by shareholders.

Equity maintenance undertaking: The consortium partners have the obligation, on a joint and several basis, to provide Toll Collect GmbH with additional equity in order to ensure a minimum equity ratio of 15 percent (in the single-entity financial statements prepared in accordance with German GAAP) (equity maintenance undertaking). This obligation ends when the operating agreement expires on August 31, 2015, or earlier if the operating agreement is terminated early.

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

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

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

Other financial obligations

millions of €	Dec. 31, 2008 Total	Dec. 31, 2008 of which due in the following financial year	Dec. 31, 2008 of which due from the second financial year after the balance sheet date	Dec. 31, 2007 Total	Dec. 31, 2007 of which due in the following financial year	Dec. 31, 2007 of which due from the second financial year after the balance sheet date
Present value of payments to BPS-PT	6,932	752	6,180	7,267	733	6,534
Obligations under rental and lease agreements of which: to subsidiaries € 9.6 billion (Dec. 31, 2007: € 7.7 billion)	10,196	3,416	6,780	8,311	1,687	6,624
Purchase commitments for capital projects in progress, including obligations arising from future expenditure of which: to subsidiaries € 633 million (Dec. 31, 2007: € 797 million)	1,787	1,241	546	1,845	1,222	623
Commitments arising from unpaid contributions, purchase commitments for interests in other companies, and commitments from pending transactions of which: to subsidiaries € 2.8 billion (Dec. 31, 2007: € 3.7 billion)	4,570	2,551	2,019	4,228	1,380	2,848
Total other financial obligations	**23,485**	**7,960**	**15,525**	**21,651**	**5,022**	**16,629**

The present value of payments that Deutsche Telekom is required to make in accordance with PTNeuOG to the BPS-PT on the basis of the 2005 G tables published by Prof. Klaus Heubeck amounted to EUR 6.9 billion as of December 31, 2008. The year-on-year decrease is attributable to the increase in the notional interest rate on the one hand and to the decrease in the number of active civil servants due to the effect of early retirement on the other.

Obligations under rental and lease agreements included obligations to subsidiaries in the amount of EUR 9.6 billion. These largely consisted of EUR 9.4 billion to GMG Generalmietgesellschaft mbH, Münster (GMG); EUR 104 million to DFMG Deutsche Funkturm GmbH, Münster and EUR 88 million to DeTeFleetServices GmbH, Bonn. The increase compared with December 31, 2007 was predominantly due to the conclusion of further long-term rental and lease agreements with GMG.

Purchase commitments for capital projects in progress, including obligations arising from future expenditure were composed of commitments for investments in current assets (EUR 1.6 billion).

Unpaid and uncalled contributions related in particular to Vivento Customer Services GmbH, Bonn (EUR 96 million), T-Com Venture Fund GmbH & Co. KG, Bonn (EUR 33 million), T-Online Venture Fund GmbH & Co. KG, Bonn (EUR 31 million), Vivento Technical Services GmbH, Bonn (EUR 31 million) and T-Corporate Venture Fund GmbH & Co. KG, Bonn (EUR 20 million). Commitments arising from pending transactions related in particular to commitments arising from transactions with Deutsche Telekom Technischer Service GmbH, Bonn (EUR 880 million), Vivento Customer Services GmbH, Bonn (EUR 495 million), Deutsche Telekom Kundenservice GmbH, Bonn (EUR 461 million), Deutsche Telekom Netzproduktion GmbH, Bonn (EUR 398 million) and Telekom Shop Vertriebsgesellschaft mbH, Bonn (EUR 212 million).

Under a share purchase agreement, Deutsche Telekom has additionally granted the Greek government two put options for an additional 5 percent (first put option) and 10 percent (second put option) of the shares in Hellenic Telecommunications Organization S.A. (OTE), Athens. The first put option can be exercised by the Greek government at a total price of EUR 0.7 billion for a period of twelve months beginning in October 2008 at the earliest or upon execution of the share purchase agreement. Subsequently, the second put option can be exercised at market price plus a premium initially of 20 percent for a period of twelve months, after which it can be exercised at market price plus a premium of 15 percent until December 31, 2011. The second put option also includes shares which were not sold to Deutsche Telekom during the term of the first option. EUR 1.3 billion was therefore recognized in commitments arising from pending transactions. The closing price of shares in Hellenic Telecommunications Organization S.A. (OTE), Athens, on December 31, 2008 was taken as the basis for measuring the payment obligation arising from the second put option.

Other payment obligations to third parties relate to the exercise of agreed put options by the shareholders (limited partners) of Sireo Immobilienfonds No. 1 GmbH & Co. KG, Frankfurt/Main (maximum EUR 490 million).

Deutsche Telekom is a party to a number of lawsuits and other proceedings and issues arising from the general conduct of its business. Litigation accruals include the costs of litigation and the forecast cost of the negative outcome of proceedings.

28 Derivative financial instruments.

The volume of transactions outstanding at the balance sheet date is as follows:

millions of €	Nominal amounts Total	Nominal amounts Remaining term: Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years	Fair values Total	Fair values Remaining term: Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years
Interest-related instruments								
Interest rate swaps	38,919	6,142	20,775	12,002	65	14	129	(78)
Cross-currency swaps	19,635	3,447	9,135	7,053	(485)	(128)	(219)	(138)
	58,554	**9,589**	**29,910**	**19,055**	**(420)**	**(114)**	**(90)**	**(216)**
Currency instruments								
Future exchange transactions short	2,430	2,258	172	-	68	76	(8)	-
Future exchange transactions long	3,636	3,463	173	-	(158)	(165)	7	-
	6,066	**5,721**	**345**	**-**	**(90)**	**(89)**	**(1)**	**-**
	64,620	**15,310**	**30,255**	**19,055**	**(510)**	**(203)**	**(91)**	**(216)**

The accrued interest from derivatives and the net aggregate losses resulting from the portfolios evaluation recorded as accruals for contingent losses are shown in the following table:

millions of €	Interest receivables	Liabilities from interest	Receivables from prepayment penalties	Liabilities from prepayment penalties	Other accruals
Interest rate swaps	348	(271)	185	(394)	(168)
Cross-currency swaps	136	(144)	-	-	(1)
Foreign currency forward contracts	-	-	-	-	(49)
	484	**(415)**	**185**	**(394)**	**(218)**

Theses receivables, liabilities and accruals were reported under the following items:

millions of €	Interest receivables	Liabilities from interest	Receivables from prepayment penalties	Liabilities from prepayment penalties	Other accruals
Receivables from subsidiaries	278	-	185	-	-
Other assets	206	-	-	-	-
Payables to subsidiaries	-	(232)	-	(394)	-
Other liabilities	-	(183)	-	-	-
Other accruals	-	-	-	-	(218)
	484	**(415)**	**185**	**(394)**	**(218)**

The Company uses derivatives for the purpose of hedging exposures to interest rate and currency risks that arise from its ongoing business operations. The top priority in all cases in which derivatives are used is to limit the risk of the underlyings. Derivative financial instruments may therefore only be used to eliminate risk exposures, and may never be used to create new risks for speculative reasons. Interest rate swaps are generally entered into to hedge payment claims and obligations relating to prepayment penalties arising from early loan repayments within the Group.

Derivatives are designed to offset changes in the fair values and interest payments of the financial assets and liabilities to which they are allocated. Such derivatives are reviewed regularly for their effectiveness as hedge instruments. Derivative financial instruments are subject to internal controls.

The nominal amounts of the derivative financial instruments do not represent amounts exchanged by the parties, but are merely the basis for measuring these settlement payments. They do not reflect the risk exposure of the financial derivatives. Actual payments arising from derivatives are based on the market value, which is determined on the basis of current interest rates, exchange rates and other terms and conditions.

Interest rate swaps are entered into to transform the coupons on bonds, and the interest rates on loans, in accordance with a mix of fixed and floating rate interest instruments that is fixed once a year.

The Company uses foreign currency forward contracts to hedge exchange rates and interest rate/cross-currency swaps to eliminate risks related to financing.

Foreign currency forward contracts and hedged items are assigned to foreign currency portfolios categorized by foreign currency type and marked to market as of the balance sheet date. Foreign currency forward contracts are valued at the forward exchange rate on the balance sheet date; cross-currency and interest rate swaps are recognized at the present value of future payments. Measurement gains and losses are netted portfolio for portfolio. An accrual for loss contingencies from pending transactions is established for each portfolio for the amount of the excess loss. Net gains are not recognized.

The cross-currency and interest rate swaps are primarily used to transform the original currencies of bonds, drawings on medium-term notes, and loan notes into Deutsche Telekom's target currencies (EUR, GBP, and USD). In addition, various cross-currency and interest rate swaps are used to hedge currency risks in the financing of subsidiaries.

29 Exchange rates.

	Annual average rate		Rate at balance sheet date	
€	2008	2007	Dec. 31, 2008	Dec. 31, 2007
100 Swiss francs (CHF)	62.99410	60.86760	67.19960	60.41000
100 Czech korunas (CZK)	4.00894	3.60154	3.75561	3.76364
1 Pound sterling (GBP)	1.25601	1.46142	1.04555	1.36130
100 Hong Kong dollars (HKD)	8.72870	9.35450	9.24130	8.70760
100 Croatian kuna (HRK)	13.84420	13.62830	13.57610	13.63840
100 Hungarian forints (HUF)	0.39769	0.39776	0.37741	0.39618
100 Japanese yen (JPY)	0.65567	0.62018	0.79143	0.60609
100 Polish zlotys (PLN)	28.47930	26.42900	23.94770	27.89210
100 Singapore dollars (SGD)	48.15430	48.46220	49.69040	47.26070
100 Slovak korunas (SKK)	3.19913	2.96074	3.31932	2.97801
1 U.S. dollar (USD)	0.67976	0.72974	0.71617	0.67907

30 Auditors' fees and services.

The following table provides a breakdown of the fees for Deutsche Telekom's auditors recognized as expenses in the 2008 financial year:

PricewaterhouseCoopers Aktiengesellschaft

millions of €	2008
Professional fees for audits	7
Professional fees for other accounting services	5
Other professional fees	5
	17

Ernst & Young AG

millions of €	2008
Professional fees for audits	5
Professional fees for other accounting services	10
Other professional fees	-
	15

Professional fees for audits included in particular fees for the auditing of annual financial statements as well as fees for other auditing services provided, in particular in connection with the audit of the internal control system for financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act.

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

Other professional fees mainly related to consulting fees for specific projects.

31 Members of the Board of Management of Deutsche Telekom AG in 2008 including seats on the supervisory boards of other companies.

René Obermann.

Chairman of the Board of Management since November 13, 2006

Member of the supervisory boards of the following subsidiaries, associates and joint ventures:

- T-Mobile International AG, Bonn (since 11/2006), Chairman of the Supervisory Board (since 12/2006)
- T-Mobile USA Inc., Bellevue, United States, (since 1/2003), Chairman of the Board of Directors (since 12/2006)
- T-Systems Business Services GmbH, Bonn, Chairman of the Supervisory Board (since 12/2006)
- T-Systems Enterprise Services GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 12/2006)

Dr. Karl-Gerhard Eick.

Deputy Chairman of the Board of Management
Board member responsible for Finance since January 1, 2000

Member of the supervisory boards of the following subsidiaries, associates and joint ventures:

- DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (until 9/2008)
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.), Maroussi, Athens, Greece (since 6/2008)
- T-Mobile International AG, Bonn (since 3/2000)
- T-Systems Business Services GmbH, Bonn (since 12/2005)
- T-Systems Enterprise Services GmbH, Frankfurt/Main (since 6/2002)

Member of comparable supervisory bodies of companies in Germany or abroad:

- CORPUS SIREO Holding GmbH & Co. KG, Cologne, Chairman of the Supervisory Board (since 9/2007)
- Deutsche Bank AG, Frankfurt/Main (since 8/2004)
- FC Bayern München AG, Munich (since 10/2004)
- STRABAG Property and Facility Services GmbH, Frankfurt/Main (since 10/2008)
- Thomas Cook Group plc, Peterborough, United Kingdom, Board of Directors (since 12/2008)

Hamid Akhavan.

Board member responsible for T-Mobile, Product Development, and Technology and IT Strategy since December 5, 2006

Member of the supervisory boards of the following subsidiaries, associates and joint ventures:

- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.), Maroussi, Athens, Greece (since 6/2008)
- T-Mobile Deutschland GmbH, Bonn, Chairman of the Supervisory Board (since 1/2007)
- T-Mobile Czech Republic a.s., Prague, Czech Republic (since 2/2003)
- T-Mobile Netherlands Holding B.V., The Hague, Netherlands (since 1/2004)
- T-Mobile UK Ltd., Hertfordshire, United Kingdom (since 3/2004)
- T-Venture Holding GmbH, Bonn, Chairman of the Supervisory Board (since 8/2004)

Dr. Manfred Balz.

Board member responsible for Data Privacy, Legal Affairs and Compliance since October 22, 2008

– no other seats –

Reinhard Clemens.

Board member responsible for T-Systems since December 1, 2007

– no other seats –

Timotheus Höttges.

Board member responsible for T-Home and Sales & Service since December 5, 2006

Member of the supervisory boards of the following subsidiaries, associates and joint ventures:

- Deutsche Telekom Technischer Service GmbH, Bonn, Chairman of the Supervisory Board (since 10/2007)
- Deutsche Telekom Kundenservice GmbH, Bonn, Chairman of the Supervisory Board (since 11/2007)
- Deutsche Telekom Netzproduktion GmbH, Bonn, Chairman of the Supervisory Board (since 10/2007)
- T-Mobile Deutschland GmbH, Bonn (since 4/2005)
- Telekom Shop Vertriebsgesellschaft mbH, Bonn (formerly T-Punkt Vertriebsgesellschaft mbH) (since 6/2004), Chairman of the Supervisory Board (since 12/2006)

Thomas Sattelberger.

Board member responsible for Human Resources since May 3, 2007

Member of the supervisory boards of the following subsidiaries, associates and joint ventures:

- T-Mobile International AG, Bonn (since 6/2007)
- T-Systems Business Services GmbH, Bonn (since 6/2007)
- T-Systems Enterprise Services GmbH, Frankfurt/Main (since 6/2007)

32 Members of the Supervisory Board of Deutsche Telekom AG in 2008 including seats on the supervisory boards of other companies.

Prof. Dr. Ulrich Lehner.

Member of the Supervisory Board since April 17, 2008
Chairman of the Supervisory Board since April 25, 2008
Member of the Shareholders' Committee of Henkel AG & Co. KGaA, Düsseldorf.

- E.ON AG, Düsseldorf (since 4/2003)
- Henkel Management AG, Düsseldorf (since 2/2008)
- HSBC Trinkaus & Burkhardt AG, Düsseldorf (since 6/2004)
- Dr. Ing. h.c. F. Porsche AG, Stuttgart (since 1/2007)
- Porsche Automobil Holding SE, Stuttgart (since 11/2007)
- ThyssenKrupp AG, Düsseldorf (since 1/2008)

Member of comparable supervisory bodies of companies in Germany or abroad:

- Dr. August Oetker KG, Bielefeld, Member of the Advisory Board (since 3/2000)
- Novartis AG, Basle, Member of the Board of Directors (since 3/2002)

Lothar Schröder.

Member of the Supervisory Board since June 22, 2006
Deputy Chairman of the Supervisory Board since June 29, 2006
Member of the ver.di National Executive Board, Berlin

- T-Mobile Deutschland GmbH, Bonn (since 8/2003), Deputy Chairman of the Supervisory Board (since 9/2003)

Jörg Asmussen.

Member of the Supervisory Board since July 1, 2008
State Secretary, Federal Ministry of Finance, Berlin

- Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (GTZ), Frankfurt/Main (since 9/2008)

Hermann Josef Becker.

Member of the Supervisory Board since January 1, 2008
Member of the management of Deutsche Telekom Direct Sales and Consulting and Chairman of the Group Executive Staff Representation Committee and Executive Staff Representation Committee at Deutsche Telekom AG, Bonn

– no other seats –

Monika Brandl.

Member of the Supervisory Board since November 6, 2002
Chairwoman of the Central Works Council at Group Headquarters/GHS, Deutsche Telekom AG, Bonn

– no other seats –

Hans Martin Bury.

Member of the Supervisory Board since May 15, 2008
Member of the Management Board of Lehman Brothers Bankhaus AG, Frankfurt/Main (until November 15, 2008)
Managing Director, Nomura Bank Deutschland GmbH, Frankfurt/Main (from November 16, 2008 to March 31, 2009)
Managing Partner, Hering Schuppener Strategieberatung für Kommunikation GmbH, Düsseldorf (from April 1, 2009)

– no other seats –

Josef Falbisoner.

Member of the Supervisory Board since October 2, 1997
Chairman of the District of Bavaria, ver.di trade union, Munich

- PSD Bank eG, Munich, Augsburg office (since 6/1994)

Dr. Hubertus von Grünberg.

Member of the Supervisory Board since May 25, 2000
Serves on the Supervisory Board of Continental Aktiengesellschaft, Hanover, and on other supervisory boards

- Allianz Versicherungs-AG, Munich (since 5/1998)
- Continental AG, Hanover (since 6/1999), Chairman of the Supervisory Board (until 2/2009)

Member of comparable supervisory bodies of companies in Germany or abroad:

- ABB Ltd., Zurich, Switzerland, Chairman of the Board of Directors (since 5/2007)
- Schindler Holding AG, Hergiswil, Switzerland, Board of Directors (since 5/1999)

Lawrence H. Guffey.

Member of the Supervisory Board since June 1, 2006
Senior Managing Director, The Blackstone Group International Ltd., London, United Kingdom

Member of comparable supervisory bodies of companies in Germany or abroad:
- Axtel Ote Corp., San Pedro Gaza Garcia, Nuevo Leon, Mexico (since 4/2000)
- Cineworld Corp., London, United Kingdom (since 10/2004)
- TDC AS Corp., Copenhagen, Denmark (since 2/2006)
- Paris Review, New York, United States (since 7/2006)

Ulrich Hocker.

Member of the Supervisory Board since October 14, 2006
Manager in Chief, Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), Düsseldorf

- Arcandor AG, Essen (since 7/1998)
- E.ON AG, Düsseldorf (since 6/2000)
- Feri Finance AG, Bad Homburg (since 12/2001), Deputy Chairman of the Supervisory Board (since 12/2005)
- ThyssenKrupp Stainless AG, Duisburg (since 11/2005)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Gartmore SICAV, Luxembourg, Luxembourg (since 5/2005)
- Phoenix Mecano AG, Stein am Rhein, Switzerland (since 8/1988), President of the Administrative Board (since 7/2003)

Lothar Holzwarth.

Member of the Supervisory Board since November 6, 2002
Chairman of the Group Works Council at T-Systems, Bonn

- PSD Bank RheinNeckarSaar eG (since 1/1996), Deputy Chairman of the Supervisory Board (since 6/2008), Chairman of the Supervisory Board (from 7/2006 to 5/2008)
- T-Systems Business Services GmbH, Bonn (since 9/2006)

Hans-Jürgen Kallmeier.

Member of the Supervisory Board since October 15, 2008
Chairman of the Central Works Council at T-Systems Enterprise Services GmbH, Frankfurt/Main

– no other seats –

Sylvia Kühnast.

Member of the Supervisory Board since May 3, 2007
Expert consultant to the Central Works Council at T-Mobile Deutschland GmbH, Hanover

– no other seats –

Waltraud Litzenberger.

Member of the Supervisory Board since June 1, 1999
Chairwoman of the Group Works Council and the European Works Council at Deutsche Telekom AG, Bonn (since October 1, 2008; Deputy Chairwoman until September 30, 2008)

- PSD Bank Koblenz eG, Koblenz (since 9/1998)

Michael Löffler.

Member of the Supervisory Board since January 1, 1995
Member of the Works Council at Deutsche Telekom Netzproduktion GmbH, Bonn, Technical Infrastructure Branch Office, Central/Eastern District

– no other seats –

Prof. Dr.-Ing. Wolfgang Reitzle.

Member of the Supervisory Board since February 10, 2005
Chairman of the Executive Board, Linde AG, Munich

- KION Group GmbH, Wiesbaden (since 6/2007)
- The BOC Group plc.*, Guildford, United Kingdom (since 9/2007)

* Supervisory board seat in companies that are part of the same group, as defined in § 100 (2), Sentence 2 AktG (German Stock Corporation Act).

Prof. Dr. Wulf von Schimmelmann.

Member of the Supervisory Board since May 3, 2006
Former Chairman of the Board of Management, Deutsche Postbank AG, Bonn

- Deutsche Postbank AG, Bonn (since 8/2007), Chairman of the Supervisory Board (since 12/2008)
- maxingvest ag, Hamburg (since 8/2003); (formerly Tchibo Holding AG)

Member of comparable supervisory bodies of companies in Germany or abroad:
- accenture Corp., Irving, Texas, United States (since 10/2001)
- Altadis S.A., Madrid, Spain (until 3/2008)
- BAWAG P.S.K. AG, Vienna, Austria, Chairman of the Supervisory Board (since 7/2007)

Dr. Ulrich Schröder.

Member of the Supervisory Board since October 1, 2008
Chairman of the Board of Managing Directors of KfW Bankengruppe

- ProHealth AG, Munich (since 5/2003)
- Deutsche Post AG, Bonn (since 9/2008)

Michael Sommer.

Member of the Supervisory Board since April 15, 2000
Chairman of the German Confederation of Trade Unions (DGB), Berlin

- Deutsche Postbank AG, Bonn, Deputy Chairman of the Supervisory Board (since 11/1997)
- Salzgitter AG, Salzgitter (since 9/2005)

Member of comparable supervisory bodies of companies in Germany or abroad:
- KfW Bankengruppe, Frankfurt/Main, Board of Supervisory Directors (since 1/2003)

Bernhard Walter.

Member of the Supervisory Board since May 27, 1999
Former Chairman of the Board of Managing Directors, Dresdner Bank AG, Frankfurt/Main

- Bilfinger Berger AG, Mannheim (since 7/1998), Chairman of the Supervisory Board (since 5/2006)
- Daimler AG, Stuttgart (since 5/1998)
- Henkel AG & Co. KGaA, Düsseldorf (since 5/1998)
- Hypo Real Estate Holding AG, Munich, Deputy Chairman of the Supervisory Board (since 11/2008)
- Staatliche Porzellan-Manufaktur Meißen GmbH, Meißen, Deputy Chairman of the Supervisory Board (until 4/2008)
- Wintershall AG, Kassel, Deputy Chairman of the Supervisory Board (until 12/2008)
- Wintershall Holding AG, Kassel, Deputy Chairman of the Supervisory Board (until 12/2008)

The following individuals resigned from the Supervisory Board in 2008:

Ingrid Matthäus-Maier.

Member of the Supervisory Board from May 3, 2006 to September 30, 2008
Former Member of the Board of Managing Directors, KfW Bankengruppe, Frankfurt/Main

- Deutsche Post AG, Bonn (until 8/2008)
- Deutsche Steinkohle AG, Herne/RAG Aktiengesellschaft, Essen (until 2/2008)
- IPEX GmbH (from 1/2008 to 9/2008)
- Salzgitter Mannesmann Handel GmbH, Düsseldorf (since 3/2000)

Dr. Thomas Mirow.

Member of the Supervisory Board from January 17, 2006 to June 30, 2008
Former State Secretary, Federal Ministry of Finance, Berlin until June 30, 2008

– no other seats –

Dr. Arndt Overlack.

Member of the Supervisory Board from March 6, 2008 to April 16, 2008
Lawyer

- Bestmalz AG, Heidelberg, Chairman of the Supervisory Board (since 9/2001)
- SÜBA Beteiligungs AG, Vienna, Austria, Chairman of the Supervisory Board (since 5/2005)
- SÜBA Bau und Baubetreuung AG, Vienna, Austria, Chairman of the Supervisory Board (since 5/2005)

Member of comparable supervisory bodies of companies in Germany or abroad:
- SUEBA USA Corporation, Houston, United States, Board of Directors (since 7/2007)

Dr. Klaus G. Schlede.

Member of the Supervisory Board from May 20, 2003 to May 15, 2008
Chairman of the Supervisory Board from February 27, 2008 to April 25, 2008
Member of the Supervisory Board of Deutsche Lufthansa AG, Cologne

- Deutsche Postbank AG, Bonn (until 5/2008)
- Deutsche Lufthansa AG, Cologne (since 6/1998)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Swiss International Air Lines AG, Basle, Switzerland (since 9/2005)

Wilhelm Wegner.

Member of the Supervisory Board from July 1, 1996 to September 30, 2008
Former Chairman of the Group Works Council and the European Works Council at Deutsche Telekom AG, Bonn (until September 30, 2008)

- VPV Allgemeine Versicherungs-AG, Cologne (since 8/1995)
- VPV Holding AG, Stuttgart (since 1/2002)
- Vereinigte Postversicherung VVaG, Stuttgart (since 7/1998)

Dr. Klaus Zumwinkel.

Member of the Supervisory Board from March 7, 2003 to February 27, 2008
Chairman of the Supervisory Board from March 14, 2003 to February 27, 2008
Former Chairman of the Board of Management, Deutsche Post AG, Bonn

- Arcandor AG, Essen (until 12/2008)
- Deutsche Lufthansa AG, Cologne (until 4/2008)
- Deutsche Postbank AG, Bonn*, Chairman of the Supervisory Board (until 2/2008)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Morgan Stanley, New York, United States, Board of Directors (until 4/2008)

* Supervisory board seat in companies that are part of the same group, as defined in § 100 (2), Sentence 2 AktG (German Stock Corporation Act).

33 Compensation of the Board of Management and the Supervisory Board.

Compensation of the Board of Management.

The following information concerning the compensation of the Board of Management comprises notes required by law under the German Commercial Code (please refer to § 285 HGB) as well as information specified in the guidelines set out in the German Corporate Governance Code. Reporting on compensation of Board of Management members is based on German Accounting Standard (GAS) No. 17.

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

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

Board of Management compensation system and review.

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

Fixed remuneration, variable incentive-based remuneration and fringe benefits.

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

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

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

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

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

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

Arrangements in the event of termination of a position on the Board of Management.

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

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

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

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

Company pension entitlement.

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

Board of Management members are entitled to pension payments in the form of a life-long retirement pension upon reaching the age of 62, a disability pension or in the form of an early retirement pension upon reaching the age of 60 (subject to the usual actuarial deductions). The amount of the company pension is calculated on the basis of the eligible period of service rendered as a Board of Management member until the date of departure. The annual retirement pension is comprised of a base percentage (6 percent for René Obermann and Dr. Karl-Gerhard Eick, and 5 percent for the remaining Board of Management members) of the fixed annual remuneration upon termination of the service relationship multiplied by the eligible service period expressed in years. After ten years of Board of Management membership, the maximum percentage of the pension level is achieved (60 percent or 50 percent, respectively). Pension payments are subject to a standard annual adjustment (3 percent for René Obermann and Dr. Karl-Gerhard Eick, or 1 percent for the remaining Board of Management members). In the event of a permanent inability to work (invalidity), the respective period of service through the scheduled end of the current period of appointment serves as the basis for the period of service eligible for calculating the pension. A "pension plan substitute" was agreed with Hamid Akhavan in lieu of a pension commitment due to his U.S. citizenship. The resulting annual payment for each full year of service rendered is included in the table "Total compensation" under "Other remuneration." Dr. Manfred Balz is not covered by the Board of Management pension entitlements described above. Dr. Manfred Balz's pension arrangements under his previous employment relationship (Deutsche Telekom AG capital account plan) remain in place.

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

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

Components with mid- and long-term incentives.
Mid-Term Incentive Plan.

Members of the Board of Management participate in the Deutsche Telekom AG Mid-Term Incentive Plan (MTIP) introduced in the 2004 financial year (please refer to the explanations regarding the MTIP under Note 22). Hamid Akhavan and Timotheus Höttges participate in the 2006 tranche as a result of their prior activities as members of the Board of Management of T-Mobile International AG.

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

Incentive-based compensation from the MTIP.

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

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

2001 Stock Option Plan.

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

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

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

Incentive-based compensation from stock option plans.

		Number of options 2001 SOP 2001 tranche	Value of options on issue (2001) €	Number of options 2001 SOP 2002 tranche	Value of options on issue (2002) €	Weighted average exercise price of stock options (€)
René Obermann	2008	48,195	4.87	28,830	3.79	23.40
	2007	48,195		28,830		
Dr. Karl-Gerhard Eick	2008	163,891	4.87	0	0.00	30.00
	2007	163,891		0		
Hamid Akhavan	2008	0	0	19,840	3.79	12.36
	2007	0	0	19,840		
Dr. Manfred Balz	2008	32,130	4.87	17,360	3.79	23.81
	2007	32,130		17,360		
Reinhard Clemens	2008	0	0.00	0	0.00	n/a
	2007	0		0		
Timotheus Höttges	2008	0	0.00	17,050	3.79	12.36
	2007	0		17,050		
Thomas Sattelberger	2008	0	0.00	0	0.00	n/a
	2007	0		0		
Total[1]	**2008**	**244,216**		**83,080**		
	2007	**244,216**		**83,080**		

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

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

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

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

Please also refer to the explanations regarding stock option plans under Note 22.

Board of Management compensation for the 2008 financial year.

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

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

Total compensation.

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

€		Fixed annual remuneration	Other remuneration	Variable remuneration	MTIP (Fair value at grant date)	Total	Service costs
René Obermann	2008	1,250,000	86,262	1,762,500	116,738	3,215,500	409,642
	2007	1,041,667	224,480	1,375,000	16,981	2,658,128	383,084
Dr. Karl-Gerhard Eick	2008	1,054,375	49,290	1,513,028	98,060	2,714,753	932,321
	2007	915,625	56,529	1,098,281	13,500	2,083,935	550,522
Hamid Akhavan	2008	800,000	613,588[1]	1,178,400	74,712	2,666,700	0
	2007	733,333	608,693	934,000	10,868	2,286,894	0
Dr. Manfred Balz (since Oct. 22, 2008)	2008	127,742	4,641	122,485	26,149	281,017	41,247
	2007	0	0	0	0	0	0
Reinhard Clemens	2008	650,000	33,463	1,106,250	65,373	1,855,086	206,375
	2007	54,167	0.00	68,750	0	122,917	194,460
Timotheus Höttges	2008	750,000	24,506	1,116,000	70,043	1,960,549	171,402
	2007	687,500	20,482	825,000	10,189	1,543,171	159,236
Thomas Sattelberger	2008	800,000	44,221	1,292,500	80,160	2,216,881	1,168,673
	2007	484,588	1,328,742	671,302	10,365	2,494,997	1,106,824
Total	**2008**	**5,432,117**	**855,971**	**8,091,163**	**531,235**	**14,910,486**	**2,929,660**
	2007[2]	**3,916,880**	**2,238,926**	**4,972,333**	**61,903**	**11,190,042**	**2,394,126**

[1] 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.
[2] Compensation of Board of Managment members who left the Company in the course of 2007 is no longer included in the table.

The additions to accruals for pensions recognized in 2008 amounted to EUR 2,929,660 (2007: EUR 3,272,524).

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

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

Former members of the Board of Management.

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

Accruals totaling EUR 76,347,996 (December 31, 2007: EUR 67,813,584) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

Several former Board of Management members are entitled to a civil servant pension from the Civil Service Pension Fund (BPS-PT). In the 2008 financial year, there was no expense incurred in this regard. The present value of the estimated pensions of these Board of Management members amounts to EUR 2,428,967 as of December 31, 2008 (December 31, 2007: EUR 2,734,543).

Other.

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

Compensation of the Supervisory Board.

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

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

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

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

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

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

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

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

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

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

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

[a] In determining the amount to be recognized as an accrual it was assumed that net income per no par value share in 2010 would equal that in 2008. Based on this assumption, each ordinary member is entitled to EUR 12,000.00 for the total year for the period 2007 to 2010. Upon application of the multiplying factor, the accrual amount totals EUR 402,610.00.
[b] Lothar Holzwarth received compensation of EUR 8,000.00 from T-Systems Business Services GmbH, Bonn, a wholly-owned subsidiary of Deutsche Telekom AG, for the 2008 financial year for a mandate as member of the supervisory board of this company.
[c] Lothar Schröder received compensation of EUR 17,600.00 from T-Mobile Deutschland GmbH, Bonn, a wholly-owned subsidiary of Deutsche Telekom AG, for the 2008 financial year for a mandate as member of the supervisory board of this company.

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

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

35 Proposal for the appropriation of net income.

The Board of Management of Deutsche Telekom proposes, subject to the approval of the shareholders' meeting, to pay shareholders a dividend of EUR 0.78 per individual no par value share carrying dividend rights and to carry forward the remaining balance as part of unappropriated net income of EUR 5,297,162,661.31.

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

Responsibility statement.

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

Bonn, February 9, 2009

Deutsche Telekom AG
Board of Management

René Obermann

Dr. Karl-Gerhard Eick

Hamid Akhavan

Dr. Manfred Balz

Reinhard Clemens

Timotheus Höttges

Thomas Sattelberger

Auditors' report.

We have audited the annual financial statements, consisting of the statement of income, the balance sheet, and the notes to the financial statements and the management report of Deutsche Telekom AG, Bonn, together with the bookkeeping system for the financial year from January 1 to December 31, 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and the supplementary provisions of the Articles of Incorporation of the Company are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on our findings from our audit, the annual financial statements are in line with statutory requirements and the supplementary provisions of the Articles of Incorporation of the Company and give a true and fair view of the net assets, financial position, and results of operations of the Company in accordance with German principles of proper accounting. On the whole the management report corresponds to the annual financial statements, gives a true overall picture of the Company's position, and suitably presents the opportunities and risks of future development.

Stuttgart/Frankfurt, February 9, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

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

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

Further Information

List of abbreviations.

ADS	American depository shares
ADSL	Asymmetrical Digital Subscriber Line
ADSL 2+	Further development of ADSL
AG	Aktiengesellschaft (stock corporation under German law)
AktG	Aktiengesetz (Stock Corporation Act)
Bitkom	Bundesverband Informationswirtschaft Telekommunikation und neue Medien e.V. (German Association for Information Technology, Telecommunications and New Media)
BNetzA	Federal Network Agency
BPS-PT	Bundes-Pensions-Service für Post und Telekommunikation e.V., Bonn (joint pension fund for civil servants of Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom)
Cofiroute	Compagnie Financière et Industrielle des Autoroutes S.A., Sèvres Cedex
CR	Corporate Responsibility
CRM	Customer Relationship Management
DECT	Digital European Cordless Telecommunication (European standard for cordless telephones)
Deutsche Telekom	Deutsche Telekom AG, Bonn
DJSI	Dow Jones Sustainability Index
DSL	Digital Subscriber Line
DT IF	Deutsche Telekom International Finance B.V., Amsterdam
DT KS	Deutsche Telekom Kundenservice GmbH, Bonn
DT NP	Deutsche Telekom Netzproduktion GmbH, Bonn
DT TS	Deutsche Telekom Technischer Service GmbH, Bonn
DTI	DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster
EBITDA	Earnings before Interest, Tax, Depreciation and Amortization
Ernst & Young	Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart
EStG	Einkommensteuergesetz (Income Tax Act)
etc.	et cetera
EU	European Union
EUR	Euro
FTE	Full-time equivalent
GBP	Pound sterling
GbR	Gesellschaft bürgerlichen Rechts (non-trading partnership under German law)
GDP	Gross domestic product.
GG	Grundgesetz (Basic Law)
GHS	Group Headquarters & Shared Services
GmbH	Gesellschaft mit beschränkter Haftung (Limited liability company under German law)
GMG	Generalmietgesellschaft mbH, Münster
HGB	Handelsgesetzbuch (German Commercial Code)
HR	Human resources
HRB	Handelsregister, Abteilung B (Commercial register, section B)
HT	Hrvatske telekomunikacije d.d., Zagreb
ICT	Information and Communication Technology
IP	Internet Protocol
ISDN	Integrated Services Digital Network
IT	Information technology

KfW	Kreditanstalt für Wiederaufbau, Frankfurt/Main
MitbestG	Mitbestimmungsgesetz (Codetermination Act)
MTIP	Mid-Term Incentive Plan
NG IT	Next Generation IT
OTE	Hellenic Telecommunications Organization S.A. (OTE), Athens
PC	Personal Computer
Powertel	Powertel Inc., Bellevue
PSN	Planung Struktur Netze (network structure planning)
PST	Personal Service Telekom (Human Resources Services Telekom)
PSTN	Public Switched Telephone Network
PTC	Polska Telefonia Cyfrowa Sp.z. o.o., Warsaw
PTNeuOG	Postneuordnungsgesetz (Posts and Telecommunications Reorganization Act)
PwC	PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main
SDK	Software Development Kit
SEC	Securities and Exchange Commission
Service companies	Deutsche Telekom Kundenservice GmbH, Bonn, Deutsche Telekom Technischer Service GmbH, Bonn, and Deutsche Telekom Netzproduktion GmbH, Bonn
SOP	Stock option plan
STRABAG PFS	STRABAG Property and Facility Services GmbH, Münster
TAN	Transaction number
TC	Telecommunications
Telekom Training	Organizational unit assigned to GHS
T-Home	Organizational unit at Deutsche Telekom AG
TKG	Telekommunikationsgesetz (Telecommunications Act)
T-Mobile USA	T-Mobile USA, Inc., Bellevue
Toll Collect	Toll Collect GmbH, Berlin
T-Online	T-Online International AG, Darmstadt
Triple-Play	Combination of telephony, Internet and TV
T-Share	Deutsche Telekom share
TU Berlin	Berlin Technical University
UK	United Kingdom
ULL	Unbundled local loop
UmwG	Umwandlungsgesetz (Reorganization and Transformation Act)
US	United States
USA	United States of America
USD	U.S. dollar
VDSL	Very high bit rate Digital Subscriber Line (new technology used to transmit exceptionally high data rates via a fiber-optic network)
ver.di	ver.di - Vereinte Dienstleistungsgewerkschaft (service industry trade union)
Vivendi	Vivendi S.A., Paris
Vivento	Service provider of Deutsche Telekom AG for personnel and business (legally dependent organizational unit)
VoiceStream	VoiceStream Pittsburgh General Partner, Inc., Bellevue
VoIP	Voice over Internet protocol (technology enabling telephone calls via the Internet)
WHO	World Health Organization
WLAN	Wireless Local Area Network

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