Group management report.

Net revenue for the Group up 1.9 percent year-on-year to EUR 62.5 billion; proportion of net revenue generated outside Germany increased to over 50 percent // Group EBITDA up 3.5 percent to EUR 16.9 billion; adjusted EBITDA of EUR 19.3 billion; excluding exchange rate fluctuations, adjusted EBITDA increased to EUR 19.6 billion year-on-year // Net profit decreased from EUR 3.2 billion to EUR 0.6 billion; net profit adjusted for special factors decreased from EUR 3.9 billion to EUR 3.0 billion // Free cash flow before dividend payments up from EUR 3.0 billion to EUR 6.6 billion // Proposed dividend increased to EUR 0.78

Number of mobile customers, including newly acquired companies, up 11.1 million to 119.6 million year-on-year // Number of broadband lines increased by 2.7 million year-on-year, reaching a total of 13.9 million; total number of fixed-network lines down 2.4 million to 36.6 million at year-end 2007 // Volume of new orders in the Business Customers operating segment totaled EUR 12.9 billion in 2007, compared with EUR 14.4 billion in 2006

New strategy leads to positive development.

For Deutsche Telekom, the 2007 financial year was again marked by intense competitive and price pressure in the telecommunications industry and by continuing technological change. The Group successfully tackled theses challenges with its “Focus, fix and grow” strategy. In its international markets, the Group recorded revenue and earnings growth, while in its domestic markets it created the basis for improved competitiveness.

In total, net revenue rose by 1.9 percent year-on-year to EUR 62.5 billion. The contribution to net revenue generated internationally was EUR 31.8 billion, or 50.9 percent. In addition to changes in the composition of the Group, this positive development was mainly the result of customer growth in the Mobile Communications segments. On the other hand, exchange rate effects totaling EUR 1.0 billion, in particular from the translation of U.S. dollars, had a negative effect on net revenue. Moreover, the Broadband/Fixed Network and Business Customers operating segments registered declining revenues.

Group EBITDA increased in the reporting year by around EUR 0.6 billion or 3.5 percent to EUR 16.9 billion. Special factors amounting to EUR 2.4 billion in 2007, compared with EUR 3.1 billion in the prior year, had a negative effect on Group EBITDA. These mainly involved expenses in connection with continued staff restructuring. At EUR 19.3 billion, the Group’s adjusted EBITDA was maintained almost at the prior-year level due to effects of changes in the composition of the Group, efficiency gains and cost savings. Excluding negative exchange rate effects, adjusted Group EBITDA slightly increased year-on-year to EUR 19.6 billion.

Net profit decreased year-on-year by EUR 2.6 billion to EUR 0.6 billion. This development was principally caused by the distinctly negative change in income tax payments of EUR 2.3 billion, primarily as a result of deferred tax assets, which did not, however, entail additional tax payments and in turn, did not impact negatively on liquidity or interest. In addition, net profit was negatively impacted by a year-on-year increase in depreciation, amortization and impairment losses mainly resulting from higher amortization of customer bases and brand names in the amount of EUR 0.3 billion at the companies newly acquired in 2006 (primarily PTC). Adjusted for special factors, net profit for the reporting period amounted to around EUR 3.0 billion compared with EUR 3.9 billion in the prior year.

Free cash flow (before dividend payments) rose by EUR 3.6 billion to EUR 6.6 billion. This increase is largely due to a lower volume of investment in intangible assets and property, plant and equipment, which was mainly attributable to the acquisition of FCC licenses by T-Mobile USA in the prior year for EUR 3.3 billion.

For the 2007 financial year, the Board of Management proposes a dividend of EUR 0.78 per share. This would increase the dividend by 8.3 percent.

In contrast to the previous presentation of the three strategic business areas Mobile Communications, Broadband/Fixed Network and Business Customers together with Group Headquarters & Shared Services, reporting as of December 31, 2007 is structured in five operating segments due to the first-time application of IFRS 8 “Operating Segments”: Mobile Communications Europe, Mobile Communications USA, Broadband/Fixed Network, Business Customers, and Group Headquarters & Shared Services.

Mobile Communications segments expand customer base to 119.6 million.

The Mobile Communications segments also drove forward growth within the Group in 2007. T-Mobile Deutschland added 4.6 million new customers in the **Mobile Communications Europe** operating segment in the 2007 reporting year. At the end of the financial year, the number of customers had increased to 36.0 million. This success is the outcome of intensive market activities to win over new customers and to enhance customer retention. In addition, a change in the legal situation and, as a result, a modified procedure for deactivating prepaid customers in Germany led to an increase in the customer base. In October 2007, T-Mobile Netherlands acquired the Dutch mobile communications company Orange Nederland N.V. from France Télécom. With a customer base of 2.2 million, Orange Nederland's consolidation contributed to the growth of the Mobile Communications Europe segment. In the United Kingdom, T-Mobile UK (including Virgin Mobile) added around 0.4 million new customers in the reporting year. Customer figures developed just as encouragingly for the T-Mobile group's Eastern European companies. The mobile communications subsidiaries in Hungary, Slovakia, Croatia, Montenegro, and Macedonia won a total of 1.2 million new customers, pushing the mobile communications customer count to 11.3 million. In November 2006, the Mobile Communications Europe operating segment fully consolidated the Polish company Polska Telefonia Cyfrowa Sp.z o.o. (PTC) for the first time. PTC posted growth of 0.8 million customers year-on-year, bringing the total to 13.0 million customers at the end of 2007.

In the **Mobile Communications USA** operating segment, T-Mobile USA once again substantially increased its customer base. With a total of 3.7 million new customers in 2007, the number of customers at the end of the reporting year increased to 28.7 million. Its planned acquisition of regional mobile communications provider SunCom Wireless Holdings, Inc. will enable T-Mobile USA to expand its presence to the southeastern United States, as well as to Puerto Rico and the Virgin Islands. This transaction is expected to be completed during the first six months of 2008.

Strong DSL growth.

In September 2006, the **Broadband/Fixed Network** operating segment in Germany rolled out complete packages comprising voice telephony, broadband Internet and TV entertainment (single, double and triple play). Thanks to these packages, the segment also managed to add successive market share with new DSL lines in 2007, thus continuously improving its competitiveness.

Key financial figures for the Deutsche Telekom Group.

millions of €	2007	2006	2005
Net revenue	62,516	61,347	59,604
Of which: international revenue	31,822	28,887	25,421
EBITDA [a]	16,897	16,321	20,119
EBITDA (adjusted for special factors) [a]	19,326	19,434	20,729
Profit after income taxes	1,078	3,574	6,021
Profit after income taxes (adjusted for special factors) [a]	3,524	4,275	5,131
Net profit	569	3,165	5,589
Net profit (adjusted for special factors) [a]	3,003	3,850	4,668
Shareholders' equity	45,235	49,670	48,599
Net debt [b]	37,236	39,555	38,639
Free cash flow (before dividend payments) [c]	6,581	2,983	6,155
Employees (average)	243,736	248,480	244,026

[a] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses. For a detailed explanation of the special factors affecting EBITDA and adjusted EBITDA, as well as special factors affecting profit/loss and the adjusted profit/loss after income taxes and net profit, please refer to the section on "Development of business in the Group."
[b] Deutsche Telekom considers "net debt" to be an important measure for investors, analysts, and rating agencies. Although many of Deutsche Telekom's competitors use this measure, its definition may vary from one company to another. For detailed information, please refer to the section on "Development of business in the Group."
[c] Since the beginning of the 2007 financial year, Deutsche Telekom has defined free cash flow as cash generated from operations less interest paid and net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment. Prior-year figures have been adjusted accordingly. Deutsche Telekom is of the opinion that the "free cash flow (before dividend payments)" indicator is used by investors as a measure to assess the Group's net cash from operating activities after deduction of cash outflows for intangible assets (excluding goodwill) and property, plant and equipment, in particular with regard to subsidiaries, associates and joint ventures, and the repayment of liabilities. "Free cash flow (before dividend payments)" should not be used to determine the financial position of the Group. There is only limited comparability between Deutsche Telekom's definition of free cash flow and methods of calculating this measure and similarly designated measures and disclosures of other companies. For detailed information, please refer to the section on "Development of business in the Group."

In the broadband market, the segment achieved a new customer market share of around 44 percent for the whole of 2007, helped in no small part by the consistent marketing of complete packages as well as new services. Attractive prices for the complete packages in conjunction with significantly enhanced services also contributed to this success. Voice and Internet communications products proved very popular. Just under 70 percent of customers signing up for one of the complete packages in 2007 opted for a Call & Surf package. DSL growth was also boosted by the "Telekom-Vorteil" program launched in conjunction with T-Mobile which gives customers a discount if they purchase selected products from both T-Mobile and T-Home.

The launch of the Entertain packages during the IFA consumer electronics show got the ball rolling in August 2007 for the marketing of an IPTV service that is ready for the mass market. The Entertain packages offer innovative functions such as time-shift television, access to a broad spectrum of up to 145 TV channels, a comprehensive online video store, and the ability to record programs using the integrated hard disk recorder. Approximately 17 million households had access to these innovative broadband services at the end of 2007. In addition to continuing to extend its broadband network, Deutsche Telekom pushed ahead with the preparations for migrating the traditional telephone network to an IP (Internet Protocol)-based infrastructure in 2007. In order to gradually motivate customers to leverage the possibilities of Internet communication to a greater degree, Deutsche Telekom develops and operates custom platforms for communities (user groups).

Following the successful positioning of the download platforms Musicload, Softwareload, and Gamesload, Videoload has been the fourth brand to join the Group's "Load" family since October 2007. Customers can download a large selection of music, games, software, and films and a broad service and information offering using their Internet access.

Deutsche Telekom launched the new T-Home brand on May 18, 2007, replacing the previous T-Com brand. With the new umbrella brand, the Group is now offering all consumer services for the home under a single brand name. In addition, T-Home is responsible for marketing consumer-centric standard products to small business customers. The triple-play services (formerly T-Home) are now sold under the name Entertain.

Growth in the broadband market has remained steady outside Germany. The Broadband/Fixed Network operating segment is active on the Eastern European market via Deutsche Telekom's international subsidiaries. Despite further rising competition, the Eastern European majority holdings managed to post double-digit growth rates courtesy of their broadband packages. Approximately 83,000 customers in Croatia, Hungary, and Slovakia opted for the IPTV packages in 2007.

As part of its "Focus, fix and grow" strategy, Deutsche Telekom sold its subsidiaries T-Online France S.A.S. and T-Online Spain S.A.U., assigned to the Broadband/Fixed Network segment.

Successes abroad and new pioneering projects in Germany.

The **Business Customers** operating segment further expanded its position as one of the leading service providers in information and communication technology (ICT) in European countries other than Germany through new strategically significant business contracts. In the UK market, outsourcing contracts with energy utility Centrica and insurer Royal & SunAlliance helped achieve a significant improvement in market position. T-Systems won further contracts in 2007, for example in Italy, Switzerland, and France. The company also boosted its international business with customers outside Germany. This included contracts with Airbus to set up and operate a high-performance network in Asia as well as with Bosch for a new network infrastructure connecting more than 200 locations in the Asia-Pacific region and data centers in America and Europe. Overall, these success stories confirm the international strategy, which T-Systems launched in the previous year, of focusing on the core markets in Western Europe on the one hand and on worldwide service for its customers with global operations on the other.

In 2007, gematik (Gesellschaft für Telematikanwendungen der Gesundheitskarte) awarded T-Systems a contract to set up and operate the network for electronic health cards. T-Systems is also contributing to modernizing administration functions – an important public-sector reform project throughout Europe. In 2007, the state of Saxony awarded the company a contract for setting up and operating a state-wide network of the future on the basis of the Internet Protocol, which will link all the authorities and institutions of the state.

Deutsche Telekom concluded an agreement for the sale of T-Systems Media&Broadcast GmbH to Télédiffusion de France in 2007. The sale was approved by the EU Commission in January 2008.

Human resources strategy supports staff restructuring.

The HR strategy of the **Group Headquarters & Shared Services** operating segment made a considerable contribution to staff restructuring. The HR restructuring program includes socially responsible staff adjustment in Germany. The Group achieved restructuring not only by offering socially responsible HR tools, but also through natural attrition and the deconsolidation of parts of Vivento's business models. In 2007, a total of around 14,400 employees left the Deutsche Telekom Group in Germany.

Vivento was instrumental in restructuring the Group's workforce in the 2007 financial year through sustainable staff placement services and continued improvement and sale of business models. During the reporting period, Vivento sold a total of seven call center sites of Vivento Customer Services GmbH. Furthermore, Deutsche Telekom and Nokia Siemens Networks signed a strategic partnership in which they agreed to transfer the operations of Vivento Technical Services GmbH to Nokia Siemens Networks with effect from January 1, 2008.