Deutsche Telekom AG

Annual financial statements and management report as of December 31, 2007

Contents.

Deutsche Telekom AG's annual financial statements and management report for the 2007 financial year are published in the electronic Federal Gazette (Bundesanzeiger) and can also be accessed on the website of the register of companies.

List of abbreviations.

ADS	American depository share
AktG	Aktiengesetz (Stock Corporation Act)
BMF	Bundesministerium für Finanzen (Federal Ministry of Finance)
BNetzA	Bundesnetzagentur (Federal Network Agency)
BoD	Board of Directors
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 AG)
CHF	Swiss franc
Cofiroute	Compagnie Financière et Industrielle des Autoroutes S.A.
CTA	Contractual Trust Agreement
CZK	Czech koruna
DBO	Defined benefit obligation
DECT	Digital European Cordless Telecommunication (European standard for cordless telephones)
Deutsche Telekom	Deutsche Telekom AG, Bonn
DFMG	DFMG Deutsche Funkturm GmbH, Münster
DSL	Digital subscriber line
DT BS	Deutsche Telekom Betriebsrenten-Service e.V., Bonn (special pension fund)
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
EMF	Electromagnetic fields
Ernst & Young	Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart
EStG	Einkommensteuergesetz (Income Tax Act)
EU	European Union
EVA	Economic Value Added
Fed	Federal Reserve System (Central bank system in the United States of America)
FTE	Full-time equivalent
GAS	German Accounting Standard(s)
GBP	Pound sterling
GbR	Gesellschaft bürgerlichen Rechts (non-trading partnership under German law)
GG	Grundgesetz (Basic Law)
GHS	Group Headquarters & Shared Services
GmbH	Gesellschaft mit beschränkter Haftung (Limited liability company under German law)
GMG	GMG Generalmietgesellschaft mbH, Münster

HDTV	High-definition television (Generic term describing a range of television standards that differ from conventional television through increased vertical, horizontal and/or temporal resolution)
HGB	Handelsgesetzbuch (German Commercial Code)
HKD	Hong Kong dollars
HR	Human resources
HRB	Handelsregister (commercial register)
HRK	Croatian kuna
HUF	Hungarian forint
IAS	International Accounting Standards
ICSS	International Carrier Sales & Solutions (business unit)
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standard(s)
IP	Internet Protocol
ISDN	Integrated Services Digital Network
IT	Information technology
JPY	Japanese yen
KapMuG	Kapitalanleger-Musterverfahrensgesetz (Capital Investor Model Proceedings Act)
KfW	Kreditanstalt für Wiederaufbau, Frankfurt/Main
MitbestG	Mitbestimmungsgesetz (Codetermination Act)
MTIP	Mid-Term Incentive Plan
NYSE	New York Stock Exchange
PASM	PASM Power and Air Condition Solution Management GmbH & Co. KG, Munich
PLN	Polish zloty
PostBeaKK	Postbeamtenkrankenkasse (Civil Service Health Insurance Fund)
Powertel	Powertel Inc., Bellevue, Washington/United States
PSTN	Public switched telephone network
PTNeuOG	Postneuordnungsgesetz (Posts and Telecommunications Reorganization Act)
PwC	PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main
RECS	Renewable Energy Certificates System (organization for the promotion of renewable energy sources)
RegTP	Regulatory Authority for Telecommunications and Posts
RFID	Radio Frequency Identification
SAR	Stock appreciation right
SEC	Securities and Exchange Commission
SGD	Singapore dollar
SKK	Slovak koruna
SOP	Stock option plan

Telekom Training	Deutsche Telekom Training GmbH, Stuttgart
TKG	Telekommunikationsgesetz (Telecommunications Act)
T-Mobile USA	T-Mobile USA, Inc., Bellevue, Washington/United States
T-Online	T-Online International AG, Darmstadt
Triple play	Combination of telephony, Internet and TV
TS ES	T-Systems Enterprise Services GmbH, Frankfurt/Main
ULL	Unbundled local loop
USD	U.S. dollar
UStG	Umsatzsteuergesetz (German VAT Act)
VAP	Versorgungsanstalt der Deutschen Bundespost (special pension fund of Deutsche Bundespost)
VCS	Vivento Customer Services GmbH, Bonn
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)
Vivento	Legally dependent organizational unit
VoIP	Voice over Internet Protocol (technology enabling telephone calls via the Internet)
VTS	Vivento Technical Services GmbH, Bonn
WHO	World Health Organization
WLAN	Wireless Local Area Network
WpHG	Wertpapierhandelsgesetz (Securities Trading Act)

Management report of Deutsche Telekom AG.

1 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, 2007, 68.3 percent of the shares were in free float (prior year: 68.3 percent), 14.8 percent were held by the Federal Republic of Germany (prior year: 14.8 percent), and 16.9 percent were held by KfW Bankengruppe (prior year: 16.9 percent). The shareholding deemed to be held by the Federal Republic amounted to 31.7 percent (prior year: 31.7 percent). The share held by the Blackstone Group remained unchanged at 4.4 percent at December 31, 2007. In April 2006, KfW Bankengruppe sold some of its shares to the Blackstone Group which agreed to lock up its holding for at least two years.

As of December 31, 2007, the capital stock of Deutsche Telekom AG totaled approximately EUR 11,165 million and was composed of some 4,361 million 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, 2007) and the trust shares (around 19 million as of December 31, 2007). The trust shares are connected with the acquisition of VoiceStream and Powertel in 2001. As part of this acquisition, 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 of lower-tier companies (employee shares) (2006 authorized capital).

The capital stock has been contingently increased by up to EUR 31,870,407.68 as of December 31, 2007, composed of up to 12,449,378 new no par value registered shares. The contingent capital increase is exclusively for the purpose of meeting preemptive rights to shares from stock options granted in the period until December 31, 2003 on the basis of the authorization for a 2001 Stock Option Plan granted by resolution of the shareholders' meeting on May 29, 2001 (contingent capital II). The capital stock has been contingently increased by EUR 600,000,000 as of December 31, 2007, composed of 234,375,000 no par value shares. The contingent capital increase shall only be implemented to the extent that it is needed to service convertible bonds or bonds with warrants issued or guaranteed on or before April 25, 2010 (contingent capital IV).

[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 shareholders' meeting on May 3, 2007 authorized the Board of Management to purchase up to 436,117,555 shares in the Company by November 2, 2008, with the amount of capital stock accounted for by these shares totaling up to EUR 1,116,460,940.80, subject to the proviso that 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 dependent Group companies acting for the account of Deutsche Telekom 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 3, 2007, the Board of Management is authorized, with the consent of the Supervisory Board, to redeem Deutsche Telekom AG's shares purchased on the basis of the above authorization, without such redemption or its implementation requiring a further resolution of the shareholders' meeting[3].

The main agreements entered into by Deutsche Telekom AG, which include a clause in the event of a takeover of Deutsche Telekom AG, principally relate to bilateral credit lines and to a number of loan agreements. In the event of a takeover, the individual lenders have the right to terminate the credit line and, if necessary, serve notice on it 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 who previously did not hold them, 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.

The Company's organizational structure changed in the reporting year, primarily as a result of the transfer of customer service, technical customer service, and network production activities to three separate legal entities, Deutsche Telekom Kundenservice GmbH (DT KS), Deutsche Telekom Technischer Service GmbH (DT TS), and Deutsche Telekom Netzproduktion GmbH (DT NP) as of June 25, 2007 thus implementing the measures to focus the Group sustainably on comprehensive service and fulfilling customer needs as announced in the prior year. In addition, further small-scope structural measures were taken in the 2007 financial year with regard to the legal entity Deutsche Telekom AG. See the section "Comparability with prior-year figures following the strategic realignment" and Note [12] in the notes to the financial statements for further details.

[3] http://www.telekom.com/agm

Management and supervision

The management and supervisory structures, as well as the compensation system for the Board of Management and the Supervisory Board, follow the statutory framework. They are aligned with the long-term performance of the Deutsche Telekom Group and comply with the recommendations of the German Corporate Governance Code in particular.

Board of Management responsibilities are distributed across six Board departments. In addition to the central management areas assigned to the chairperson of the Board of Management, the Board member responsible for Finance, and the Board member responsible for Human Resources, there are three Board departments that combine segment-specific and Group-wide tasks: T-Mobile, Product Development, and Technology and IT Strategy; T-Home, Sales and Service; and Business Customers.

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

The appointment and discharge of members of the Board of Management is in accordance with § 84 and § 85 AktG, and § 31of the German Codetermination Act (Mitbestimmungsgesetz –MitbestG). Amendments to the Articles of Incorporation are made pursuant to § 179 and § 133 AktG and § 18 of the Articles of Incorporation. The Supervisory Board is also authorized in accordance with § 21 of the Articles of Incorporation, 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 make changes that merely affect the wording.

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

The six 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 remuneration 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 assigned to them by the General Committee of the Supervisory Board before the beginning of each financial year.

The total remuneration 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 [34], broken down by the various components.

Business background

The Deutsche Telekom Group is an integrated telecommunications provider that offers its customers worldwide a comprehensive portfolio of state-of-the-art services in the areas of telecommunications and IT. 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, the Group reports for the first time on five operating segments as of December 31, 2007: 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[4].

The legal entity Deutsche Telekom AG consists of only part of the Broadband/Fixed Network and Group Headquarters & Shared Services (GHS) operating segments. The strategy and the goals of these operating segments within the legal entity Deutsche Telekom AG are based on the overall strategy of the Group.

[4] 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.

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

The units of the **Group Headquarters & Shared Services** operating segment that are part of the legal entity Deutsche Telekom AG perform strategic management functions across all segments (Group Headquarters) and all other operating functions that are not performed by separate legal entities and are not directly related to the core business activities of the Group's operating segments (Shared Services).

The main task of Group Headquarters is the strategic and financial management of the Group. It leads the strategic planning process, adopts goals for the Group and the operating segments, and manages their implementation. In addition, it is responsible for portfolio management, which involves defining the cornerstones of the entire Group's internationalization strategy and investment policy.

Shared Services also includes that part of Vivento that is organized within Deutsche Telekom AG. The purpose of Vivento, the internal personnel service agency, is to systematically qualify employees for new tasks within the Group, to find employment within and outside the Group for staff, and to create new job opportunities as part of the staff restructuring.

Group Headquarters is also responsible for the management of Shared Services including the legally independent units of Vivento, real estate business and fleet management.

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

Corporate strategy and management control

Deutsche Telekom AG is integrated into the corporate strategy of the Deutsche Telekom Group. The Group faces a broad range of framework conditions in the market and competitive environment, which have an impact on the legal entity Deutsche Telekom AG: While the traditional fixed-network market in Europe has become increasingly saturated, growth has been recorded in the broadband market. Deutsche Telekom meets these challenges with its "Focus, fix and grow" strategy, which is focused on four core areas of action for the Group and the following two core areas of action for the legal entity Deutsche Telekom AG: First, improving competitiveness, and second, mobilizing the Internet and Web 2.0 trends.

Improving competitiveness.

Deutsche Telekom continues to drive forward its business in the broadband market in particular. Efforts in the Broadband/Fixed Network segment are focused on the continued roll-out of DSL and VDSL coverage. This high-speed network provides a telecommunications infrastructure that offers not only voice telephony and broadband Internet, but also high-definition television (HDTV) with interactive potential. The success of this broadband initiative depends on the Company's ability to offer attractively priced products, backed up with high-caliber customer service.

The Group has helped significantly improve customer orientation by simplifying the consumer business brand structure. T-Home represents products and services for the home, while T-Mobile covers products and services used on the move.

Customer service, technical customer service, and network production activities were hived off as three independent service companies in June 2007, thus enabling the Company to improve service and sales and also optimize cost structures.

Given the tough competition, it is imperative that Deutsche Telekom continues to adjust its cost structure. One factor contributing to sustained cost efficiency in production is a completely IP-based network infrastructure, which is to be expanded in the coming years. Full interoperability between fixed and mobile networks is a key advantage of such an infrastructure.

Mobilizing the Internet and the Web 2.0 trend.

The mega-trends in the industry are mobile Internet access, Web 2.0, where users play an active role in influencing and shaping Internet content, and personal, social, and business networking between users. These trends represent a substantial growth opportunity for Deutsche Telekom and its subsidiaries. Proof is the success of web'n'walk, which provides mobile access to the free Internet. The Apple iPhone, which T-Mobile as the exclusive distributor for Germany successfully launched in November 2007, is set to reinforce the trend toward mobile Internet usage since all iPhone calling plans include a data flat rate.

In order to drive forward the trend towards the individualization of personal communication and the use of social networks, Deutsche Telekom is looking towards both its own development as well as partnerships. T-Home's website products now additionally offer Web 2.0 functionalities, such as the ability to integrate up-to-date information from other websites as RSS (Really Simple Syndication) feeds and podcasts. In May 2007, the T-Online Venture Fund invested in Jajah, a web telephony start-up, opening up the prospect of synergy and market opportunities with Deutsche Telekom. Such opportunities will come both in the mobile and fixed-network areas, as well as in the online area with social networking in particular. Moreover, numerous popular Internet services were integrated into the T-Online portal; partners include Wikipedia, Lycos IQ, Webnews, Mister Wong and moviepilot.de.

Summary.

Deutsche Telekom AG is systematically implementing its "Focus, fix and grow" strategy within its areas of action and will also actively pursue this strategy in 2008 in order to support the overall success of the Deutsche Telekom Group.

Corporate management control

The financial management is focused on the Deutsche Telekom Group and its operating segments. For this purpose, the legal entity Deutsche Telekom AG is not considered in isolation. The financial management of the Group uses an integrated system of key figures based on a small number of closely related 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.

Revenue trends form the basis for almost every company's statement of income and reflect the concept of substantive growth. A further KPI for the Group is EBITDA, which corresponds to operating results excluding 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. Financial flexibility is primarily measured using the "gearing" and "relative debt" KPIs. One component of these two 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 the return on capital employed (ROCE) as a relative indicator and economic value added (EVA®) as an indicator of value creation. For further details please refer to the Group management report.

2 The economic environment.

Global economic development

The upturn in the global economy continued in 2007, although the macroeconomic risks for the global economy increased as a result of turbulence on the financial markets caused by the U.S. real estate and financial crisis as well as record-level oil prices and euro-U.S. dollar exchange rate.

Over the course of 2007, economic growth in the industrialized countries was reflected in only a moderate increase in output. Economic expansion in the United States has been slowing for a year now, and growth rates have also weakened slightly in the eurozone and Japan. Important economic indicators, such as housing investment, capital expenditure on plant and equipment and private consumption slipped in the United States, which suggests further economic slowdown. In September and October 2007, the U.S. Federal Reserve lowered its key interest rate by a total of 75 basis points against the background of turbulent financial markets and weaker economic indicators. At the beginning of the second half of 2007, investments and exports in the eurozone recorded only muted growth. The appreciation of the euro also had a dampening effect. By contrast, the German economy recorded robust growth. Private consumption gained new momentum and exports grew due to increased orders from outside Germany. Expansion in the emerging economies continued to pick up speed over the course of 2007.

Telecommunications market

A recent industry association study on the development of the German telecommunications market pointed to a sustained slight downturn in the market as a whole for 2007. Revenue from telecommunications services in Germany will accordingly amount to around EUR 63.4 billion in 2007, which equates to a year-on-year decline of 2.8 percent. Growth of call minutes in fixed-network and mobile communications in 2007 was not sufficient, however, to offset the price erosion caused by competition. Approximately EUR 37 billion from the fixed-network market (a decrease of 3.6 percent year-on-year) and around EUR 26.4 billion from the mobile communications market (around 1.4 percent less than in the prior year) made up the sector's total revenue of approximately EUR 63.4 billion.

Broadband/fixed-network market

The German broadband market is marked by considerable dynamic growth. Demand for broadband connections remains high. Key drivers include the increasing performance of transmission technology and the availability of innovative products and services.

A further engine of DSL growth is the enduring strong competition and resulting lower prices. By introducing attractive start-up packages, such as Call & Surf Start, and improving T-Home's Call & Surf Basic calling plan, Deutsche Telekom opened up new broadband communications customer segments. Attractive complete packages for calling and broadband Internet access remain the main driver of broadband growth in Germany. Traditional resellers such as 1&1 and freenet are gradually shifting their business models to so-called all-IP lines. These are based on upstream all-IP services offered by alternative wholesalers. Using such services, since mid-2007 resellers have also been able to offer complete packages in the regions tapped by alternative wholesalers. The implication of this business model is that DSL resale is losing momentum and competitors are increasingly demanding unbundled local loop lines. The unbundled local loop gives competitors the opportunity to develop their own complete packages which they can offer their customers together with a single bill and as part of a single contractual relationship.

Offers from cable network operators constitute an increasingly important driving force on the broadband market. In addition to attractive complete packages including TV, Internet and voice services (triple play), these cable operators expanded their range of services in 2007 to include pure broadband Internet connections with and without voice components.

Ten years after market liberalization Deutsche Telekom's market share in fixed-network lines remains high. Alternative fixed-network operators enjoy a market share of around 19 percent, according to the Federal Network Agency. The persistent loss of market share in the narrowband lines business in the Broadband/Fixed Network operating segment results on the one hand from national regulation and on the other from the ever increasingly intense competition from alternative telecommunications carriers and substitution by mobile communications, cable, and voice over IP use. Due to continually falling market prices and the increasing use of flat rates, revenue can no longer be compensated by the number of call minutes billed. As a result, the absolute number of minutes billed on the Company's own network is on the decline.

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) provides for 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 a company with "significant market power" in broad sectors of the German telecommunications market, regulation significantly encroaches on Deutsche Telekom's entrepreneurial freedom.

In applying the TKG, the Federal Network Agency has so far shown no 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. For instance, the

Federal Network Agency has included the new voice over IP service in the regulated fixed-network telephony market and imposed new obligations on Deutsche Telekom following the expansion of the fiber-optic network. 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. As a result of these upstream services, a major competitor of Deutsche Telekom announced near the end of the reporting year that it intended to establish its own nationwide VDSL network.

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. As part of this package, a new recommendation entered into force, stipulating fewer markets for regulation by national regulatory bodies than in the past. As a result, regulation in the end-customer market should in future be restricted to fixed-network telephone lines. However, the EU recommendation advocates maintaining regulation for the key wholesale markets. This primarily concerns the markets for the unbundled local loop, broadband access, fixed-network interconnection, leased lines and mobile termination. In addition, the recommendation extends the previous scope of market definitions for some of these markets. At present it is not possible to determine whether this will result in additional regulatory burdens.

The market for international roaming in European mobile communications is no longer covered by the recommendation because the European roaming regulation of July 2007 already regulates this market.

In addition, the reform package includes proposed amendments to the valid legal framework that will be discussed by the European institutions in the course of 2008. Essentially the European Commission is proposing increasing its influence in the regulated markets. This is reflected both in the proposed extension of veto rights in respect of national regulatory measures and in the proposal to set up a European regulatory authority. Moreover, the possible functional separation of network operation and services has been considered. So far the Commission's plans have largely met with resistance from the Member States and the telecommunications industry.

International regulation.

Deutsche Telekom is also subject to regulation in countries other than Germany. 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.

3 Development of business.

Deutsche Telekom AG reported income after taxes for the 2007 financial year of EUR 13.3 billion, an increase of EUR 11.8 billion compared with the previous year.

Similar to the previous year, the development of the business was marked by a number of very different effects, arising both from the day-to-day business of the Company, the extraordinary income (EUR 17.3 billion), and from the restructuring activities carried out. The latter effects also include those transactions under company law conducted as part of the strategic realignment of the Group which affected Deutsche Telekom AG itself. Restructuring within the Group also resulted in changes to the organizational structure of Deutsche Telekom AG as against the previous year. These changes include primarily the contribution and transfer of customer service, technical customer service, and network production activities to three separate legal subsidiaries, Deutsche Telekom Kundenservice GmbH (DT KS), Deutsche Telekom Technischer Service GmbH (DT TS), and Deutsche Telekom Netzproduktion GmbH (DT NP) as of June 25, 2007.

These effects and developments are discussed in more detail below.

Results of operations

Due to the aforementioned restructuring measures, a comparison of the financial year's figures with those of the prior year is only possible to a limited extent. More detailed information on the material effects this has caused can be found in the notes to the statement of income. The following overview shows the individual items of the statement of income in condensed form, followed by a brief explanation:

	2007 millions of €	2006 millions of €	Change millions of €
Net revenue	**19,442**	**20,936**	**(1,494)**
Changes in inventories and other own capitalized costs	345	415	(70)
Total operating performance	**19,787**	**21,351**	**(1,564)**
Other operating income	3,899	3,642	257
Goods and services purchased	(6,298)	(4,893)	(1,405)
Personnel costs	(6,258)	(8,477)	2,219
Depreciation, amortization and write-downs	(3,783)	(3,730)	(53)
Other operating expenses	(7,653)	(7,800)	147
Operating results	**(306)**	**93**	**(399)**
Financial income (expense), net	(3,669)	(637)	(3,032)
Results from ordinary business activities	**(3,975)**	**(544)**	**(3,431)**
Extraordinary income	17,264	1,844	15,420
Taxes	(5)	151	(156)
Income after taxes	**13,284**	**1,451**	**11,833**

Net revenue in the Broadband/Fixed Network operating segment declined by EUR 1.5 billion to EUR 19.4 billion. This was primarily attributable to lower call revenues as a result of line losses in the narrowband area, which are primarily due to customer churn (such as migration to cable network operators), fixed-mobile substitution and the introduction of competitively priced complete packages. In addition, the decrease in net revenue was also the result of pricing and volume effects related to interconnection charges and in the broadband market. Lower market prices also led to a drop in intragroup revenues. The revenue shortfall could only partly be offset by volume growth in unbundled local loop lines and rising demand for complete packages.

In addition to the decline in net revenue, the following factors had a significant impact on the development of results:

Other operating income increased by EUR 0.3 billion to EUR 3.9 billion. A significant proportion of the increase is attributable to higher income from the transfer of personnel and administrative costs to the newly established service companies DT KS, DT TS, and DT NP. This was partly offset by a decline in income from the reversal of accruals and in income from write-ups of financial assets.

The cost of **goods and services purchased** increased by EUR 1.4 billion year-on-year to EUR 6.3 billion, mainly attributable to the fact that in the second half of 2007, Deutsche Telekom procured services from DT KS, DT TS, and DT NP that it had previously performed itself. This was partly offset by a decrease in the cost of purchased telecommunications services as a result of lower interconnection rates and a volume- and price-related decline in billing costs.

Personnel costs decreased by EUR 2.2 billion to EUR 6.3 billion in the reporting period. This was largely due to a headcount reduction resulting from the establishment of the service companies and the effects of the socially responsible staff restructuring program started in the previous year. There was also a EUR 0.6 billion reduction in expenses for the recognition of accruals for staff adjustment measures to EUR 1.7 billion (prior year: EUR 2.3 billion).

Other operating expenses decreased by a total of EUR 0.1 billion to EUR 7.7 billion. This overall decline reflects offsetting trends. On the one hand, there were increases, for example, in expenses for losses on the disposal of noncurrent assets, primarily as a result of the sale of T-Online Telecommunications Spain S.A.U. and T-Online France S.A.S., in marketing expenses for new customer acquisition, and in expenses related to the financial transfer of the pension obligations of the service companies. On the other hand, there was a price- and volume-related decline in expenses for rentals and leases and for IT support, with some of the volume-related decrease being due to the transfer of operations to the service companies.

Financial expense increased year-on-year by EUR 3.0 billion to EUR 3.7 billion. This development is primarily a result of the decline in profit/loss transfers from subsidiaries, associated and related companies. This decrease mainly relates to the profit/loss transfers from T-Mobile International AG (prior year: T-Mobile Holding GmbH) and T-Systems Enterprise Services GmbH, whose results declined significantly year-on-year because of special factors. In addition, the losses of the service companies were transferred for the first time; they included accruals recognized by these companies for compensation payments intended to cushion the adjustment of salaries to a more competitive level in a socially responsible manner. In addition, there was a year-on-year increase in loss transfers from Vivento Customer Services GmbH (VCS) and Vivento Technical Services GmbH (VTS), due to the disposal of seven VCS call center locations and the forthcoming transfer of the VTS operations to Nokia Siemens Networks Services Deutschland GmbH & Co. KG, Munich. The positive developments regarding loss transfers by T-Systems Business Services GmbH and higher dividends paid by HT-Hvratske Telekomunikatjie d.d. and Slovak Telekom a.s. were not sufficient to offset the aforementioned trends.

The **results from ordinary business activities** declined by EUR 3.4 billion year-on-year, showing a loss of EUR 4.0 billion.

In the reporting year, the reorganization of the T-Mobile group resulted in an **extraordinary income** of EUR 17.3 billion from the downstream merger of T-Mobile International Holding GmbH into T-Mobile International AG. The acquisition cost of this equity interest was determined on the basis of the principles governing exchanges under commercial law by valuing the lost shares in T-Mobile International Holding GmbH at their market value, which led to a tax-free extraordinary income. In the prior year, the merger of T-Online International AG into Deutsche Telekom AG resulted in an extraordinary income of EUR 1.8 billion.

Income after taxes thus increased by a total of EUR 11.8 billion to EUR 13.3 billion.

Net worth

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

	Dec. 31, 2007		Dec. 31, 2006		Change
	millions of €	%	millions of €	%	millions of €
Intangible assets	750	0.6	753	0.8	(3)
Property, plant and equipment	20,353	18.8	22,406	23.3	(2,053)
Financial assets	81,789	75.4	65,460	68.1	16,329
Noncurrent assets	**102,892**	**94.8**	**88,619**	**92.2**	**14,273**
Inventories, materials and supplies	147	0.1	127	0.1	20
Receivables	3,349	3.1	4,388	4.5	(1,039)
Other assets	695	0.7	1,132	1.2	(437)
Marketable securities	286	0.3	284	0.3	2
Cash and cash equivalents	593	0.5	1,325	1.4	(732)
Current assets	**5,070**	**4.7**	**7,256**	**7.5**	**(2,186)**
Prepaid expenses and deferred charges	539	0.5	286	0.3	253
Total assets	**108,501**	**100.0**	**96,161**	**100.0**	**12,340**

	Dec. 31, 2007		Dec. 31, 2006		Change
	millions of €	%	millions of €	%	millions of €
Capital stock and reserves	53,711	49.5	47,050	48.9	6,661
Unappropriated net income	6,679	6.2	3,160	3.3	3,519
Shareholders' equity	**60,390**	**55.7**	**50,210**	**52.2**	**10,180**
Accruals for pensions and similar obligations	2,643	2.4	3,510	3.7	(867)
Tax accruals	288	0.3	391	0.4	(103)
Other accruals	5,431	5.0	4,558	4.7	873
Accruals	**8,362**	**7.7**	**8,459**	**8.8**	**(97)**
Debt	4,933	4.6	2,847	3.0	2,086
Other liabilities	34,768	32.0	34,619	36.0	149
Liabilities	**39,701**	**36.6**	**37,466**	**39.0**	**2,235**
Deferred income	48	0.0	26	0.0	22
Total capital	**108,501**	**100.0**	**96,161**	**100.0**	**12,340**

Total assets increased by EUR 12.3 billion in the reporting year to EUR 108.5 billion. The changes in the balance sheet were to a significant extent driven by the restructuring of the Company, which had been started in 2006 and continued in the 2007 financial year.

The increase in **assets** was primarily driven by a rise in noncurrent assets totaling EUR 14.3 billion and a decline in current assets by EUR 2.2 billion. These developments were in particular due to changes in the following balance sheet items:

Property, plant and equipment decreased by a total of EUR 2.0 billion in the reporting year, primarily due to depreciation and lower investments compared with depreciation as against the previous year. In addition, the sale of real estate and the non-cash contribution to subsidiaries resulted in a further reduction in property, plant and equipment.

Investments in property, plant and equipment in the 2007 financial year totaled EUR 1.8 billion (prior year: EUR 2.1 billion). The primary focus of investment spending was on transmission equipment amounting to EUR 0.7 billion (prior year: EUR 0.8 billion), as well as on the outside plant network amounting to EUR 0.7 billion (prior year: EUR 0.6 billion). After depreciation in the financial year of EUR 3.5 billion, the residual value of property, plant and equipment at December 31, 2007 is EUR 20.4 billion. The investment ratio for property, plant, and equipment, i.e., the ratio of net investment (additions less disposals at net carrying amounts) to cost, fell by 0.6 percentage points to 2.0 percent.

Financial assets increased by EUR 16.3 billion to EUR 81.8 billion primarily as a result of the structural changes in the Deutsche Telekom Group. T-Mobile International Holding GmbH was merged into its subsidiary T-Mobile International AG in the reporting year as part of the reorganization of the T-Mobile group. The carrying amount of the investment in T-Mobile International AG acquired by Deutsche Telekom AG under this transaction was measured at fair value on the basis of the principles governing exchanges under commercial law, which increased the carrying amount of financial assets by around EUR 17.3 billion. The item "Investments in subsidiaries" also rose as a result of the establishment of the service companies. For more detailed information on the changes in financial assets, please refer to note [12] in the notes to the financial statements.

The proportion of noncurrent assets in total assets (asset utilization) increased by 2.6 percentage points to 94.8 percent. Noncurrent assets are covered by shareholders' equity to 58.7 percent (prior year: 56.7 percent).

Current assets decreased by EUR 2.2 billion compared with December 31, 2006 to EUR 5.1 billion. The main reasons for this were the EUR 1.5 billion decline in **receivables from subsidiaries** largely as a result of loss transfers and the EUR 0.5 billion rise in **trade accounts** receivable. The increase in trade accounts **receivable** is mostly due to the termination of factoring as part of asset-backed securitization activities. The decline in **other assets** by EUR 0.4 billion was mainly driven by income tax refunds for previous years.

Cash and cash equivalents also fell by EUR 0.7 billion. Details of the changes in cash and cash equivalents are shown in the presentation of the financial position.

The ratio of current assets to total assets (current asset ratio) was 4.7 percent, down 2.7 percentage points year-on-year.

The increase in **shareholders' equity and liabilities** is mainly attributable to the rise in **shareholders' equity** of EUR 10.2 billion and in **liabilities** of EUR 2.2 billion.

The change in **shareholders' equity** is primarily due to current income after taxes (increase in equity of EUR 13.3 billion) and the distribution of profits for previous years (reduction in equity of EUR 3.1 billion). This pushed the equity ratio up by 3.5 percentage points to 55.7 percent (prior year: 52.2 percent).

The EUR 2.2 billion increase in **liabilities** is mainly attributable to the EUR 2.1 billion rise in debt. For more detailed information on the development in liabilities, please refer to note [27] in the notes to the financial statements.

Financial position

The main elements of the cash flow statement 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.

	2007 millions of €	2006 millions of €	Change millions of €
Income after taxes	13,284	1,451	11,833
Net cash provided by operating activities	5,279	3,264	2,015
Net cash provided by (used for) investing activities	(1,058)	(1,824)	766
Net cash used for financing activities	(4,953)	(3,572)	(1,381)
Net change in cash and cash equivalents	(732)	(2,132)	-
Cash and cash equivalents at beginning of period	1,325	3,457	-
Cash and cash equivalents at end of period	593	1,325	-

Cash provided by operating activities grew by EUR 2.0 billion to EUR 5.3 billion. Income after taxes increased by EUR 11.8 billion to EUR 13.3 billion. This figure included non-cash income of EUR 17.3 billion, however, from the downstream merger of T-Mobile International Holding GmbH into T-Mobile International AG. The increase in net cash provided by operating activities is primarily attributable to a year-on-year improvement in working capital.

Net cash used for investing activities decreased by EUR 0.8 billion year-on-year to around EUR 1.1 billion in the 2007 financial year. This was mainly the result of cash outflows for investments in property, plant and equipment (EUR 1.8 billion) and for financial assets (loans). However, the outflows were partly offset by cash inflows from the sale of shares in T-Online France S.A.S and T-Online Telecommunications Spain S.A.U. The cash outflows for investments in property, plant and equipment were mainly for transmission systems and the roll-out of the VDSL high-speed network.

Net cash used for financing activities increased by EUR 1.4 billion year-on-year to EUR 5.0 billion, primarily due to the dividend payment for the 2006 financial year and increased repayments of medium and long-term debt, including to Deutsche Telekom International Finance B.V.

A liquidity reserve in the form of credit lines and cash is maintained to guarantee the solvency and financial flexibility of Deutsche Telekom at all times. For this purpose, the Company entered into standardized credit agreements with 29 banks amounting to a total of EUR 17.4 billion. The bilateral credit agreements have a maturity of 36 months and can, after each period of 12 months, be extended by a further 12 months to renew the maturity of 36 months.

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 nominal volume of transactions outstanding as of the balance sheet date was EUR 46.7 billion (prior year: EUR 54.9 billion); measured at fair value, their total value was negative at minus EUR 1.0 billion. For more detailed information, please refer to note [29] in the notes of the financial statements.

From December 2001 up to and including October 2007, Deutsche Telekom AG sold certain current and future trade accounts receivable to a special-purpose entity by way of a global assignment of debts as part of its asset-backed securitization activities. The agreements covering these transactions ended as of December 16, 2007. The factoring of new receivables ended with effect from November 30, 2007.

Statement on business development in 2007

For Deutsche Telekom, the 2007 financial year was marked in operating terms by rapid technological change and tough competition in the telecommunications industry. In addition, both the continued price erosion, the restructuring measures and the decline in profit transfers produced a tangible effect on operating results in the reporting period. The extraordinary income, by contrast, had a positive effect on results.

4 Research and development.

In 2007, the product development and product innovation activities were centralized in an international product house. Systematically gleaned information on customer needs, new technologies and markets is comprehensively analyzed and consistently translated into cross-segment products and services at the product house.

The realigned Product & Innovation central department is responsible for the horizontal management of innovation activities, coordinating innovation strategies and innovation management across the Group, innovation marketing, forward-looking research and development, and corporate venture capital. Deutsche Telekom Laboratories, an associated scientific institute of the Berlin University of Technology (TU Berlin), is the central research and development unit and deals primarily with cutting-edge topics and new technologies that are expected to be launched or ready for the market within two to five years. The product house has primary responsibility for product innovations that are near to market launch, i.e., with a development lead time of up to 24 months.

In the Broadband/Fixed Network operating segment, the product house develops innovative offerings for Deutsche Telekom's customers in the most important product categories – voice, fast Internet, IPTV, and multi-access IP services – which allow the Company to set itself apart from the competition. The T-Home Entertain product, for example, the innovative triple-play packages consisting of telephony, VDSL-based high-speed Internet, and a completely novel TV experience, was launched on the market. The product house drives activities in the area of personal and social networks, where it focuses on specific further development of the portal network, digital sales of music, software, movies, and games, and on the development of products and services for the Web 2.0 age:

- Entertain is a mass-market IPTV product. Videoload is the first service in Germany that enables viewers to buy and copy blockbuster movies digitally and in full via the Internet. Various community offerings, such as fussball.de and FriendScout24, were developed and launched in 2007.

- Musicload, the successful music download service, has added music videos and audio books to its portfolio and now also offers music in MP3 format. Gamesload has established itself as Germany's leading online portal for chargeable PC games downloads.

- Softwareload positioned itself among the leading multi-vendor download services in 2007, boasting over 750,000 registered users and over 6.8 million programs downloaded.

Research and development expenditure

Research and development expenditure amounted to EUR 0.4 billion in the 2007 financial year. Typical research and development activities included the development of new data transmission processes and innovative telecommunications products. In the reporting year, around 800 employees at Deutsche Telekom were involved in projects and activities to create new products and market them efficiently to customers.

Patent applications and intellectual property rights

The number of patent applications decreased slightly in 2007 by 2.7 percent year-on-year to 542. 5,800 intellectual property rights (inventions, patent applications, patents, utility models and design models) were held as of the end of 2007. The portfolio of rights is reviewed on a regular basis, and those rights that are no longer relevant are eliminated. IPR management is governed by strict cost/benefit considerations.

5 Employees.

Deutsche Telekom AG's personnel costs amounted to EUR 6.3 billion in the 2007 financial year (prior year: EUR 8.5 billion). As of December 31, 2007, the Company had 51,863 employees (prior year: 92,575) measured as full-time equivalents (FTEs). Deutsche Telekom AG's HR strategy focused on three key areas in the reporting year: first, improving the personnel cost ratio by continuing to restructure the Group and its staff and improving Vivento's business models; second, improving productivity; and third, improving the quality of management and the service culture with tailored human resources development. 2007 saw the definition of another internal objective that aims to improve the efficiency and quality of Deutsche Telekom's HR unit as one of the aims of the Shape Headquarters efficiency program.

Staff restructuring

The realignment of the telecommunications industry, the rapid pace of technological development and the tough competitive environment in the broadband/fixed network in Germany pose acute challenges for Deutsche Telekom. With this in mind, the staff restructuring program started in the 2006 financial year continued in the reporting year. One key element of the staff restructuring program is the reduction of employees on a voluntary basis and predominantly without the need for carrying out compulsory redundancies. The provision of socially responsible human resources instruments, such as partial retirement arrangements, voluntary redundancy and severance payments, and early retirement, plays a significant role in this respect.

In accordance with a decision of Deutsche Telekom's Board of Management, accruals of approximately EUR 1.7 billion were recognized in the reporting year for continuing these programs.

Vivento, which is responsible for surplus staff management and employee placement, continues to play an important role in staff restructuring within Deutsche Telekom AG. Vivento provides assistance with reorganizations and helps structure the Group labor market. This unit also runs a range of future-oriented projects and secures job vacancies on the external labor market in order to create new job opportunities for staff affected by restructuring.

Increasing productivity and service orientation

Deutsche Telekom initiated a further increase in efficiency and quality in the reporting year with the review of organizational and cost structures of the central functions as part of the Shape Headquarters program. In this respect, Deutsche Telekom is essentially focusing on those units that report directly to the Chairman of the Board of Management and the Finance and Human Resources Board of Management departments. Besides restructuring the HR Services Telekom unit, this also involves the reorientation of the HR unit under the title HR@2009 to establish it as a better and leaner partner for business in future.

The transfer of Deutsche Telekom units to legally separate subsidiaries also made a significant contribution to reducing the workforce, and thus personnel costs, in the 2007 financial year. The bundling of service units into three service companies, Deutsche Telekom Kundenservice GmbH (DT KS), Deutsche Telekom Technischer Service GmbH (DT TS) and Deutsche Telekom Netzproduktion GmbH (DT NP) is intended to safeguard the jobs of around 50,000 employees in the Group in the long term by improving service and cost structures. Collective bargaining negotiations on the details of the terms of employment in the three service companies resulted in a compromise between the German service industry trade union, ver.di and Deutsche Telekom. This compromise, which was accepted in a ballot by a majority of trade union members, includes an increase in working hours from 34 to 38 hours per week and a 6.5-percent reduction in salaries for the employees of these companies. The impact of this reduction will be cushioned in a socially responsible way by compensation payments for a period of 42 months. In return, service company employees are protected against being spun off from the Group until at least the end of 2010 and against compulsory redundancy until December 31, 2012.

Improving service orientation is a key objective established for the employees of the service companies within Telekom Service with the initiation of the service training measures included in the collective agreement in the reporting year. Employees who demonstrate outstanding performance, personal commitment and expertise will be offered new “service careers.” In order to promote professional development, Deutsche Telekom will provide customized, interrelated training programs.

Deutsche Telekom also established a Service Academy in the reporting year as planned. The aim is to increase the service orientation of executives in Germany through a combination of imparting theoretical knowledge and having them undergo a practical period in direct customer contact.

Personnel agreements

The agreement resulting from the collective negotiations described also led to changes for the employees of Deutsche Telekom AG. There will be no collective salary increase in 2008 and in return Deutsche Telekom agreed to maintain its policy of abstaining from compulsory redundancies until the end of 2009.

Human resources development

Human resources development at Deutsche Telekom in the 2007 financial year focused on continuing the STEP up! program (Systematic & Transparent Executive Development Program) and on introducing Go Ahead!, a staff development concept for expert careers, which is intended to tie experts to the Group over the long term and ensure that skills are developed systematically in functional areas that are critical to the success of the company.

Telekom Training, the training provider for the Group and the external German market, managed the qualification and training of experts and executive staff. Demand-based training in the context of the staff restructuring program and strategic HR development both played a critical role in this regard. Even with major projects – such as training seminars for service staff – training is tailored to demand.

With 11,646 trainees in 12 different occupational fields and various dual-study courses, Deutsche Telekom AG has for years been one of the largest training providers in Germany, training far beyond its own staff requirements.

6 Sustainability and environmental protection.

Deutsche Telekom is convinced that sustainable management makes a major contribution to long-term corporate success. Sustainable climate protection is an essential part of this approach. And it is for this reason that the Company has been involved in numerous initiatives and projects for many years. Deutsche Telekom is, for instance, a signatory to the declaration issued by the Global Roundtable on Climate Change, which requires the international community of states to reduce greenhouse gases. Behind this committed approach to climate protection lies the conviction that any society looking to combine resource-efficient operations with environmental protection cannot do without telecommunications. Deutsche Telekom is pursuing a two-pronged strategy: one goal is to increase the Group's energy efficiency and decouple energy consumption from CO_2 emissions; the other is to supply and develop innovative products and solutions to enable customers to increase their own resource-efficiency.

Through its inhouse service provider PASM (Power and Air Condition Solution Management GmbH & Co. KG), Deutsche Telekom makes sure that it purchases environmentally friendly energy. In 2006, it partially compensated the emissions caused by the generation of its power by buying over a billion kilowatt hours of RECS (Renewable Energy Certificate System) certificates. This amount corresponded to around one third of the Group's total electricity consumption in Germany. RECS certificates were bought for another third of the Group's electricity consumption in the 2007 financial year. Deutsche Telekom intends to cover its entire electricity consumption throughout Germany with these certificates from 2008. To achieve this, Deutsche Telekom is focusing the power it buys in Germany entirely on renewable energy sources, thus minimizing the emissions caused by power generation. The original aim of halving CO_2 emissions from power consumption by 2010 compared with 1995 has hence been exceeded.

Deutsche Telekom has started to offset CO_2 emissions of individual products and services. In fall 2007, for instance, cordless fixed-network phones from its Sinus line were launched, which can be used with a virtually neutral impact on the climate thanks to the acquisition of emissions reduction certificates over five years (average useful life). To this end, the CO_2 emissions incurred throughout this useful life were calculated – with input from external experts – and offset with certificates covering 53,100 tons of CO_2. These phones are also future-oriented thanks to their sharp reduction in power consumption.

7 Risk and opportunity management.

In accordance with the provisions of § 91 (2) AktG, the Board of Management of Deutsche Telekom has set up a risk early warning system; the legal entity Deutsche Telekom AG is integrated into the risk management of the Deutsche Telekom Group. The Group employs a holistic risk and opportunity management system to systematically leverage its opportunities without losing sight of the related risks.

The Group's risk management unit regularly reports to the Board of Management on risks and their development. The Board of Management in turn informs the Supervisory Board. The risk management system and indepth discussion of the risk report are also an integral part of the meetings of the Audit Committee of the Supervisory Board.

The early identification, assessment, and management of risks and opportunities are integral components of the Group-wide planning, control, and monitoring systems. Deutsche Telekom analyzes opportunities primarily within the framework of its strategy and innovation development activities on the basis of comprehensive market analyses to derive specific potential opportunities for its segments and markets.

Risks and opportunities, both at segment and central level, are analyzed on a regular basis. The early warning systems used in this process are based on prescribed Group-wide methods and are tailored to individual 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). The Group's "aggregate risk" is determined from the totality of the individual risks.

Deutsche Telekom aggregates individual risks into an overall risk potential using combination and simulation processes and taking probabilities and correlations into account. An indicator system that captures all material risk areas is used to determine the change in aggregate risk. The analysis also includes what are known as "issues" – events and situations that could adversely affect the Group's image and reputation.

Reporting of the principal opportunities and risks is on a standard quarterly cycle, with additional ad hoc reports generated in the event of unexpected risks. Specific materiality thresholds for risks are defined for each reporting level. Corporate Risk Management is in charge of the methods and systems used for this Group-wide, standardized risk reporting system and ensures that it works 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. The Group management is informed of these positions on a regular basis. Deutsche Telekom uses derivatives to hedge interest rate as well as currency exposures and other price risks which could have an effect on cash flow.

Certain financial transactions require the prior approval of the Board of Management, which is also regularly briefed on the severity and amount of the current risk exposure. The Deutsche Telekom Group runs simulations using different market and worst-case scenarios to estimate the effects of different conditions on the market.

Deutsche Telekom 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 the Company's cash flows. The Group uses derivatives exclusively as hedging instruments, not for trading or other speculative purposes.

The efficiency of risk management processes and compliance with the regulations and guidelines in Deutsche Telekom's Risk Management Manual are subject to regular review by the internal auditing department. Within the scope of their legal mandate to audit the Company's annual financial statements, the external auditors examine whether the risk management system is able to identify at an early stage risks and developments that could jeopardize the Company's future. Deutsche Telekom's risk management system ensures that business risks and opportunities are identified early on and that the Group is in a position to deal with them actively and effectively. This system thus complies with the statutory requirements for risk early warning systems and conforms to German corporate governance principles.

Risks facing the Company.

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

Competition

Intensified competition and technological progress have dramatically reduced prices for fixed-network (telephony, Internet) and mobile communications in 2007. Both voice and data communications have been affected, as can be seen by the price erosion in Internet flat rates. There is a danger that this dip in prices will not be compensated by corresponding volume growth.

Competitive pressure could rise even further as a result for example of a significant expansion of coverage by (regional) telecommunications carriers and the continuing trend toward bundled products. Technological innovations, reductions in wholesale prices for competitor products, and increasing fixed-mobile substitution are intensifying the competitive situation. Moreover, up to now pure mobile communications providers in Germany have increasingly offered fixed-network and DSL products on the market. In addition, competing DSL providers offer bundled products integrating broadband and Voice over IP (VoIP) without the need for a fixed-network line. Another factor is cable network operators that are expanding their range of services to include attractive 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 sectors. Despite having lost some market shares already, Deutsche Telekom continues to face the risk of a further loss of market shares and falling margins. Apart from other factors, Deutsche Telekom's future competitive position depends in particular on the quality of the service it provides, an area where there is still room for improvement. The challenge lies in improving customer service while at the same time staying within the constraints of the cost-reduction measures that have been initiated.

Ongoing price-cutting initiatives are now a regular feature of the European mobile communications market. This is attributable to both low-cost providers such as mobile virtual network operators (MVNOs) and new calling plans offered by established network operators. A further drop in prices for mobile communications may bring the achievement of targets of subsidiaries in the T-Mobile group into question. In addition, T-Mobile increasingly faces competition abroad from integrated providers that include not only mobile communications services, but also fixed-network products (e.g., DSL) in their portfolios.

The ICT market in the Business Customers segment is experiencing declining prices and long sales cycles. This represents a risk of lower revenues and margins for T-Systems companies. T-Systems' international footprint and brand awareness are limited, especially compared with some of its competitors. This could adversely affect T-Systems' ability to realize growth potential, particularly considering the growing importance of business with multinational corporations outside Germany.

Products, services, and innovations

As a result of rapid technological progress and increasing technological convergence, it is possible that new and established technologies or products may not only complement, but in some cases even substitute one another. This may lead to lower prices and revenues in both voice and data traffic. There is also a risk that Deutsche Telekom will not be able to convince customers sufficiently of the benefits of current and future services or raise the level of acceptance of these services among customers. It may not be possible to satisfy identified market demand quickly enough, or not with sufficiently matured products. These risks also constitute a threat to Deutsche Telekom's potential growth drivers in the fixed network.

The Deutsche Telekom Group's acquisition of UMTS licenses in several European countries paved the way for the introduction of the third generation of mobile communications. Whether these investments will pay off depends on increased usage and revenues in mobile communications, especially mobile data communications. Deutsche Telekom intends to generate appropriate add-on services and applications through both in-house developments and cooperation with third parties (content providers). There is a risk, however, that this will not help subsidiaries achieve earnings targets. Customer perception is equally crucial to the success of multimedia offerings. Falling behind the competition in terms of customer perception could lead to the loss of particularly high-revenue customers.

Regulation

Network access and price regulation affects telecommunications services offered by network operators with "significant market power." In Germany, Deutsche Telekom is considered to be such an operator and is therefore subject to strict regulation in the area of broadband and fixed-network communications, and increasingly also in mobile communications. Its European subsidiaries are also subject to corresponding regulatory regimes in the fixed-network and mobile areas.

This situation is exacerbated by the extensive powers of 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.

The regulatory framework is currently being reviewed at European level. There is no indication of any significant efforts being made for sector-specific deregulation. Rather, it is feared that the outcome of the ongoing review will increase the extent of regulation. The European Commission has proposed, for example, the introduction of a new regulatory instrument allowing, in the most extreme case, the functional separation of network operation and services. The European institutions will discuss the Commission's proposals during 2008.

Following the Federal Network Agency's latest regulatory intervention on termination rates in December 2007, it is possible that these rates will be lowered even further. An extension of the scope of regulation to include mobile termination is also possible. In addition, the European

Commission announced its intention to regulate prices for international roaming for mobile data services (including text messaging) in the future. Revenue losses in mobile communications would be a likely consequence.

Further regulatory intervention could also affect content and media offerings. Since Deutsche Telekom offers products that also include the transmission of television programs, media regulation could become a significant factor for the Company. It could restrict its media services offering and/or lead to additional costs for implementing technical measures to comply with regulatory requirements.

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

Economy and industry

The general state of the economy in Germany, Europe, and the United States also influences Deutsche Telekom's and its subsidiaries' business performance. For Deutsche Telekom's and its subsidiaries' largest markets – Germany and the United States – current economic forecasts predict that growth will slow down slightly in 2008. If economic growth proves lower than expected, this may have an adverse effect on both the willingness of business customers to invest and on consumer spending by Deutsche Telekom's and its subsidiaries' residential customers. As a consequence, Deutsche Telekom's and its subsidiaries' revenue targets might not be reached.

Human resources

If the planned staff restructuring activities cannot be implemented, this may have negative effects on Deutsche Telekom's and its subsidiaries' financial targets and profitability. Deutsche Telekom announced a comprehensive staff restructuring plan for Germany in November 2005. As part of this program, socially responsible staff adjustments will result in approximately 32,000 employees leaving the Group between 2006 and the end of 2008. In addition to the use of voluntary staff downsizing measures, the overall program also relies on effects such as natural attrition. By the end of the reporting year, approximately 26,500 employees had left the Group in Germany as part of this planned staff adjustment program.

The success of the staff reduction program which was continued in 2007, however, depends on a range of factors over which the Company has little or no control. These include general developments on the labor market, and demand on the external labor market. Other factors influencing staff reduction are the use of voluntary staff downsizing measures, such as early retirement for civil servants, and external approval of various spin-off measures.

When Group units that employ civil servants are disposed of, it is generally possible to continue to employ these people at the Group unit to be sold. This requires the consent or initiative of the civil servants themselves. However, there is the risk that civil servants may return from the unit sold to Deutsche Telekom after the end of their temporary leave from civil-servant status. This risk can be reduced – by compensation payments, for example – but not completely ruled out.

As part of Telekom Service, Deutsche Telekom has bundled its German service companies across the Group. As of July 1, 2007, the Group completed the establishment of the three service companies as independent legal entities as planned. The Telekom Service collective agreement was signed in June 2007. Transfer to the three service companies affected approximately 50,000 full-time employees. With Telekom Service, Deutsche Telekom is pursuing clear objectives: optimized service quality at competitive terms and conditions, and hence the sustained competitiveness of Deutsche Telekom. The key to the achievement of these objectives is systematic implementation.

IT/telecommunications infrastructure

In the 2007 financial year, Deutsche Telekom implemented comprehensive programs to adapt its IT systems and IT infrastructure to changing customer needs and new organizational demands. Any lack of efficiency in planning and monitoring these activities could result in resource allocation errors and process disruptions.

The IT 2010 initiative was launched in March 2007 as a Group-wide measure for all IT activities. The purpose of this program is to implement the Group-wide IT strategy. It comprises a number of initiatives relevant for one or several segments. The primary focus of the program lies on reducing costs and improving customer service.

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 in business processes.

The most important IT program in the Group comprises the long-term development and implementation of an IP platform that supports both fixed-network and mobile communications services. This means that the existing network platform is being completely replaced by an IP-based system. The implementation of this shared IP platform entails risks affecting all IT systems with an Internet connection, such as hacker attacks and so-called spam calls.

These risks could lead to a temporary interruption in the functioning of IT resources and hence to limited performance of the technical infrastructure.

The products, services, and IT/telecommunications networks used by Deutsche Telekom and its subsidiaries itself and those offered in the competitive market may also be subject to malfunction and outages, e.g., due to hacker attacks, sabotage, power failures, natural disasters, technical faults, or other events. This could affect mobile communications, Internet, ICT, and fixed-network products and services. Deutsche Telekom counteracts these risks by employing a large number of measures, ranging from redundant systems and defensive systems such as firewalls and virus scanners with regular technical network tests and building security measures, to 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.

Deutsche Telekom meets the applicable IT and telecommunications security standards, and the Group implements new requirements without delay.

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 affect both networks and the use of terminal equipment and have an effect on the subsidiaries of the T-Mobile group, particularly with regard to the expansion of the mobile network. In the Broadband/Fixed Network segment, they affect sales of cordless DECT equipment and devices that use WLAN technology. Apart from legal risks, there may be regulatory initiatives involving the implementation of preventive measures in mobile communications.

The World Health Organization (WHO) has declared that, on the basis of current scientific knowledge, there are no known adverse effects on health below the international threshold standards. Nor does the WHO expect any serious dangers to arise in the future, though it does recommend continued research due to ongoing scientific uncertainties.

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

Purchasing

As an operator and provider of ICT products, Deutsche Telekom cooperates with a broad variety of suppliers of technical components (including software, hardware, transmission systems, switching systems, outside plant, 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. The Company employs a large number of organizational, contractual, and procurement strategy measures as precautions to counteract potential risks, such as supplier default or dependence on individual suppliers.

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 improper recognition of the carrying amount of the real estate assets by Deutsche Telekom. Some of these 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 additional 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 be required to pay to all former shareholders of T-Online whose shares were exchanged for shares of Deutsche Telekom within the framework of the merger.

In the arbitration proceedings filed by the Federal Republic of Germany against Deutsche Telekom AG, Daimler Financial Services AG, and Toll Collect GbR (in which Deutsche Telekom AG holds a 45-percent stake) regarding disputes relating to the truck toll collection system, Deutsche Telekom received the Federal Republic's statement of claim on August 2, 2005 in which the Federal Republic maintains its claim to lost toll revenues of approximately EUR 3.5 billion plus interest, alleging – among other things – that it was deceived as to the likelihood of operations commencing on September 1, 2003. The total of the asserted claims for contractual penalties was increased to approximately EUR 1.65 billion plus interest. The contractual penalties are based on alleged violations of the operator agreement (lack of consent to subcontracting, delayed provision of on-board units and monitoring equipment). Toll Collect GmbH, the joint operating company set up by Deutsche Telekom AG, Daimler Financial Services AG and Cofiroute S.A., filed for arbitration against the Federal Republic of Germany on May 25, 2007, requesting the granting of a definitive operating permit and the payment of outstanding claims amounting to around EUR 490 million plus interest.

On May 3, 2005, Vivendi SA (formerly Vivendi Universal S.A., hereinafter referred to as Vivendi) took legal action against Deutsche Telekom AG and T-Mobile International AG & Co. KG (now T-Mobile International AG). Vivendi alleges that the defendants unlawfully broke off negotiations on the acquisition of a 48-percent stake in Polska Telefonia Cyfrowa Sp.z o.o (PTC) in order to then obtain these shares at a lower price. The value in dispute has been put at approximately EUR 2.27 billion. The action is pending before the Commercial Court in Paris. Numerous other lawsuits and arbitration proceedings are pending in connection with the disputed PTC shares.

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. In the lawsuit, Vivendi is seeking, inter alia, damages of approximately USD 7.5 billion. The court will first decide whether it will accept the lawsuit. This decision is expected for spring 2008.

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.

A notice of action was served on January 19, 2006 by Arcor AG & Co. KG seeking damages of approximately EUR 223 million on grounds of an alleged price squeeze between wholesale prices and the prices charged to end customers. This legal dispute has been adjourned pending a legally enforceable ruling by the European courts in administrative penalty proceedings that are decisive for the proof of claim.

On October 31, 2005, the satellite operator Eutelsat sued Deutsche Telekom AG, T-Systems Business Services GmbH and SES Société Européenne des Satellites S.A. for damages amounting to approximately EUR 142 million. The plaintiff is basing its claim on an alleged breach of contractual duty. The action is pending before the Commercial Court in Paris. Eutelsat has since withdrawn its claim against SES. A hearing took place on January 22, 2008 at which the case was not tried. The court again granted the plaintiff opportunity to submit a comment by March 4, 2008.

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.

Deutsche Telekom AG is exposed to financial risks, particularly liquidity, default, 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 [29] in the notes to the 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 risk.** A liquidity reserve in the form of credit lines and cash is maintained to guarantee the solvency and financial flexibility of Deutsche Telekom at all times. As of December 31, 2007, Deutsche Telekom and its subsidiaries had access to credit lines totaling EUR 17.4 billion, provided by 29 banks. The bilateral credit agreements have a maturity of 36 months and can, after each period of 12 months, be extended by a further 12 months to renew the maturity of 36 months. Spreading the maturities over the year significantly reduces the loan extension risk. Deutsche Telekom believes that there is only a minor risk 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. This could impact to a considerable extent on Deutsche Telekom AG'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, 2007, the Federal Republic, together with KfW Bankengruppe held approximately 31.7 percent of Deutsch Telekom's shares, and the Blackstone Group held 4.4 percent. On April 24, 2006, the Blackstone Group purchased an interest in Deutsche Telekom'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 will expire 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. In 2003, KfW issued an exchangeable that matures on August 8, 2008. 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 exchangeables referred to here). If the conversion price is exceeded, KfW may exchange the exchangeables submitted to it for shares in Deutsche Telekom AG and if the holders of the exchangeables exercise the conversion option, it must exchange them. When the exchangeables mature, KfW has the right to pay them out in Deutsche Telekom shares. This exchangeable has a volume of EUR 5 billion and a conversion price of EUR 17.526.

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 Deutsche Telekom shares.

Aggregate risk position

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

All three rating agencies maintained Deutsche Telekom's long-term rating at A- or A3, as in 2006. However, Fitch changed its outlook from "stable" to "negative" in May 2007. 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.

Opportunities for the Company.

Some of the most important aspects of the Company's wide variety of opportunities are highlighted below.

Although the German and Western European markets are largely saturated in many areas, there is still substantial growth potential for Deutsche Telekom's subsidiaries in the emerging countries of Central and Eastern Europe, as well as for the main growth driver T-Mobile USA. With the Group's strong presence in Central and Eastern Europe, Deutsche Telekom and its subsidiaries can benefit particularly well from this situation.

Innovative bundled products as well as convergence products are also substantial areas of opportunity for Deutsche Telekom. As the parent company of a large, integrated telecommunications group, Deutsche Telekom is not only able to cope with substitution risks better than specialized providers; it can also realize new bundled products such as triple play or quadruple play. The main trends in the industry such as convergence (especially IP-based), IPTV, mobile Internet, and multi-access IP value-added services (participation in the fast-growing online advertising market) provide further opportunities for Deutsche Telekom.

Civic, social, and ecological requirements such as a state-of-the-art health care system, efficient climate protection, mobility geared to seniors, citizen-oriented administration, mobile working, or even transparent goods traceability (e.g., commodity online services) are further starting points for the development of new, promising products and services. In particular, IP-based solutions and the use of RFID 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 are proof of the capabilities of the Deutsche Telekom Group, which demonstrate its service quality combined with the state-of-the-art networking technology, and allow users to experience many products for themselves. Substantially improved locational conditions for medium-sized companies are also increasing the potential revenue for Deutsche Telekom. Through cooperation with municipalities, for example, T-DSL can be rolled out to cover as yet undeveloped regions and its market potential increased.

In addition to product- and project-related opportunities, a substantial improvement of its customer service in particular will open up potential opportunities for Deutsche Telekom.

8 Supplemental report.

Bild.T-Online sold

Deutsche Telekom AG sold its 37-percent stake in the Bild.T-Online.de (Bild.T-Online.de AG & Co. KG) joint venture to its co-owner in the joint venture, Axel Springer AG, effective January 3, 2008. The takeover of the stake is subject to the approval of the anti-trust authorities.

9 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) 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."

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

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

10 Outlook.[5]

Economic outlook

Germany's six leading economic research institutes (Projektgruppe Gemeinschaftsdiagnose) forecast a slow-down in the global economy in their fall report to the German Federal Ministry of Economics. This will be reflected in a slight reduction in global production growth. The correction in the real estate market in the United States will continue while growth in private consumption in the United States will slow. The strong euro will dampen economic growth in the eurozone, and expansion is also expected to slow in the United Kingdom and Japan.

The Kiel Institute for the World Economy expects real gross domestic product in Germany to increase by only 1.9 percent in 2008, as against 2.6 percent in 2007. Economic development will primarily be driven by domestic demand.

Market expectations

For Deutsche Telekom, the domestic sales markets continue to be impacted by extremely intense competition and price erosion in the telecommunications market as a whole.

Consequences for corporate management control

Deutsche Telekom deals with continuous technological change and fierce competition on its sales markets by taking targeted measures. The most important of these are:

- Improvements to the service culture and processes, investments in future product areas and simplification of the product range and pricing models tailored to target groups, with the aim of safeguarding existing customer relationships in the long term and attracting new customers.
- Cost-cutting measures and further rationalization investments in more cost-effective IP networks.
- Continuation of measures to adjust the workforce structure. The necessary staff reduction will be implemented using socially responsible and voluntary instruments such as partial and early retirement arrangements, and severance and voluntary redundancy payments.
- Targeted consolidation in markets where the Deutsche Telekom Group currently has a presence, but also activities outside these markets to leverage international economies of scale and synergies.
- Strong participation in market trends by promoting innovative in-house development or – if necessary – through partnerships.

[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 2008 and 2009. 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 opportunity 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 this 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. Deutsche Telekom does not guarantee that its forward-looking statements will prove correct. The forward-looking statements presented here are based on the current corporate structure, without regard to significant acquisitions, dispositions or business combinations the Company may choose to undertake. These statements are made with respect to conditions as of the date of this document's publication. Deutsche Telekom does not intend or assume any obligation to update forward-looking statements.

All theses measures are based on the "Focus, fix and grow" strategy. Deutsche Telekom's financial management ensures consistent implementation of this strategy – in spite of the fact that refinancing possibilities are currently limited due to the real estate crisis in the United States. The strategy contributes sustainably to the positive development of revenue and earnings and to safeguarding cash flow. It therefore supports Deutsche Telekom's efforts to continue offering its shareholders an attractive dividend.

Broadband/Fixed Network

The traditional fixed-network business will continue to lose market share because of sustained fierce competition from alternative telecommunications carriers and cable operators, resellers as well as fixed-mobile substitution. The introduction of all-IP will also shape developments in the 2008 financial year. In addition, prices are expected to fall further due to regulatory requirements and competition-induced price cuts. Deutsche Telekom will defend its market leadership in the broadband business. Deutsche Telekom intends to tap the mass market in Germany with its Entertain products. The Broadband/Fixed Network operating segment will launch a quality and service campaign in 2008 that will focus 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 that will offer customers many additional functions, such as video telephony.

Against this background, Deutsche Telekom expects the negative revenue and earnings trends to slow down.

The Company will continue to push ahead with the rollout of its high-speed network infrastructure in 2008. Any expansion will be contingent on such an investment making sense when taking regulatory and economic aspects into account. In addition to expanding the high-speed network, further investments in the network coverage and performance of the existing IP network infrastructure are planned for 2008.

Group Headquarters & Shared Services

Deutsche Telekom AG's result are also impacted by the development of the Vivento organization which is part of the legal entity Deutsche Telekom AG. The changed market environment means that Deutsche Telekom AG's personnel structure will have to be adjusted further. With Vivento's expertise, therefore, the focus in 2008 will be on building a capacity management system, under which external employment opportunities are to be created especially in the public sector, and thus primarily for the Group's civil servants. This measure and the centralization of functions, which will be conducted as part of consistently continued cost-cutting measures in order to realize future efficiency gains, will have a negative impact on the result in 2008.

Statement on the development of business

Despite the effects described above, such as market and economic expectations and the resulting consequences for the management of the company, Deutsche Telekom AG expects to generate income after taxes.

Annual financial statements of Deutsche Telekom AG.
Statement of income for the period from January 1 to December 31, 2007.

	Note	2007 millions of €	2006 millions of €
Net revenue	[1]	**19,442**	**20,936**
Changes in inventories and other own capitalized costs	[2]	345	415
Total operating performance		**19,787**	**21,351**
Other operating income	[3]	3,899	3,642
Goods and services purchased	[4]	(6,298)	(4,893)
Personnel costs	[5]	(6,258)	(8,477)
Depreciation, amortization and write-downs	[6]	(3,783)	(3,730)
Other operating expenses	[7]	(7,653)	(7,800)
Financial expense, net	[8]	(3,669)	(637)
Results from ordinary business activities		**(3,975)**	**(544)**
Extraordinary income (loss)	[9]	17,264	1,844
Taxes	[10]	(5)	151
Income after taxes		**13,284**	**1,451**
Unappropriated net income carried forward from previous year		37	559
Transfer from retained earnings		-	1,858
Expense from the retirement of shares		-	(708)
Income from capital decrease		-	161
Transfer to additional paid-in capital		-	(161)
Transfer to retained earnings		(6,642)	–
Unappropriated net income	[11]	**6,679**	**3,160**

Balance sheet as of December 31, 2007.

	Note	Dec. 31, 2007 millions of €	Dec. 31, 2006 millions of €
ASSETS			
Noncurrent assets	[12]		
Intangible assets		750	753
Property, plant and equipment		20,353	22,406
Financial assets		81,789	65,460
		102,892	**88,619**
Current assets			
Inventories, materials and supplies	[13]	147	127
Receivables	[14]	3,349	4,388
Other assets	[15]	695	1,132
Marketable securities	[16]	286	284
Liquid assets	[17]	593	1,325
		5,070	**7,256**
Prepaid expenses and deferred charges	[18]	**539**	**286**
		108,501	**96,161**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	[19]		
Capital stock	[20]	11,165	11,164
Contingent capital of EUR 632 million			
Additional paid-in capital	[21]	26,646	26,628
Retained earnings	[22]	15,900	9,258
Unappropriated net income		6,679	3,160
		60,390	**50,210**
Accruals			
Pensions and similar obligations	[24]	2,643	3,510
Taxes	[25]	288	391
Other accruals	[26]	5,431	4,558
		8,362	**8,459**
Liabilities	[27]		
Debt		4,933	2,847
Other liabilities		34,768	34,619
		39,701	**37,466**
Deferred income		**48**	**26**
		108,501	**96,161**

Notes to the financial statements.
Summary of accounting policies.

Description of business activities

Deutsche Telekom AG[6] (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 AG'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 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 the prior year. The task assigned to the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency), a public law entity, of administering the Federal Republic's shareholding and exercising its rights as a shareholder was discontinued as a result of the amendment to the Federal Posts and Telecommunications Agency Act in December 2005. Since then, this task has been performed by the Federal Ministry of Finance. The Federal Network Agency for Electricity, Gas, Telecommunications, Posts, and Railways (Federal Network Agency) is an independent higher federal authority responsible to the Federal Ministry of Economics and Technology and was formed on July 13, 2005 from the Regulatory Authority for Telecommunications and Posts. 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 the strategic realignment

The measures aimed at the strategic realignment of the Company that had been announced in the prior year were implemented during the reporting period. These measures mainly resulted in the following significant structural changes in the reporting year:

Effective June 25, 2007, the units Customer Service, Technical Customer Service and Network Production were contributed and transferred to three legally separate subsidiaries (in the following also referred to as Service Companies) by way of singular succession. These companies are operating under the company names Deutsche Telekom Kundenservice GmbH (DT KS), Deutsche Telekom Technischer Service GmbH (DT TS) and Deutsche Telekom Netzproduktion GmbH (DT NP).

Further structural changes were the result of the contribution of the Deutsche Telekom directory inquiries service to PrimeSeek GmbH and its subsequent merger into Plinius Telekommunikationsdienste GmbH effective as of July 31, 2007 with economic effect as of August 1, 2007. In addition, the call center locations operated as part of the

[6] 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.

Customer Branch Office for Special Tasks were disposed of to Vivento Customer Services GmbH as of September 1, 2007. Deutsche Telekom AG's Production and Radio Relay unit was sold to a third-party acquirer, Ericsson Transmission Germany GmbH – a transaction that also took effective as of September 1, 2007.

Prior-year figures have not been adjusted to reflect these contributions, transfers and disposals. Where required for greater transparency and better understanding of their impact, these transactions are presented separately in the notes to the individual items in the balance sheet and the statement of income.

Summary of significant accounting principles

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.

Amounts are shown in millions of euros (€ / EUR). Certain items have been combined for presentation purposes in the balance sheet and the statement of income in order to make the financial statements more informative and understandable. These items are disclosed separately in the notes. In conformity with international practice, reporting begins with the statement of income. In a change from the prior year, the optional statement of cash flows and statement of shareholders' equity are no longer included with the annual financial statements.

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. 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.

The primary components of net revenue are revenues from traditional fixed-network services, monthly fixed Internet fees, complete packages for telephony and Internet access as well as usage-driven fees and revenues from the sale, leasing and maintenance of telecommunications and Internet installations.

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 AG (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 (Einkommensteuergesetz – 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 contrast, additions to movable items of property, plant and equipment since January 1, 2006 have been depreciated in the financial accounts according to the declining-balance method at the maximum rate permitted by tax law; the straight-line method will be applied as soon as this leads to higher depreciation amounts.

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.

Low-value assets are written off in full in the year of their acquisition and presented as disposals in the statement of noncurrent assets.

Maintenance and repair costs are expensed as incurred.

Noncurrent assets sold or otherwise disposed of are derecognized at their relevant carrying amounts (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 a 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. Non-scheduled 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, liquid assets 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 liquid assets 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 Plan (MTIP 2004, 2005, 2006 and 2007), being what is known as a cash-settled plan, is recognized in the statement of income from the time of its implementation. The proportionate amount to be expensed and recognized as an accrual at each balance sheet date is calculated based on a Monte Carlo simulation.

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 and the accrual for collateral promise for pension and partial retirement obligations.

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 qualify for hedge accounting – hedged item and hedge transactions – one measurement at fair value per portfolio less accrued interest is applied as of the balance sheet date. If financial instruments qualify for hedge accounting and are not related to early prepayment penalties, the unrealized loss exceeding the positive fair value is recognized in net income or loss as accrual for loss contingencies, whereas unrealized gains are deferred until realized.

Early prepayment penalties, which are generally agreed within the Group in the form of interest rate swaps, arise from early loan prepayments on the part of Deutsche Telekom. Valuation units related to early prepayment penalties are deemed to be receivables or payables. As such they have been 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.

Settlement gains or losses from expired hedge transactions for rolling hedging (roll-over gains or losses) were taken into account in the subsequent measurement of the hedged item until the start of the reporting year. Starting in the reporting period, such roll-over gains and 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 revenues 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.

	2007 millions of €	2006 millions of €
Broadband/Fixed Network	19,442	20,936
	19,442	**20,936**

Net revenue in the Broadband/Fixed Network operating segment declined by EUR 1.5 billion to EUR 19.4 billion. This was primarily attributable to lower call revenues as a result of line losses in the narrowband area, which are primarily due to customer churn (such as migration to cable network operators), fixed-mobile substitution and the introduction of competitively priced complete packages. In addition, the decrease in net revenue was also the result of pricing and volume effects related to interconnection charges and in the broadband market. Lower market prices also led to a drop in intragroup revenues. The revenue shortfall could only partly be offset by volume growth in unbundled local loop lines and rising demand for complete packages.

Revenue by geographic area.

	2007 millions of €	2006 millions of €
Domestic	18,839	20,369
International	603	567
	19,442	**20,936**

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

[2] Changes in inventories and other own capitalized costs

	2007 millions of €	2006 millions of €
Change in inventories of work in process	9	11
Own capitalized costs	336	404
	345	**415**

The year-on-year decrease in other own capitalized costs is due, in particular, to the formation of the Service Companies. Since the second half of 2007, Deutsche Telekom has procured from DT NP and DT TS services related to the expansion of the network infrastructure that it previously performed itself. The increase in capitalized costs in the reporting year offset some of the overall decrease.

[3] Other operating income

	2007 millions of €	2006 millions of €
Cost transfers/reimbursements	1,343	637
Income from rental and lease agreements	688	737
Reversal of accruals	440	586
Foreign currency transaction gains	338	416
Income from the disposal of noncurrent assets	267	198
Ancillary services	187	155
Income from derivatives	178	140
Income from write-ups of noncurrent assets	73	199
Income from reversal of valuation adjustments	60	28
Income from insurance compensation	51	39
Bonuses from asset-backed securitization	45	125
Income from the elimination of liabilities	32	105
Other income	197	277
	3,899	**3,642**

Income from cost transfers/reimbursements includes income from the transfer of personnel costs in the amount of EUR 849 million (prior year: EUR 405 million) and income from the transfer of other costs in the amount of EUR 494 million (prior year: EUR 232 million). Personnel costs transferred in the reporting period include EUR 505 million for the settlement of personnel costs for civil servants assigned to the Service Companies. Income from the transfer of other costs mainly encompasses income from the settlement of administrative costs in the amount of EUR 327 million (prior year: EUR 8 million), with EUR 270 million relating to the Service Companies.

Income from rental and lease agreements results from the transfer for use of real estate for which Deutsche Telekom was compensated by GMG Generalmietgesellschaft mbH, Münster. The year-on-year decline in rental income is due in particular to the smaller real estate portfolio as a result of a number of disposals.

Income from the reversal of accruals includes EUR 126 million from the partial reversal of an accrual recognized in the prior year for the early retirement of civil servants; this partial reversal related to the calculation method newly agreed with the Federal Ministry of Finance in connection with the reimbursement payments to the BPS-PT joint pension fund. Other personnel accruals of EUR 111 million were also reversed, including EUR 30 million of accruals for partial retirement, which are due to the early retirement of civil servants and the resulting early termination of partial retirement agreements.

Foreign currency transaction gains resulted mainly from exchange rate effects realized upon the maturity of loans granted/taken out (EUR 232 million), the valuations of accrued interest (EUR 54 million), trade receivables and payables (EUR 14 million) and bank accounts (EUR 11 million).

EUR 214 million of the income from the disposal of noncurrent assets relates to the disposal of land and buildings (prior year: EUR 153 million) and EUR 23 million to the disposal of technical equipment (prior year: EUR 19 million). Income from the disposal of financial assets in the amount of EUR 30 million (prior year: EUR 23 million) mainly reflects the disposal of the shares in Sireo Real Estate GmbH (EUR 26 million).

At EUR 175 million, income from derivatives mainly results from exchange rate effects of currency derivatives.

EUR 72 million of the income from write-ups of noncurrent assets in the reporting year is due to reversals of real estate impairment losses. In the previous year this item included a write-up of EUR 108 million of the carrying amount of the investment in Toll Collect GmbH, Berlin.

Of the total amount of other operating income, EUR 555 million is attributable to other accounting periods resulting in particular from the reversal of accruals (EUR 185 million), income from the disposal of property, plant and equipment (EUR 267 million), as well as the reversal of valuation adjustments for accounts receivable (EUR 60 million).

[4] Goods and services purchased

	2007 millions of €	2006 millions of €
Goods purchased		
Raw materials and supplies	153	193
Goods purchased	472	442
	625	**635**
Services purchased		
Interconnection rates (Germany)	1,709	1,924
Interconnection rates (international)	640	567
Other services	3,324	1,767
	5,673	**4,258**
	6,298	**4,893**

The cost of goods and services purchased in the financial year rose by a total of EUR 1.4 billion to EUR 6.3 billion, primarily due to the increase in expenses for services purchased. This includes an increase of EUR 1.6 billion for 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. In addition, expenses for international interconnection rates grew by EUR 73 million as a result of a rise in termination services.

Furthermore, expenses for the purchase of energy increased by EUR 28 million, due to increased usage of the expanded optical fiber network and VDSL broadband technology as well as to higher energy prices.

The development of expenses for domestic interconnection rates had an offsetting effect with a year-on-year decrease of EUR 215 million. Apart from regulatory price reductions for termination charges imposed by the Federal Network Agency, this decline is also attributable to a volume reduction for termination services caused by the heightened competition in the domestic market. In addition, billing expenses decreased by EUR 141 million.

[5] **Personnel costs/ Average number of employees**

	2007 millions of €	2006 millions of €
Wages and salaries	**4,837**	6,667
Social security contributions and expenses for pension plans and benefits		
Payments to Bundes-Pensions-Service für Post und Telekommunikation e.V.	782	860
Social security contributions	253	454
Expenses for pension plans for non-civil servants	264	367
Health care expenses	122	129
	1,421	1,810
	6,258	8,477

Personnel costs declined by EUR 2.2 billion year-on-year to EUR 6.3 billion, with EUR 1.8 billion being attributable to the decrease in wages and salaries and EUR 389 million to the decrease in social security contributions and pension plan expenses.

The decrease in wages and salaries is mainly due to lower compensation for ongoing work, with the transfer of employment relationships to the Service Companies accounting for a decrease of EUR 715 million. The headcount reduction due to personnel adjustment measures also resulted in a decrease in ongoing expenses. In addition, the year-on-year decrease in expenses for personnel adjustment measures to EUR 1.7 billion (prior year: EUR 2.3 billion) and EUR 125 million lower expenses for additions to accruals for severance and voluntary redundancy payments contributed to the reduction in expenses for wages and salaries.

As part of the civil servants 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. In accordance with this provision, the Federal Republic cannot demand reimbursement from Deutsche Telekom of any amounts it pays to BPS-PT.

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 772 million in the reporting period (prior year: EUR 842 million). The year-on-year decline in costs is primarily due to the use of early retirement arrangements for civil servants, which resulted in a decrease in the number of active civil servants.

The drop 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:

	2007 Number	2006 Number
Civil servants	38,265	42,969
Non-civil servants	31,675	58,869
	69,940	**101,838**
Trainees and student interns	10,391	10,216

The average number of employees declined in 2007 primarily as a result of the transfer of employment relationships to the newly founded Service Companies as described. In addition, personnel adjustment measures and natural attrition resulted in further headcount reductions year-on-year.

[6] Depreciation, amortization and write-downs

	2007 millions of €	2006 millions of €
Depreciation and amortization		
Amortization of intangible assets	315	313
Depreciation of property, plant and equipment	3,187	3,197
	3,502	**3,510**
Write-downs		
in accordance with § 253 (2) sentence 3 HGB	281	220
	3,783	**3,730**

Amortization of intangible assets incurred in the reporting year is mainly attributable to software licenses (EUR 289 million; prior year: EUR 292 million).

Of the total depreciation of property, plant and equipment in the reporting year, EUR 260 million (prior year: EUR 280 million) are attributable to buildings, EUR 1.4 billion (prior year: EUR 1.2 billion) to telecommunications networks, EUR 1.4 billion (prior year: EUR 1.5 billion) to transmission and switching equipment. Depreciation and amortization in the reporting year thus only decreased slightly compared with the prior year, despite a lower level of capital expenditure. This was primarily attributable to the fact that new investments are subject to depreciation and amortization according to the declining-balance method, whereas movable items of property, plant and equipment acquired prior to January 1, 2006 are depreciated using the straight-line method.

Of the nonscheduled write-downs charged during the reporting period, EUR 241 million relate to valuation adjustments of buildings and properties held for sale and for which no further business use is planned.

Write-downs on financial assets and marketable securities are recorded in net financial income/expense (see Note [8]).

[7] Other operating expenses

	2007 millions of €	2006 millions of €
Marketing expenses	1,562	1,455
Rental and leasing expenses	1,303	1,659
Maintenance and repair	611	705
IT support	610	899
Losses on the disposal of noncurrent assets	564	89
Research and development	510	589
Legal and consulting fees	398	487
Foreign currency transaction losses	379	502
Expenses arising from derivatives	274	165
Other employee-related costs	224	255
Losses on accounts receivable and provision for doubtful accounts	200	259
Expenses arising from a collateral promise for pension and partial retirement obligations	181	0
Cleaning, transport, surveillance	93	18
Temporary employment	69	34
Travel expenses	50	70
Postal and freight charges	36	40
Insurances	35	36
Other expenses	554	538
	7,653	**7,800**

The increase in marketing expenses is mainly attributable to the commissions (EUR 72 million) paid to Deutsche Telekom Kundenservice GmbH for new customer acquisition. The Max07 marketing campaign and the introduction of Entertain resulted in further year-on-year increases.

The decrease in rental and leasing expenses primarily results from the reduction in rents for technology properties applied by GMG Generalmietgesellschaft mbH, Münster (GMG) as of January 1, 2007. The formation of the Service Companies resulted further in a year-on-year reduction in rent payments for buildings and vehicles by EUR 119 million.

Price and volume reductions resulted in a year-on-year decrease in maintenance and IT support costs of EUR 94 million and EUR 189 million respectively. EUR 94 million of this decrease relate to maintenance costs and EUR 81 million to IT support as a result of the establishment of the Service Companies.

Losses on the disposal of noncurrent assets incurred in the reporting period were mainly due to the disposal of the equity interest in T-Online Telecommunications Spain S.A.U. and T-Online France S.A.S. (a total of EUR 443 million). Additional losses of EUR 111 million (prior year: EUR 84 million) were associated with the disposal of property, plant and equipment, of which EUR 44 million (prior year: EUR 30 million) were related to the disposal of real estate assets.

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.

Foreign currency transaction losses resulted mainly from exchange rate effects realized upon the maturity of loans granted/taken out (EUR 198 million), the valuations of intragroup clearing accounts (EUR 64 million), interest (EUR 53 million), bank accounts (EUR 31 million) and trade receivables and payables (EUR 19 million).

The year-on-year increase in expenses arising from derivatives of EUR 109 million to EUR 274 million is mainly due to exchange rate effects of currency derivatives and to additions to accruals for loss contingencies.

Expenses for other employee-related costs of EUR 224 million recognized in the reporting year include, in particular, expenses for training measures (EUR 62 million) and expenses arising from the allocation of administrative costs payable to the Bundesanstalt für Post und Telekommunikation (the Federal Agency) (EUR 52 million).

Expenses arising from a collateral promise for pension and partial retirement obligations were incurred in connection with the formation of the Service Companies. By declaration of a collateral promise and performance obligation dated

June 22, 2007, Deutsche Telekom assumed economic liability (vis-à-vis the Service Companies) for the pension and partial retirement obligations that were legally transferred with the transfer of operations. The accrual recognized in this context for the assumption of economic liability for pension obligations was measured in accordance with prudent commercial practice at the balance sheet date in the amount of the defined benefit obligation determined in accordance with the principles of IAS 19, which resulted in an expense of EUR 108 million. Ongoing additions to these accruals led to further expenses.

Of the other operating expenses, EUR 111 million relates to other accounting periods. The entire amount relates to the disposal of property, plant and equipment.

[8] Financial income/expense, net

	2007 millions of €	2006 millions of €
Income related to subsidiaries, associated and related companies of which from subsidiaries: € 279 million; prior year: € 77 million	281	86
Income from profit transfer agreements of which from tax allocations: € (1) million; prior year: € 0 million	634	2.919
Expenses arising from loss transfers	(2,930)	(1,198)
Income (loss) related to subsidiaries, associated and related companies	**(2,015)**	**1,807**
Income from debt securities and long-term loan receivables of which from subsidiaries: € 46 million; prior year: € 32 million	46	35
Other interest and similar income of which from subsidiaries: € 89 million; prior year: € 155 million	189	273
Interest and similar expense of which to subsidiaries: € 1.5 billion; prior year: € 1.8 billion	(1,844)	(2,160)
Net interest expense	**(1,609)**	**(1,852)**
Write-downs on financial assets and marketable securities	(45)	(592)
	(3,669)	**(637)**

Income related to subsidiaries, associated, and related companies mainly refers to dividends from HT-Hrvatske telekomunikacije, d.d., Zagreb (EUR 182 million), Slovak Telekom, a.s., Bratislava (EUR 75 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 DFMG Holding GmbH, Bonn (EUR 189 million) MagyarCom Holding GmbH, Bonn (EUR 177 million), and DeTeMedien, Deutsche Telekom Medien GmbH, Frankfurt am Main (EUR 94 million). The year-on-year decrease in income from profit transfer agreements was primarily the result of the assumption of a loss from T-Mobile International AG, Bonn, caused by a special factor.

Expenses arising from loss transfers primarily relate to T-Systems Enterprise Services GmbH, Frankfurt am Main (TS-ES, EUR 792 million), T-Mobile International AG, Bonn (EUR 504 million), Vivento Technical Services GmbH, Bonn (VTS, EUR 360 million), Deutsche Telekom Kundenservice GmbH, Bonn (EUR 328 million), T-Systems Business Services GmbH, Bonn (EUR 313 million), Vivento Customer Services GmbH, Bonn (VCS, EUR 222 million), Deutsche Telekom Netzproduktion GmbH, Bonn (EUR 184 million) and Deutsche Telekom Technischer Service GmbH, Bonn (EUR 111 million). The transfer of losses from TS-ES, VTS and VCS rose year-on-year primarily as a result of special factors, such as the disposal of seven VCS call center locations and the transfer of operations of VTS to Nokia Siemens Networks Services Deutschland GmbH & Co. KG. The losses of the Service Companies are in part due to accruals recognized by these companies for compensation payments intended to cushion the adjustment of salaries to a more competitive level in a socially responsible manner.

The **net interest expense** is 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 relate to write-downs of investments in "T-Online.at" Internet Service GmbH, Vienna (EUR 20 million) and loans extended to Atrada Trading Network AG, Nuremberg (EUR 12 million). In the prior year, the item included expenses of EUR 511 million for the valuation adjustment of the net carrying amount of MagyarCom Holding GmbH, Bonn.

[9] Extraordinary income

In the reporting period, T-Mobile International Holding GmbH was merged into its subsidiary T-Mobile International AG (downstream merger), as a result of which Deutsche Telekom now holds a direct equity interest in T-Mobile International AG. The acquisition cost of this equity interest was determined on the basis of the principles governing exchanges under commercial law by valuing the shares in the discontinued T-Mobile International Holding GmbH at their market value, which led to a tax-free extraordinary income of EUR 17.3 billion.

[10] Taxes

	2007 millions of €	2006 millions of €
Income taxes		
Current income taxes	17	177
Tax allocations	4	1
	21	178
Other taxes	**(26)**	(27)
	(5)	151

No taxable income and no taxable trade income were generated in 2007. For this reason, no current income taxes for the reporting period were incurred. The tax income recognized in the reporting period relates to prior years.

Other taxes mainly comprise real estate tax expenses.

[11] Reconciliation of income after taxes to unappropriated net income

Income after taxes generated in the financial year amounted to EUR 13.3 billion. The Board of Management of Deutsche Telekom transferred half of this income (EUR 6.6 billion) to other retained earnings in accordance with § 58 (2) AktG. Together with unappropriated net income of EUR 37 million carried forward from the prior year, this results in net income of EUR 6.7 billion.

Notes to the balance sheet.

[12] Noncurrent assets

Property, plant and equipment declined in the reporting year by a total of EUR 2.0 billion as a result of depreciation and write-downs, a lower level of investment volume in comparison with depreciation and write-downs, sales of real estate, and intragroup transfers of property, plant and equipment.

Depreciation and write-downs in the reporting year break down into EUR 501 million related to real estate and EUR 2.9 billion related to technical equipment and machinery. This includes an amount of EUR 1.4 billion for switching and transmission systems and EUR 1.4 billion for outside plant equipment (see Note [6]).

Investments in property, plant and equipment in the 2007 financial year totaled EUR 1.8 billion (prior year: EUR 2.1 billion). The primary focus of investment spending was on transmission equipment and the outside plant network, recognizing additions to the former of EUR 715 million (prior year: EUR 756 million) and to the latter of EUR 685 million (prior year: EUR 633 million). By contrast, additions to equipment and machinery with construction in progress declined to EUR 289 milion (prior year: 483 million).

The contribution of property, plant and equipment to Deutsche Telekom Kundenservice GmbH (DT KS), Deutsche Telekom Technischer Service GmbH (DT TS), Deutsche Telekom Netzproduktions GmbH (DT NP) and PrimeSeek GmbH as well as the disposal of the Customer Branch Office for Special Tasks to Vivento Customer Services GmbH resulted in the derecognition of intangible assets and property plant and equipment with a total remaining carrying amount of EUR 100 million, reflecting historical costs equal to EUR 338 million less accumulated depreciation of EUR 238 million.

Financial assets increased by EUR 16.3 billion in the reporting year to EUR 81.8 billion primarily due to the investments in subsidiaries.

The increase in **investments in subsidiaries** is mainly attributable to the completion of the merger of T-Mobile International Holding GmbH into T-Mobile International AG (downstream merger) in the reporting year. The shares acquired in the course of the share swap were valued on the basis of the principles governing exchanges under commercial law, resulting in additional acquisition costs of EUR 17.3 billion (see Note [9]). In addition, the formation of Deutsche Telekom Technischer Service GmbH, Deutsche Telekom Netzproduktion GmbH, Deutsche Telekom Kundenservice GmbH and PrimeSeek GmbH resulted in an increase in this line item by a total of EUR 93 million. The disposal of the shares in T-Online France S.A.S. and T-Online Telecommunications Spain S.A.U. on the other hand, reduced investments in subsidiaries by EUR 1.2 billion.

Loans to subsidiaries primarily include loans to T-Systems Enterprise Services GmbH, Frankfurt am Main (EUR 900 million) granted in the reporting year. These loans replaced previous loans of EUR 500 million. Further decreases relate in particular to the repayment of loans to T-Mobile Netherlands B.V. (EUR 100 million) and of the loan to T-Online Telecommunications Spain S.A.U. (EUR 71 million).

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

Write-downs on financial assets and marketable securities are recorded in net financial income/expense (see Note [8]).

[7] In accordance with § 285 HGB, the full list of investment holdings, which is included in the notes to the financial statements, is published in the electronic Federal Gazette (Bundesanzeiger) together with the annual financial statements.

	Acquisition costs					
	Balance at Jan. 1, 2007 millions of €	Changes due to spin-offs millions of €	Additions millions of €	Dis-posals millions of €	Reclassi-fications millions of €	Balance at Dec. 31, 2007 millions of €
I. Intangible assets						
1. Concessions, industrial and similar rights and assets, and licenses in such rights and assets	1,248	(16)	168	(245)	57	1,212
2. Advance payments	111	(3)	160	(7)	(45)	216
	1,359	**(19)**	**328**	**(252)**	**12**	**1428**
II. Property, plant and equipment						
1. Land and equivalent rights and buildings, including buildings on land owned by third parties	13,472	0	17	(1,005)	(3)	12,481
2. Technical equipment and machinery	56,113	(77)	1,439	(1,039)	439	56,875
3. Other equipment, plant and office equipment	1,191	(242)	97	(139)	12	919
4. Advance payments and construction in progress	708	0	296	(16)	(460)	528
	71,484	**(319)**	**1,849**	**(2,199)**	**(12)**	**70,803**
III. Financial assets						
1. Investments in subsidiaries	65,322	93	67,688	(51640)	0	81463
2. Loans to subsidiaries	824	0	1072	(797)	0	1099
3. Invesments in associated and related companies	284	0	7	(72)	0	219
4. Other long-term loans	11	0	0	(1)	0	10
	66,441	**93**	**68,767**	**(52,510)**	**0**	**82,791**
Total noncurrent assets	**139,284**	**(245)**	**70,944**	**(54,961)**	**0**	**155,022**

Depreciation, amortization and write-downs							Net carrying amounts	
Balance at Jan. 1, 2007 millions of €	Changes due to spin-offs millions of €	Additions millions of €	Disposals millions of €	Reclassifications millions of €	Write-ups millions of €	Balance at Dec. 31, 2007 millions of €	Balance at Dec. 31, 2007 millions of €	Balance at Dec. 31, 2006 millions of €
606	(9)	315	(234)	0	0	678	534	642
0	0	0	0	0	0	0	216	111
606	**(9)**	**315**	**(234)**	**0**	**0**	**678**	**750**	**753**
7,003	0	501	(674)	(3)	(72)	6,755	5,726	6,469
41,118	(30)	2,874	(1,000)	8	0	42,970	13,905	14,995
957	(199)	91	(119)	(5)	0	725	194	234
0	0	2	(2)	0	0	0	528	708
49,078	**(229)**	**3,468**	**(1,795)**	**0**	**(72)**	**50,450**	**20,353**	**22,406**
832	0	23	0	0	0	855	80,608	64,490
37	0	15	0	0	(1)	51	1048	787
112	0	0	(16)	0	0	96	123	172
0	0	0	0	0	0	0	10	11
981	**0**	**38**	**(16)**	**0**	**(1)**	**1,002**	**81,789**	**65,460**
50,665	**(238)**	**3,821**	**(2,045)**	**0**	**(73)**	**52,130**	**102,892**	**88,619**

[13] Inventories, materials and supplies

	Dec. 31, 2007 millions of €	Dec. 31, 2006 millions of €
Raw materials and supplies	16	20
Work in process	27	18
Merchandise	104	89
	147	127

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

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

The increase in merchandise is largely explained by inventories of new hardware, for instance for the triple play products and the introduction of Entertain.

[14] Receivables

	Dec. 31, 2007 millions of €	Dec. 31, 2006 millions of €
Trade accounts receivable (of which with a remaining maturity of more than one year: € 0 million; prior year: € 0 million)	1,425	943
Receivables from subsidiaries (of which with a remaining maturity of more than one year: € 28 million; prior year: € 0 million)	1,921	3,425
Receivables from associated and related companies (of which with a remaining maturity of more than one year: € 0 million; prior year: € 0 million)	3	20
	3,349	4,388

Between December 2001 and November 2007, Deutsche Telekom AG sold certain current and future trade accounts receivable to a special-purpose entity by way of a global assignment of debts as part of its asset-backed securitization activities. The agreements covering these transactions expired as of December 16, 2007. No more receivables have been sold since November 30, 2007.

The termination of the ABS transaction led to an increase in receivables of EUR 350 million.

The item "Receivables from subsidiaries" includes EUR 1.2 billion for receivables from financing activities (prior year: EUR 2.7 billion) with trade accounts receivable only comprising a minor component at EUR 459 million (prior year: EUR 537 million). The decrease in financial receivables from subsidiaries resulted on the one hand from the reduction of receivables from originated short-term loans to EUR 562 million (prior year: EUR 700 million) and on the other hand from a drop in receivables from intra-group cash pooling driven by lower profit transfers and higher loss absorptions.

[15] Other assets

	Dec. 31, 2007 millions of €	Dec. 31, 2006 millions of €
Tax receivables		
Income tax receivables		
Corporate income tax	89	335
Trade taxes	65	205
Solidarity surcharge	5	18
	159	**558**
Other tax receivables	15	24
	174	**582**
Accrued interest	236	306
Receivables from derivatives	93	8
Receivables from collateral	54	52
Receivables from reimbursements	43	52
Receivables from employees	17	19
Receivables from asset-backed securitization	0	60
Miscellaneous other assets	78	53
	521	**550**
	695	**1,132**

Of income tax receivables, EUR 31 million relates to the current financial year (prior year: EUR 415 million) and EUR 128 million to previous years (prior year: EUR 143 million). The receivables arise primarily from advance payments exceeding the relevant tax liabilities for the years 2005, 2006 and 2007 as well as allowable taxes. The year-on-year decrease is mainly due to refunds issued by tax and municipal authorities during the financial year.

Of other tax receivables, EUR 11 million relate primarily to input tax receivables that did not fulfill the legal requirements for the deduction of input tax at the balance sheet date.

Accrued interest is mainly from interest rate derivatives.

Receivables from derivatives mainly include settlement gains and losses from expired hedge transactions for rolling 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 other assets, EUR 6 million (prior year: EUR 5 million) have a remaining maturity of more than one year.

[16] Marketable securities

	Dec. 31, 2007 millions of €	Dec. 31, 2006 millions of €
Treasury shares	5	5
Shares in other companies	54	0
Other marketable securities	227	279
	286	284

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

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

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

The shares in other companies shown as marketable securities relate to Bild.T-Online.de AG & Co. KG, Berlin, and Bild.T-Online.de Verwaltungs AG, Berlin. These shares are held for sale.

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 227 million equals Deutsche Telekom's outstanding settlement amounts to employees on partial retirement arrangements at December 31, 2007. The year-on-year reduction is mainly attributable to the transfer of the CTA assets to the Service Companies.

[17] Liquid assets

	Dec. 31, 2007 millions of €	Dec. 31, 2006 millions of €
Cash in hand, cash in banks, checks	593	1,325

The total time to maturity of the liquid assets is less than three months. The presentation of the Company's financial position in the management report includes the development of liquid assets.

[18] Prepaid expenses and deferred charges

Prepaid expenses and deferred charges of EUR 539 million (prior year: EUR 286 million) include deferred personnel costs amounting to EUR 304 million (prior year: EUR 114 million), discounts on loans amounting to EUR 99 million (prior year: EUR 128 million) and other prepaid expenses amounting to EUR 136 million (prior year: EUR 44 million).

[19] Shareholders' equity

	Dec. 31, 2007 millions of €	Dec. 31, 2006 millions of €
Capital stock	11,165	11,164
Additional paid-in capital	26,646	26,628
Retained earnings		
Treasury stock	5	5
Other retained earnings	15,895	9,253
	15,900	**9,258**
Unappropriated net income	6,679	3,160
Shareholders' equity	**60,390**	**50,210**

Shareholders' equity increased by EUR 10.2 billion year-on-year. The changes are described in detail in the following sections.

[20] 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, 2005	**4,198,078**	**10,747,079**	**1,000,000**	**2,560,000**	**443,386**	**1,135,068**
T-Online merger	62,730	160,589	(62,730)	(160,589)	-	-
Share buy-back and retirement	(62,730)	(160,589)	-	-	-	-
2001 Stock Option Plan	53	137	-	-	(53)	(137)
Conversion of mandatory convertible bond	162,988	417,249	-	-	(162,988)	(417,249)
Approved capital increase	-	-	15,000	38,400	-	-
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**

Deutsche Telekom AG's capital stock as of December 31, 2007 totaled EUR 11.2 billion. The capital stock is divided into 4,361,297,603 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 at December 31, 2007 (prior year: 14.8 percent), while KfW's shareholding at December 31, 2007 was 16.9 percent (prior year: 16.9 percent) and the private investment company Blackstone Group's 4.4 percent (prior year: 4.4 percent). This means that as of December 31, 2007, 646,575,126 no par value shares (EUR 1.7 billion) of the capital stock were held by the Federal Republic at December 31, 2007; 735,667,390 shares (EUR 1.9 billion) by KfW and 192,000,000 shares (EUR 491 million) by the Blackstone Group. The remaining shares are in free float.

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

Authorized capital

Deutsche Telekom had the following authorized capital as of December 31, 2007:

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 an increase of 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. Between August 14 and August 25, 2006, a total of 62,730,182 shares with a proportionate amount of the capital stock of EUR 160,589,269.92, i.e., approximately 1.4 percent of the capital stock at that time, were repurchased by the Company at an average price of EUR 11.29 for a total consideration of EUR 708,482,743.99.

2006 Authorized capital.

The Board of Management is authorized, with the approval of the Supervisory Board, to increase the 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, 2007, Deutsche Telekom had the following contingent capital:

Contingent capital II.

The capital stock has been contingently increased by up to EUR 31,870,407.68, composed of up to 12,449,378 new no par value registered shares. The contingent capital increase is exclusively 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.

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

Contingent capital IV.

The capital stock has been contingently increased by EUR 600,000,000, divided into 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.

Contingent capital I and contingent capital III were discontinued in the reporting year.

Treasury shares.

The shareholders' meeting on May 3, 2007 authorized the Board of Management to purchase up to 436,117,555 shares in the Company by November 2, 2008, with the amount of capital stock accounted for by these shares totaling up to EUR 1,116,460,940.80, subject to the proviso that 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 dependent Group companies of Deutsche Telekom 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 3, 2007, the Board of Management is authorized, with the consent of the Supervisory Board, to redeem Deutsche Telekom AG's shares purchased on the basis of the above authorization, without such redemption or its implementation requiring a further resolution of the shareholders' meeting.

[21] Additional paid-in capital

Additional paid-in capital increased in 2007 by EUR 18 million, mainly as a result of stock options exercised at T-Mobile USA/Powertel.

[22] Retained earnings

In addition to the transfers to retained earnings from income after taxes from prior years, retained earnings also include the reserve for treasury shares in the amount reported under marketable securities that must be recognized in accordance with § 272 (4) HGB. EUR 6.6 billion was transferred to other retained earnings in the reporting year (see Note [11]).

[23] Stock-based compensation

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					
	2007		2006		2005	
	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	10790	24.62	11,096	24.59	11,444	24.36
Granted	0	-	0	-	0	-
Exercised	(179)	12.36	(53)	12.36	(217)	12.36
Forfeited	(865)	28.83	(253)	25.98	(131)	24.11
Outstanding at end of reporting period	**9,746**	**24.47**	**10,790**	**24.62**	**11,096**	**24.59**
Exercisable at end of reporting period	**9,746**	**24.47**	**10,790**	**24.62**	**11,096**	**24.59**

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

50 percent of the preemptive rights granted may only be exercised after a period of two years – calculated from the day the preemptive rights 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, 2007, no resolution on conversion had been passed to this effect.

On August 13, 2001, Deutsche Telekom granted 8,220,803 options for the purchase of 8,220,803 shares at an exercise price of EUR 30.00 (based on a reference price of EUR 25.00) to the beneficiaries of the stock option plan on the basis of a resolution adopted by the shareholders' meeting in May 2001. The 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. 7,020 SARs were forfeited in the reporting year. 141,620 SARs were still outstanding at December 31, 2007.

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

During the 2007 exercise period, the average price of Deutsche Telekom shares (T-Shares) was EUR 13.65.

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					
	2007		2006		2005	
	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	3,392	10.30	3,551	10.30	3,868	10.31
Granted	0	-	0	-	0	-
Exercised	0	-	0	-	0	-
Forfeited	(307)	10.32	(159)	10.31	(317)	10.31
Outstanding at end of reporting period	**3,085**	**10.30**	**3,392**	**10.30**	**3,551**	**10.30**
Exercisable at end of reporting period	**3,067**	**10.30**	**3,374**	**10.30**	**3,518**	**10.31**

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 were granted.

The exercise rules specified that 50 percent of the options granted were only exercisable after a vesting period of two years – calculated from the grant date of the options. The remaining 50 percent of the options granted were only exercisable three years after the day the preemptive rights 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 2004/2005/2006/2007.

Deutsche Telekom Mid-Term Incentive Plan (MTIP)

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 companies 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 reached 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 MTIP 2004, MTIP 2005, MTIP 2006 and MTIP 2007 entered into force in the years 2004 trough 2007 and each have a term of three years. The MTIP 2004 expired in the previous year without any payments being made. The MTIPs of the years 2005, 2006 and 2007 have maximum budgets of EUR 83 million, EUR 86 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 MTIP 2005, the relevant starting price is EUR 16.43, and the absolute performance target EUR 21.36. The starting value of the index for the relative performance target of the MTIP 2006 is 358.99 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 MTIP 2004, and EUR 16.43 for the MTIP 2005).

The MTIP 2006 became effective on January 1, 2006. The plan has a term of three years. The starting price for the absolute performance target of the MTIP 2006 is EUR 14.00 per Deutsche Telekom share. Consequently, the absolute performance target is achieved if an average share price of at least EUR 18.20 is reached during the defined period before the end of the plan. The starting value of the index for the relative performance target of the MTIP 2006 is 452.02 points and the starting value of the total return of the Deutsche Telekom share is EUR 14.00.

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

Mid-Term Incentive Plan 2004/2005/2006.

T-Online Mid-Term Incentive Plan (MTIP)

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.

[24] Accruals for pensions and similar obligations

The pension obligations to non-civil servant employees are based on indirect and direct pension commitments. The indirect commitments include 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 comprise direct commitments and VAP parallel obligations. The VAP parallel obligations are 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 by 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 are accounted for under pensions obligations in accordance with § 6 a EStG. The level of these accruals is substantiated by an actuarial report.

The actuarial computations for the pension commitments are 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 is 6 percent.

The year-on-year decrease in the accruals is principally the result of the formation of the three Service Companies. Deutsche Telekom discharged the Service Companies from all and any claims that had arisen up to the transfer date or may arise after that date. The relevant accruals to be recognized by Deutsche Telekom are reported as other accruals (see Notes [7], [26]). For this purpose, accruals in the amount of the net present value of EUR 851 million were reclassified as other accruals for pension entitlements vested before the effective date of the transfer.

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

	Dec. 31, 2007 millions of €	Dec. 31, 2006 millions of €
Direct pension obligations of which parallel obligation: € 1.5 billion; prior year: € 1.6 billion	2,498	3,388
Indirect pension obligations	142	118
	2,640	3,506
Obligations in accordance with Article 131 GG	3	4
	2,643	3,510

[25] Tax accruals

	Dec. 31, 2007 millions of €	Dec. 31, 2006 millions of €
Corporate income tax	220	241
Trade tax	1	36
Other taxes	67	114
	288	391

[26] Other accruals

	Dec. 31, 2007 millions of €	Dec. 31, 2006 millions of €
Employee benefits		
Early retirement (BPS-PT)	1,820	1,569
Partial retirement arrangement	343	657
Civil Service Health Insurance Fund	278	270
Staff reduction	162	89
Other obligations	233	355
Other obligations		
Accrual for collateral promise for pension and partial retirement obligations	1,265	0
Outstanding invoices	524	431
Litigation risks	257	230
Loss contingencies from foreign currency forward contracts	106	29
Order book risks	91	69
Loss contingencies from interest rate derivatives	41	542
Deferred maintenance	18	19
Restoration commitments	18	17
Miscellaneous other accruals	275	281
	5,431	**4,558**

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 during the prior year. 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 was increased by EUR 1.4 billion as a result of the Board of Management resolution passed in the reporting year to make use of this provision for purposes of staff restructuring until December 31, 2010.

The accrual for partial retirement obligations decreased primarily as a result of its reclassification to the accrual for collateral promise for pension and partial retirement obligations.

The accrual for staff reduction measures increased in the reporting year as a consequence of the offer of new voluntary redundancy programs.

The accrual for collateral promise for pension and partial retirement obligations covers the economic obligations assumed by Deutsche Telekom with respect to the obligation for pension (EUR 997 million) and partial retirement benefit claims (EUR 268 million) of the Service Companies.

The increase in the accruals for outstanding invoices was mainly the result of a year-on-year increase in accruals for logistics, marketing and sales services purchased.

The significant drop of EUR 501 million in the provision for impending losses on interest rate derivatives to EUR 41 million is predominantly based on the reclassification of early prepayment penalties to receivables from/payables to subsidiaries.

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

[27] Liabilities

	Dec. 31, 2007				Dec. 31, 2006			
	Total	of which due			Total	of which due		
	millions of €	≤ 1 year millions of €	> 1 - 5 years millions of €	> 5 years millions of €	millions of €	≤ 1 year millions of €	> 1 - 5 years millions of €	> 5 years millions of €
Debt								
Bonds and debentures	1,164	111	254	799	1,189	105	337	747
Liabilities to banks	3,769	2,038	1,025	706	1,658	445	533	680
	4,933	**2,149**	**1,279**	**1,505**	**2,847**	**550**	**870**	**1,427**
Other liabilities								
Advances received	4	4	-	-	3	3	-	-
Trade accounts payable	839	837	2	-	1,254	1,254	-	-
Payables to subsidiaries	31,041	14,269	10,107	6,665	30,967	9,236	12,118	9,613
Payables to associated and related companies	16	16	-	-	21	21		
Other liabilities	2,868	889	918	1,061	2,374	1,298	318	758
of which: from taxes	282	282	-	-	276	276	-	-
of which: from social security	10	1	4	5	-	-	-	-
	34,768	**16,015**	**11,027**	**7,726**	**34,619**	**11,812**	**12,436**	**10,371**
Total liabilities	**39,701**	**18,164**	**12,306**	**9,231**	**37,466**	**12,362**	**13,306**	**11,798**

Bonds and debentures relate primarily to treasury notes of Deutsche Post AG, Bonn, (EUR 799 million) and medium-term notes (EUR 260 million).

Bonds and debentures are composed of the following items:

Due by December 31	up to 4% millions of €	up to 5% millions of €	up to 6% millions of €	up to 7% millions of €	up to 8% millions of €	Total millions of €
2008	93	18	0	0	0	111
2009	0	0	0	205	0	205
2010	12	0	0	0	0	12
2011	37	0	0	0	0	37
2012	0	0	0	0	0	0
2013 to 2020	0	0	0	0	799	799
Total	142	18	0	205	799	**1,164**

The increase in liabilities to banks is mainly attributable to loans in the amount of EUR 1.4 billion. The largest item under payables to subsidiaries is the liability to Deutsche Telekom International Finance B.V., Amsterdam, which amounts to EUR 19.6 billion (prior year: EUR 23.1 billion). These liabilities relate primarily to bonds issued by Deutsche Telekom International Finance B.V. The decrease is attributable to the repayments.

The major bonds issued by Deutsche Telekom International Finance B.V. and passed on to Deutsche Telekom are structured as follows:

2000 tranche	Nominal amount in currency	Interest rate %	Maturity
EUR	33,044,593	6.715	2010

2001 tranche	Nominal amount in currency	Interest rate %	Maturity
EUR	1,645,718,223	6.715	2011

2002 tranche	Nominal amount in currency	Interest rate %	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 %	Maturity
EUR	1,000,000,000	5.830	2008
USD	400,000,000	3.956	2008
EUR	365,000,000	4.800	2010
USD	1,250,000,000	5.335	2013

2004 tranche	Nominal amount in currency	Interest rate %	Maturity
EUR	500,000,000	4.654	2009
EUR	500,000,000	4.884	2009

2005 tranche	Nominal amount in currency	Interest rate %	Maturity
EUR	390,000,000	4.584	2008
EUR	128,526,567	4.839	2009
EUR	500,000,000	3.075	2009
EUR	1,250,000,000	3.325	2010
GBP	250,000,000	4.950	2014
EUR	1,750,000,000	4.075	2015

2006 tranche	Nominal amount in currency	Interest rate %	Maturity
EUR	500,000,000	4.774	2008
EUR	500,000,000	3.075	2009
EUR	132,458,944	4.580	2009
USD	1,000,000,000	4.884	2009
USD	500,000,000	5.450	2011
EUR	250,000,000	4.075	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

2007 tranche	Nominal amount in currency	Interest rate %	Maturity
EUR	500,000,000	4.765	2012

In addition to the described liability to Deutsche Telekom International Finance B.V. which fell by EUR 3.5 billion in the reporting year, payables to subsidiaries also included liabilities to T-Mobile Global Holding GmbH, Bonn, which decreased by EUR 1.0 billion due to cash pooling. Liabilities to DeTeAsia Holding GmbH, Bonn, also decreased by EUR 200 million.

In addition, the Company has other liabilities, including to T-Mobile International AG, Bonn, which were up EUR 3.2 billion in the reporting year, and to T-Mobile USA Inc., Bellevue (USA), up EUR 739 million. The increase was primarily the result of a loss transfer and a loan taken out in 2007. Liabilities to T-Systems Enterprise Services GmbH, Frankfurt am Main, Vivento Technical Services GmbH, Bonn, and T-Systems Business Services GmbH, Bonn also increased by EUR 484 million, EUR 277 million and EUR 114 million, respectively. The increase was mainly driven by the assumption of losses in the current financial year.

The following table shows the composition of other liabilities:

	Dec. 31, 2007 millions of €	Dec. 31, 2006 millions of €
Liabilities from the early retirement arrangements for civil servants	1,221	414
Liabilities from loan notes	770	750
Tax liabilities	282	276
Liabilities from interest	247	204
Liabilities from derivatives	223	28
Liabilities to employees	10	574
Other liabilities	115	128
	2,868	2,374

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

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

Tax liabilities mainly comprise value-added tax liabilities amounting to EUR 254 million and wage tax liabilities amounting to EUR 23 million. Value-added tax liabilities are up by EUR 43 million year-on-year as a result of the reintegration of the T-Mobile Group into Deutsche Telekom as a value-added tax fiscal unity. The drop in wage tax liabilities by EUR 35 million is mainly due to the formation of the three Service Companies.

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

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

Liabilities to employees relate in particular to severance agreements which were concluded in connection with the staff restructuring program. They decreased in the reporting year as a result of payments made.

Other disclosures.

[28] Guarantees and commitments, and other financial obligations

Guarantees and commitments.

	Dec. 31, 2007 millions of €	Dec. 31, 2006 millions of €
Liabilities from guarantees	234	156
Liabilities arising from warranty agreements (of which to subsidiaries: € 0 million; prior year: € 0 million)	19,470	18,522
	19,704	**18,678**

Guarantees include litigation and security deposit guarantees, and warranties. Liabilities arising from warranty agreements relate to third parties and in some cases are incurred for subsidiaries.

Liabilities arising from collateral granted and from warranty agreements include guarantees and comfort letters, and relate predominantly to Deutsche Telekom International Finance B.V., Amsterdam (Netherlands) (EUR 13.8 billion), T-Mobile Deutschland GmbH, Bonn (EUR 4.0 billion) and T-Systems Enterprise Services GmbH, Frankfurt/Main (EUR 355 million).

Deutsche Telekom (45 percent), Daimler Financial Services AG (45 percent), and Compagnie Financière et Industrielle des Autoroutes S.A. (Cofiroute; 10 percent) – collectively the consortium – entered into an agreement with the Federal Republic of Germany, represented by the German Federal Ministry of Transport, Construction and Urban Development (Federal Ministry of Transport), “on the collection of toll charges for the use of German autobahns by heavy vehicles, and the creation and operation of a toll system for the collection of autobahn toll charges for heavy vehicles” (operating agreement), last amended in April 2004 by an implementation agreement and in December 2004 by an accession agreement, under the terms of which they are obligated to set up and operate a system for the electronic collection of toll charges for heavy vehicles; this is to be performed by a project company with the legal form of a limited liability company under German law (GmbH) – Toll Collect GmbH. In addition, the parties of the consortium undertook, on a joint and several basis, in an agreement with the Federal Republic, to maintain an equity ratio in the project company of 20 percent of the total assets, calculated on the basis of the HGB single-entity financial statements of Toll Collect GmbH, until August 31, 2004, and 15 percent thereafter; the total risk to Cofiroute arising from the Toll Collect project is limited to EUR 70 million.

The liability obligation of the parties of the consortium means they may be obligated to inject additional capital in the event of negative developments within the Toll Collect project. The operating agreement includes provisions for further contractual penalties after the approved start of operations (issuance of the special preliminary operating permit) if the performance of the system is not adequate and/or in the event of material breaches of the contract. The Federal Republic is asserting claims for damages against the consortium in the amount of EUR 3.5 billion plus interest for lost toll revenues for the period September 1, 2003 to December 31, 2004 on the grounds of delayed implementation of the toll system. In addition, the Federal Republic of Germany is asserting claims for contract penalties etc. in the amount of approximately EUR 1.7 billion plus interest for the period up to and including June 30, 2005. To assert its alleged claims, the Federal Republic of Germany has filed a request for arbitration as part of the contractual arbitration process. The consortium members Deutsche Telekom and Daimler Financial Services AG, as well as Toll Collect GbR consider the claims of the Federal Republic of Germany to be unfounded. They filed their statement of defense on June 30, 2006. They responded to the subsequent reply of the Federal Republic in a further submission (rejoinder), which was filed on October 1, 2007. The maximum future obligations arising from the Toll Collect project cannot be quantified with adequate certainty; it is therefore not possible to express this in figures under guarantees and commitments.

The Federal Republic is refusing to issue the final operating permit on the grounds that alleged further obligations under the operating agreement, specifically the assignment of certain industrial property rights to Toll Collect GmbH, have not been fulfilled.

Toll Collect GmbH filed a complaint and request for arbitration against the Federal Republic of Germany on May 25, 2007. In the request for arbitration Toll Collect GmbH's petitions include for the final operating permit to be granted as well as for payment of compensation claims that Toll Collect GmbH considers still to be outstanding.

In addition, Deutsche Telekom has given a guarantee for bank loans to Toll Collect GmbH amounting to a maximum of EUR 230 million.

Other financial obligations.

	Dec. 31, 2007			Dec. 31, 2006		
	Total	of which due		Total	of which due	
		in the following financial year	from the second financial year after the balance sheet date		in the following financial year	from the second financial year after the balance sheet date
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Present value of payments to BPS-PT	7,267	733	6,534	8,300	850	7,450
Obligations under rental and lease agreements (of which to subsidiaries: € 7.7 billion; prior year: € 9.4 billion)	8,311	1,687	6,624	9,838	1,808	8,030
Purchase commitments for capital projects in progress, including obligations arising from future expenditure (of which to subsidiaries: € 797 million; prior year: € 855 million)	1,845	1,222	623	1,646	1,405	241
Commitments arising from contributions not paid up, purchase commitments for interests in other companies, and commitments arising from transactions not yet settled (of which to subsidiaries: € 3.7 billion; prior year: € 1.7 billion)	4,228	1,380	2,848	2,234	980	1,254
Total other financial obligations	**21,651**	**5,022**	**16,629**	**22,018**	**5,043**	**16,975**

The present value of payments that Deutsche Telekom is required to make in accordance with Postreform II to the BPS-PT on the basis of the 2005 G tables published by Prof. Klaus Heubeck amounted to EUR 7.3 billion as of December 31, 2007. The year-on year decrease results on the one hand from the increase in the notional interest rate and on the other hand from the decrease in the number of active civil servants due to the effect of early retirements.

Obligations under rental and lease agreements include obligations to subsidiaries in the amount of EUR 7.7 billion. These break down as follows: EUR 6.5 billion to GMG Generalmietgesellschaft mbH, Münster (GMG); EUR 143 million to DFMG Deutsche Funkturm GmbH, Münster (DFMG); EUR 529 million to DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (DTI); EUR 288 million to DeTeFleetServices GmbH, Bonn; and EUR 136 million to T-Systems International Desktop Services GmbH, Frankfurt/Main. The decrease in obligations under rental and lease agreements is mainly due to the fact that agreements with GMG, DTI and DFMG are approaching the end of their terms.

Purchase commitments for capital projects in progress, including obligations arising from future expenditure are composed of commitments for non-capital activities (EUR 1.7 billion).

Uncalled contributions not yet paid in relate in particular to Vivento Customer Services GmbH, Bonn (EUR 96 million), T-Online Venture Fund GmbH & Co. KG, Bonn (EUR 65 million), T-Com Venture Fund GmbH & Co. KG, Bonn (EUR 37 million), Vivento Technical Services GmbH, Bonn (EUR 31 million) and T-Corporate Venture Fund GmbH & Co. KG, Bonn (EUR 21 million). Commitments arising from transactions not yet settled relate in particular to commitments arising from transactions with Deutsche Telekom Netzproduktion GmbH, Bonn (EUR 1.5 billion), T-Systems Business Services GmbH, Bonn (EUR 749 million), Vivento Customer Services GmbH, Bonn (EUR 553 million), GMG Generalmietgesellschaft mbH, Münster (EUR 214 million) and Deutsche Telekom Kundenservice GmbH, Bonn (EUR 193 million).

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.

[29] Derivative financial instruments

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

	Nominal amounts				Fair values			
	Total	Remaining term			Total	Remaining term		
	millions of €	≤ 1 year millions of €	> 1 - 5 years millions of €	> 5 years millions of €	**millions of €**	≤ 1 year millions of €	> 1 - 5 years millions of €	> 5 years millions of €
Interest-related instruments								
Interest rate swaps	31,826	9,173	15,961	6,692	(348)	(23)	(45)	(280)
Cross-currency interest rate swaps	9,985	2,095	5,008	2,882	(699)	(77)	(261)	(361)
	41,811	**11,268**	**20,969**	**9,574**	**(1,047)**	**(100)**	**(306)**	**(641)**
Currency instruments								
Future exchange transactions short	1,374	987	387	0	77	54	23	0
Future exchange transactions long	3,525	2,993	532	0	(131)	(112)	(19)	0
	4,899	**3,980**	**919**	**0**	**(54)**	**(58)**	**4**	**0**
	46,710	**15,248**	**21,888**	**9,574**	**(1,101)**	**(158)**	**(302)**	**(641)**

The accrued interest from derivatives and the net aggregate losses resulting from the portfolios evaluation recorded in connection with the recognition of accruals for contingent losses, are shown at their reported carrying amounts in the following balance sheet items:

	Interest receivables millions of €	Liabilities from interest millions of €	Prepayment penalties receivables millions of €	Liabilities from prepayment penalties millions of €	Other accruals millions of €
Interest rate swaps	324	(309)	30	(435)	(37)
Cross-currency interest rate swaps	99	(76)	-	-	(4)
Foreign currency forward contracts	-	-	-	-	(106)
	423	**(385)**	**30**	**(435)**	**(147)**

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. Moreover, derivative contracts are generally only entered into to cover early prepayment penalties for early repayment of intragroup loans.

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 values of the derivative financial instruments do not generally 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 fair value, which is determined on the basis of current interest rates, exchange rates and other terms and conditions.

Interest rate derivatives mainly involve interest rate swaps. These are entered into with the aim of transforming the coupons on bonds, and the interest rates on loans, in accordance with a mix of fixed and floating rate interest instruments that is laid down once a year. Interest rate swaps are designated as hedging instruments for specific liabilities (micro interest rate swaps) or groups of similar liabilities (macro interest rate swaps).

The Company uses foreign currency forward contracts to hedge exchange rates and interest rate/cross-currency interest rate 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. The fair value of traded derivative financial instruments corresponds to their market value. Foreign currency forward contracts are valued at the forward exchange rate on the balance sheet date; non-traded 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 is established for each portfolio for the amount of the excess loss. Net gains are not recognized.

The cross-currency 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, i.e., EUR, GBP, and USD. In addition, various cross-currency swaps are used to hedge currency risks in the financing of subsidiaries.

[30] Exchange rates

	Annual average rate		Rate at balance sheet date	
	2007 €	2006 €	Dec. 31, 2007 €	Dec. 31, 2006 €
100 Swiss francs (CHF)	60.8676	63.5749	60.4100	62.2351
100 Czech korunas (CZK)	3.6015	3.5284	3.7636	3.6377
1 Pound sterling (GBP)	1.4614	1.4667	1.3613	1.4897
100 Hong Kong dollars (HKD)	9.3545	10.2494	8.7076	9.7540
100 Croatian kuna (HRK)	13.6283	13.6532	13.6384	13.6067
100 Hungarian forints (HUF)	0.3978	0.3784	0.3962	0.3973
100 Japanese yen (JPY)	0.6202	0.6848	0.6061	0.6378
100 Polish zlotys (PLN)	26.4290	25.6656	27.8921	26.0855
100 Singapore dollars (SGD)	48.4622	50.1359	47.2607	49.4505
100 Slovak korunas (SKK)	2.9607	2.6856	2.9780	2.8976
1 U.S. dollar (USD)	0.7297	0.7963	0.6791	0.7585

[31] Auditors' fees and services

The following table provides a breakdown of the fees for Deutsche Telekom's auditors recognized as expenses in the 2005 financial year:

PwC	2007 millions of €	2006 millions of €
Professional fees for audits	9	11
Professional fees for other accounting services	5	6
Other professional fees	4	4
	18	21

Ernst & Young	2007 millions of €	2006 millions of €
Professional fees for audits	5	8
Professional fees for other accounting services	4	6
Other professional fees	0	0
	9	14

Professional fees for audits include 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 relate to consulting fees for specific projects.

[32] Members of the Board of Management of Deutsche Telekom AG in 2007 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, associated and related companies:
- 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 Enterprise Services GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 12/2006)
- T-Systems Business Services GmbH, Bonn, Chairman of the Supervisory Board (since 12/2006)

Dr. Karl-Gerhard Eick

Deputy Chairman of the Board of Management

Board member responsible for Finance

Board member responsible for Human Resources (temporary responsibility from January 1, 2007 to May 2, 2007)

Board member responsible for Business Customers (temporary responsibility from June 1, 2007 to November 30, 2007)

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (since 2/2002)
- Sireo Real Estate Asset Management GmbH, Heusenstamm, Chairman of the Supervisory Board (from 5/2001 to 12/2007)
- 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 Immobiliengruppe GmbH & Co. KG, Düsseldorf, Chairman of the Supervisory Board (since 9/2007)
- Deutsche Bank AG, Frankfurt/Main (since 8/2004)
- FC Bayern München AG, Munich (since 10/2004)

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, associated and related companies:
- T-Mobile Deutschland GmbH, Bonn (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 Telekom Funds Beteiligungs GmbH, Bonn (since 8/2004), Investment Committee

Reinhard Clemens

Board member responsible for Business Customers since December 1, 2007

– no other seats –

Timotheus Höttges

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

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- 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 Austria GmbH, Vienna, Austria (from 5/2006 to 2/2007)
- T-Mobile Austria Holding GmbH, Vienna, Austria (from 2/2003 to 2/2007)
- T-Mobile Deutschland GmbH, Bonn (since 4/2005)
- T-Mobile Czech Republic a.s., Prague, Czech Republic (from 2/2003 to 2/2007)
- T-Mobile Netherlands Holding B.V., The Hague, Netherlands (from 2/2003 to 2/2007)
- T-Mobile UK Ltd., Hertfordshire, United Kingdom (from 3/2004 to 2/2007)
- T-Punkt Vertriebsgesellschaft mbH, Bonn (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, associated and related companies:
- 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)

Board members who left during 2007:

Lothar Pauly

Board member responsible for Business Customers from October 1, 2005 to May 31, 2007

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- Detecon International GmbH, Bonn, Chairman of the Supervisory Board (from 10/2005 to 6/2007)

[33] Members of the Supervisory Board of Deutsche Telekom AG in 2007 including seats on the boards of other companies

Dr. Klaus Zumwinkel

Member of the Supervisory Board since March 7, 2003

Chairman of the Supervisory Board since March 14, 2003

Chairman of the Board of Management, Deutsche Post AG

- Arcandor AG, Essen (since 5/2003); (formerly: Karstadt Quelle AG)
- Deutsche Lufthansa AG, Cologne (since 6/1998)
- Deutsche Postbank AG, Bonn[1], Chairman of the Supervisory Board (since 1/1999)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Morgan Stanley, New York, United States, Board of Directors (since 1/2004)

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)

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 –

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, Chairman of the Supervisory Board (since 6/1999)
- Deutsche Post AG, Bonn (from 5/2006 to 7/2007)
- MAN Aktiengesellschaft, Munich (from 2/2000 to 3/2007)

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); (formerly: Karstadt Quelle AG)
- 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 Central Works Council at T-Systems Business Services GmbH, Bonn

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

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

Deputy Chairwoman of the Group Works Council at Deutsche Telekom AG, Bonn

- 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 –

Ingrid Matthäus-Maier

Member of the Supervisory Board since May 3, 2006

Chairwoman of the Board of Managing Directors, KfW Bankengruppe, Frankfurt/Main

- Deutsche Post AG, Bonn (since 10/2006)
- Deutsche Steinkohle AG, Herne (since 11/2007)
- RAG Aktiengesellschaft, Essen (since 3/2005)
- EVONIK Industries AG, Essen (from 9/2006 to 11/2007); (formerly: RAG Beteiligungs-AG)
- Salzgitter Mannesmann Handel GmbH, Düsseldorf (since 3/2000)

Dr. Thomas Mirow

Member of the Supervisory Board since January 17, 2006

State Secretary, Federal Ministry of Finance, Berlin

– no other seats –

[1] Supervisory board seats in companies that are part of the same group, as defined in § 100 (2) sentence 2 AktG.

Prof. Dr.-Ing. Wolfgang Reitzle

Member of the Supervisory Board
since February 10, 2005

Chairman of the Executive Board, Linde AG, Munich

- Allianz Lebensversicherungs-AG, Stuttgart (from 12/2002 to 7/2007)
- KION Group GmbH, Wiesbaden (since 6/2007)
- The BOC Group plc.[1], Guildford, United Kingdom (since 9/2007)

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 (until 6/2007)

- BHW Bausparkasse AG, Hameln[1], Chairman of the Supervisory Board (from 1/2006 to 6/2007)
- BHW Holding AG, Berlin/Hameln[1] (from 6/2005 to 6/2007), Chairman of the Supervisory Board (from 1/2006 to 6/2007)
- Deutsche Post AG, Bonn (since 8/2007)
- Deutsche Postbank Financial Services GmbH, Frankfurt/Main[1], Deputy Chairman of the Supervisory Board (from 6/2001 to 6/2007)
- maxingvest AG, Hamburg (since 8/2003); (formerly: Tchibo Holding AG)
- Postbank Filialvertrieb AG, Bonn (formerly: Deutsche Post Retail GmbH)[1], (from 5/2005 to 6/2007), Chairman of the Supervisory Board (from 2/2006 to 6/2007)
- Postbank Finanzberatung AG, Hameln[1] (from 7/2006 to 6/2007), Chairman of the Supervisory Board (from 8/2006 to 6/2007)
- PB Lebensversicherung AG, Hilden[1] (from 2/1999 to 6/2007)
- PB Versicherung AG, Hilden[1] (from 2/1999 to 6/2007)

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 (since 5/2004)
- BAWAG P.S.K. AG, Vienna, Austria, Chairman of the Supervisory Board (since 7/2007)
- Bundesverband deutscher Banken e.V., Berlin, Member of the Board of Directors (from 1/2005 to 6/2007)
- PB Capital Corp., Wilmington, Delaware, United States[1], Chairman of the Board of Directors (from 9/2001 to 6/2007)
- PB (USA) Holdings, Inc., Wilmington, Delaware, United States[1], Chairman of the Board of Directors (from 9/2001 to 6/2007)

Dr. Klaus G. Schlede

Member of the Supervisory Board
since May 20, 2003

Member of the Supervisory Board of Deutsche Lufthansa AG, Cologne

- Deutsche Postbank AG, Bonn (since 4/2000)
- 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)

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); (formerly: DaimlerChrysler AG)
- Henkel KGaA, Düsseldorf (since 5/1998)
- Staatliche Porzellan-Manufaktur Meißen GmbH, Meißen, Deputy Chairman of the Supervisory Board (since 1/2001)
- Wintershall AG, Kassel, Deputy Chairman of the Supervisory Board (since 2/2001)
- Wintershall Holding AG, Kassel (since 11/2006)

Wilhelm Wegner

Member of the Supervisory Board
since July 1, 1996

Chairman of the Group Works Council and the European Works Council at Deutsche Telekom AG, Bonn

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

The following individuals resigned from the Supervisory Board in 2007:

Wolfgang Schmitt

Member of the Supervisory Board from October 2, 1997 to December 31, 2007

Head of Liaison Office, T-Com Head Office, Deutsche Telekom AG, Bonn

- PSD Bank RheinNeckarSaar eG (since 1993)
- Telemarkt AG, Reutlingen (since 1/2004)

Ursula Steinke

Member of the Supervisory Board from January 1, 1995 to May 3, 2007

Expert consultant to the Works Council at T-Systems Enterprise Services GmbH, Frankfurt/Main

– no other seats –

[1] Supervisory board seats in companies that are part of the same group, as defined in § 100 (2) sentence 2 AktG.

[34] 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 (see § 285 HGB) as well as information specified in the guidelines set out in the German Corporate Governance Code.

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

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

Board of Management compensation system and review.

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

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

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

Fixed remuneration is determined for all Board of Management members based on market conditions in accordance with the requirements of German stock corporation law (for individual figures, please refer to the table "Compensation of the Board of Management 2006/2007").

The annual variable remuneration of Board of Management members is based on the achievement of targets set by the General Committee of the Supervisory Board of Deutsche Telekom AG for each member of the Board of Management prior to commencement of the financial year.

The set of targets is composed of corporate targets and personal targets for the individual members of the Board of Management, based on the parameters of revenue, EBITDA, net profit adjusted for special factors and customer satisfaction. The level of target achievement is determined by the General Committee of the Supervisory Board for the respective financial year (for detailed information, please refer to the table "Compensation of the Board of Management 2006/2007").

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 companies.

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

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

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

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

Company pension entitlement.

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

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

The annual retirement pension is comprised of a base percentage (6 percent for Mr. Obermann and Dr. Eick and 5 percent for the remaining Board of Management members) of the fixed annual salary upon termination of the service relationship multiplied by the eligible service period expressed in years. After 10 years of Board of Management membership, the maximum percentage of the pension level is achieved (60 percent or 50 percent, respectively). Pension payments are subject to a standard annual adjustment (1 percent for Messrs. Clemens, Höttges and Sattelberger, and 3 percent for the remaining Board of Management members). In the event of a permanent inability to work (invalidity), the respective period of service through the scheduled end of the current period of appointment serves as the basis for the period of service eligible for calculating the pension. Since he joined the Company, Thomas Sattelberger has been granted an additional old-age pension in the form of a one-time pension payment of EUR 1,700,000.00, provided his service relationship with the Company is terminated on or after his 62nd birthday. This special one-time pension payment is to compensate him for the stock options he forfeited by leaving his previous employer. A "pension plan substitute" was agreed with Hamid Akhavan in lieu of a pension commitment due to his U.S. citizenship. The resulting annual payment for each full year of service rendered is included in the table "Compensation of the Board of Management 2006/2007" under "Other remuneration."

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

In addition, the Company makes contributions, 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 [24]). Messrs. Akhavan and Höttges participate in the MTIP 2005 and 2006 as a result of their prior activities as members of the Board of Management of T-Mobile International AG.

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

Incentive-based compensation from the MTIP[a]

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

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

2001 Stock Option Plan.

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

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

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

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

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

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

Incentive-based compensation from stock option plans

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

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

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

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

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

Please also refer to the explanations regarding stock option plans under Note [24].

Board of Management compensation for the 2007 financial year.

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

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

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

Total compensation and expense.

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

Compensation of the Board of Management 2006/2007

		Fixed annual remuneration €	Other remuneration €	Variable remuneration €	MTIP (fair value at grant date) €	Total €	Pension expense (SCOs) €
René Obermann	2007	1,041,666.60	224,479.59	1,375,000.00	16,981.09	2,658,127.28	383,084.00
	2006	894,666.66	28,730.71	805,537.00	20,969.11	1,749,903.48	378,979.00
Dr. Karl-Gerhard Eick	2007	915,625.00	56,529.37	1,098,281.25	13,499.97	2,083,935.59	550,522.00
	2006	993,750.00	88,962.04	894,375.00	24,807.20	2,001,894.24	747,257.00
Hamid Akhavan	2007	733,333.37	608,693.26[a]	934,000.00	10,867.90	2,286,894.53	0.00
	2006	58,064.52	43,238.07	53,260.27	12,481.61	167,044.47	0.00
Reinhard Clemens	2007	54,166.67	0.00	68,750.00	0.00	122,916.67	194,460.00
(from Dec. 1, 2007)	2006	0.00	0.00	0.00	0.00	0.00	0.00
Timotheus Höttges	2007	687,500.00	20,482.41	825,000.00	10,188.65	1,543,171.06	159,236.00
	2006	54,435.48	949.44	49,931.51	9,985.29	115,301.72	28,315.00
Lothar Pauly	2007	250,000.00	98,830.66	0.00	10,188.65	359,019.31	878,398.00
(until May 31, 2007)	2006	750,000.00	77,131.26	600,000.00	18,722.41	1,445,853.67	283,286.00
Thomas Sattelberger	2007	484,587.84	1,328,742.13[b]	671,301.61	10,364.75	2,494,996.33	1,106,824.00[c]
(from May 3, 2007)	2006	0.00	0.00	0.00	0.00	0.00	0.00
	2007	**4,166,879.48**	**2,337,757.42**	**4,972,332.86**	**72,091.01**	**11,549,060.77**	**3,272,524.00**
Total	**2006**	**2,750,916.66**	**239,011.52**	**2,403,103.78**	**86,965.62**	**5,479,997.58**	**1,437,837.00**

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

The additions to accruals for pensions recognized in 2007 amounted to EUR 3,272,524.00 (2006: EUR 3,803,797.23).

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

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

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

Accruals totaling EUR 67,813,584.00 (2006: EUR 71,532,477.00) 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 2007 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 2,734,54.00 as of December 31, 2007 (2006: EUR 3,275,322.00).

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 compensation shall not exceed double the annual remuneration, however. Members of the Supervisory Board who were not in office for the entire financial year receive one twelfth of the remuneration for each month or part thereof that they held a seat.

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

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

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

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

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

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

[35] 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 submitted the mandatory declaration of conformity and made it available to shareholders on Deutsche Telekom's website.

[36] Proposal for 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 from unappropriated net income of EUR 6,678,623,284.42 and to carry forward the remaining balance.

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 11, 2008

Deutsche Telekom AG
Board of Management

René Obermann | Dr. Karl-Gerhard Eick | Hamid Akhavan

Reinhard Clemens | Timotheus Höttges | Thomas Sattelberger

Auditors' report.

We have audited the 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, 2007. 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 11, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Prof. Dr. Pfitzer) Wirtschaftsprüfer

(Forst) Wirtschaftsprüfer

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Frings) Wirtschaftsprüfer

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