DEUTSCHE TELEKOM AG
Form 20-F
February 27, 2009

As filed with the Securities and Exchange Commission on February 27, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Form 20-F

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

Commission file number 001-14540

Deutsche Telekom AG
(Exact Name of Registrant as Specified in its Charter)
Federal Republic of Germany
(Jurisdiction of Incorporation or Organization)
Friedrich-Ebert-Allee 140, 53113 Bonn, Germany
(Address of Registrant's Principal Executive Offices)
Guido Kerkhoff
Deutsche Telekom AG
Friedrich-Ebert-Allee 140, 53113 Bonn, Germany
+49-228-181-0
G.Kerkhoff@telekom.de
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one Ordinary Share	New York Stock Exchange
Ordinary Shares, no par value	New York Stock Exchange*

Securities registered or to be registered pursuant to
Section 12(g) of the Act:
NONE
(Title of Class)

Securities for which there is a reporting obligation pursuant to
Section 15(d) of the Act:
NONE
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, no par value: 4,361,319,993 (as of December 31, 2008)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ý No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes Noý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ý International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes Noý

*Not for trading, but only in connection with the registration of American Depositary Shares.

TABLE OF CONTENTS

Table of Contents

Table of Contents

DEFINED TERMS

Deutsche Telekom AG is a private stock corporation organized under the laws of the Federal Republic of Germany (the "Federal Republic"). As used in this annual report on Form 20-F ("Annual Report"), unless the context otherwise requires, the term "Deutsche Telekom" refers to Deutsche Telekom AG, and the terms "we," "us," "our," "Company" and "Gro refer to Deutsche Telekom and, as applicable, Deutsche Telekom and its direct and indirect subsidiaries as a group.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. Forward-looking statements are statements that are not historical facts. Examples of forward-looking statements include statements concerning:

- plans, objectives and expectations relating to future operations, products and services;
- our prospective share of new and existing markets;
- plans, objectives and expectations for our cost savings and workforce reduction programs and the impact of other significant strategic, labor or business initiatives, including acquisitions, dispositions and business combinations, and our network upgrade and expansion initiatives;
- the potential impact of regulatory actions on our financial condition and operations;
- the possible outcomes and effects of litigation, investigations, contested regulatory proceedings and other disputes;
- future general telecommunications sector and macroeconomic growth rates; and
- our future revenues, expenditures and performance.

Forward-looking statements generally are identified by the words "expect," "anticipate," "believe," "intend," "estimate," "aim, "plan," "will," "will continue," "seek," "outlook," "guidance" and similar expressions. The "Risk Factors" discussion in Item 3 "Management Overview" discussion in Item 5 and the "Quantitative and Qualitative Disclosures about Market Risk" discussion in Item 11, in particular, contain numerous forward-looking statements, although such statements also appear elsewhere in this Annual Report.

Table of Contents

Forward-looking statements are based on current plans, estimates and projections. You should consider them with caution. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. These factors include, among others:

- changes in general economic and business conditions, including the significant economic decline currently underway, in the markets in which we and our subsidiaries and associated companies operate;
- the level of demand for telecommunications services in the markets we serve, particularly for wireless telecommunications services, broadband access lines, voice and data traffic, new higher-value products and services, and new rate offerings;
- changes in government policies and new legislation;
- regulatory developments and changes, including with respect to the levels of tariffs, terms of interconnection, customer access and international settlement arrangements;
- our ability to secure and retain the licenses needed to offer new and existing services and the cost of these licenses and related network infrastructure build-outs, particularly with respect to advanced services;
- competitive forces, including pricing pressures, technological developments and alternative routing developments, all of which affect our ability to gain or retain market share and revenues in the face of competition from existing and new market entrants;
- the effects of our customer acquisition and retention initiatives, particularly in the fixed-line voice telephony business, the mobile telecommunications business and our interconnection business;
- the effects of industry consolidation on the markets in which we operate, particularly with respect to our mobile and leased lines businesses;
- the success of new business, operating and financial initiatives, many of which involve substantial start-up costs and are untested, and of new systems and applications, particularly with regard to the integration of service offerings;
- our ability to achieve cost savings and realize productivity improvements, particularly with respect to our workforce-reduction initiatives, while at the same time enhancing customer service quality;
- our ability to attract and retain qualified personnel, particularly in view of our cost reduction efforts;
- concerns over health risks associated with the use of wireless mobile devices and other health and safety risks related to radio frequency emissions;
- risks of infrastructure failures or damage due to external factors, including natural disasters, intentional wrongdoing, sabotage, acts of terrorism or similar events;
- the outcome of litigation, disputes and investigations in which we are involved or may become involved;
- risks and uncertainties relating to the benefits anticipated from our international expansion, including in the United States;
- risks and costs associated with integrating our acquired businesses and with selling or combining businesses or other assets;
- the progress of our domestic and international investments, joint ventures, partnerships and alliances;
- the effects of foreign exchange rate fluctuations, particularly in connection with subsidiaries operating outside the euro zone;
- ongoing instability and volatility in worldwide financial markets;
- the availability, terms and deployment of capital, particularly in view of our financing alternatives, actions of the rating agencies, developments in the banking sector and the impact of regulatory and competitive developments on our capital outlays; and
- the level of demand in the market for our debt obligations, and for the debt obligations of our subsidiaries and associated companies, and our shares, as well as for assets that we may decide to sell, which may affect our financing and acquisition strategies.

Certain of these factors are discussed in more detail elsewhere in this Annual Report, including, without limitation, in Item 3, Item 4 and Item 5. We caution investors that the foregoing list of important factors is not exhaustive. When reviewing forward-looking statements contained in this document, investors and others should carefully consider the foregoing factors, as well as other uncertainties and events and their potential impact on our operations and businesses.

Certain information in this Annual Report has been provided by external sources. Due to the rapid changes in our industry, it is possible that some of this information is no longer accurate. Assessments of market share in particular involve the use of information released or estimated by regulatory authorities, our competitors, third parties or us.

World Wide Web addresses contained in this Annual Report are for explanatory purposes only and they (and the content contained therein) do not form a part of, and are not incorporated by reference into, this Annual Report.

Table of Contents

PART I

ITEM 1. Identity of Directors, Senior Management and Advisors

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable

Not applicable.

ITEM 3. Key Information

SELECTED FINANCIAL DATA

The following table presents selected consolidated financial and operating information. This selected consolidated financial and operating information should be read together with "Item 5. Operating and Financial Review and Prospects" and our consolidated financial statements and the notes thereto that are included elsewhere in this Annual Report.

The selected consolidated financial information as of and for each of the five years ended December 31, 2004 through 2008 are extracted or derived from our consolidated financial statements and the notes thereto, which have been audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft ("E&Y") and PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft ("PwC").

Table of Contents

Selected Consolidated Financial Data of the Deutsche Telekom Group

	% Change 2008/2007(1)(2)	2008	2007	2006	2005	2004
		(billions of €, except as otherwise indicated)				
Income Statement Data						
Net revenues	(1.4)	61.7	62.5	61.3	59.6	57.3
Domestic	(5.9)	28.9	30.7	32.4	34.2	34.7
International	3.0	32.8	31.8	28.9	25.4	22.6
Profit from operations	33.2	7.0	5.3	5.3	7.6	6.3
Net profit	n.m.	1.5	0.6	3.2	5.6	1.6
Balance Sheet Data						
Total assets	2.0	123.1	120.7	130.2	128.5	125.5
Total financial liabilities (in accordance with the consolidated balance sheet)	8.6	46.6	42.9	46.5	46.7	51.1
Shareholders' equity	(4.7)	43.1	45.2	49.7	48.6	45.5
Cash Flow Data(3)						
Net cash from operating activities	12.1	15.4	13.7	14.2	15.1	16.7
Net cash used in investing activities	(41.3)	(11.4)	(8.1)	(14.3)	(10.1)	(4.5)
Net cash used in financing activities	49.4	(3.1)	(6.1)	(2.1)	(8.0)	(12.9)
Ratios and Selected Data						
Additions to intangible assets (including goodwill) and property, plant and equipment	11.5	10.1	9.1	13.4	11.1	6.6
Capital expenditures(3)	8.6	8.7	8.0	11.8	9.3	6.4
Number of employees averaged over the year (full-time employees excluding trainees) (thousands)	(3.6)	235	244	248	244	248
Revenues per employee (thousands of euro)(4)	2.4	262.5	256.5	246.9	244.3	231.7
Earnings per share/ADS—basic and diluted (euro)(5)	n.m.	0.34	0.13	0.74	1.31	0.39
Weighted average number of ordinary shares outstanding (basic) (millions)	0.0	4,340	4,339	4,353	4,335	4,323
Total number of ordinary shares at the reporting date (millions)	0.0	4,361	4,361	4,361	4,198	4,198
Dividend per share/ADS (euro)(5)(6)	0.0	0.78	0.78	0.72	0.72	0.62
Dividend per share/ADS (U.S. dollar)(5)(6)(7)	(9.9)	1.09	1.21	0.98	0.91	0.80

n.m.—not meaningful

(1) Percentage change based on figures expressed in millions.

(2) In this Annual Report, increases in the size of negative numbers are expressed in percentage terms with negative percentage amounts, and decreases in the size of negative numbers are expressed with positive percentage amounts.

(3) In accordance with the statement of cash flows.

(4) Calculated on the basis of the average number of employees for the year, excluding trainees, apprentices and student interns.

(5) "ADS" refers to the Deutsche Telekom American Depositary Shares traded on the New York Stock Exchange ("NYSE"). One ADS corresponds to one ordinary share of Deutsche Telekom AG.

(6) Dividends per share are presented on the basis of the year in respect of which they are declared, not the year in which they are paid. The proposed 2008 dividend per share amounts are subject to approval by the shareholders at the annual shareholders' meeting.

(7) Dividend amounts have been translated into U.S. dollars (using exchange rates published by the European Central Bank) for the relevant dividend payment date, which occurred during the second quarter of the following year, except for the 2008 amount, which has been translated using the applicable rate on December 31, 2008. As a result, the actual U.S. dollar amount at the time of payment may vary from the amount shown here.

Table of Contents

Exchange Rates

Unless otherwise indicated, all amounts in this Annual Report are expressed in euros.

As used in this document, “euro,” “EUR” or “€” means the single unified currency that was introduced in the Federal Republic and ten other participating Member States of the European Union on January 1, 1999. “U.S. dollar,” “USD” or “$” means the lawful currency of the United States. “pound sterling” or “GBP” means the lawful currency of the United Kingdom.

So that you may more easily ascertain how the trends in our financial results might have appeared had they been expressed in U.S. dollars, the following table shows, for the periods indicated, the average, high and low exchange rates for euros, expressed in U.S. dollars per EUR 1.00, as published by the European Central Bank:

Year or Month	Average (1)	High	Low
		(in $ per €)	
2004	1.2462		
2005	1.2380		
2006	1.2630		
2007	1.3797		
2008	1.4726		
2008			
August	-	1.5574	1.4598
September	-	1.4731	1.3934
October	-	1.4081	1.2460
November	-	1.2935	1.2525
December	-	1.4616	1.2608
2009			
January	-	1.3866	1.2795
February (through February 26)	-	1.3008	1.2591

(1) The average of the exchange rates on the last business day of each month during the relevant period.

On February 26, 2009, the exchange rate was USD 1.2782 per EUR 1.00.

Our shares trade on German stock exchanges, including the Frankfurt Stock Exchange, in euros. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the shares on the German stock exchanges and, as a result, are likely to affect the market price of our ADSs on the New York Stock Exchange. When we declare cash dividends, they are declared in euros, and exchange rate fluctuations affect the U.S. dollar amounts you would receive if you are a holder of American Depositary Receipts (ADRs) evidencing ADSs upon conversion of cash dividends on the shares represented by your ADSs.

RISK FACTORS

In addition to the other information contained in this Annual Report, investors in our securities should carefully consider the risks described below. Our financial condition or results of operations, or the trading prices of our securities, could be materially adversely affected by any of these risks.

The following discussion contains a number of forward-looking statements. Please refer to the "Forward-Looking Statements" discussion at the front of this Annual Report for cautionary information.

An economic downturn, a substantial slowdown in economic growth or deterioration in consumer spending could adversely affect our customers' purchases of our products and services in each of our operating segments, which could have a negative impact on our operating results and financial condition.

Our business is influenced by general economic conditions in Germany, Europe and the United States. The economic outlook for 2009 has worsened significantly, including in our largest markets, Germany and the United States, and the global economic recession appears set to continue for some time. Further deterioration in the economic environment could have an adverse effect on the level of demand by our individual customers for our products and services and the willingness of our business customers to invest in information and communications technology (ICT). This could, in turn, jeopardize the attainment of our growth targets, such as those relating to multimedia services in mobile telecommunications, or those relating to broadband products and services based on digital subscriber line (DSL) technology.

Because we operate in heavily regulated business environments, decisions that regulatory authorities impose on us restrict flexibility in managing our business and may force us to offer services to competitors, or reduce the prices we charge for our products and services, either of which could have a material negative impact on our revenues, profits and market shares.

Unlike many of our competitors, we are subject to strict regulation in many market segments in Germany and Central, Eastern and Southeastern Europe, particularly with respect to the fixed-line network business of our Broadband/Fixed Network operating segment. Government agencies regularly intervene in the offerings and in the pricing of our fixed-line products and services. Regulation can impede our ability to grow and to react to the initiatives of competitors and technological change.

At the European Union level, the framework for telecommunications regulation is currently under review. In 2007, the European Commission issued proposals to amend the current framework, which are expected to be adopted in May 2009. Whether the regulatory framework will increase or decrease the regulatory burden on us will depend on the final changes adopted by the European Union, the manner in which revised directives are subsequently implemented in the E.U. Member States, and how the revised regulatory framework will be applied by the respective National Regulatory Authorities.

In addition to the review of the regulatory framework, the European Commission recently proposed draft recommendations on the future regulatory treatment of fixed and mobile termination rates and regulated access to Next Generation Access Networks (NGA), such as access to new and existing ducts, civil engineering structures and other elements which are not active and necessary for the roll-out of fiber-based telecommunications infrastructure. The objectives of these recommendations are to cut the fees that mobile and fixed-line operators charge for terminating each other's calls, and to regulate fiber-based telecommunications infrastructure and access. These recommendations are expected to be adopted during 2009. Depending on the final formulation, these recommendations could have substantial negative effects on our business and pricing flexibility and, as a result, could affect our revenues and profits.

Access and price regulation apply primarily to telecommunications services that are considered to involve an operator with “significant market power.” We have been designated an operator with significant market power in most fixed-line markets in which we operate, including in Germany, Hungary, Slovakia, Croatia and Greece. The German telecommunications regulatory framework implemented by the Federal Network Agency (Bundesnetzagentur) has an especially significant impact on our domestic business. So far, we have been exempted from regulation on the basis of a loss of significant market power in markets of relatively minor importance only, such as the market for fixed-line international calls.

Additionally, since we are offering mobile and fixed-line triple-play services (“triple-play” includes high-speed Internet access, communications services and entertainment offerings), media regulation may become increasingly important to our business. This regulation might restrict our ability to provide media services, including the delivery of content, and could also result in additional costs for technical implementation measures needed to comply with increased regulation.

Table of Contents

Mobile Communications

Regulatory authorities supervise our mobile telecommunications operations in the countries in which we operate. We expect a tightening of regulatory control in the area of mobile telecommunications, with a probable negative effect on pricing and revenues, for example as a result of further reductions in international roaming charges for the wholesale and retail voice market, international data and SMS roaming charges, call termination charges and possible access regulation in some markets. In Europe, national regulatory authorities and various E.U. bodies have the power to regulate based on market investigations or reviews.

With respect to international roaming charges for the wholesale and retail voice market, a European Union-wide regulation, valid until June 2010, is presently in place. However, in September 2008, the European Commission had proposed prolonging this regulation until 2013 and expanding it to SMS and data roaming services as of July 2009. The proposal mandates price caps for wholesale data roaming tariffs and additional transparency measures. This expansion of existing regulation would have a negative effect on our roaming revenues.

Mobile call termination charges are also subject to regulatory measures in T-Mobile's markets that can have a negative effect on revenues. Various reviews of call termination rates and court proceedings relating to regulatory measures are pending in several of T-Mobile's markets. The European Commission is currently considering a recommendation with a definition of acceptable costs. The proposal will, in the long run, reduce the cost basis for the price calculation of mobile termination charges.

Our telecommunications systems and operations in the United States are regulated primarily by the U.S. Federal Communications Commission (FCC) and by various other federal, state and local governmental bodies. These governmental agencies may also exercise jurisdiction over mobile telecommunications operators. Some U.S. states have taken actions to regulate various aspects of wireless operations including customer billing, termination of service arrangements and advertising. Any of those agencies could adopt regulations or take other actions that could adversely affect our business. If we fail to comply with applicable regulations, we may be subject to sanctions, which may have an adverse effect on our mobile telecommunications business in the United States.

For further information regarding the matters discussed above and other aspects of the regulatory environments to which our businesses are subject, see "Item 4. Information on the Company—Regulation" and "Item 8. Financial Information—Legal Proceedings."

Broadband/Fixed Network

We believe that, for the foreseeable future, the Federal Network Agency is likely to consider us a provider with significant market power in various German markets for public voice telephony services in the fixed-line network and in other markets, including most of those in which we held monopoly rights in the past. As a result, we expect that the strict regulatory provisions of the German Telecommunications Act relating to providers with significant market power will continue to be applied to our activities in those markets. Considering that in many markets our competitors are unlikely to gain significant market power in the near future, we expect that we will have to compete in important markets with providers not subject to these regulatory obligations. Therefore, these competitors may be expected to have more flexibility than we have in terms of the types of services offered and customers served, pricing and the granting of network access.

We are required to offer an Internet Protocol (IP) Bitstream Access product in the wholesale-market and are therefore required to offer unbundled broadband access to competitors since April 2008. Unbundled broadband access for our competitors expands competition in the access business, currently focused on metropolitan areas, to all regions in Germany. It is possible that the Federal Network Agency may decrease the existing nationwide regulation for IP Bitstream Access by following the model of other European regulatory authorities. We expect a decision from the Federal Network Agency in the first quarter of 2009.

Regulatory authorities may choose to classify our entry into new markets as extensions of our existing services and subject such new businesses to regulation instead of considering it an unregulated new product offering. For example, our triple-play offerings using DSL technology over our new 50 Mbit/s high-speed fiber-optic network (VDSL) may be viewed by the Federal Network Agency as an extension of our prior double-play and triple-play service offerings, which were based on ADSL2+ technology. This could subject our VDSL technology-based product offerings to extensive regulation in Germany.

According to a regulatory order, we must grant access to competitors to ducts or, alternatively, to dark fiber cable. The replication of VDSL products, in particular by our competitors using their own infrastructures, is therefore being made easier at our expense. This will have a negative impact on our revenue generation, even if we offer our competitors a VDSL product on a voluntary basis.

Our fixed-line subsidiaries in Central, Eastern and Southeastern Europe are subject to regulatory provisions and risks that are similar to those affecting our fixed-line operations in Germany. The business impact of increased regulation on our subsidiaries in Central, Eastern and Southeastern Europe will depend on the way in which national regulatory authorities use their powers, and the extent to which our competitors take advantage of regulatory decisions designed to foster increased competition.

Table of Contents

Further market analysis procedures under the E.U. regulatory framework have been carried out in Hungary throughout 2008. In this context, an obligation to offer wholesale unbundled ADSL at regulated prices was introduced and the monthly fees of local loop unbundling, shared access and local bitstream access were substantially reduced. The second round of market analysis in Slovakia has begun and is expected to continue until the end of 2010. It is likely that additional regulatory obligations will be imposed upon Slovak Telekom as a result of this market analysis. These developments could also contribute to a loss of our market shares in specific product markets in these countries, which could have a material adverse effect on our revenues and profits.

For further information regarding the matters discussed above and other aspects of the regulatory environments to which our businesses are subject, see "Item 4. Information on the Company—Regulation" and "Item 8. Financial Information—Legal Proceedings."

We face intense competition in all areas of our business, which could lead to reduced prices for our products and services and a decrease in market share in certain service areas, thereby adversely affecting our revenues and net profit.

Mobile Communications

In the United States, each of T-Mobile USA's three main national competitors—AT&T, Verizon Wireless and Sprint/Nextel—is significantly larger than T-Mobile USA. Their scale could afford them significant structural and competitive advantages in this market. This situation presents T-Mobile USA with a long-term challenge to compete effectively in terms of pricing, products, coverage and the introduction of new technologies and services. Intense competition from various regional and other small national operators also exists in T-Mobile USA's markets. In addition to traditional competitors, the entrance and influence of non-wireless carriers, such as cable providers, could cause further pressure on the wireless industry and T-Mobile USA (e.g. by offering bundled services T-Mobile USA does not provide). Since T-Mobile USA is a significant contributor to our overall revenues and customer growth, a slowdown or decline in the business of T-Mobile USA could have a material adverse effect on the attainment of the growth targets and profitability of our Group as a whole.

Competition in the European mobile telecommunications markets has increased and can be expected to increase further in the future. Growing competition results, in part, from the market entry of low cost carriers, such as mobile virtual network operators (MVNOs), which use the networks of other operators at volume discounts, and from market consolidation. If prices for mobile telecommunications services decline more than anticipated and this decline is not compensated for by higher usage, T-Mobile may not achieve its objectives. In addition, mobile network operators' expansion of product offerings into the fixed-line sector may result in a competitive disadvantage for T-Mobile in countries in which T-Mobile offers only mobile communications services. Moreover, technologies such as W-LAN, WiMax and Voice over Internet Protocol (VoIP), which can be used with existing hardware and platforms, could result in the diversion of voice and data traffic from T-Mobile's network, which could lead to significant price and revenue reductions.

As European markets have become increasingly saturated, the focus of competition has been shifting from customer acquisition to customer retention, and increasing the quality and value of existing customers. Accordingly, if we are unable to offer increased quality and better value to our customers, our market share and revenues may not grow as we have anticipated in our plans.

For more information, see "Item 4. Information on the Company—Description of Business—Mobile Communications."

Broadband/Fixed Network

In Germany, and to a lesser extent in Central, Eastern and Southeastern Europe, fixed-line network voice telephony service revenues and prices have continued to decline, primarily due to intense competition and adverse decisions imposed by the national regulation authorities, and also due to customers' ongoing substitution of mobile telecommunications and VoIP services for fixed-line usage.

Due to competitive pressures from cable operators, mobile operators and fixed-line carriers, we continued to lose market share in 2008. We expect a further increase in competition from cable operators, in particular, offerings of product bundles for telephone and broadband access lines, which are increasingly offered in more regions throughout Germany as well as in Central, Eastern and Southeastern Europe. Furthermore, the switch of mobile operators' focus from pure mobile services towards fixed-line offerings, regulatory actions by the Federal Network Agency and the increasing quality and acceptance of VoIP services will increase pressure on our market shares, revenues and margins.

Additional local and regional network operators are expanding their presence to include other major cities and regions. In the future, we could face even fiercer competition and lose further market share if our competitors were to combine their businesses.

Existing mobile substitution effects are intensified by the proliferation of MVNOs. Reduced prices for mobile telecommunications services (e.g., on the basis of lower flat rates without call-based charges and regulatory decisions regarding mobile telephony termination rates) could further increase pricing pressure on our fixed-line services. Furthermore, mobile operators are increasingly engaging in reselling DSL product bundles provided by other fixed-line operators, and this continues to have an adverse effect on our fixed-line network revenues.

Table of Contents

The German and European markets for Internet access and portal services, especially within the broadband market, have been, and will continue to be, highly competitive and are increasingly saturated. Prices for broadband flat rates have been steadily declining. Broadband/Fixed Network's future competitive position will be affected by pricing, network speed and reliability, services offered, customer support and its ability to be technologically adept and innovative. The regulatory environment can also exert a significant influence on the level of competition. We expect that our competitors will continue to pursue new broadband customers aggressively. In the market for portal services and content, competition is also intense due to low barriers to entry. In addition, a weaker economy may increase pressure on our revenues and margins in these markets. Furthermore, recent regulatory decisions have required us to offer to our competitors an IP Bitstream Access product, which enables our competitors to expand their operations throughout Germany without building their own infrastructure.

Part of the challenge for our Broadband/Fixed Network operating segment continues to be the improvement of its reputation for customer service while implementing cost-saving measures. If we do not continue to improve our customer service sustainably, there is a risk that we might not stop our overall continuing loss of fixed-network customers in the German market.

Each of these developments is expected to continue to erode our market shares and to decrease our revenues and profit margins. For more information, see "Item 4. Information on the Company—Description of Business—Broadband/Fixed Network" and "Item 4. Information on the Company—Regulation."

Business Customers

Our Business Customers operating segment, operated through our T-Systems unit, is a provider of solutions covering the entire ICT value chain. It is subject to risks associated with the general and regional economies of its customers and the willingness and ability of its customers to invest in information and communications technology services and products. The ICT market is shaped by long sales cycles, severe competition and declining prices. The result is downward pressure on revenues and margins, which has been exacerbated by the current global economic crisis.

The international growth potential of T-Systems may be constrained by its limited brand recognition in some national markets, at least compared to that of competitors who may be more established there, particularly as this relates to maintaining and increasing business with multinational companies outside of Germany.

T-Systems was strategically realigned to prepare for future market developments. This realignment involved reassigning around 6,300 employees and 160,000 business customers from the T-Systems' Business Services unit to the T-Home business unit of Broadband/Fixed Network. As a result, T-Systems will, beginning in 2009, focus solely on the ICT solution business with our approximately 400 national and international key accounts, and will also be the first point of contact for public- and health care sector customers.

An additional strategic element was the conclusion of an alliance with U.S.-based Cognizant, a leading global IT and business process outsourcing provider. The success of this partnership depends on whether we succeed in developing our cooperation into a global delivery network.

If the various initiatives introduced by T-Systems are not successful, T-Systems may lose market share to its competitors, suffer reduced revenues and incur losses.

For more information, see "Item 4. Information on the Company—Description of Business—Business Customers."

We may realize neither the expected level of demand for our products and services, nor the expected level or timing of revenues generated by those products and services, as a result of lack of market acceptance, technological change or delays from suppliers, which could adversely affect our cash flows.

There is a risk that we will not succeed in making customers sufficiently aware of existing and future value-added services or in creating customer acceptance of these services at the prices we would want to charge. There is also a risk that we will not identify trends correctly, or that we will not be able to bring new services to market as quickly or price-competitively as our competitors. These risks exist, in particular, with respect to our anticipated future growth drivers in the mobile telecommunications area such as mobile data services or other advanced technologies (which are boosted by new products such as the iPhone and the T-Mobile G1 phone) and in the fixed-line telecommunications area (e.g., triple-play services). Some of our investments (e.g., new spectrum licenses) to develop future products and services may involve substantial cash outlays with no certainty of market acceptance or regulatory non-interference. Accordingly, there is a risk that the return on our investments, in particular in spectrum licenses and network infrastructure, may be negatively affected. In addition to the negative impact on our cash flows, this could result in significant write-downs of the value of spectrum or other licenses or other network-related investments.

Under the product name “Entertain”, we provide our customers in Germany with comprehensive triple-play offerings. The market acceptance for these new products and services could be negatively affected by an unwillingness to pay for additional features. Since the content and technology of the product are very complex, it may prove difficult to convey an understanding of the product’s benefits to our customers via our traditional sales channels. In addition, some of our competitors offer similar or pared-down products. These factors could lead to a potential reduction of the perceived value of “Entertain” to our customers with adverse effects on our pricing models, revenues and profit margins.

Table of Contents

Further, as a result of rapid technological progress, and the trend towards technological convergence, there is a danger that new and established information and telecommunications technologies or products may not only fail to complement one another, but in some cases may even substitute for one another. An example of this is VoIP, a technology that is already established in the business customer market. VoIP has now reached the consumer market as well and, as a technology that competes directly with traditional fixed-line telephony services, has the potential to reduce further our market share and revenues in our fixed-line business. The introduction of mobile handsets with VoIP functionality may also adversely affect our pricing structures and market share in our mobile voice telephony business. If we do not appropriately anticipate the demand for new technologies, and adapt our strategies and cost structures accordingly, we may be unable to compete effectively, with the result that our business activities, financial condition and results may suffer.

For more information, see “Item 4. Information on the Company—Description of Business.”

Failure to achieve our planned reduction and restructuring of personnel or our human resources-related cost-savings goals could negatively affect the achievement of our financial objectives and our profitability.

Following the successful completion of a large-scale staff reduction program, which led to around 32,000 employees leaving the Group between 2006 and 2008, staff restructuring remains a challenge for us. Additional measures include a severance program at T-Systems, which began in November 2008, as well as employment management measures aiming at placing civil servant employees with public-sector employers.

The successful realization of our ongoing staff reduction program depends on a range of factors that are beyond our control, such as the continued successful sale of non-core businesses, general developments in the labor market, the demand for our retrained labor force, and the level of acceptance of the various severance offers and other voluntary reduction measures. If the planned staff reduction targets are not achieved, this would have a negative effect on our operating expenses and profitability.

For more information, see “Item 4. Information on the Company—Description of Business—Group Headquarters and Shared Services” and “Item 6. Directors, Senior Management and Employees—Employees and Labor Relations—Other Employees.”

As a result of dispositions of certain non-core businesses in Germany, there is an increased risk of return of civil servants transferred out of the Group, which could have a negative impact on our staff and cost reduction objectives.

Our employees who have civil servant status can, based on German civil service law, only be completely transferred to the buyer of a business from us in exceptional cases. Therefore, as a general matter, such transferred civil servants are placed on leave of absence while employed with the transferred business unit. Accordingly, in the event of termination of employment with the transferred business unit, there is a risk that such civil servants will return to the Deutsche Telekom Group. This risk of return can be reduced by an agreement on compensation payments, but it cannot be completely eliminated. As of December 31, 2008, the total number of civil servants that can avail themselves of this right of return to the Deutsche Telekom Group was approximately 4,200, which represented a considerable increase over the 2007 year-end figure, chiefly as a result of the sale of DeTe Immobilien. If further Group units employing civil servants are disposed of, the risk of civil servants returning after the end of their temporary leave may further increase.

For further information regarding civil servants and general human resources-related matters, see “Item 6. Directors, Senior Management and Employees—Employees and Labor Relations.”

Alleged health risks of wireless communications devices have led to litigation affecting T-Mobile, and could lead to decreased wireless communications usage or increased difficulty in obtaining sites for base stations and, thus, adversely affect the financial condition and results of operations of our wireless services business.

Media reports have suggested that radio frequency emissions from wireless mobile devices and cell sites may raise various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. The World Health Organization has indicated that it will address precautionary recommendations for public policy in its Radio Frequency Environmental Health Criteria in 2010 or 2011. However, on the basis of current scientific knowledge, there are no known adverse effects on health below the international threshold standards. We cannot provide assurance that research in the future will not establish links between radio frequency emissions and health risks.

Whether or not such research or studies conclude there is a link between radio frequency emissions and health, popular concerns about radio frequency emissions may discourage the use of wireless devices and may result in significant restrictions on the location and operation of T-Mobile’s cell sites and the usage of T-Home’s wireless devices, telephones or products using wireless technology. Such restrictions on use could have material adverse effects on our results of operations.

T-Mobile USA is subject to current and potential litigation relating to these health concerns. Several class action and individual lawsuits have been filed in the United States against T-Mobile USA and several other wireless service operators and wireless telephone manufacturers, asserting products liability, breach of warranty and other claims relating to radio frequency transmissions to and from wireless mobile devices. The complaints seek substantial monetary damages as well as injunctive relief. To date, the cases filed against T-Mobile USA have been dismissed by the trial courts, although one class action case is pending on appeal. The defense of lawsuits alleging adverse health effects from wireless telephone use may divert management’s attention, and T-Mobile USA may be required to pay significant awards or settlements and incur significant expenses in defending these lawsuits.

Table of Contents

We do not know whether legislators, regulators or private litigants will refrain from taking other actions adverse to us, based on the purported health-related risks associated with radio frequency emissions. Any such litigation, legislation or adverse actions may result in additional costs and loss of revenues in our mobile communications businesses.

For more information, see "Item 8. Financial Information—Legal Proceedings."

We continuously engage in large-scale programs to reshape our information technology (IT) infrastructure to adapt to changing customer needs and organizational requirements. Failure to effectively plan and monitor these activities could lead to misallocations of resources and impaired processes with negative consequences for our operations.

The "Next Generation IT (NG IT)" project was launched in 2008 as a Group-wide framework for all IT-related components of our transformation programs and the development of our future overall IT architecture. It partly replaces and shapes further the "IT 2010" initiative previously disclosed.

The NG IT project is focused on the Group's IT at all architectural levels, including IT infrastructure, applications and data and systems. Group-wide sub-projects work on preparing, for example, a joint product data model, comprehensive customer relationship management (CRM) applications, and an improved IT support for our finance, human resources and procurement functions.

Due to the enormous complexity of the implementation of this IT initiative, malfunctions, connectivity issues, implementation delays, and other unforeseen problems, could result in costly process impairments and remediation, and possible extended down-times of IT processes, and therefore frustrate the attainment of our goals in terms of cost savings and quality improvements.

One of our most important IT programs deals with the long-term development and implementation of a comprehensive IP platform that will support both fixed-line and mobile telephony services. This means that the traditional platform will be completely replaced by an IP-based system. Upon implementing this joint IP platform, we will be subject to risks inherent in all IT systems connected to the Internet, such as hacker attacks, "spam calls" and other disruptions. These risks could lead to a temporary interruption of our IT resources and, as a result, impair the performance of our technical infrastructure.

System failures due to natural or man-made disruptions and loss of data could result in reduced user traffic and reduced revenues and could harm our reputation and results.

Our technical infrastructure (including our network infrastructure for fixed-line network services and mobile telecommunications services) and data may be damaged or disrupted by fire, lightning, flooding and other calamities, technology failures, human error, terrorist attacks, hacker attacks and malicious actions (e.g., theft or misuse of customer data), and other similar events. We attempt to mitigate these risks by employing a large number of measures, including backup systems and protective systems such as firewalls, virus scanners, and building security. We cannot, however, be certain that these measures will be effective under all circumstances, and that disruptions or damages will not occur. Damage or disruption to our infrastructure may result in reduced user traffic and revenues, increased costs, and damage to our reputation.

Shortcomings in our supply and procurement process could negatively affect our product portfolio, revenues and profits.

As a fully integrated ICT service provider, we cooperate with a wide range of different suppliers for technical components and assemblies, as well as for software and other goods and information important to the conduct of our business. Although we do not believe that we are materially dependent on any single supplier, our contractors may want to extend delivery times, raise prices and limit supply due to their own shortages or changing business and product strategies. Furthermore, our vendors may be subject to litigation with respect to technology that is important for the conduct of our business. Especially in times of economic turmoil, supply chains and credit access of our vendors may be negatively affected, which could disturb our commercial relationship with them.

If our commercial partners fail to deliver quality products and services in a timely manner, the ensuing disruptions in our chain of supply could negatively affect our product portfolio, cost structure, revenues and profits. We take a variety of measures to shelter ourselves from these risks, but we cannot be sure that these measures will be effective under all circumstances.

We are continuously involved in disputes and litigation with regulators, competition authorities, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on our results of operations and financial condition.

We are subject to numerous risks relating to legal and regulatory proceedings, in which we are currently a party or which could develop in the future. Litigation and regulatory proceedings, including patent infringement lawsuits, are inherently unpredictable. Legal or regulatory proceedings in which we are or come to be involved (or settlements thereof) may have a material adverse effect on our results of operations or financial condition. For information concerning some of the litigation in which we are involved, including with respect to Polska Telefonia Cyfrowa Sp. z o.o. (“PTC”) and Toll Collect, see “Item 8. Financial Information—Legal Proceedings.” For information concerning our regulatory environment, see “Item 4. Information on the Company—Regulation.”

Table of Contents

We face allegations of data misuse and flaws in our security systems. Despite diverse measures taken to protect customer data, damage to our reputation remains a significant risk, which may also affect our business.

The Bonn public prosecutor's office is still investigating the circumstances surrounding the illegal monitoring of phone calls and the theft of data relating to several million mobile customers. As a result of these events, we implemented several measures to further improve data security and transparency, including the creation of a new Management Board position relating to data privacy, compliance and legal affairs, which has the right to veto Mangement Board business decisions related to data privacy. A progress report prepared by the Group Privacy Officer will be published every year on a voluntary basis from the first quarter of 2009 and submitted to the Federal Commissioner for Data Protection and our Supervisory Board. A newly established Data Privacy Advisory Board will advise our Management Board on all issues related to data privacy. The Advisory Board will closely consult with leading data privacy experts from outside the Group with regard to the handling of customer and employee data, data privacy audits, IT security and the consequences of the introduction of new legal provisions. Additionally, we established a dedicated website to keep the public informed of ongoing developments in this area. However, there can be no assurance that the current investigations will not result in the imposition of additional remedial measures or that further breaches relating to our customer data will not materialize in the future.

Future sales of our shares by the Federal Republic or KfW Bankengruppe (“KfW”) may adversely affect the trading prices of our shares and ADSs.

The Federal Republic (which, together with KfW, owns approximately 31.7% of our outstanding shares) has previously indicated an intent to continue with its privatization policy. In this regard, we cannot predict if and when the Federal Republic will further reduce its holdings of its equity interest in Deutsche Telekom AG. The reduction in the Federal Republic’s direct or indirect holdings may involve KfW. For shareholders, there is a danger that the market offering of a significant volume of our shares by either the Federal Republic or KfW, or speculation to this effect on the markets, could have a negative impact on the price of our shares and ADSs.

Certain of KfW’s debt instruments are exchangeable into shares of Deutsche Telekom AG, which, upon exchange, could also have a negative impact on the price of our shares. KfW issued a class of exchangeable bonds on May 16, 2008 that matures in June 2013. Exchangeable bonds are debt securities that the holder may exchange for shares in another company during a predefined period and at a predefined price. When the exchange price is exceeded and when the holder exercises the exchange right, KfW will be obligated to exchange the bonds offered for Deutsche Telekom AG shares. When the exchangeable bonds mature in June 2013, KfW has the right to settle them in Deutsche Telekom AG shares. These exchangeable bonds in the aggregate amount of EUR 3.3 billion have a share exchange price of EUR 14.9341 per ordinary share. Accordingly, approximately 221 million shares may be delivered by KfW in exchange for the outstanding bonds maturing in June 2013. The delivery to debtholders by KfW of a significant amount of our shares could have a negative impact on the market price of our shares.

Unexpected difficulties related to the integration of the OTE Group or other acquired entities could adversely affect our business and profits.

In 2008, we acquired a 25 % plus one share stake in the Greek telecommunications company Hellenic Telecommunications Organization S.A. (“OTE”), Greece’s leading provider of fixed-line voice telephony and internet access services. Through its subsidiaries, OTE also provides fixed-line voice telephony and internet access services in Romania and mobile telecommunications services in Greece, Albania, Bulgaria and Romania.

In connection with these transactions, we became a party to a shareholders' agreement with the Hellenic Republic ("HR"), pursuant to which we have assumed management control of OTE and have therefore consolidated OTE beginning in February 2009. With this acquisition, we have expanded and strengthened our presence in Central, Eastern and Southeastern Europe. In addition, we expect to realize significant synergies, including with regard to the procurement of infrastructure equipment and terminal devices.

Any significant problem in integrating and harmonizing networks, operations, product offerings, personnel, standards, procedures and controls of these or other acquired companies with our own may have material adverse effects on our results of operations and our ability to improve our market position as anticipated.

Exchange-rate, interest-rate and rating risks have had, and may continue to have, an adverse effect on our revenue and cost development.

We are exposed to currency risks related to our international business activities. Generally, our Central Treasury seeks to hedge currency risks that may have a negative impact on our cash flows, although there can be no guarantee that our hedging strategies will succeed. Currency risks may have a negative impact on our results of operations when amounts in local currencies are translated into euros, particularly in connection with U.S. dollar- and pound sterling-denominated results.

For more information with respect to the impact of exchange rates and currency translation, see "Item 5. Operating and Financial Review and Prospects—Consolidated Results of Operations."

We are also exposed to interest-rate risks, primarily in the euro, U.S. dollar and pound sterling currencies. Interest-rate risks arise as a result of fluctuations in interest rates affecting the level of interest payments due on indebtedness at variable rates in each of these currencies. Once per year, our Management Board specifies ratios of fixed and variable debt in these three currencies. Our Central Treasury then takes measures, using derivative instruments and other measures, to implement the interest-risk management decisions of the Management Board.

For more information about our hedging activities and interest-rate and market risks, see “Item 11. Quantitative and Qualitative Disclosures about Market Risk.”

In 2008, Standard & Poors and Moody's Investors Service changed our long-term rating from A- and A3, respectively, to BBB+ and Baa1, respectively, with a stable outlook. Fitch Ratings maintained our long-term rating at A- with a negative outlook. The downgrade by Standard & Poors and Moody’s resulted in an increase in the interest rates on certain of our bonds and also increased our cash outlays for interest. A further decrease in our credit ratings below certain thresholds by various rating agencies would result in an increase in interest rates due to step-up provisions in certain other bonds and medium-term notes and could raise the cost of our debt refinancing activities generally.

For more information, see “Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Capital Resources – Step-up Provisions.”

The continued volatility and disruption of worldwide financial markets may make it more diffcult for us to raise capital externally, which could have a negative effect on our business plans and financing objectives.

During 2008, capital and credit markets around the world experienced severe and prolonged volatility and disruption. We believe that new issuances of our debt securities will, in the short term, be subject to smaller volumes and that we will experience decreased market access due to fewer market participants and anxiety relating to the current climate for corporate bonds. Furthermore, banking institutions that are the subject of divestiture or merger, or that are in distress, may restrict the availability of capital to customers, including customers that have existing credit facilities. Banks may be unwilling to renew expiring credit facilities or to extend them on the same terms. In some cases, financial institutions may be unable or unwilling to honor their commitments, particularly if they fail.

For more information, see “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

Developments in the telecommunications sector have resulted, and may in the future result, in substantial write-downs of the carrying value of certain of our assets.

We review on a regular basis the value of each of our subsidiaries and their assets. In addition to our regular annual impairment reviews, whenever indications exist that goodwill, intangible assets or fixed assets may be impaired due to changes in the economic, regulatory, business or political environment, we consider the necessity of performing certain valuation tests, which may result in impairment charges. The recognition of impairments of intangible assets, property, plant and equipment and financial assets could cause us to take large, non-cash charges against net profit, which could lead to a reduction in the trading price of our shares and ADSs. For more information, see “Item 5. Operating and Financial Review and Prospects—Critical Accounting Estimates.”

Potential breaches of compliance requirements or the identification of material weaknesses in our internal control over financial reporting may have an adverse impact on our corporate reputation, financial condition and the trading price of our securities.

In general, compliance requirements for publicly traded companies and, in particular, the investigation of potential breaches and corporate misconduct are increasing and leading to major financial implications for the companies concerned. At the same time, the legal framework governing the monitoring of companies is becoming more comprehensive, which increases the liability risks for executive bodies and associated costs.

While we believe that we have established an appropriate compliance organization to detect, assess, reduce and manage these risks, the global and diverse nature of our operations means that these risks and their related consequences will continue to exist. Although we intend to take prompt measures to remediate any identified shortcomings in our internal controls over financial reporting, activities of this kind may involve significant effort and expense, and disclosure of any failures, material weakness or other conditions, may result in a deterioration of our corporate image and negative market reactions.

For more information with regard to Section 404 of the Sarbanes-Oxley Act of 2002, see "Item 15.Controls and Procedures – (b) Management's Annual Report on Internal Control over Financial Reporting."

Table of Contents

ITEM 4. Information on the Company

INTRODUCTION

The legal and commercial name of our company is Deutsche Telekom AG. We are a private stock corporation organized under German law. Our registered office is located at Friedrich-Ebert-Allee 140, 53113 Bonn, Germany, and our telephone number is +49 (228) 181-0. Our agent for service of process in the United States is Deutsche Telekom, Inc., 14 Wall Street, Suite 6B, New York, NY 10005.

HISTORICAL BACKGROUND

We are an integrated telecommunications provider offering our customers around the world a comprehensive portfolio of state-of-the-art services in the areas of telecommunications and IT.

The provision of public telecommunications services in Germany was long a state monopoly, as formerly provided in the constitution of the Federal Republic. In 1989, the Federal Republic began to transform the postal, telephone and telegraph services administered by the former monopoly provider of such services into market-oriented businesses, and divided the former monopoly into three distinct entities along their lines of business, one of which was our predecessor, Deutsche Bundespost Telekom. At the same time, the Federal Republic also began the liberalization of the German telecommunications market. We were transformed into a private stock corporation effective January 1, 1995.

The operation of networks (including cable networks) for all telecommunications services, other than public fixed-line voice telephony, was opened to competition in Germany on August 1, 1996, when the new legal framework for the regulation of the telecommunications sector in Germany, the Telecommunications Act, became effective. As required by the Telecommunications Act, and mandated by the directives of the E.U. Commission, the telecommunications sector in Germany was further liberalized on January 1, 1998, through the opening of the public fixed-line voice telephony services to competition.

Since then, we have faced intense competition and have been required, among other things, to offer competitors access to our fixed-line network at regulated interconnection rates. For more information on the regulatory effects on competition in our fixed-line business, see "—Regulation."

Important events in the development of our business since January 1, 2008 have included:

- the sale of Media & Broadcast to Telédiffusion de France in January 2008 for EUR 0.7 billion;
- the completion of the acquisition of SunCom in February 2008 for a purchase price of EUR 1.1 billion;
- the acquisition in 2008 of a 25% plus one share stake in the Greek telecommunications company OTE for EUR 3.1 billion.

Additional information regarding the foregoing events and developments is contained throughout this Item 4.

Table of Contents

ORGANIZATIONAL STRUCTURE

As described below, our Group is organized and reports along five operating segments, Mobile Communications Europe, Mobile Communications USA, Broadband/Fixed Network, Business Customers, and Group Headquarters and Shared Services.

- Each of Mobile Communications Europe and Mobile Communications USA offers digital mobile voice and data services to consumers and business customers and also sells hardware and other terminal devices in connection with the services offered. In addition, services are sold to resellers and other companies that buy network services and market them independently to third parties.
- Broadband/Fixed Network offers consumers and small business customers state-of-the-art infrastructure for traditional fixed-network services, broadband Internet access, and multimedia services. Broadband/Fixed Network also does business with national and international network operators and with resellers, and provides wholesale telecommunications services for our other operating segments.
- Business Customers offers a full range of ICT services and supports multinational corporations and large public authorities.
- Group Headquarters and Shared Services is responsible for strategic and cross-divisional management functions.

OTE

In 2008, we acquired a 25% plus one share stake in OTE for EUR 3.1 billion. In connection with the acquisition, we became a party to a shareholders' agreement with the HR, pursuant to which we have assumed management control of OTE and have therefore consolidated OTE begining in February 2009.

The shareholders' agreement contains certain voting and corporate governance arrangements between us and the HR with respect to the shares of OTE. These include provisions relating to the corporate governance of OTE, including the size and composition of the board of directors of OTE, the party or parties responsible for nominating the Chairman and/or the Managing Director of OTE, the powers of the persons holding the office of Chairman and Managing Director, the establishment, composition and powers of committees of the board of directors, the requirement of a supermajority vote of the board of directors for certain matters and the provision to the HR of veto rights with respect to certain corporate actions and business matters.

There is a provision in the shareholders' agreement that restricts our ability to transfer any of our shares until December 31, 2011. While the shareholders' agreement remains in effect, each party has granted the other a general right of first refusal for any amount of such party's remaining stake in OTE at a price equal to the price offered by a bona fide third party acquirer. In addition, should we be taken over by another company that is not an electronic communications operator of similar size and standing as us in the European Union or the United States, the HR has the right to acquire our shares in OTE at a price based on the then current average trading price of the OTE shares. For this purpose, we shall be deemed to be taken over if one or several entities, with the exception of the Federal Republic, directly or indirectly acquire 35% or more of the voting rights in our shares.

If we hold less than 25% of the total voting rights in OTE, the HR shall have the right in most circumstances to terminate the shareholders' agreement by notice to us. The HR also has two put options with respect to its current holdings in OTE. For more information, see "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Contractual Obligations and Other Commitments—Contractual Cash Obligations."

Until December 31, 2011, we are not permitted to acquire voting rights in OTE through the purchase of OTE shares or otherwise without the HR's consent if the effect of such acquisition would result in our total voting rights in OTE exceeding 25% plus one share of the total voting rights in OTE. These standstill arrangements cease in certain circumstances.

OTE is a full-service telecommunications group. It provides local, long-distance and international fixed-line telecommunications services in Greece and Romania. It also offers Internet access services and fully integrated IP-based telecommunications solutions. In addition, OTE provides telecommunications services on a wholesale basis to other telecommunications providers and ISPs in Greece, including wholesale ADSL access services, interconnection services, leased lines, data telecommunications services and local loop unbundling.

Through its mobile subsidiary, Cosmote, OTE provides mobile telecommunications services in Greece, Albania, Bulgaria, Macedonia and Romania. OTE has reduced its operational influence on Cosmofon, its Macedonian subsidiary, as a result of the regulatory requirement to sell Cosmofon by June 30, 2009.

Our investment in OTE considerably expands and strengthens our presence in Southeastern Europe. For the year ended December 31, 2008, the investment in OTE, which was recorded using the equity method, is included in Group Headquarters and Shared Services. Beginning in February 2009, OTE's fixed-line and wholesale services will be reported as a component of our Broadband Fixed-Network operating segment and its mobile services will be reported as a part of our Mobile Communications Europe operating segment.

Business Customer Realignment

To simplify our sales organization in the Business Customer operating segment, beginning in 2009, we have transferred our small, medium and large business customers to the Broadband/Fixed Network operating segment where they will be managed by T-Home's Sales & Service Germany unit. T-Systems will focus on the ICT solution business with our national and international key accounts, and public- healthcare sector.

Table of Contents

Regional and Integrated Focus

On February 26, 2009, we announced our intention to adopt a more regional focus with a greater emphasis on integrating our products and services. As a result, we intend to eliminate the distinction between our fixed-line and mobile operations and combine the responsibility for product development, IT and technology for our European operations. We plan to make related changes to the structure of our Board of Management.

The sales, marketing and customer service functions for the fixed-line and mobile businesses in Germany will be combined in one Board of Management department. We also plan to create a Board of Management department for operations to oversee product innovation, IT and technology at a pan-European level and procurement on a global basis. In addition, we have created a Board of Management department to manage our subsidiaries in South Eastern Europe. For further information on related changes in the Board of Management, see "Item 6 – Directors, Senior Management and Employees – Management Board".

Significant Subsidiaries

The following table shows the significant subsidiaries that we owned, directly or indirectly, as of December 31, 2008.

Name and registered office	% Held
T-Mobile USA, Inc. ("T-Mobile USA"), Bellevue, Washington, United States(1)	100.00
T-Mobile Deutschland GmbH ("T-Mobile Deutschland"), Bonn, Germany(2)	100.00
T-Systems Enterprise Services GmbH, Frankfurt am Main, Germany	100.00
T-Systems Business Services GmbH, Bonn, Germany	100.00
T-Mobile Holdings Ltd. ("T-Mobile UK"), Hatfield, United Kingdom(1)	100.00
Magyar Telekom Nyrt. ("Magyar Telekom"), Budapest, Hungary(3)	59.30
PTC, Polska Telefonia Cyfrowa Sp. z o.o. ("PTC"), Warsaw, Poland(2)	97.00
T-Mobile Netherlands Holding B.V. ("T-Mobile Netherlands"), The Hague, The Netherlands(1)	100.00
HT-Hrvatske telekomunikacije d.d. ("T-Hrvatski Telekom"), Zagreb, Croatia	51.00
T-Mobile Austria Holding GmbH ("T-Mobile Austria"), Vienna, Austria(4)	100.00
T-Mobile Czech Republic a.s. ("T-Mobile Czech Republic"), Prague, Czech Republic(5)	60.77
Slovak Telekom a.s. ("Slovak Telekom"), Bratislava, Slovakia	51.00
T-Systems GEI GmbH, Aachen, Germany(6)	100.00

(1) Indirect shareholding via T-Mobile Global Holding GmbH, Bonn
(2) Indirect shareholding via T-Mobile International AG, Bonn
(3) Indirect shareholding via MagyarCom Holding GmbH, Bonn

(4) Indirect shareholding via T-Mobile Global Holding Nr. 2 GmbH, Bonn
(5) Indirect shareholding via CMobil B.V., Amsterdam
(6) Indirect shareholding via T-Systems Enterprise Services GmbH, Frankfurt am Main

A list of our subsidiaries as of December 31, 2008, is filed as Exhibit 8.1 to this Annual Report.

Table of Contents

SEGMENT REVENUE BREAKDOWN

The following table presents total revenues (the sum of external (net) revenues and intersegment revenues), net revenues and intersegment revenues of our segments for the years indicated.

For more information regarding our revenues on a segment and geographical basis, see "Item 5. Operating and Financial Review and Prospects—Segment Analysis."

	For the years ended December 31,											
	2008				2007				2006			
	Net Revenues	%	Inter-Segment Revenues	Total Revenues	Net Revenues	%	Inter-Segment Revenues	Total Revenues	Net Revenues	%	Inter-Segment Revenues	Total Revenues
	(millions of € except percentages)											
Mobile Communications Europe	19,978	32.4	685	20,663	20,000	32.0	713	20,713	17,700	28.8	755	18,455
Mobile Communications USA	14,942	24.2	15	14,957	14,050	22.5	25	14,075	13,608	22.2	20	13,628
Broadband/Fixed Network	17,691	28.7	3,640	21,331	19,072	30.5	3,618	22,690	20,366	33.2	4,149	24,515
Business Customers	8,456	13.7	2,554	11,010	8,971	14.3	3,016	11,987	9,301	15.2	3,568	12,869
Group Headquarters and Shared Services	599	1.0	2,974	3,573	423	0.7	3,445	3,868	372	0.6	3,386	3,758
Reconciliation	—	—	(9,868)	(9,868)	—	—	(10,817)	(10,817)	—	—	(11,878)	(11,878)
Total	61,666	100.0	—	61,666	62,516	100.0	—	62,516	61,347	100.0	—	61,347

Table of Contents

DESCRIPTION OF BUSINESS

Mobile Communications

Principal Activities

Our mobile communications business is comprised of two separate reporting segments, Mobile Communications Europe and Mobile Communications USA, collectively referred to as T-Mobile. Our Mobile Communications Europe operating segment includes our mobile operations in Germany, the United Kingdom, Poland, Hungary, The Netherlands, the Czech Republic, Austria, Croatia, Slovakia, Macedonia and Montenegro. Our Mobile Communications USA operating segment includes our mobile operations in the United States through T-Mobile USA.

The principal services offered by our mobile communications businesses to residential and business customers are digital mobile telephony voice services and data services, such as SMS (Short Message Service), MMS (Multimedia Messaging Service), Mobile Internet and other data services. T-Mobile's strategy is to offer an integrated portfolio of voice and data services to its customers, using the most appropriate technologies available depending on local market conditions.

T-Mobile customers generally purchase contract services on the basis of fixed monthly fees, and pay time-based airtime and per-message fees. Some contract service offerings include a specified amount of airtime, data volume or messages in the monthly fee. Prepay services are purchased on the basis of monetary increments that are recorded on the customers' SIM (Subscriber Identity Module) cards and then deducted, based on airtime or messaging usage fees, as the cards are used. W-LAN services are sold on both a monthly subscription basis and through various usage-based plans. Usage fees can vary according to the rate plan selected by the customer, the day and time when a call is made, the destination of the call, the location where the call originates and, in some cases, other terms applicable to the rate plan, such as whether the called party is also a customer of the same network.

Voice and data services are provided based on GSM (Global System for Mobile Communications) network technology. GPRS (General Packet Radio Service) technologies have been deployed to add data capabilities to the GSM network, which are being further enhanced in terms of performance and capacity by EDGE (Enhanced Data Rates for GSM Evolution) technology. EDGE is currently commercially available in the United States, Germany, the Czech Republic, Austria, Poland, Hungary, Croatia, Macedonia, Slovakia and Montenegro. In urban and suburban areas in Europe with a higher demand for data capacity, this technology is supplemented by UMTS-FDD (Universal Mobile Telecommunications System-Frequency Division Duplex) or UMTS-TDD (Time Division Duplex) technology. The network is fully integrated and allows a seamless user experience for voice and data services. In 2006, all of our markets in Europe with UMTS-FDD coverage areas were upgraded to support HSDPA (High-Speed Downlink Packet Access) and HSUPA (High-Speed Uplink Packet Access) technology. HSDPA allows data rates of up to 7.2 Mbit/s in the downlink and HSUPA allows data rates of up to 2.0 Mbit/s in the uplink. To date, T-Mobile has met or exceeded all regulatory obligations with respect to its UMTS and other license requirements in the United States , the United Kingdom, Germany, Austria, The Netherlands, the Czech Republic, Hungary, Croatia, Poland, Slovakia, Macedonia and Montenegro. For more information regarding regulatory obligations, see "—Regulation."

In September 2008, T-Mobile, jointly with Nortel Networks Corporation, was the first network operator to successfully demonstrate in a live test the next generation communications or NGMN (Next Generation Mobile Networks) under everyday conditions, using the LTE (Long Term Evolution) technology as an example. We believe that LTE download rates of up to 170 Mbit/s and upload rates of up to 50 Mbit/s could be achieved in the future.

T-Mobile also operates numerous W-LAN (WiFi) HotSpots in Europe and the United States. T-Mobile offers national and international roaming services to its customers through a number of roaming agreements with third-party operators, which allow customers to access mobile services while outside their home network service area. T-Mobile also sells mobile devices to customers in conjunction with its service offerings. Mobile voice and data services are offered on both a prepay basis and a contract basis.

Table of Contents

Global Branding and Alliances

In 2007, T-Mobile, through the Open Handset Alliance, joined with leading technology and wireless companies to announce the development of Android, which is an open and comprehensive platform for mobile devices. Members of the Open Handset Alliance include, among others, T-Mobile, Google Inc., High Tech Computer Corp., Qualcomm Inc., and Motorola, Inc. The alliance shares common goals to foster innovation relating to mobile devices and to provide consumers with a better user experience. By providing developers with a new level of openness that enables them to work more collaboratively, Android aims to accelerate the pace at which new and attractive mobile applications are made available to consumers. The T-Mobile G1 was the first handset based on Android. It enables customers to access several hundred applications from international developers. The T-Mobile G1 was introduced to the market in the United States and the United Kingdom in October 2008. The T-Mobile G1 combines full touchscreen func–tionality and a QWERTY keyboard (full English keyboard) with a mobile Web experience that includes the popular Google services such as Google Maps Street View, Google Mail and YouTube. The T-Mobile G1 was launched by the European T-Mobile affiliates in Austria, the Czech Republic and The Netherlands in January 2009 followed by Germany and Poland in February 2009.

During 2008, T-Mobile entered into a strategic partnership agreement with Yahoo!, Inc. relating to the development and provision of mobile search services based on Yahoo! oneSearch solution.

T-Mobile was a founding member of the FreeMove alliance, together with Telefónica in Spain, TIM Italia S.p.A. in Italy and Orange S.A. in France. The alliance, which now also includes TeliaSonera, aims to make mobile services more widely available and seamless in all countries in which alliance members operate, by cooperating in several key areas, including the development of joint services related to roaming, voice and data, and the development and purchasing of mobile devices. The European Commission required Telefónica to leave the alliance in 2006 following Telefónica’s acquisition of O2 plc.

T-Mobile is a founding member of the Next Generation Mobile Networks Alliance. The Next Generation Mobile Networks (NGMN) Alliance currently consists of 53 leading global network operators, technology vendors and universities. The key objective of the NGNM Alliance is to provide a platform for innovation for mobile broadband communications that provides an exceptional mobile user experience, cost-effective and user-friendly services and a range of end-user devices such as mobile phones and embedded mobile devices for laptops, consumer electronics, game consoles, and other devices.

Principal Markets

During 2008, our principal mobile telecommunications markets were in the United States, Germany, the United Kingdom, Poland, Hungary, The Netherlands, the Czech Republic, Austria, Croatia, Slovakia, Macedonia and Montenegro.

T-Mobile counts its customers by the number of SIM cards activated and not churned. T-Mobile includes in its customer totals the SIM cards with which machines can communicate automatically with one another (“M2M cards”). T-Mobile’s mobile telecommunications subsidiaries count contract customers as customers for the length of their contracts, and count prepay customers as customers as long as they continue to use our services, and then for a prescribed period thereafter, which differs according to the particular market. Generally, at the end of this period, or in the case of payment default or voluntary disconnection, the customers are cancelled or “churned.” The churn rate for any given period represents the number of customers whose service was discontinued during that period, expressed as a percentage of the average number of customers during the period, based on beginning and period-end figures. Our competitors may calculate their churn rates using methods different from ours. In addition, because we use different calculation methodologies in different jurisdictions, our own churn figures are not comparable across all of our national operations. Our churn methodologies are described in greater detail under each national discussion below.

Mobile Communications Europe

Germany

Through T-Mobile Deutschland, T-Mobile offers mobile telecommunications services to individual and business customers in Germany. At December 31, 2008, T-Mobile Deutschland had approximately 39.1 million customers, including approximately 0.9 million M2M cards in use. There were approximately 36.0 million customers at December 31, 2007, including approximately 0.7 million M2M cards in use. Of the total customers at December 31, 2008, approximately 17.0 million were contract customers, compared to approximately 16.1 million at December 31, 2007. T-Mobile Deutschland had approximately 22.1 million prepay customers at December 31, 2008, compared to approximately 19.9 million at December 31, 2007.

Table of Contents

T-Mobile Deutschland's total average churn rate for 2008 was 1.0% per month, compared to an average churn rate of 1.1% per month in 2007, due to a decrease in both contract and prepay churn rates. The average contract customer churn rate was 1.1% per month in 2008, which is a slight decrease compared to 1.2% per month in 2007. The average prepay churn rate during 2008 was 0.9% per month, compared to the average prepay churn rate of 1.0% per month during 2007, which was primarily caused by a change in the churn policy in 2007. In general, a contract customer of T-Mobile Deutschland is churned either after the voluntary termination upon the lapse of the customer's contract or after forced contract termination due to the customer's failure to fulfill contractual obligations.

As a result of court proceedings against competitors, T-Mobile Deutschland changed its deactivation policy at the beginning of 2007 in favor of its prepay customers. These customers can now use their prepay credit longer than before. Since the beginning of 2007, T-Mobile Deutschland's prepay churn policy states that the contractual relationship between T-Mobile and the prepay customer starts with the activation of the prepay SIM card and continues for an indefinite time. Without a notice period, the contractual relationship can be terminated by the customer in writing or by calling a T-Mobile service center. The termination of the contractual relationship by the customer is directly followed by disconnection from the network (churn). The contractual relationship can be terminated by T-Mobile in writing or by SMS with one month prior notice. After the one month notice period, the customer is churned, unless the account is topped up or the customer generates outgoing voice or data traffic during the one-month notice period.

United Kingdom

T-Mobile UK offers mobile telecommunications services to individual and business customers in the United Kingdom. At December 31, 2008, T-Mobile UK had approximately 16.8 million customers, compared to approximately 17.3 million at December 31, 2007. Of the total customers at December 31, 2008, approximately 4.1 million were contract customers, compared to approximately 3.9 million at December 31, 2007, and approximately 12.7 million were prepay customers at December 31, 2008, compared to approximately 13.4 million at December 31, 2007. In the T-Mobile UK customer base, M2M cards account for less than one percent of the overall prepay customer base.

Of the total number of T-Mobile UK customers at December 31, 2008 and 2007, approximately 4.8 million and 5.2 million, respectively, were customers of Virgin Mobile Telecoms Limited (Virgin Mobile), which is a MVNO. T-Mobile UK reports Virgin Mobile customers as prepay customers. All Virgin Mobile customers currently use T-Mobile UK prepay technology. Virgin Mobile is continuing to increase their contract tariff offerings. However, due to the technology used it is currently impossible for T-Mobile UK to differentiate Virgin Mobile customers as either contract customers or prepay customers. Virgin Mobile reports to T-Mobile UK the number of customers using a churn policy whereby a customer is churned after a period of 180 days of inactivity. As a MVNO, Virgin Mobile purchases airtime minutes and basic mobile services from T-Mobile UK and resells these minutes and services under the "Virgin Mobile" brand name. Until January 2004, Virgin Mobile had been a joint venture between T-Mobile UK and the Virgin Group. At that time, T-Mobile UK sold its 50% equity stake in Virgin Mobile to the Virgin Group and received a payment of GBP 50 million (approximately EUR 75 million) in exchange for waiving its right to participate in any initial public offering of Virgin Mobile. Additionally, T-Mobile UK and Virgin Mobile concluded a telecommunications supply agreement granting Virgin Mobile use of T-Mobile UK's mobile telecommunications network.

In December 2007, "3" (a brand name of Hutchison 3G UK Limited) and T-Mobile UK entered into a network sharing agreement to consolidate their 3G Radio Access Networks to provide customers with enhanced network coverage and faster access to high-speed mobile services at a lower cost. In early 2008, the established joint venture, Mobile Broadband Network Limited (MBNL), introduced its first integrated cell site using the new network consolidation technology. Since then, significant progress has been made and the main supplier contracts have been awarded, which paves the way for MBNL to move ahead with the integration of cell sites, which is intended to create the UK's most extensive 3G network by 2010.

During 2008, T-Mobile UK’s average monthly churn rate (not including Virgin Mobile customers) was 3.4%, compared to 3.2% in 2007. The increase in churn was predominantly caused by an increase in T-Mobile UK’s prepay churn rate of 4.0% per month in 2008, compared to 3.8% per month in 2007, which was mainly caused by an intense focus on the contract customer base. The contract churn rate was 2.1% per month in 2008, which slightly increased compared to 2007.

Generally, a contract customer of T-Mobile UK is churned either after the voluntary termination upon the lapse of a contract or after forced contract termination due to the customer’s failure to fulfill contractual obligations. A prepay customer in the United Kingdom is churned after a period of 180 days of inactivity, i.e., the customer has neither originated nor received a voice or data communication in that period.

Table of Contents

Poland

T-Mobile holds a 97% interest in PTC. Since November 1, 2006, PTC has been fully consolidated in Mobile Communications Europe.

At December 31, 2008, PTC had approximately 13.3 million customers, compared to approximately 13.0 million at December 31, 2007. Of the total customers at December 31, 2008, approximately 6.3 million were contract customers, compared to approximately 5.4 million at December 31, 2007. PTC had approximately 6.9 million prepay customers at December 31, 2008, compared to approximately 7.6 million at December 31, 2007.

PTC's average churn rate during 2008 and 2007 was 3.1% per month. The average contract churn rate during 2008 was 0.6% per month, which represents a decrease from 0.7% per month in 2007, primarily due to intensive retention campaigns. The average prepay churn rate increased from 4.6% per month in 2007 to 5.2% per month in 2008, primarily due to disconnections of improperly used SIM cards.

In general, a contract customer of PTC is churned either after the voluntary termination upon the lapse of his contract or after forced contract termination due to the customer's failure to fulfill contractual obligations. PTC's prepay churn policy generally states that a customer can originate calls or data traffic and receive data or voice communications during his respective validity period. The length of the validity period can be up to 12 months depending on the recharge amount (account validity). The validity period can be extended by additional top-up credits. If a customer exceeds the account validity date, he will receive a grace period depending on his tariff, during which the customer can only receive voice and data communications. The grace period is either 3 months or 12 months depending on the tariff plan. If the prepay account has not been topped-up during this grace period, the customer is churned.

For information regarding a dispute concerning our investment in PTC, including challenges to our ownership of PTC shares, see "Item 8. Financial Information—Legal Proceedings."

Hungary

T-Mobile Hungary, the mobile operations of Magyar Telekom, offers mobile telecommunications services to individual and business customers in Hungary. We hold a 59% interest in Magyar Telekom.

At December 31, 2008, T-Mobile Hungary had approximately 5.4 million customers, compared to approximately 4.9 million at December 31, 2007. Of the total customers at December 31, 2008, approximately 2.1 million were contract customers, compared to approximately 1.8 million at December 31, 2007. T-Mobile Hungary had approximately 3.3 million prepay customers at December 31, 2008, compared to approximately 3.1 million at December 31, 2007.

T-Mobile Hungary's average churn rate during 2008 was 1.3% per month, which represents a slight decrease compared to 2007. The average contract churn rate in 2008 was approximately 0.9% per month, compared to approximately 0.8% per month in 2007 due to continued competitive pressure in the Hungarian market. The corresponding prepay customer churn rate was approximately 1.6% in 2008 compared to approximately 1.8% in 2007 due to free upgrade offers, as well as better equipment offers, to prepay customers. Generally, a contract customer of T-Mobile Hungary is churned either after the voluntary termination upon the lapse of his contracted loyalty period or after forced contract termination due to the customer's failure to fulfill payment obligations. In the absence of re-charging, a prepay customer is churned after a period of 12 to 16 months depending on the amount charged on the prepay card.

The Netherlands

Through T-Mobile Netherlands, T-Mobile offers mobile telecommunications services to individual and business customers in The Netherlands.

On October 1, 2007, T-Mobile Netherlands acquired the Dutch telecommunications provider Orange Nederland from France Télécom for EUR 1.3 billion, which included Orange Nederland N.V. and Orange Nederland Breedband B.V. (Orange Nederland Breedband). At the time of the acquisition, we intended to dispose of Orange Nederland Breedband. However, during 2008, we decided not to sell Orange Nederland Breedband and retroactively reclassified our interest as no longer held for sale, which resulted in minor changes to our income statement. Orange Nederland Breedband's name was changed to Online Breedband B.V. as of June 1, 2008, and is referred to herein as Online Netherlands.

Table of Contents

Through the acquisition of Orange Nederland, T-Mobile Netherlands is the second largest mobile operator in the Dutch market in terms of customer market share.

At December 31, 2008, T-Mobile Netherlands had approximately 5.3 million customers compared to approximately 4.9 million customers at December 31, 2007. At the end of 2008, approximately 2.3 million customers were contract customers and approximately 3.0 million were prepay customers, compared to approximately 2.1 million contract customers and approximately 2.8 million prepay customers at the end of 2007.

T-Mobile Netherlands' average churn rate for 2008 (including Orange Nederland for full year) was 2.5% per month, compared to an average churn rate of 2.8% per month in 2007. This decrease in 2008 was due to a decrease in prepay churn rate.

Until end of 2007, Orange Nederland's prepay churn policy stated that if a prepay customer has neither originated nor received voice or data activity (or received only SMS/MMS messages) and has not re-charged for a period of 3 months, the customer is churned and removed from the reported customer base. Since the beginning of 2008, Orange Nederland's churn policy was harmonized with T-Mobile Netherlands' churn policy resulting in a lower prepay churn rate in 2008 compared to 2007.

In general, if a prepay customer of T-Mobile Netherlands has neither originated nor received voice or data activity (or received only SMS/MMS messages) for a period of 180 days, the customer is churned and removed from the customer base, provided the customer's account has not been re-charged during that period. A contract customer of T-Mobile Netherlands is churned either after the voluntary termination upon the lapse of his contract or after forced contract termination due to the customer's failure to fulfill contractual obligations.

Czech Republic

Through T-Mobile Czech Republic, T-Mobile offers mobile telecommunications services to individual and business customers in the Czech Republic. T-Mobile's equity interest in T-Mobile Czech Republic is held through its wholly-owned subsidiary, CMobil, which owns approximately 61% of T-Mobile Czech Republic.

At December 31, 2008, T-Mobile Czech Republic had approximately 5.4 million customers, compared to approximately 5.3 million at December 31, 2007. Of the total customers at December 31, 2008, approximately 2.5 million were contract customers, compared to approximately 2.2 million at December 31, 2007. T-Mobile Czech Republic had approximately 2.9 million prepay customers at December 31, 2008, compared to approximately 3.0 million prepay customers at December 31, 2007.

T-Mobile Czech Republic's average churn rate during 2008 was 1.4% per month, which is approximately the same as in 2007. The average contract churn rate during 2008 was 0.5% per month, compared to the average contract churn rate of 0.6% per month during 2007. The average prepay churn rate during 2008 was 2.1% per month, compared to the average prepay churn rate of 1.9% per month during 2007. The year-over-year changes of contract and prepay churn are caused by an ongoing trend of migration to prepay segment instead of deactivation of the customer in the contract segment, which allows T-Mobile Czech Republic to retain part of contract the customers in the prepay segment. Nevertheless it is also increasing the prepay churn.

Generally, a contract customer is churned either after the voluntary termination upon the lapse of his contract or after forced contract termination due to the customer's failure to fulfill contractual obligations. In the absence of re-charging, a prepay customer is churned 30 days after completing a period of 12 months without charged voice or data communications activity.

Austria

Through T-Mobile Austria, T-Mobile offers mobile telecommunications services to individual and business customers in Austria. In 2006, T-Mobile Austria acquired tele.ring.

At December 31, 2008, T-Mobile Austria had approximately 3.4 million mobile customers (including approximately 1.1 million tele.ring customers). Of the total customers at December 31, 2008, approximately 2.3 million were contract customers (including approximately 0.8 million tele.ring customers) and approximately 1.1 million were prepay customers (including approximately 0.3 million tele.ring customers). In the T-Mobile Austria customer base, M2M cards account for less than one percent of the overall prepay customer base.

Table of Contents

T-Mobile Austria's average churn rate during 2008 slightly decreased to 1.8% per month (tele.ring's average churn rate was 2.1% per month during 2008), as compared to the average churn rate of 2.0% per month during 2007. The average churn rate for contract customers during 2008 decreased to 1.0% per month compared to 1.2% per month in 2007 (tele.ring's average contract churn rate was 1.2% per month during 2008) due to increased retention measures. The average prepay churn rate during 2008 was 3.3% per month, compared to the average prepay churn rate of 3.4% per month during 2007.

In general, a contract customer is churned either after the voluntary termination upon the lapse of his contract or after forced contract termination due to the customer's failure to fulfill contractual obligations. Since the beginning of September 2007, T-Mobile Austria has generally churned prepay customers if they had 13 months and two weeks without any charged data or voice communication. From the beginning of December 2004 until the end of August 2007, T-Mobile Austria had generally churned prepay customers if they had 12 months and six weeks without any account movements (e.g., account top-up or outgoing traffic) and six months without incoming voice calls longer than one minute.

tele.ring generally churns prepay customers after three months without any charged data or voice communications.

Croatia

Through T-Mobile Hrvatska d.o.o. (T-Mobile Croatia), T-Mobile offers mobile telecommunications services to individual and business customers in Croatia. Deutsche Telekom's equity interest in T-Mobile Croatia is held through its 51% equity interest in T-Hrvatski Telekom, which owns 100% of T-Mobile Croatia's share capital.

At December 31, 2008, T-Mobile Croatia had approximately 2.7 million customers, compared to approximately 2.4 million at December 31, 2007. Of the total customers at December 31, 2008, approximately 0.8 million were contract customers, compared to approximately 0.7 million at December 31, 2007. T-Mobile Croatia had approximately 1.9 million prepay customers at December 31, 2008, compared to approximately 1.7 million at December 31, 2007.

T-Mobile Croatia's average monthly churn rate during 2008 was 1.4%, compared to 1.3% per month in 2007. The average contract churn rate was 0.7% per month in 2008, which is the same as in 2007. The average prepay churn rate during 2008 was 1.7% per month, compared to 1.5% per month in 2007 which is a result of increased competition in the low-end prepay segment.

In general, a contract customer is churned either after the voluntary termination upon the lapse of his contract or after forced contract termination due to the customer's failure to fulfill contractual obligations. In general, a prepay customer is churned after a period of 270 days without re-charging.

Slovakia

Through T-Mobile Slovensko, T-Mobile offers mobile telecommunications services to individual and business customers in Slovakia. Deutsche Telekom's equity interest in T-Mobile Slovensko is held through its 51% equity interest in Slovak Telekom, a.s., which owns 100% of T-Mobile Slovensko's share capital.

At December 31, 2008, T-Mobile Slovensko had approximately 2.3 million customers, compared to 2.4 million at December 31, 2007. Of the total customers at December 31, 2008, approximately 1.4 million were contract customers, compared to approximately 1.2 million at December 31, 2007. T-Mobile Slovensko had approximately 1.0 million prepay customers at December 31, 2008, compared to approximately 1.2 million at December 31, 2007.

T-Mobile Slovensko's average churn rate during 2008 was 1.8% per month, which represents an increase from 1.5% in 2007. The average contract churn rate remained the same at 0.8% per month in 2007 and 2008. The average prepay churn increased from 2.1% per month in 2007 to 3.0% per month in 2008 primarily due to marketing campaigns of the competitor Telefónica O2.

Generally, a contract customer is churned either after the voluntary termination upon the lapse of his contract or after forced contract termination due to the customer's failure to fulfill contractual obligations. A prepay customer is churned after a period of 12 months without re-charging calculated from the last use.

Table of Contents

Macedonia

In Macedonia, T-Mobile offers mobile telecommunications services through T-Mobile Macedonia. T-Mobile Macedonia is a wholly-owned subsidiary of Makedonski Telekom, which is majority owned by Magyar Telekom.

At December 31, 2008, T-Mobile Macedonia had approximately 1.4 million customers, compared to approximately 1.2 million at December 31, 2007.

Montenegro

In Montenegro, T-Mobile offers mobile telecommunications services through T-Mobile Crna Gora (Montenegro). All of the share capital of T-Mobile Crna Gora (Montenegro) is held by Crnogorski Telekom, which is majority owned by Magyar Telekom.

At December 31, 2008, T-Mobile Crna Gora (Montenegro) had approximately 0.5 million customers, compared to 0.4 million customers at December 31, 2007.

Mobile Communications USA

Through T-Mobile USA, T-Mobile offers mobile voice and data telecommunications services to individual and business customers in the United States. At December 31, 2008, T-Mobile USA had approximately 32.8 million customers, compared to approximately 28.7 million at December 31, 2007. Included in the increase of 4.1 million customers in 2008 were 1.1 million customers related to our acquisition of SunCom Wireless in February 2008. Of the total customers at December 31, 2008, approximately 26.8 million, or 82%, were contract customers, compared to approximately 23.9 million, or 83%, at December 31, 2007, and approximately 6.0 million were prepay customers at December 31, 2008, compared to approximately 4.8 million at December 31, 2007.

T-Mobile USA's average churn rate for 2008 was 2.9% per month, up from 2.8% in 2007. The contract customer churn rate increased to 2.1% in 2008, from 1.9% in 2007. This was largely due to the second anniversary of the introduction of two-year customer contracts in the second quarter of 2006, and competitive intensity particularly in the second half of the year. Competitive differences, differences in features and services due to the use of multiple wireless technologies, and general differences in consumer behavior between the United States and Europe factor into the higher industry churn rates in the United States compared to Europe. However, the churn rate of our U.S. operations is higher than the U.S. industry average, due in part to the higher proportion of prepay customers in T-Mobile USA's customer base relative to most of its U.S. competitors and due to the greater focus on individual consumers than other US carriers (which have a greater focus on lower-churn enterprise and government customers). Prepay customers in the United States typically churn at substantially higher rates than contract customers.

Generally, a contract customer of T-Mobile USA is churned either after the voluntary termination or after forced contract termination due to the customer's failure to fulfill contractual obligations. A prepay customer in the United States is churned after a period of 90 days of inactivity (i.e., the customer has neither originated nor received a voice or data communication in that period).

On February 22, 2008, T-Mobile USA acquired all of the shares in SunCom Wireless Holdings, Inc. for USD 27.00 per share, or USD 1.6 billion (EUR 1.1 billion). The total value of this transaction including net debt of approximately USD 0.8 billion (approximately EUR 0.5 billion) is USD 2.4 billion (approximately EUR 1.6 billion). Through this acquisition, T-Mobile USA expanded its network in the southeastern United States, Puerto Rico and the U.S. Virgin Islands.

During 2008, T-Mobile USA has been investing in network infrastructure in certain markets to utilize the Advanced Wireless Services (AWS) spectrum in the 1700 MHz and 2100 MHz frequency bands it acquired in 2006. By the end of 2008, T-Mobile USA's 3G network covered a population of 107 million people in 130 cities.

As previously disclosed, on January 5, 2005, T-Mobile USA and AT&T (formerly Cingular Wireless) terminated their network-sharing joint venture (GSM Facilities LLC, "GSM Facilities"), and T-Mobile USA acquired 100% ownership of the shared-network assets in California, Nevada and New York City. In connection with this transaction, on January 7, 2007, T-Mobile USA gave up 10 MHz of spectrum in the New York City Basic Trading Area (BTA) to AT&T, and T-Mobile USA received 5 MHz of spectrum from AT&T in each of the nine BTAs in the California/Nevada market. In addition, T- Mobile USA acquired an option to purchase from AT&T an additional 10 MHz of spectrum in the San Diego BTA that was exercised in February 2007.

Table of Contents

Seasonality

T-Mobile's business in each of its principal markets is affected by seasonal factors, with a general increase in sales of products and services occurring during the fourth calendar quarter, due to holiday purchases. As a result, T-Mobile's performance during the fourth quarter can have a significant influence on its performance for the full year.

Suppliers

T-Mobile mainly purchases IT and network components, as well as mobile devices for purposes of resale, from a number of different suppliers.

T-Mobile believes that it has reduced its technological risks and the risk of delays in the supply of equipment and other technologies, both by contracting with multiple suppliers having significant market share in the network infrastructure, IT services and mobile device businesses, and by negotiating contractual penalties to be enforced in the event a supplier does not meet its obligations with respect to timeliness and quality. However, these penalty provisions may not fully mitigate the harm to our business caused by any such contractual breaches.

Marketing and Sales

Each of T-Mobile's principal subsidiaries uses its own mix of direct and indirect distribution channels to market its mobile voice and mobile data products and services to its customers. In each of T-Mobile's principal markets, T-Mobile sells its products and services to retail customers through its own network of direct retail stores including some franchise-like exclusive dealer operations. In Germany, the direct retail stores (Telekom shops (formerly T-Punkt shops)) are operated by a subsidiary of the Deutsche Telekom Group. Further direct sales channels include a direct sales force dedicated to business customers, sales through customer service including Telesales and the T-Mobile websites. These are used for customer-relationship management as well as for sales transactions. In addition, third-party distributors, who typically market the products and services of multiple mobile network operators, play a significant role in distribution. Our mobile telecommunications subsidiaries use a variety of incentives to encourage third-party vendors to sell T-Mobile products and services, such as payment of associated marketing expenses and commissions.

Mobile telecommunications resellers and MVNOs are also an important distribution channel for T-Mobile products and services, especially in Germany and the United Kingdom. In the United States, MVNOs are currently a minor but growing distribution channel for T-Mobile USA products and services. In general, mobile telecommunications resellers and MVNOs purchase minutes and data at wholesale rates and mobile devices at a discount from network operators, resell packaged services and mobile devices under their own brands through their own distribution channels, charge their customers at retail rates that they set independently, and provide customer service and technical support.

T-Mobile provides its customers with access to T-Mobile specific and third-party content services as well as to the open Internet. Content provided to customers is either at no additional charge, in which case the customer only has to pay the normal connection charges to view the content, or it is premium content, where a customer pays a specific charge through the customer's mobile telephone bill to access the content.

Through its "HotSpot" product, T-Mobile operates one of the largest carrier-owned W-LAN networks in the world, available in almost 13,000 convenient public access locations in all of T-Mobile's branded locations. T-Mobile expects that the total number will decrease in 2009 due to the Starbucks location migration to BT Openzone of British Telecommunications plc in the United Kingdom and Germany.

T-Mobile, through its “web’n’walk” product, offers its customers open access to the Internet on mobile phones. T-Mobile believes that this strategy is superior to the offers of its competitors, who determine the content access for their customers.

Dependence on Patents, Licenses and Industrial, Commercial or Financial Contracts

T-Mobile and its subsidiaries own a large number of registered patents and generally have a number of patent applications outstanding at any given time for technical innovations in the area of mobile telecommunications applications as a consequence of our continuous development activities. Patent protection activity is focused on countries with T-Mobile operations. We do not believe that T-Mobile or any of its subsidiaries is dependent on any one patent or group of patents.

Table of Contents

To enable us to offer mobile telecommunications services in the different jurisdictions in which we operate, we require, and therefore are dependent on, telecommunications licenses from the relevant authorities in each of these jurisdictions. For further information, see "—Regulation."

We do not believe that T-Mobile is dependent on any third-party industrial, commercial or financial contracts.

Competition

General

Competition in the mobile telecommunications market is generally intense and conducted on the basis of price, subscription options and range of services offered, offers of subsidized mobile devices, coverage, innovation and quality of service.

In the past, competition in the European mobile telecommunications market was conducted at the national level. Increasingly, however, competition in this market is being conducted on a more international basis, as Europe-wide services are being introduced.

In Western Europe, the rate of mobile telephone penetration is quite high. As a result, T-Mobile expects that the growth in the number of T-Mobile customers in these markets will be significantly lower than in past years, and that the focus of competition will continue to shift from customer acquisition to customer retention, and to stimulate demand for voice usage and new data products and services. T-Mobile believes that, as competition intensifies in its European markets, customer terminal equipment subsidies will be reduced and competition will focus more on the service revenue market rather than on numbers of customers.

The global mobile telecommunications industry has been undergoing consolidation in recent years, which may increase competitive pressure, and we expect that this trend will continue in the coming years.

In addition, new technologies, whether introduced by us or by others, can be expected to draw customers from existing technologies, including our customers. The competitive dynamics of the mobile telecommunications industry, therefore, could change in ways that we cannot predict which could adversely affect our results of operations and, thus, our financial position.

Mobile Communications Europe

Germany

In Germany, T-Mobile Deutschland faces intense competition from mobile network operators Vodafone, E-Plus and O2. We believe that T-Mobile Deutschland maintained its market leadership position, in terms of number of customers, at September 30, 2008.

T-Mobile believes that T-Mobile Deutschland had a customer market share of approximately 37% at September 30, 2008, which was about the same at September 30, 2007, while Vodafone had a customer market share of approximately 34% at September 2008, compared to approximately 35% at September 30, 2007. E-Plus and O2 had a customer market share of approximately 16% and 13%, respectively, at September 30, 2008, compared to approximately 15% and 13%, respectively, at September 30, 2007 . T-Mobile believes that the overall penetration rate in the German mobile telecommunications market was approximately 129% at September 30, 2008.

In the retail market, in addition to competition from other network operators, T-Mobile Deutschland faces significant competition from resellers. T-Mobile expects that, in the short-term, the market entry of existing and potentially new resellers will significantly further affect mobile telephony prices and attract customers from T-Mobile and the other existing mobile operators.

United Kingdom

In the United Kingdom, T-Mobile UK faces intense competition, principally from Vodafone, O2 and Orange. In addition, T-Mobile UK faces competition from “3”. T-Mobile believes that T-Mobile UK’s customer market share, which includes customers of Virgin Mobile, was approximately 22% as of September 30, 2008, compared to 24% in September 30, 2007. T-Mobile believes that the penetration rate in the United Kingdom mobile telecommunications market was approximately 123% at September 30, 2008.

In the retail market, in addition to competition from other mobile network operators, T-Mobile UK faces significant competition from resellers, as well as from other MVNOs.

Table of Contents

Poland

In Poland, PTC faces competition from Polkomtel, Centertel and P4. T-Mobile believes that PTC's customer market share was approximately 30% at September 30, 2008, compared to 32% at September 30, 2007. The decline is mainly due to aggressive customer growth of P4, which entered the market at the beginning of 2007. T-Mobile believes that the penetration rate in the Polish mobile telecommunications market was approximately 113% at September 30, 2008.

Hungary

In Hungary, T-Mobile Hungary faces competition from Pannon and Vodafone Hungary. T-Mobile believes that T-Mobile Hungary's customer market share was approximately 44% at September 30, 2008, which was about the same as at September 30, 2007. Pannon had a market share of approximately 35% at September 30, 2008, which was about the same as at September 30, 2007, and Vodafone Hungary had a market share of approximately 21% at September 30, 2008, approximately the same share as in 2007. T-Mobile believes that the penetration rate in the Hungarian mobile telecommunications market was approximately 117% at September 30, 2008.

The Netherlands

In The Netherlands, T-Mobile Netherlands faces intense competition from KPN Mobile (including Telfort) and Vodafone. T-Mobile believes that T-Mobile Netherlands' customer market share, including Orange Nederland customers, was approximately 28% at September 30, 2008, compared to approximately 27% at September 30, 2007, while KPN Mobile (including Telfort) and Vodafone had a market share of approximately 49% and 23%, respectively, at September 30, 2008, compared to approximately 51% and 22%, respectively, at September 30, 2007. T-Mobile believes that the penetration rate in the Dutch mobile telecommunications market was approximately 117% at September 30, 2008.

In the Dutch retail market, in addition to competition from the mobile network operators mentioned above, T-Mobile Netherlands competes with an increasing number of MVNOs.

Czech Republic

In the Czech Republic, T-Mobile Czech Republic faces competition from Telefónica O2 Czech Republic (formerly Eurotel Praha), Vodafone Czech Republic (formerly Oskar Mobil) and since mid-2008 MobilKom under its brand "U:Fon". T-Mobile believes that T-Mobile Czech Republic's customer market share was approximately 40% at September 30, 2008, compared to approximately 41% at September 30, 2007, Telefónica O2 Czech Republic had a market share of approximately 39% at September 30, 2008, compared to approximately 39% at September 30, 2007, Vodafone Czech Republic had a market share of approximately 21% at September 30, 2008, compared to approximately 20% at September 30, 2007. T-Mobile believes that the penetration rate in the Czech mobile telecommunications market was approximately 130% at September 30, 2008.

Austria

In Austria, T-Mobile Austria primarily faces competition from mobilkom austria, Orange (formerly ONE) and "3". T-Mobile believes that T-Mobile Austria's customer market share after the consolidation of tele.ring was approximately 32% at September 30, 2008, compared to approximately 34% at September 30, 2007, and the customer market shares of mobilkom austria, Orange and "3" were approximately 42%, 20% and 6%, respectively, at September 30, 2008, compared to approximately 40%, 21% and 5%, respectively, at September 30, 2007. T-Mobile believes that the penetration rate in the Austrian mobile telecommunications market was approximately 124% at September 30, 2008.

Croatia

In Croatia, T-Mobile Croatia faces competition from VIPnet and Tele2. T-Mobile believes that T-Mobile Croatia's customer market share was approximately 47% at September 30, 2008, compared to approximately 47% at September 30, 2007. T-Mobile believes that the penetration rate in the Croatian mobile telecommunications market was approximately 127% at September 30, 2008.

Table of Contents

Slovakia

In Slovakia, T-Mobile Slovensko faces competition from Orange and Telefónica O2. T-Mobile believes that T-Mobile Slovensko's customer market share was approximately 41% at September 30, 2008, compared to approximately 41% at September 30, 2007. T-Mobile believes that the penetration rate in the Slovak mobile telecommunications market was approximately 104% at September 30, 2008.

Macedonia

In Macedonia, T-Mobile Macedonia faces competition from Cosmofon AD, and since September 2007 also from VIP, which is 100% owned by mobilkom austria. T-Mobile believes that T-Mobile Macedonia's customer market share was approximately 59% at September 30, 2008, compared to approximately 66% at September 30, 2007. T-Mobile believes that the penetration rate in the Macedonian mobile telecommunications market was approximately 106% at September 30, 2008.

Montenegro

In Montenegro, T-Mobile Crna Gora (Montenegro) faces competition from ProMonte and Mtel. T-Mobile believes that T-Mobile Crna Gora's customer market share was approximately 34% at September 30, 2008, which represents a decrease from approximately 38% at September 30, 2007.

Mobile Communications USA

T-Mobile USA faces intense competition in the United States mobile telecommunications market from the three other large national mobile providers, Verizon, AT&T and Sprint/Nextel, and from various regional operators and MVNOs (mobile virtual network operators). The four largest national carriers, including T-Mobile USA, are estimated to represent approximately 85% of the total U.S. mobile telephony customer base as of September 30, 2008. T-Mobile USA's customer market share, measured as a percentage of the total customer base of the four largest nation-wide operators, was approximately 14% at September 30, 2008, compared to 13% as of September 30, 2007. The two largest national mobile providers or their predecessors had been operating in the United States mobile telecommunications market for a considerable time prior to the entry of T-Mobile USA's predecessors into the United States market.

Verizon, AT&T and Sprint/Nextel together represent an estimated 73% of the total United States mobile telephony market in terms of customers as of September 30, 2008. These companies have potential advantages of size and scale that they continue to grow through the acquisition of rural carriers. This could allow them to deliver services in a more cost-efficient manner and thereby negatively affect T-Mobile USA's competitive position.

The United States mobile telecommunications market is quite different in a number of respects from the European mobile telecommunications markets. For example, there is no single communications standard. In addition, licenses used to provide wireless services do not cover the entire US and furthermore different frequency ranges are required in parts of the nationwide footprint. It can therefore be difficult for network operators to obtain the spectrum needed in some localities to expand customer bases, upgrade the quality of service and add new services, particularly in densely populated urban areas. Low population density in other areas can cause problems with network efficiency and result in large geographic areas with no or limited coverage. For these and other reasons, penetration levels for mobile telephony services in the United States are generally lower than penetration levels in western European countries although the difference is decreasing over time. Mobile telecommunications operators in the United States market generally continue to invest heavily in their networks in order to generate customer and revenue growth. However, as of September 30, 2008, penetration in the United States has reached approximately 87% and slowing wireless industry customer growth expectations indicate that the market is maturing.

Usage and pricing practices in the United States mobile market also differ significantly from those typically seen in European markets. Average voice usage per customer per month is generally much higher in the United States than in Europe primarily due to the higher number of postpay plans in the United States. Contract pricing in the United States is typically in the form of a fixed monthly charge at various price points for specified bundles of features and services, which permit usage up to prescribed limits with no incremental charges. Usage in excess of the limits results in incremental charges. The majority of prepay service is priced solely on a usage basis, similar to Europe, but the percentage of prepay customers is significantly smaller in the United States than Europe. Typically, both inbound and outbound usage counts against the contract usage limits, and both are subject to incremental charges for excess contract usage and prepaid usage. Furthermore, 2008 saw the introduction of the unlimited voice and data plans, which eliminate incremental usage charges at certain price points. Monthly average revenue per user (ARPU) is typically higher in the United States than in Europe. However, average revenue per minute of use is substantially lower in the United States than in Europe.

The differences between the United States and European mobile telephony markets result in different competitive pressures in these markets. In the United States, network coverage remains a key competitive factor, as are the selection, prices, and perceived value of bundles of minutes, features, handsets and devices, and services. To the extent that the competitive environment requires us to decrease prices, or increase our service and product offerings, our revenues could decline, our costs could increase and customer retention could be adversely affected.

Table of Contents

Broadband/Fixed Network

The Broadband/Fixed Network operating segment offers consumers and small business customers state-of-the-art infrastructure for traditional fixed-network services, broadband Internet access, and customer-oriented multimedia services. Broadband/Fixed Network also provides services to national and international network operators and resellers, and provides products and services for Deutsche Telekom's other operating segments. Beginning January 1, 2009, T-Home (Broadband/Fixed Network's domestic business unit, formerly known as T-Com) will be primarily responsible for servicing the approximately 160,000 business customers that were previously served by T-Systems.

T-Home continues to adapt and streamline its integrated portfolio of rates and services in anticipation of market developments in Germany. This portfolio of integrated products, called "Complete Packages" (Komplettpakete), includes an access line and a variety of flat-rates and services for telephony, Internet surfing and Internet television (IPTV HD capable) in an assortment of combinations. These product offerings are marketed as basic telephony services ("single-play"), telephony and high-speed Internet access ("double-play"), and packages comprising voice communication, high-speed Internet access and television with interactive television-based services ("triple-play"), that are marketed under the brand name "Entertain" in Germany. Customer acceptance of Entertain products, introduced in 2007, is expected to continue to grow as new features and new rates are introduced.

In 2007, T-Home created three new service companies, Deutsche Telekom Kundenservice GmbH, Deutsche Telekom Technischer Service GmbH and Deutsche Telekom Netzproduktion GmbH. These companies were part of T-Home's objectives to improve its competitiveness and to offer first-class service to the customers at competitive rates and in a cost-effective manner (Telekom Service). Deutsche Telekom Kundenservice GmbH has proposed a plan to modernize and consolidate its service center structure in order to improve service quality and cost efficiency. For more information, see "Item 6 Directors, Senior Management and Employees—Employees and Labor Relations."

ActiveBilling GmbH & Co.KG, which manages Deutsche Telekom's receivables was transferred to the Broadband/Fixed Network operating segment effective January 1, 2008.

Principal Activities

Broadband/Fixed Network operates one of the largest fixed-line networks in Europe in terms of the number of lines provided. Broadband/Fixed Network reports its domestic and international operations separately.
The Scout24 group and T-Online Austria are included within domestic operations. The principal activities of the Broadband/Fixed Network operating segment include:

- Network communications services, consisting of network access products (excluding broadband) and calling services;

- Wholesale services, for domestic and international customers, including voice services, IP services, network and access services and solutions;

- IP/Internet products and services, including broadband packages, video-on-demand, IPTV, triple-play services, digital distribution platforms for games (Gamesload), software (Softwareload) and music (Musicload);

- Other services, including data communications services and solutions provided through the Business Customers operating segment to small- and medium-sized enterprises, value-added services (special purpose telephony services including toll-free services and public payphones), terminal equipment for telecommunications, as well as, publishing services, customer retention programs, and installation and maintenance services; and

- Fixed-line network services, wholesale services, IP/Internet products and services and multimedia services in Central and Eastern Europe, through Magyar Telekom (Hungary, Macedonia, Montenegro), Slovak Telekom (Slovakia) and T-Hrvatski Telekom (Croatia).

Table of Contents

Most of Broadband/Fixed Network's revenues in 2008 were derived from fixed-line network communications services provided within Germany, primarily in the form of access and calling services revenues. For more information, see "Item 5. Operating and Financial Review and Prospects—Segment Analysis—Broadband/Fixed Network."

The following table reflects the number of broadband and fixed-network access lines in operation supported by the Broadband/Fixed Network operating segment:

	As of December 31, 2008	As of December 31, 2007	% Change December 31, 2008/ December 31, 2007	As of December 31, 2006	% Change December 31, 2007/ December 31, 2006
Broadband					
Access lines (total)(1)	15.0	13.9	7.9	11.3	23.6
of which: retail	12.1	10.2	18.6	7.9	29.0
Domestic(1)	13.3	12.5	6.3	10.3	22.0
of which: retail	10.6	9.0	17.5	7.1	27.6
International(1)	1.7	1.4	23.5	1.0	39.6
of which: Magyar Telekom	0.9	0.8	15.5	0.6	31.1
of which: Slovak Telekom	0.3	0.3	29.6	0.2	43.3
of which: T-Hrvatski Telekom	0.5	0.3	37.0	0.2	59.6
Fixed-network access lines					
Access lines (total)(1)	33.8	36.6	(7.5)	39.0	(6.2)
Domestic	28.6	31.1	(8.0)	33.2	(6.3)
of which: Standard Analog (2)	20.3	22.4	(9.5)	24.2	(7.2)
of which: ISDN	8.3	8.6	(4.2)	9.0	(4.5)
International	5.3	5.5	(4.3)	5.8	(4.7)
Wholesale/resale					
Resale/ IP-BSA bundled(3)	2.8	3.7	(26.4)	3.4	10.8
of which: domestic	2.5	3.5	(28.0)	3.2	9.7
Unbundled local loop (4)	8.4	6.4	(30.4)	4.7	36.8
IP-BSA SA(3)	0.2	n.a.	n.a.	n.a.	n.a.
of which domestic	0.2	n.a.	n.a.	n.a.	n.a.

n.a.—not applicable

The table includes lines in Germany and Central and Eastern Europe. The prior-year figures were adjusted to reflect the deconsolidation of T-Online France and T-Online Spain. The total was calculated on the basis of actual figures and rounded to millions. Percentages are calculated on the basis of actual figures.

(1) Access Lines in operation excluding internal use and public telecommunications, including wholesale services.
(2) Including access provided using IP-lines, excluding public payphones.
(3) Definition of Resale/ IP-BSA: Sale of broadband access lines based on DSL technology to alternative providers outside the Deutsche Telekom Group. In the case of IP-Bitstream Access (IP-BSA), T-Home leases DSL access lines to competitors and transports the datastream carried over its network to the broadband access point of presence where the datastream is handed over to the competitor. With IP-Bitstream Access Stand Alone (IP-BSA SA), the end-user no longer needs an access line provided by T-Home, allowing competitors to offer IP-based all-in-one packages directly.

(4) Unbundled local loop (ULL) lines in Germany and abroad: T-Home's wholesale service that can be leased by other telecommunications operators without upstream technical equipment in order to offer their own customers a telephone or DSL access line.

Table of Contents

Operations in Germany

The total number of broadband access lines in operation in Germany provided by T-Home increased by 0.8 million, or 6.3%, from 12.5 million at December 31, 2007 to 13.3 million at December 31, 2008. This increase was primarily due to the growth in the number of retail DSL customers in the highly competitive German market, especially in connection with T-Home's continued introduction of bundled offerings, such as the introduction of Complete Packages in 2006, which have been continuously modified to more closely follow customer demand. Broadband/ Fixed Network expects that the Entertain products introduced in 2007 will continue to expand with the inclusion of new features and new rates in order to significantly increase the number of customers choosing this product, customer satisfaction and loyalty.

T-Home is the largest broadband provider in Germany with 10.6 million retail broadband access lines in 2008 compared to 9.0 million in 2007 and increased its retail DSL customer base by 1.6 million in 2008. This growth is primarily the result of attractive pricing models, regional pricing campaigns and improved service.

Broadband services allow customers to access the Internet and Internet-related services at significantly higher speeds than traditional dial-up services. Broadband is used to refer to ADSL (asymmetric digital subscriber line), ADSL2 and ADSL2+ (advanced ADSL) and VDSL (very high-speed digital subscriber line) technologies, for which the downstream data rate is greater than 128 Kbit/s. For more information, see "—IP/Internet Services—Broadband Access" below.

The broadband market continued to grow during 2008. Strong competition, falling prices for bundled packages provided by alternative network operators and cable network operators were factors in the slower rate of growth of the broadband market in 2008 compared to 2007.

The number of T-Home's fixed-network access lines in Germany decreased, as expected, in 2008 by 2.5 million, or 8.0%, to 28.6 million. Broadband/ Fixed Network expects that market share in fixed-network access lines and the prices for fixed-network products will continue to decrease, primarily due to substitution by cable network operators, increased competition from other fixed-network providers with fully integrated bundled packages, and fixed-to-mobile substitution. In addition, in 2008, line losses resulted from the technology driven migration of DSL resale customers to the all-IP network.

Broadband/Fixed Network intends to continue to introduce non-access related broadband services. In addition, the Broadband/Fixed Network operating segment is focusing on defending its market share in its core businesses and slowing the decline of fixed-network access lines.

The demand for unbundled local loop lines increased by 1.9 milion or 29.7% from 6.4 million at December 31, 2007 to 8.3 million at December 31, 2008, mainly as a result of the migration of competitors to all-IP lines for which the competitor still requires an unbundled local loop line from T-Home. The total number of Resale/ IP-Bitstream Access lines decreased in Germany by 28.0% from 3.5 million at December 31, 2007 to 2.5 million at December 31, 2008, also as a result of the migration of competitors to all-IP lines for which the competitors still requires an unbundled local loop line from T-Home.

In 2008, Broadband/Fixed Network began to sell the IP-based Bitstream Access Stand Alone product (IP-BSA SA, access lines not coupled to a public switched telephone network (PSTN) line fromT-Home), to competitors as wholesale products which were introduced pursuant to a regulatory mandate. In 2008, 0.2 millon of these products were provided to competitors. For more information regarding Resale/ IP-BSA bundled and stand-alone bitstream access regulation, see "—Regulation—German Telecommunications Regulation—Broadband Access—Bitstream."

T-Home's present network infrastructure is comprised of access and transmission networks and service platforms described below.

T-Home continues to invest primarily in IP-based network infrastructure technologies. These investments started in 2005 and form the basis of its next generation network (NGN) of which most elements are expected to be in operation by 2010. T-Home is still obligated to provide service to customers using the PSTN, which necessitates continued use of those portions of the existing network infrastructure in parallel with the NGN until these customers can be migrated to comparable products delivered through the NGN. T-Home's NGN includes the implementation and integration of network enhancement technologies, as well as other technologies.

Access Network

T-Home offers ICT access for individual customers, very small business customers and other carriers. Typically, a customer has access to T-Home's network by means of a copper cable that runs from T-Home's transmission network to the customer's home or office. The portion of the access network that connects the transmission network to the customer is commonly referred to as the "last mile" or "local loop." T-Home began to significantly upgrade its access network in 2005 through the deployment of VDSL high-speed access technology. The implementation of VDSL began in 2006 and continued through 2008. T-Home also intends to continue to upgrade its broadband access network by expanding the use of ADSL2+ technology. ADSL2+ will enable customers to realize access speeds of up to 16 Mbit/s. Along with substantial VDSL expansion in Germany, T-Home is also working with local authorities to use innovative means to enable improved high-speed DSL service in rural areas.

For more information regarding network access regulation, see "—Regulation—German Telecommunications Regulation—Interconnection."

Table of Contents

Transmission Network

T-Home’s transmission network consists of fiber-optic cables enhanced with Wavelength Division Multiplexing (WDM) and SDH technologies, as well as other network components. WDM uses wavelengths of light to increase the capacity of fiber-optic cables, thereby allowing multiple communication channels. This allows T-Home to increase the capacity of its transmission network without having to use additional fiber-optic cable. SDH is an international high-speed transmission standard, which improves network management and increases the reliability of fiber-optic networks. T-Home plans to continue its use of WDM and other network enhancement technologies based on the demands of its customers and in conjunction with its ongoing broadband strategy.

Service Platforms

T-Home uses its service platforms to enable the provision of voice, data and other value-added services to its customers. T-Home’s service platforms include IP-based technologies, which permit the high-quality transmission of large amounts of data (e.g., text, audio and video). These platforms allow T-Home to deliver a wide range of products and services to individual and business customers. The products and services delivered on these service platforms include browser access to the World Wide Web and virtual private networks (VPNs). Server connections to the World Wide Web are also employed in T-Home’s service platforms.

Network Communication Services

Network Access Products

T-Home offers network access to its individual and business customers through a variety of access-lines , which generally include a fixed monthly payment and a variable component. The three types of access-lines offered are Standard Analog, Universal and ISDN and IP. The IP-based access lines are offered to individual customers as well as to T-Home’s competitors. For more information see “—Wholesale Services.” Each of these types of access lines is a prerequisite for broadband access and can be enhanced by increasing bandwidth capacity through the use of DSL technology as described below under “—IP/Internet Services.”

T-Home expects the number of fixed-network access lines in operation to continue to decrease in the future due to increased competition, fixed-to-mobile substitution, as well as increased migration to IP-based products.

Fixed Network Access

Standard Analog Access

T-Home's Standard Analog Access voice products permit the customer to use a single telecommunications channel for voice, data or facsimile transmission.

The number of Standard Analog Access lines in operation continued to decrease from 24.2 million in 2006 to 22.4 million in 2007, and to 20.3 million in 2008. T-Home expects this trend to continue in the future. Competition, regulation, customer acceptance of bundled voice and Internet products, and conversion of the network to the NGN, are expected to be significant factors in this continued decrease.

IP Access

T-Home's IP-Based access products provide services such as telecommunication, IPTV and data transfer, as well as other services to customers at home and elsewhere.

ISDN Access

T-Home's ISDN access products (analog plus ISDN) permit a single customer access line to be used simultaneously to provide multiple products and services, including voice, data and facsimile transmission.

The number of ISDN access lines decreased by 0.3 million or 4.2% to 8.3 million in 2008 compared to 8.6 million in 2007 and 9.0 million in 2006, primarily as a result of increased competition offering bundled voice and Internet products, and the saturation of the ISDN market. T-Home expects this trend to continue. T-Home no longer actively markets ISDN access lines to customers.

Calling Services

Through its network access product offerings described above, T-Home provides comprehensive local, regional and international calling services, and dial-up Internet access, and offers customers many of the same services, such as three-way calling, call-waiting and caller ID. ISDN access also offers several features not available to standard analog access customers, such as the ability for the customer to have three separate telephone numbers, and use the telephone, send and receive faxes and use the Internet simultaneously.

In 2008, T-Home's competitors continued to make considerable inroads into the calling services market, primarily as a result of regulatory decisions favoring increased competition in the fixed-line area. Competitors have introduced their own infrastructure and continue to make investments in interconnection points to benefit from favorable pricing conditions.

T-Home's Complete Packages with a flat-rate component have led to an increase in unbilled calling minutes by customers through those plans and have continued to replace traditional analog and ISDN access. The trend towards flat-rate components in Complete Packages continued to increase in 2008. T-Home believes that this trend will continue in 2009. Consequently, T-Home expects calling revenues in the future to decrease due to the decreasing proportion of billed minutes as a result of increased acceptance of Complete Packages, continued loss of fixed-network access lines and fixed-to-mobile substitution.

Wholesale Services

Through its wholesale services business, T-Home provides products and services to other domestic carriers and service providers, as well as to other members of the Deutsche Telekom Group, in accordance with regulatory guidelines stipulated by the Federal Network Agency. Within Wholesale Services, International Carrier Sales & Solutions (ICSS), is responsible for the international wholesale business. ICSS' services and solutions are sold globally under the Deutsche Telekom brand. Wholesale products and services provided to third-party and Deutsche Telekom Group customers include the following:

Domestic Services

Access services

The trend of telecommunications operators leasing access to the unbundled local loop to enable themselves to supply their customers with telephone and Internet services using T-Home's network infrastructure continued to increase significantly to 8.3 million ULL lines in 2008 from 6.4 million in 2007 and 4.7 million in 2006. Unbundled local loop lines are available to competitors in high bitrate (typically DSL capable) and low bitrate (typically not DSL capable) variants. Due to competitors' continued investment in their own network infrastructure, including co-location facilities and exchanges in Germany, T-Home expects that the demand for unbundled local loop lines will increase next year. However, the rate of growth is expected to decrease. T-Home also expects that the results of regulatory decisions will continue to have an effect on demand for wholesale products.

Furthermore, since July 2004, T-Home has offered a Resale DSL product (i.e., the sale of broadband access lines to competitors). This product enables third-party operators to offer an integrated service combining access and IP services to their retail customers under their own brands. In May 2008, new regulatorily mandated products, IP-Bitstream Access bundled and unbundled including transport services, were introduced. Since the Federal Network Agency's review in 2008, T-Home has been obligated to include symmetric DSL access (SDSL). The trend of increased demand for IP- Bitstream Access Stand Alone lines at the expense of fixed-network and resale access lines is expected to continue. These products are a substitute for Resale DSL. As expected, unbundled local loop lines, as mentioned above continued to increase particularly at the expense of Resale access lines, including Resale DSL and

IP-BSA. These bundled access lines in operation decreased in 2008 to 2.5 million from 3.5 million in 2007 and 3.2 million lines in 2006. IP-BSA SA lines in operation reached 0.2 million lines in 2008.

Table of Contents

Interconnection services

T-Home's interconnection services primarily consist of call origination and the transit and termination of switched voice traffic. The terms under which T-Home interconnects its telephone network with the networks of other domestic carriers and service providers are either bilaterally negotiated or imposed by the Federal Network Agency. At December 31, 2008, T-Home had 107 bilateral interconnection agreements and 45 interconnection orders (issued by the Federal Network Agency). The Federal Network Agency mandated interconnection prices from December 1, 2008 until June 30, 2011.

IP services

T-Home provides Internet transport services for broadband and fixed network service providers ("virtual ISP services"), as well as transport services for carrier interconnection. In addition, T-Home offers nationwide access through its IP backbone and regional IP access to broadband IP providers. T-Home also provides scalable fixed network and broadband Internet transport services to ISPs ("OnlineConnect"), which allow ISPs to expand their Internet platforms in line with customer demand.

Network Services

T-Home offers leased lines with transmission speeds up to 2.5 Gbit/s which are tailored to fit the specific needs of carriers and mobile network operators. These leased lines can be used both for the transmission of data and for voice traffic. T-Home also offers Carrier Services Networks, which combine leased lines with network management services.

International Services

International Carrier Sales & Solutions (ICSS) provides broadband operators, mobile operators and MVNOs, content, application and media providers, corporate service providers and virtual network operators (VNOs), fixed voice carriers, and carriers' carriers and their customers, with worldwide direct access to Deutsche Telekom's international telecommunications network. ICSS' main focus is the transfer of outgoing international voice and data traffic from Germany to carriers in other countries for termination in their networks, and the provision of carrier termination and transit services for calls that originate outside of Germany and are routed through T-Home's network for termination in Germany or another country. During 2008, ICSS managed total worldwide voice traffic of more than 21 billion minutes providing connections to more than 190 countries worldwide. With continuously changing markets, ICSS is redesigning its portfolio from traditional voice and transport services to advanced innovative wholesale services and customized IP solutions.

As a full service provider, ICSS offers access to an enhanced comprehensive product and service portfolio which provides networks with a more efficient way to manage applications and move information between locations. The continued development of new services is an important part of the ICSS strategy.

IP/Internet Services

T-Home's Complete Packages with a flat-rate component include new offerings for voice communication, Internet access and entertainment services. T-Home believes that broadband growth in Germany, particularly in the retail market, is largely dependent on the acceptance of double-play and triple-play products and services and improved customer services.

In 2008, T-Home continued to develop its portfolio to include new innovative broadband services. This development is supported by the continued expansion of the ADSL 2+ and high-speed VDSL networks, and which now have substantial coverage in terms of both geography and customers in Germany, and which provide bandwidths of up to 50 Mbit/s. T-Home expects to continue developing new services as its network expands.

In July 2007, T-Home launched the “congstar” brand to offer wireless telephone and broadband services aimed at younger, price sensitive customers. Congstar’s streamlined business model is centered on the sale of products via the Internet and call centers directly to customers.

In 2006, the portfolio of access services was broadened with rate offerings that include Internet access and DSL telephony that can be selected for all available access line speeds. In May 2006, T-Home launched the T-DSL 16000 product line primarily for data-intensive applications.

Table of Contents

In October 2006, T-Home launched its first triple-play product consisting of high-speed Internet access, telephony and Internet Protocol Television (IPTV). As part of the launch of IPTV using the high-speed network, T-Home has concluded agreements with numerous broadcasters in Germany. Since August 2006, T-Home has been offering transmissions of soccer matches of the first and second Bundesliga divisions in cooperation with the pay-TV channel Premiere.

In the entertainment area, the existing videoload (formerly marketed as “video-on-demand”) portfolio is being continually expanded, with a film library of over 3,500 titles from 18 genres. T-Home offers “musicload,” one of the leading German online-music download portals based on the number of downloads. The musicload portfolio contains more than 6.5 million songs and approximately 16,000 music videos. Since June 2008, musicload is also available in Austria and Switzerland. In 2005, T-Home launched “gamesload,” which offers more than 1,600 titles. With the introduction of “softwareload” in November 2006, T-Home established an additional digital distribution platform for downloading software on the Internet. Softwareload offers a wide range of about 29,000 titles. Scout24 is a group of leading European online marketplaces and an established online classified service. Scout24 provides a broad range of sector specific marketplaces: AutoScout24, FinanceScout24, FriendScout24, ImmobilienScout and JobScout24.

Broadband Access

T-Home typically offers broadband access based on ADSL, ADSL2+ and VDSL technologies, which combine a high-speed data download transmission speed with a lower upload transmission speed, primarily to its individual customers. T-Home also offers synchronous DSL (SDSL) technology to its business customers, which permits high-speed data transmission speeds in both directions. SDSL has been available throughout Germany under the “T-DSL Business” brand name. T-Home provides Standard Analog and ISDN access lines, enhanced by means of DSL technology, to its individual and business customers at a fixed monthly fee. In 2008, pursuant to a regulatory mandate, Broadband/Fixed Network began to sell the newly introduced IP-based products IP-Bitstream Access Stand Alone.

The number of broadband access lines provided by T-Home continued to increase in 2008 and T-Home expects that demand for high-bandwidth services will result in continued growth in the number of broadband access lines in operation in the future.

Other Services

Other services primarily includes data communications, value-added services and terminal equipment, which were previously reported separately, as well as various other services, such as publishing, support services and the sale of products and services through T-Home’s Telekom Shop (formerly T-Punkt) outlets.

Data Communications

T-Home’s full portfolio of data communications solutions, which through December 31, 2008 was also offered by the Business Customers operating segment, includes the following products and services:

- Telekom Design Networks (TDN), which combine data and voice communications products to meet the specific needs of business customers and other carriers. A wide range of additional services (e.g., consulting, project management, design and re-design of customer networks) are integrated into TDN contracts. These components form the basis for a customized system solution, which can then be adjusted, based on changing client requirements and new technologies;

- Internet solutions and IP-related services, primarily provided through the CompanyConnect and “IP-Transit” products. IP-Transit offers bandwidths of up to 2.5 Gbit/s and provides worldwide Internet connectivity using multiple connections to different providers simultaneously. Based on this technology, customers can achieve very high system stability and independence from a single ISP. IP-Transit is mainly marketed by T-Home, in cooperation with T-Systems, to wholesale services customers and large-sized companies; and

• Dedicated customer lines: T-Home's dedicated customer line product offers business customers connections between two customer networks (located up to 50 kilometers apart) with transmission speeds of up to one Gbit/s.

Value-Added Services

T-Home offers a range of value-added telephone services for individual and business customers. These services include toll-free numbers and shared-cost numbers for customer-relationship management, directory-assistance numbers, the provision and administration of directory databases and public payphones.

Table of Contents

T-Home's premium-rate services (which use the 0190 and 0900 exchanges) enable information and entertainment packages to be sold and billed automatically by telephone or via the Internet. T-Home provides contact-routing solutions to its customers. Through its shared-cost number product, "T-VoteCall," T-Home provides media broadcasting companies (largely television and radio stations) with the ability to catalogue and switch customer calls to pre-defined locations. Through its shared-cost number product, "0180 Call," T-Home allows customers to access hotline services such as telephone banking, insurance consulting and consumer product help lines.

Terminal Equipment

Through its terminal equipment business, T-Home distributes, for purchase or lease, an extensive range of third-party and T-Home's own-brand telecommunications equipment. Products range from individual telephone sets and facsimile machines, targeted at individual customers, to more complex telephones, private branch exchanges (PBXs) and complex network systems (including broadband access devices), targeted at business customers.

Most of T-Home's terminal equipment sales occur through its Telekom Shop outlets, which offer an extensive product portfolio, including fixed network access products, DSL business products, and products and services from T-Mobile and third-party vendors. T-Home receives commissions on its sales of products and services provided by other Deutsche Telekom operating segments.

Additional Services

Other services also includes publishing services, which include the sale of marketing and advertising services to small- and medium-sized companies via T-Home's telephone directories. The telephone directories (e.g., DasTelefonbuch, GelbeSeiten, DasÖrtliche) are edited and published in a variety of formats (including print, CD-ROM, online and a version for mobile devices) in cooperation with local publishers. T-Home receives most of its publishing revenues from advertisements contained in these directories. In recent years, this business has been subject to increasing pressure from competition especially from online services.

In addition, other services includes support services, such as installation, maintenance, hotline, customer consulting, training and software installation services. These services are provided on a standardized basis for individual customers and on a customized basis for business customers.

International Operations

In Central and Eastern Europe, Broadband/Fixed Network operates primarily in the fixed-line area. The majority of the business activities of Broadband/Fixed Network's Central and Eastern European subsidiaries, except for mobile telecommunication, are included in Broadband/Fixed Network's results of operations.

Broadband/Fixed Network sold T-Online France and T-Online Spain on June 29, 2007 and July 31, 2007, respectively. The results of these companies are included in results of operations through their respective dates of divestiture.

Central and Eastern Europe

Broadband/Fixed Network provides fixed-line network services, wholesale services, IP/Internet services and multimedia services in certain countries in Central and Eastern Europe, through its subsidiaries Magyar Telekom (Hungary, Macodonia, Montenegro), Slovak Telekom (Slovakia) and T-Hrvatski Telekom (Croatia). As an integrated telecommunications provider, Broadband/Fixed Network also markets triple-play services and intends to market quadruple-play services (which includes mobile communications in addition to triple-play services) through these subsidiaries.

Magyar Telekom

Broadband/Fixed Network holds a 59.3% equity interest in Magyar Telekom, the leading full-service telecommunications service provider in terms of customers and revenues in the Republic of Hungary. Magyar Telekom offers telecommunications services, such as fixed-line telephone services, data communications services, wholesale services, IP/Internet services, multimedia broadcast services and other services such as IT outsourcing services for customers throughout most of Hungary. Magyar Telekom holds a 56.7% stake in Makedonski Telekom, the incumbent fixed-line carrier in the Republic of Macedonia. In addition, Magyar Telekom has a stake of 76.5% in Crnogorski Telekom, which provides fixed-line and Internet services in the Republic of Montenegro.

Table of Contents

Magyar Telekom launched the first IPTV offering in Hungary in November 2006. In September 2008, Magyar Telekom decided on the roll out of a fiber network in order to offer innovative products on a new state-of-the-art network. At the end of November 2008, as part of Magyar Telekom's rebranding campaign, the company launched a nationwide digital satellite TV service under the brand name T-Home Sat TV.

In 2008, the number of Magyar Telekom's fixed-network access lines in operation decreased compared to 2007 and 2006. The number of broadband access lines provided by Magyar Telekom continued to increase in 2008. The number of broadband access lines in operation at December 31, 2008 was 899,000 compared to 778,000 at December 31, 2007, and 593,000 at December 31, 2006. On March 30, 2007, Magyar Telekom introduced an unbundled ADSL service.

Magyar Telekom's multimedia and broadcasting services business primarily consists of its cable television business. The number of Magyar Telekom's cable television customers increased from 419,000 at December 31, 2007 to 423,000 at December 31, 2008.

As part of Magyar Telekom's strategy to provide international network and carrier services in southeastern Europe, Magyar Telekom entered the Romanian market in July 2004, the Bulgarian market in September 2004, and the Ukrainian market in August 2005, and currently offers mainly wholesale services in each of these markets. Capitalizing on its experience in these markets, Magyar Telekom has expanded its activities as an alternative carrier and Internet service provider in southeastern Europe.

T-Hrvatski Telekom

Broadband/Fixed Network owns a 51% equity interest in T-Hrvatski Telekom, the leading full-service telecommunications provider in the Republic of Croatia in terms of revenues. T-Hrvatski Telekom offers access and local, long-distance and international fixed-line telephone services, data communications services, IP/Internet services and wholesale services.

T-Hrvatski Telekom introduced entertainment services with the launch of IPTV in September 2006. T-Hrvatski Telekom also operates a digitalized fixed-line telecommunications network. Since mid-2005, particularly in the fixed-line voice telephony business, T-Hrvatski Telekom has been confronted by increasing competition. In addition to carrier preselection, mobile substitution is the main competitive challenge in Croatia. In 2008, T-Hrvatski Telekom started the commercial roll-out of a state-of the art fiber network.

In 2008, the number of T-Hrvatski Telekom's fixed network access lines in operation decreased slightly compared to 2007 and 2006. The number of broadband access lines provided by T-Hrvatski Telekom continued to increase in 2008. The number of broadband access lines in operation at December 31, 2008 was 473,000 compared to 345,000 at December 31, 2007, and 216,000 at December 31, 2006.

Slovak Telekom

In 2000, Broadband/Fixed Network acquired a 51% equity interest in the then state-owned Slovenské telekomunikácie a.s., which was rebranded "Slovak Telekom" in March 2006. As part of this rebranding strategy, the "T" brands were introduced in Slovakia. Slovak Telekom is a leading full-service telecommunications provider in the Slovak Republic. Slovak Telekom offers access and local, long-distance and international fixed-line telephone services, data communications services, wholesale services, and IP/Internet services.

In December 2006, Slovak Telekom introduced new competitive entertainment services with the launch of IPTV and triple-play services. Slovak Telekom believes that triple-play is one of the main drivers for the success of Slovak Telekom's broadband business.

Slovak Telekom's total number of fixed-network access lines increased in 2008 by 1.4% compared to 2007, due to a substantial increase in demand for all-IP access lines. This increase was mostly offset by mobile substitution. In 2007, Slovak Telekom's total number of fixed-network access lines decreased by 3.5% compared to 2006 due to mobile substitution. The number of broadband access lines in operation in Slovak Telekom's network continued to increase in 2008. The number of broadband access lines in operation at December 31, 2008 was 339,000 compared to 261,000 at December 31, 2007, and 182,000 at December 31, 2006.

Table of Contents

Sales Channels

Broadband/Fixed Network offers its products and services through a broad range of third-party distributors, as well as direct and indirect sales channels. Broadband/Fixed Network's direct distribution channels include its Telekom Shop retail outlets, direct sales force dedicated to either business or retail customers, and online ordering via the Internet. In addition, Broadband/Fixed Network provides toll-free numbers that allow customers to obtain information about, and place orders for, its various products and services. Broadband/Fixed Network maintains separate sales units for direct sales to individuals and businesses, domestic carrier services and services offered to network operators and service providers.

Seasonality

Broadband/Fixed Network's businesses are not materially affected by seasonal variations.

Suppliers

The principal types of equipment purchased by Broadband/Fixed Network are network components, such as switching systems, transmission systems, access network components, and customer premises equipment, such as telephones, fax machines, broadband modems and similar items. Although Broadband/Fixed Network doesnot believe it is dependent on any single supplier due to its multiple-supplier strategy, there may be occasions when a particular product from a particular supplier is delayed or back-ordered. Broadband/Fixed Network's major suppliers are Siemens AG, Deutsche Post World Net, Alcatel-Lucent Deutschland AG, Grey Global Group (MediaCom), AVM Computersysteme, Cisco Systems Inc., Corning Cable Systems GmbH & Co. KG, and IBM.

Dependence on Patents, Licenses, Customers or Industrial, Commercial or Financial Contracts

Broadband/Fixed Network does not believe that it is dependent on any patent or other intellectual property rights. For a description of patent infringement litigation relating to certain DSL-related technology that is relevant to Broadband/Fixed Network's business, see "Item 8. Financial Information—Legal Proceedings—Other Proceedings." Broadband/Fixed Network also does not believe that it is dependent on any individual third-party customer or on any industrial, commercial or financial contract.

Competition

Broadband/Fixed Network faces intense competition, based primarily on price in the market for fixed-line network voice telephony and data-connect, from other fixed-line carriers and mobile operators. In recent years, this competition has intensified, especially in the fixed network and broadband access markets. In particular, competition through bundled offers from other fixed-line carriers has intensified. Competitors have invested in their own infrastructure. The introduction of attractively priced triple-play packages to customers by Broadband/Fixed Network and other fixed-line carriers, as well as cable operators, is evidence of this increase in competition. Broadband/Fixed Network expects that competition from cable operators will also continue to increase. Depending on the degree to which alternative technologies, such as VoIP, cable broadband and the Internet, gain market acceptance, the usage of Broadband/Fixed Network's network will be adversely affected.

Given the significant competitive advantage that such high-speed networks offer in the broadband access market, Broadband/Fixed Network expects that other competitors will continue to invest in their own network infrastructure in order to offer their own IP-based products to compete with Broadband/ Fixed Network's products and services.

National network operators, such as Vodafone/Arcor AG & Co. KG, and local network operators, such as, Versatel AG and NetCologne Gesellschaft für Telekommunikation mbH, M-net Telekommunikations GmbH as well as local cable operators, have also made substantial investments in local network infrastructure and compete with Broadband/Fixed Network in major urban centers throughout Germany.

Competition from local network operators, on the basis of leased lines (unbundled local loop) or the competitor's own infrastructure, is increasing, particularly from entities owned by large European telecommunications companies, such as HanseNet (a subsidiary of Telecom Italia).

The impact of mobile substitution on Broadband/Fixed Network is also increasing, in part because of the increased market entry of MVNOs (i.e., companies with aggressive pricing policies that buy mobile network services and market them independently to third parties). Furthermore, as prices for mobile telephony decline, local and other calling services, as well as access services, face increasing competition from mobile telephone operators, due to mobile substitution.

Table of Contents

It is also possible that cable operators may increase their market share by offering attractive triple-play services.

Accordingly, Broadband/Fixed Network believes that it continues to be exposed to the risk of further market share losses and falling margins.

Competition in the fixed-line network business in Central and Eastern Europe also increased. The growing number of competitors offering call-by-call and, more recently, carrier pre-selection services to consumers has led to increased competition, especially in Hungary, in which mobile substitution was also a significant factor. Increased mobile substitution also affected the Slovakian market. In addition, competition in Hungary and Slovakia is also expected to increase as cable network operators in those countries upgrade their networks to offer double-play and triple-play services. Competition in Croatia is expected to increase following the award of additional fixed-line network licenses.

In 2005, T-Home offered VoIP services in Germany for the first time to retail customers. VoIP services can compete with traditional voice telephony, both in the network access services business and in the various calling services markets. VoIP network access services offerings and customer acceptance have continued to increase in 2008. In addition, VoIP services has substantial competitive potential in the calling services markets.

Base prices for broadband and voice product packages remained relatively stable in 2008. However, continued competition in these markets resulted in higher service levels being provided for these product packages, for example, increased broadband access widths and higher number of flat-rate minutes. The increased use of bundled packages (including calling plans) with a flat-rate component and a decrease in the overall prices for these packages by Broadband/Fixed Network ‘s competitors have intensified the downward pricing pressure on its own products, services and pricing packages. These factors, combined with the continued implementation of government policies intended to foster greater competition, are expected to yield similar trends in the future.

Effect of Regulatory Decisions

In the markets for international, long-distance and local calling services in Germany, the level of competition Broadband/Fixed Network faces is influenced by the fact that it is required to permit other telecommunications companies to interconnect with its fixed-line network and for access to the unbundled local loop at rates determined by the Federal Network Agency. As a result, decisions of the Federal Network Agency regarding the rates that Broadband/Fixed Network is permitted to charge for interconnection and for access to the unbundled local loop have had, and will continue to have, a significant impact on the strength of Broadband/Fixed Network’s competition in the market for fixed-line network voice telephony as well as on Broadband/Fixed Network’s revenues and profit.

For a more detailed discussion of regulatory decisions and other competitive factors affecting Broadband/Fixed Network’s business, see “—Regulation” and “Item 8. Financial Information—Legal Proceedings.”

Other Fields of Business Activity

Although Broadband/Fixed Network does not manufacture its own equipment, it does resell telecommunications equipment provided by other companies under its own brand. The terminal equipment sector is characterized by falling prices, low margins, rapid technological innovation and intense competition. The basis for competition in this field is primarily price. Broadband/Fixed Network’s most significant competitors in this area are Siemens AG, Alcatel, Koninklijke Philips Electronics N.V. and Tenovis GmbH & Co. KG. Most of these competitors are also suppliers to Broadband/Fixed Network.

Table of Contents

Business Customers

The Business Customers operating segment provides, through T-Systems, ICT services worldwide, primarily to German and international companies, non-profit organizations and governmental agencies. Through December 31, 2008, T-Systems was also responsible for servicing all of the Deutsche Telekom Group's business customers. The further development of the business model for 2009 see paragraphs below.

Principal Activities

T-Systems uses advanced information technology and its telecommunications expertise to provide ICT infrastructure and tailored ICT solutions to its customers. T-Systems supports its customers through its global telecommunications network and through its IT infrastructure network, which connects more than twenty countries worldwide.

The primary markets of the Business Customers operating segment are located in Germany and Western Europe. The German-based operations contributed approximately 75.5% of T-Systems' total revenues, which include intersegment revenues from other Deutsche Telekom Group companies and affiliates. For more information, see "Item 5. Operating and Financial Review and Prospects—Segment Analysis—Business Customers."

T-Systems supports its multinational customers globally through its delivery organizations as described below. Although the majority of T-Systems' customers are headquartered in Germany, as of December 31, 2008, approximately 36.6% of T-Systems' 51,692 employees provided services from locations outside Germany.

As part of our divestiture strategy, Media & Broadcast was sold to Télédiffusion de France for a purchase price of EUR 0.7 billion on January 15, 2008.

Business Model 2008

T-Systems was reorganized in 2008 according to a functional separation of sales and delivery units with global responsibility and company-wide support functions.

The Corporate Customers business unit is responsible for sales and provisioning of ICT products and solutions for multinational and large enterprises. It is comprised of approximately 1,700 customers within five specific industry service lines. The Corporate Customers business unit employs two go-to-market strategies:

Key Account Management (KAM) - customer services with dedicated key account managers; and Direct Sales (customer services through expert sales managers; proximity to customers with regional structure).

The Business Customers business unit is responsible for resale of products (TC and IT) with a multi-channel approach for enterprises. Two delivery units, ICT Operations and Systems Integration, support the operations of both the Corporate Customers and the Business Customers business units.

The ICT Operations (ICTO) delivery unit services its customers according to a global delivery model with global sourcing management across service lines. ICTO employs an integrated ICT solution design, as well as integration of processes and tools across all service lines with responsibility for standardization of delivery of services. During 2008, the former service units, Telecommunications Operations and IT Operations, were combined to form ICT Operations, which enables us to offer integrated telecommunications and IT from one production source.

The Systems Integration (SI) delivery unit is focused on application management and application development. Offshore resources were significantly increased, particularly through the partnerhip with Cognizant Technology Solutions Corporation, allowing Systems Integration to provide seamless services based on a joint, global delivery network.

Detecon offers its customers integrated management and technology consulting. Detecon operates worldwide and focuses on consulting for the telecommunications market. Detecon markets its services separately from the Corporate Customers and Business Customers business units.

Table of Contents

Further Development of Business Model in 2009

The reorganization that was begun in 2008 has been further developed to focus on increased differentiation between business customers and corporate customers to better service customers needs and maintain a competitive advantage. The T-Home Sales&Service Germany unit will starting 2009 serve Business Customers' approximately 160,000 customers who primarily require standard telecommunications products. T-Systems will focus on ICT solutions for approximately 400 domestic and international key accounts and also on customers in the public and health care area.

Service Offerings Portfolio

In 2009, an important trend in the IT and telecommunications markets is the emergence of a combined ICT market, which is driven primarily by customer requirements and technological advances. The primary advantages of this combined market are more effective and efficient solutions and incident management in complex IT and telecommunications infrastructures, including one single service agreement for all ICT services.

It is the goal of T-Systems to become a +European-based ICT leader for multinational companies. T-Systems is continuing the process of aligning its operations to provide combined IT and telecommunications services more effectively, through improved service management and solutions development. In this regard, T-Systems is reshaping its service offerings, particularly within three value enhancing service levels:

- "ICT Infrastructure"—Includes the provisioning of capacity or connectivity, in combination with communication technology related applications and value added services and the selling of hardware with related basic support services.

- "Horizontal processes and applications"—Includes standard business applications on platforms run by T-Systems, provided and operated for various customers (application provisioning and operations), application development and system integration and application management (i.e., end-to-end operational responsibility for an application) services.

- "Vertical processes and applications"— In addition to its horizontal processes and applications which apply to all industries, T-Systems offers industry specific solutions or vertical solutions for different industries. The automotive, public and telecommunications industries are served completely, whereas banking, aerospace, and travel, transport and logistics industries are served with selected industry-specific solutions.

In addition, T-Systems provides consulting and security services, which are included in each of the above service levels.

Business Customers

The Business Customers business unit offers a comprehensive portfolio of telecommunications services to its customers and those of the Corporate Customers business unit. Given the convergence of the telecommunications and IT markets, this business unit has enlarged its portfolio by offering IT Services and has positioned itself as a network-centric ICT provider for the German middle market. The product and services portfolio of this business unit includes:

- Voice Services—consisting of telephone lines and calling services, including VPN as well as mobile voice access;

- Voice Equipment—telecommunications equipment available for sale or lease;
- Data communication services—consisting of traditional data connections (e.g., leased link services, VPN transport services based on Frame Relay and ATM technologies) and IP solutions based on modern IP technologies, including VoIP;
- Local Area Network (LAN) solutions—LAN and W-LAN hardware for sale or lease, as well as the implementation and operation of related solutions (e.g., W-LAN corporate / AutoID solutions, hotspot solutions);
- Mobile solutions—access solutions and integration services, including customer-requested solutions relating to digital transmission of content, such as universal secure access and mobile office solutions;
- IT infrastructure services—solutions for improving IT-infrastructure (e.g., desktop management, datacenter outsourcing & services, storage solutions);

- IT business solutions—design, implementation and management of applications to support internal processes of customers;
- Business Process Outsourcing—assumption of responsibility for complete business processes (e.g., billing solutions, human resources); and
- Digital Security Services—including antivirus, firewall and encryption services.

Sales Channel

During 2008 the sales force was organized regionally to support quality customer service throughout Germany, due to the vast range of customers and their different needs and requirements, Sales & Service Management was separated into five sales channels:

- large enterprises and multi-national corporations that require customized solutions;
- medium enterprises that require the integration of multiple products;
- small enterprises that require standardized products;
- public, which addresses solutions specific to public authorities; and
- health care, which addresses solutions specific to the health care industry.

Contracts relating to the Sales & Services Management distribution channels have an average duration of approximately three years. Voice services provided are billed on a per-minute basis, while data services are billed in terms of the volume of bandwidth provided each month. Customers taking advantage of leased-line services pay an initial connection fee, based on the type of line leased, and thereafter pay monthly subscription charges based on the line's capacity (narrowband or broadband), the length of the line (point-to-point connection) and the duration of the lease. Begining in 2009, the sales force will be transferred to T-Home.

Corporate Customers

The Corporate Customers business unit is responsible for sales and providing ICT services and solutions for multinational and large enterprises. Due to its specific requirements, the public and healthcare sector will be served by a separate dedicated team. Corporate Customers will also support Deutsche Telekom in its IT needs and achieving its cost targets. The Corporate Customers business unit currently services approximately 1,700 customers multinational and other major customers with a dedicated key account management team and large customers with a direct sales approach.

The Key Account Management unit is responsible for overall global development and management of business with major customers and is focused on revenue growth, profitability and customer satisfaction. This unit has a customer base of approximately 40 major accounts.

Table of Contents

The Direct Sales unit services T-System's remaining customers. Direct Sales is responsible for establishing existing business and generating new business with these customers with the aim of ensuring order entry and revenue growth. Direct Sales bundles account management and services management, as well as sales management capabilities, and is supported by pre-sales capabilities.

The public and healthcare industries (including government agencies in the federal structure, state pension funds, the armed forces of the Federal Republic, research and teaching institutions, international organizations and the healthcare sector) are serviced by a separate dedicated team. T-Systems enables public entities to establish innovative business processes, such as services to individuals through the Internet and the management of data and voice networks.

The Corporate Customers business unit also manages the Deutsche Telekom global account, which reduces IT and telecommunications related costs for the Group. Working on the basis of a "one company" principle with shared goals across all business units of the Group, the DTAG Global Account team aims to contribute to positive developments in the IT landscapes, cost savings, innovation and simplicity within the Group.

The International Operations and Services unit has been established to support the international operations of T-Systems'customers and the international activities of T-Systems. This unit supports the account, sales and bid management activities and oversees the roll-out of management and strategic programs, mainly developed in Germany. The placement of the local business units are determined by the customer's headquarter location.

Corporate Customers combines its support functions in four specific units: ICT PreSales, Big Deal Management, Sales Operations & other Support Functions, and SI Sales.

§ ICT PreSales: ICT PreSales is responsible for bid management and has the technical expertise to provide solutions to fit the customers' needs. ICT PreSales supports the operative sales units through the entire sales process until closing the deal.

§ Big Deal Management: Big Deal Management is responsible for the develompent of large volume and strategically relevant deals in selected geographic areas, including the initial sales phase, closing the transaction, and transition to the appropriate service and delivery unit.

§ Sales Operations & other Support Functions: Sales Operations & other Support Functions is responsible for maintaining the same methods and processes relating to the main functions within Corporate Customers, analyzing the relevant market and its structure, and sales operations, as well as account and sales management support.

§ SI Sales: SI Sales is responsible for order entry and revenue growth of Systems Integration services, as well as for generating new Systems Integration business. SI Sales is organized as an additional sales unit and supports the account management organization.

Systems Integration

Systems Integration (SI) provides advice and assistance for a company's entire "plan-build-run" lifecycle. Through its ICT solutions, SI increases the flexibility of its customers' business processes. Its primary focus is on solution design and architecture, IT projects (e.g., solution implementation, along with development projects, including software and platform development, re-engineering and migration), and solution and application development, including testing and application lifecycle services. The focal points of SI's business model are:

- "Industrialization"—relates to the introduction of uniform processes, general standards, methods and tools and enhancing the re-usability of modular solutions. It is also defined by the maintenance of low-cost structures at production sites. For this reason, T-Systems' SI business unit has established sourcing platforms in countries such as India, Russia, Hungary and Brazil in order to provide local and offshore capabilities.

- "Verticalization"—SI's business is an integrated part of the T-Systems ICT portfolio strategy and mainly focused on five industries: Telecommunications, Automotive, Manufacturing, Public and Services. Cross industry services are provided by separate application development-, service and testing factory units within SI. This concentration on specific competencies enhances the quality of activities to achieve best in class process consulting, project and application services delivery.

- "Internationalization"—through SI, an international delivery network has been established to provide sales and services to international customers by offering them tailored, efficient solutions and service components.

Table of Contents

Partnership with Cognizant

In March 2008, T-Systems and Cognizant, a global IT provider with headquarters in the U.S., entered into an arrangement and have built a global service alliance for systems integration. This alliance is targeting mainly European enterprises in order to meet their demands for global services. T-Systems and Cognizant have bundled their respective consulting businesses in order to obtain projects primarily for customers with offshore locations in Asia and Europe that require global IT solutions. Over 40,000 employees of both partners are working offshore, mainly in India. T-Systems and Cognizant have a combined workforce of 110,000 employees in all important economic regions of the world. With this alliance, corporate customers in Europe and elsewhere have better access to global IT services and the global delivery network of both providers.

ICT Operations

ICT Operations is responsible for providing services relating to customer ICT infrastructure, including computing services, desktop services, application services and telecommunications services. ICT Operations' services are offered to new and existing customers through the Corporate Customers business unit.

ICT Operations provides the personnel, servers and infrastructure necessary to operate the ICT functions of T-Systems' customers. ICT Operations is represented in a large number of locations throughout Germany and the world. As of December 31, 2008, ICT Operations had a total of more than 19,000 employees, of whom approximately half were based in Germany.

ICT Operations comprises three main service lines: Desktop Services & Solutions, Computing Services & Solutions and Telecommunications Services & Solutions. Desktop Services & Solutions delivers, operates and maintains desktop systems for customers, while Computing Services & Solutions operates data centers for customers and manages the systems and applications, which run in these data centers. Telecommunications Services & Solutions develops and operates T-Systems telecommunications products and solutions

Desktop Services & Solutions

The Desktop Services & Solutions service line is responsible for the development and implementation of complete office systems solutions with wide-ranging responsibility for IT infrastructure. Other core services include stand-alone office systems solutions, including desktop operations, call-center and help-desk services, as well as the operation of computing services infrastructure, consulting and IT design. These services may include sales or leasing contracts relating to desktop computer hardware supplied by third parties. Through Desktop Services & Solutions, T-Systems provides cost-effective desktop services primarily to large customers. Such services cover the entire lifecycle of the workstations provided to the customer, and also include the remote configuration, troubleshooting and debugging of software running on workstations serviced through Desktop Services & Solutions.

Through Desktop Services & Solutions, ICT Operations also ensures the proper operation of the workstations and services hardware and software products provided. As of December 31, 2008, more than 1,500,000 workstations were serviced through Desktop Services & Solutions. Help-desk services are primarily provided through the Services Office platform and the Call Center Platform Management (CCPM) services. The Services Office platform supports one of the largest and most sophisticated Microsoft Exchange applications worldwide, with more than 300,000 mailboxes as well as file, fax and SMS services. CCPM includes services that are required for the smooth operation of a call-center platform.

In general, desktop services contracts have an average duration of two years. Customers pay for managed desktop services based on contractually agreed service levels. These agreements describe quantities of goods (i.e., the number of computers leased and maintained) as well as customer-specific availability and quality requirements for the services provided.

Computing Services & Solutions

Computing Services & Solutions provides customers with the ability to outsource their entire IT operations. The services offered include the operation of data centers, application management, user support and network management. Other services offered include the installation, operation and administration of central computer systems (mainframes), open computer systems (e.g., UNIX, Windows NT), data center infrastructure services and business applications, on behalf of its customers.

Generally, contracts involving computing services have an average duration of four years or more. Customers pay for computing services based on contractually agreed service levels. These agreements describe the quantity, quality and extent of services to be provided.

Telecommunications Services & Solutions

Telecommunications Services & Solutions manages the development, construction and operation of T-Systems' German and international service platforms, based on transport capacity leased primarily from T-Home and, to a lesser extent, from other providers.

T-Systems' service platforms include:

- IP MPLS - delivers advanced IP services and features, including VPNs for business customers;

- ATM/Frame Relay - used as transport technologies through which specific services in customer networks are offered;

- Voice over IP - T-Systems operates an international IP-based voice platform for advanced VoIP products for business customers. This platform also provides the gateway function to the PSTN/ISDN Network; and

- Ethernet Platform - based on T-Home's or other providers' aggregation and access network for end-to-end ethernet VPN services and LAN-to-LAN connections.

Telecommunications Services & Solutions also provides value-added services through IP-based platforms, including:

- Remote dial-in and Client Encryption - designed to give mobile and non-permanent users an easy and secure access to their respective companies' Intranet through private dial and secure Internet access technologies;

- Security Services - modular security solutions, as well as customized solutions and firewall services;

- Shared Internet Access Services - primarily proxy services based on different access rates and technologies; and

- Managed Hosting Services - for server-based solutions, applications and web services.

Approximately 74% of Telecommunications Services & Solutions' assets are comprised of technical facilities mainly consisting of active network equipment and approximately 17% are comprised of intangible assets mainly consisting of software licenses with the remaining 9% comprised of assets under construction, furniture and office equipment as well as leasehold improvements.

Seasonality

The revenues of the Business Customers operating segment are not materially affected by seasonal variations. However, its revenues may be subject to quarterly fluctuations depending on sales cycles (currently ranging between six and 18 months) and the purchasing patterns and resources of its customers, which are subject to general economic conditions and, therefore, difficult to predict. Accordingly, revenues received in a particular quarter may not be indicative of future revenues to be received in any subsequent quarter.

Suppliers

The principal goods and services purchased by T-Systems are computer hardware for client servers and mainframes, operating systems and applications software, network capacity, network services, telecommunications network components and IT consulting services. Business Customers manages the risks in the supplier relationships, as well as the risks associated with quality and cost considerations, on behalf of its customers. We do not believe that Business Customers is dependent on any single supplier.

Dependence on Intellectual Property

We do not believe that the Business Customers operating segment is dependent on any individual patents, licenses or industrial, commercial or financial contracts. However, Business Customers is subject to third-party software licenses in connection with the services it provides to its customers. Any breach, violation or misuse of third-party software licenses could result in additional costs with respect to the particular projects that are the subject of such licenses.

Dependence on Material Contracts

Business Customers intends to become less dependent on internal customers (i.e., other Deutsche Telekom Group companies) and to improve its market position with respect to external customers. In 2008, the other Deutsche Telekom Group companies accounted for approximately 23.2% of Business Customers' total revenues, compared to 25.1% in 2007 and 27.7% in 2006. No other customer accounted for a significant portion of Business Customers' total revenues in 2008.

Competition

T-Systems operates in markets that are subject to intense competitive pressures, and the overall market has been characterized by consolidation and increased concentration during the past year. T-Systems faces a significant number of competitors, ranging in size from large IT and telecommunications providers to an increasing number of relatively small, rapidly growing and highly specialized organizations. T-Systems believes that its combination of ICT service and solutions, performance, quality, reliability and price are important factors in maintaining a strong competitive position.

T-Systems holds different market positions (based on total revenues) in different regions of the world. In Germany, T-Systems believes it was still the market leader in 2008 in the IT and telecommunications areas. In Western Europe, T-Systems was one of the largest vendors in 2008, together with IBM Global Services, Accenture, CapGemini, and HP Services, with respect to IT services, including intersegment revenues of T-Systems, and one of the four largest companies, together with BT Global Services, France Télécom and Telefónica, in the telecommunications industry. Globally, T-Systems ranked among the top 20 IT and telecommunications companies. T-Systems' global IT competitors include IBM Global Services, Fujitsu Services, HP Services, Accenture, CSC, Atos Origin and CapGemini. In the telecommunications area, T-Systems competes globally with AT&T (Business), Verizon (Business), NTT, France Télécom (Enterprise) and BT Global Services.

Competition in the telecommunications markets in which T-Systems competes is very intense, both in Germany and globally. The market is characterized by substitution of legacy services (voice and data) by IP and mobile services and by strong pricing pressures. The competitive landscape over the past several years has been characterized by market participants attempting to reduce their indebtedness and increase their profitability through strategic refocusing and concentration on IP services, fixed-mobile convergence and network-centric ICT solutions. Additionally, consolidation in the ICT market (primarily in the U.S. market) has increased the competitive landscape. T-Systems expects this strategic refocusing to continue in 2009 and therefore expects similarly fierce competition.

Competition is also intense in the information technology area. The current market is characterized by strong pricing pressures, reduced customer IT budgets, prolonged customer sales cycles and aggressive competition from offshore providers. As a result of these competitive pressures, many companies, including T-Systems, are attempting to maintain or expand market share through improved productivity, cost-cutting and efficiency measures. This situation has also led to a consolidation in the IT sector, which T-Systems expects to continue for the foreseeable future. However, T-Systems expects the global IT services markets to continue to grow only slightly due to the financial crisis. The competition will remain intense over the next years.

Table of Contents

Group Headquarters and Shared Services

General

Group Headquarters and Shared Services performs strategic and cross-divisional management functions for the Deutsche Telekom Group. Group Headquarters functions include those performed by many of our central departments, such as treasury, legal, accounting and human resources. Operating functions not directly related to the core businesses of our operating segments are considered Shared Services functions. These functions also include, among others, the management and servicing of our real estate portfolio (primarily within Germany), fleet management and Vivento. Additionally, Group Headquarters and Shared Services includes the shared services and headquarters functions of Magyar Telekom. Although many of the Group Headquarters and Shared Services functions are legally part of Deutsche Telekom AG, we manage Group Headquarters and Shared Services as though it were a separate legal entity.

Principal Activities

The real estate unit is, based on total and net revenues, the largest shared service within Group Headquarters and Shared Services. The real estate unit is responsible for managing our real estate portfolio, renting commercial real estate and providing facility management services for our Group, primarily in Germany. Our real estate operations are conducted through various subsidiaries and affiliates and include:

- the internal and external Group leasing and rental business;
- the power supply and air conditioning solutions business related to our telecommunications facilities;
- facility management services (until September 30, 2008);
- real estate management for Magyar Telekom and Slovak Telekom, as well as third parties in Hungary and Slovakia (until September 30, 2008); and
- the operation, management and servicing of our radio transmission sites, such as our radio towers and transmitter masts in Germany (primarily used in mobile, radio and satellite communications, as well as for television broadcasting).

In the third quarter of 2008, we sold our DeTe Immobilien real estate and facilities management services subsidiaries to the Austrian company Strabag SE as part of our strategy of focusing on our core businesses. As of September 30, 2008, around 5,900 employees of DeTe Immobilien were transferred to Strabag SE. Our real estate ownership was not affected by the sale. For more information about our real estate portfolio and management activities, see "—Description of Property, Plant and Equipment—Network Infrastructure—Real Estate."

Vivento was established in 2002 with the goal of efficiently implementing our staff restructuring measures in a socially responsible manner. Through Vivento, displaced workers are retrained and equipped with new employment qualifications for permanent redeployment within the Deutsche Telekom Group or with external employers, or for project and temporary assignments. In addition to individual placements, Vivento staffs major projects and workforce-intensive operations and services. To create further employment opportunities for the employees of the Group, Vivento acquires additional external employment opportunities for civil servant and non-civil servant employees, particularly in the public sector. At the beginning of 2004, Vivento commenced providing call center services primarily to some of our Group companies and, to a lesser extent, to third parties. These call center operations consist of a portion of the former call center operations of Broadband/Fixed Network, as well as those of Vivento Customer Services GmbH, which was established in the first quarter of 2004.

Vivento Customer Services provides customer-relationship services, including call center and back-office services, within the Group as well as to third parties. As of December 31, 2008, Vivento Customer Services employed approximately 1,400 people. In addition, approximately 1,000 people from Vivento were employed by Vivento Customer Services on a temporary basis as of that date. In 2008, we sold ten call center locations of Vivento Customer Services, which included the transfer of approximately 700 employees to external companies. As of March 1, 2008, five call center locations were transferred to the arvato group. An additional five call center locations were transferred to the D+S Europe group as of December 1, 2008.

Table of Contents

The activities of Vivento Technical Services GmbH, which offered installation and after-sales services in the field of technical infrastructure within and outside the Group, were sold to Nokia Siemens Networks in the fourth quarter of 2007. Within the transfer of operations, approximately 1,600 employees were transferred to Nokia Siemens Networks as of January 1, 2008.

During 2008, Vivento took on approximately 2,600 of the Group's employees. As of December 31, 2008, a total of approximately 41,100 employees have been transferred from the Group to Vivento since its creation. Approximately 70% of these employees were transferred from Broadband/Fixed Network, both as part of Broadband/Fixed Network's program to increase its efficiency, and through the transfer of certain Broadband/Fixed Network operations to Vivento. The remaining transferred employees were either apprentices who had finished their professional training within the Group, but had not obtained full-time employment, or came from the other Deutsche Telekom operating segments.

At December 31, 2008, a total of approximately 32,900 employees had left Vivento since its formation, of which approximately 4,600 left during 2008. About 88% of these employees were placed outside of the Group. As of December 31, 2008, approximately 8,200 employees were in Vivento, of which approximately 500 were permanent staff, approximately 2,400 were employees of the call center unit (including transferees assigned to the call center unit), approximately 3,000 employees were engaged in projects in cooperation with the Federal Employment Agency and other external employment arrangements, particularly in the public sector, and approximately 2,300 were additional transferees.

The following table provides information regarding Vivento's employee structure and movements for the periods presented:

	2008(1)	2007(1)	2006(1)
Number of employees transferred to Vivento	2,600	1,700	2,700
Number of employees that left Vivento	4,600	5,000	4,400
Total number of employees in Vivento as of year-end	8,200	10,200	13,500
of which: Operational staff of Vivento	500	600	700
of which: Number of employees in business lines	2,200	5,200	7,200

(1) Figures have been rounded to nearest 100.

Our fleet management company, DeTeFleetServices GmbH, provides fleet management and mobility services, with approximately 40,000 vehicles provided to our Group companies and affiliates within Germany. DeTeFleetServices also generates revenues from third parties through its sale of used fleet vehicles and, to a limited extent, through fleet management services to third parties. The majority of third-party customers are former affiliates of Deutsche Telekom that were sold.

The Central Treasury department is primarily responsible for cash management, investments in securities, leasing arrangements and the refinancing of indebtedness through a variety of financial arrangements, including, among other things, bank loans and other credit arrangements. Furthermore, this unit is responsible for the issuance of debt in the international capital markets, the handling of payments and clearing transactions, and foreign exchange and hedging activities. For more information, see "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

T-Venture Holding GmbH is also included in Group Headquarters and Shared Services. T-Venture's mission is to scout new products, technologies and services and to acquire access to them on our behalf. Accordingly, a central corporate fund has been established for the purpose of making investments in these areas, in addition to the individual investments that can be made by our operating segments.

The Telekom Training unit is responsible for providing professional training and qualification services for our employees within Germany. This unit also provided training for approximately 10,100 apprentices during 2008.

Group Headquarters and Shared Services also includes the establishment and maintenance of international intellectual property rights for the Deutsche Telekom Group, including all Telekom brands.

INNOVATION MANAGEMENT (RESEARCH AND DEVELOPMENT)

Innovation Strategy

In 2008, we continued to focus our research and development strategy on the introduction of innovative products for our customers, based on their current and future requirements. The idea of connectivity, whether at home, on the move or at work, provides the central basis for the future design of our product categories.

Research & Development

Our Product & Innovation Department is responsible for coordinating research and development activities, innovation strategy, innovation management, innovation marketing and corporate venture capital (T-Venture). This department focuses primarily on issues that are relevant to all operating segments. The operating segments are primarily responsible for product innovations that are close to market launch, usually with a development lead time of up to 24 months.

Deutsche Telekom Laboratories

Deutsche Telekom Laboratories acts as a central research and development unit, focusing primarily on topics and new technologies that are expected to be rolled-out in 18 months to five years. It is divided into the Innovation Development Laboratory and the Strategic Research Laboratory. Both areas are organized to support the transfer of knowledge and findings from academic research into product design with our operating segments.

The Innovation Development Laboratory has assumed the role of general contractor for applied research and development. It develops and assesses innovative ideas, implements test environments, assists with demonstrations and prototypes, and develops business models. It then transfers results to the operating segments for further review and development.

Since 2004, it has focused its research work on five fields of innovation:

- Intuitive Usability, which seeks to make complicated services and functions more user friendly;
- Integrated Service Components, which promotes the appropriate connection and interaction of many multimedia and service devices to one another;
- Intelligent Access, which aims to offer customers the best service available without requiring the user to manually select the network services and access;
- Infrastructure Development, which creates the technological basis needed to meet bandwidth, mobility and security requirements in a cost-effective manner for our Group and customers; and
- Inherent Security, which offers our customers network-related security solutions.

The Strategic Research Laboratory carries out long-term, applied fundamental and technology research and provides important basic insights for the development of innovative products and solutions. To achieve this, we have worked closely with the Berlin Technical University.

Research and Development Expenditures

In 2008, our expenditures on experimental, explorative, and pre-production research and development were EUR 0.2 billion (2007: EUR 0.2 billion; 2006: EUR 0.2 billion). Typical research and development activities included the development of new data-transmission processes and innovative telecommunications products. In 2008, investment in internally generated intangible assets to be capitalized rose by EUR 0.1 billion to EUR 0.4 billion (2007: EUR 0.3 billion; 2006: EUR 0.3 billion). These investments related primarily to internally developed software. As in previous years, the vast majority of this amount was attributable to the Broadband/Fixed Network, Mobile Communications Europe and Mobile Communications USA operating segments. In 2008, over 2,400 employees were involved in projects and activities to create new products and market them efficiently to customers.

Table of Contents

Intellectual Property

In the market for mobile and fixed network telephony, intellectual property rights play an extremely important role, both nationally and internationally. For this reason, we focus intensively on in-house development and third-party acquisition of such rights.

In 2008, we filed 665 patent applications worldwide, compared to 542 patent applications in 2007. We held 6,328 intellectual property rights (inventions, patent applications, patents, utility models, and design models) as of the end of 2008 (2007; 5,800; 2006: 5,663). The portfolio of rights is reviewed on a regular basis, and those rights that are no longer relevant are eliminated. Management of these intellectual property rights is governed by strict cost-benefit considerations.

Table of Contents

ACQUISITIONS AND DIVESTITURES

The following table presents each of the principal acquisitions and divestitures made by us during our last three fiscal years:

Year	Segment	Event	Amount (billions of €)
2008	GHS	Purchase of shares in Hellenic Telecommunications Organization S.A. (OTE)	(3.1)
2008	Mobile Communications USA	Acquisition of SunCom Wireless Holdings, Inc.	(1.1)
2008	Business Customers	Sale of T-Systems Media & Broadcast GmbH	0.7
2007	Mobile Communications Europe	Acquisition of Orange Nederland	(1.3)
2007	Broadband/Fixed Network	Purchase of shares in Immobilien Scout GmbH	(0.4)
2007	Broadband/Fixed Network	Sale of T-Online France S.A.S.	0.5
2007	Broadband/Fixed Network	Sale of T-Online Spain S.A.	0.3
2006	Mobile Communications Europe	Purchase of shares in PTC(1)	(0.6)
2006	Business Customers	Purchase of shares in gedas	(0.3)
2006	Mobile Communications Europe	Purchase of shares in tele.ring	(1.3)
2006	Broadband/Fixed Network	Exchange of shares of Deutsche Telekom AG for shares of T-Online International AG(2)	(0.8)
2006	GHS	Sale of real estate	0.4

(1) Further payments relating to the acquisition of PTC shares from Elektrim will be required to be made as determined by pending legal proceedings. For more information on PTC, see “Item 8. Financial Information—Legal Proceedings” and “Notes to the Consolidated Financial Statements—Summary of accounting policies—Business combinations.”

(2) In June 2006, we issued 62.7 million of our shares in exchange for the remaining shares of T-Online in connection with the completion of the merger of T-Online International AG into Deutsche Telekom AG, which shares had a fair value of EUR 0.8 billion. In August 2006, we repurchased 62.7 million of our shares in the market, which shares were retired to avoid dilution as a result of the issuance of shares in connection with the merger.

Table of Contents

REGULATION

Overview

Our operations worldwide, as well as those of our subsidiaries and affiliates, are subject to sector-specific telecommunications regulations and general competition law, as well as a variety of other regulations. The extent to which telecommunications regulations apply to us depends largely on the nature of our activities in a particular country, with the conduct of traditional fixed-line telephony services usually being subject to the most extensive regulation. Regulations can have a very direct and material effect on our overall business, particularly in jurisdictions that favor regulatory intervention.

General Licensing Requirements

To provide services and to operate our networks, either general authorizations or licenses are required from regulatory authorities in countries in which we operate. In member states of the European Union ("E.U. Member States"), the operation of fixed networks and the provision of public voice telephony services in the fixed network require notification to, or registration with, regulatory authorities.

Licensing procedures also apply to our mobile network operations with respect to radio frequencies. The duration of any particular license or spectrum usage right depends on the legal framework in the relevant country. Most countries limit the duration of licenses or usage rights, which are generally renewable, to between three and thirty years.

The E.U. Regulatory Framework

General

In 2002, the European Union completed the review of the existing E.U. telecommunications regulatory framework and adopted several legislative measures, which included a general framework directive and four specific directives regarding the following topics (collectively constituting the "E.U. Framework"):

- access to, and interconnection of, electronic communications networks;
- mandatory minimum service standards for all users (universal service obligations) and users' rights;
- authorization and licensing regimes;
- telecommunications data protection; and
- a regulatory framework for radio spectrum policy in the European Union.
- The directives are, among other things, intended to:
- establish the rights, responsibilities, decision-making powers and procedures of the national regulatory authority ("NRA") in each E.U. Member State and the European Commission;
- identify specific policy objectives that NRAs must achieve in carrying out their responsibilities; and

- provide that operators with significant market power in defined electronic communications markets can be subject to certain obligations.

Since the most significant part of our business is undertaken in the European Union, our operations are to a large extent subject to the E.U. Framework on telecommunications regulation. E.U. Member States are required to enact E.U. legislation in their domestic law and to take E.U. legislation into account when applying domestic law. In each E.U. Member State, a NRA is responsible for enforcing the national telecommunications laws that are based on the E.U. Framework. NRAs generally have significant powers under their relevant telecommunications acts, including the authority to impose network access and interconnection obligations, and to approve or review the charges and general business terms and conditions of providers with “significant market power.” In general, a company can be considered to have significant market power if its share of a particular market exceeds 40%. NRAs also have the authority to assign wireless spectrum and supervise frequencies and to impose universal service obligations.

Table of Contents

The European Commission supervises the NRAs and formally and informally influences their decisions in order to ensure the harmonized application of the E.U. Framework throughout the European Union. Companies can challenge decisions of the relevant NRA before national courts. Such legal proceedings can lead to a decision by the European Court of Justice, which is the ultimate authority on the correct application of E.U. legislation.

The E.U. Framework is also important in some countries that are not yet part of the European Union, but which are expected to be in the future, such as Croatia. Those countries are already adapting their telecommunications legislation to the E.U. Framework.

Special Requirements Applicable to Providers with Significant Market Power

The most significant impact on our business stems from the E.U. Framework's special requirements applicable to providers with significant market power. Obligations in relation to network access, price setting, separate accounting for interconnection services, publication, and non-discrimination, can be imposed on those operators that are designated by the relevant NRA as having significant market power in an electronic communications market. Such determinations are based on E.U. guidelines and E.U. competition case law. We have been designated as having significant market power primarily in most fixed-line markets in which we operate, as well as in mobile voice call termination markets.

In particular, the NRA may subject providers with significant market power, and their affiliates, to the following rules and obligations:

- The prior approval or retroactive review of charges, insofar as such charges and conditions relate to a market in which the provider holds significant market power.

- The obligation to offer other companies unbundled special network access (including interconnection) as well as access to certain services and facilities on a non-discriminatory basis.

In addition, providers with significant market power can be obliged to maintain segregated accounting systems with regard to access services. This obligation is intended to allow for transparency with respect to various telecommunications services in order to prevent, among other things, the cross-subsidization of services. In this regard, the NRA may specify the structure of a provider's internal accounting for particular telecommunications services, which can increase costs of compliance.

Under the E.U. Framework, the European Commission periodically issues a Recommendation on relevant markets, which is a list of telecommunications markets that it considers susceptible to sector-specific regulation. NRAs must take this list of markets into account when defining the markets that are to be analyzed for the existence of competitive restraints. If a NRA finds that a market is not competitive, it establishes which providers have significant market power in this market and may impose certain measures prescribed by statute.

The European Commission must regularly review its market recommendation. In November 2007, the European Commission issued the second version of its market recommendation, which has to be considered by NRAs when analyzing telecommunications markets. The new version of the market recommendation reduced the number of markets to be reviewed from eighteen to seven. In particular, most retail markets have been removed from the list of markets that are susceptible to telecommunications regulation. However, the most important retail market relating to retail access to the fixed telephone network remains subject to such regulation. Further, some wholesale markets are now described in a broader manner. For example, the market for local loop unbundling is no longer restricted to metallic loops. Whether these broader definitions lead to an expansion or a reduction of regulation is difficult to predict at this time. The new market recommendation includes the retail market for access to the public telephone network at a fixed location, wholesale markets for call origination of fixed telephone networks, call termination of individual fixed networks, network infrastructure access (including shared or fully unbundled access) at a fixed location, broadband access, terminating segments of leased lines, and voice call termination on individual mobile networks.

NRAs may analyze additional markets not included in the E.U. recommendation if justified by special national circumstances. NRAs are required to conduct market analyses on all communications markets included in the European Commission’s recommendation, as well as those that the NRAs have decided to include within the scope of sector-specific regulation in agreement with the European Commission. All NRA market analyses are subject to the supervision of the European Commission and can be challenged if the European Commission does not agree with the NRA’s findings.

In addition to the European Commission's recommendation, there is a separate E.U. regulation on unbundled access to the local loop, which became effective in January 2001. It contains the obligations to provide full unbundled access to copper-paired wire lines, as well as unbundled access to the high-frequency spectrum of those lines (line-sharing). Since each member state has specifically addressed local loop unbundling by individual regulatory measures under the framework, the new E.U. proposals to amend the regulatory framework as described below provide for the termination of the separate E.U. regulation on local loop unbundling. Unbundling has led to a considerable loss of our market share. For detailed effects of unbundling obligations, see "—German Telecommunications Regulation—Interconnection" below.

Additional E.U. legislation that may materially affect our business is discussed in the subsequent sections on broadband and fixed network regulation and mobile communications regulation.

Legislative Developments

The E.U. Telecommunications Framework is subject to a review currently in progress. In 2007, the European Commission issued proposals to amend the current framework, which must be accepted by the European Parliament and the Council of Ministers before becoming legislation. Except for some proposals regading the use of spectrum, these proposals do not include any deregulation efforts. Instead, the European Commission has proposed establishing a regulatory agency at the E.U. level and to extend veto rights of the European Commission with respect to NRA decisions. Furthermore, the European Commission proposes to provide NRAs the power to separate the access network operations of providers with significant market power from the service business of such providers in certain circumstances. In 2008, the European Parliament and the Council debated these proposals. The European Parliament as well as the Council significantly changed the proposals. Whereas the Council particularly disagreed with the Commission on the establishment of a European Regulatory Authority and regarding the extension of the Commission veto rights, the Parliament made some substantial amendments to support investments in Next Generation Access Networks through the recognition of risk-sharing arrangements and masures to increase regulatory predictability through longer lasting remedy decisions of NRAs. Whether the amendment of the new framework will be adopted in May 2009 as initially expected is still open, due to the prevailing differences between the European Parliament, the Council and the Commission. After adoption at EU level, any changes to the framework would become effective following their transposition into national law. Whether the regulatory framework will increase or decrease the regulatory burden on us will depend on the changes being finally adopted, the manner in which the revised directives are subsequently implemented in the E.U. Member States, and how the revised implemented regulatory framework will be applied by the respective NRA.

In addition to the review of the regulatory framework the European Commission proposed two new recommendations:

In June 2008, the European Commission published a draft recommendation on the future regulatory treatment of fixed and mobile termination rates. The recommendation's objective is to reduce the fees that mobile and fixed-line operators charge for terminating each others' calls. The European Commission intends to aim for harmonizing termination rates across Europe and to establish symmetry between these termination rates, by implementing significant reductions of rates during a three-year period ending in 2011.

In September 2008, the European Commission published a draft recommendation on Regulated Access to Next Generation Access Networks (NGA). The recommendation aims to harmonize obligations imposed by NRAs on operators with significant market power in the markets for wholesale (physical) network infrastructure access at a fixed location and the market for wholesale broadband access to NGA networks. According to the recommendation, operators having significant market power in the wholesale market must grant access to new and existing ducts, fiber, street cabinets and other elements which are not active, that are necessary for the build-out of competing infrastructure. In addition, operators with significant market power must provide wholesale broadband access services (Bitstream Access). Furthermore, the European Commission recommends pricing principles for duct usage, the usage of other civil engineering works and other elements, which are not active. The adoption of these amendments may cause a decrease in our revenues and may impact on the network build-out including the timeline. The adoption of the draft recommendation in either existing or modified form is expected in 2009.

Infringement Proceeding Against Germany

In September 2007, the European Commission launched an infringement proceeding against Germany relating to legislation that in principle excludes new markets from telecommunications regulation. This infringement proceeding may take several years to resolve. The relevant legislation was adopted in January 2007 with the intent to foster innovation and investments in new infrastructures. In the event of access and price regulation in these new markets, both the incumbent network operator and new entrants will have a reduced incentive to invest in new infrastructures. The European Commission, however, regards this rule as restricting the discretionary powers of the Federal Network Agency in contravention of E.U. Directives. Since this new rule has not yet been applied, we do not expect the infringement proceeding to affect our business. However, the general notion of the rule to promote investments by non-regulation was an important basis for our decision to invest in fiber optic broadband access networks in Germany (see "—German Telecommunications Regulation—Interconnection" below).

Table of Contents

Media Regulation

Although regulation of broadcast media and media content has not materially affected our business, as traditional telecommunications services and media services increasingly converge through products such as triple-play, media regulation may become increasingly important to our business. For example, in Germany we currently offer IPTV to our high-speed broadband customers, as well as mobile TV services to customers of T-Mobile Deutschland. There are already several regulations related to media services and platforms. A formal notification for the broadcasting platform Entertain has to be fulfilled in the first quarter of 2009 in Germany. New legislation regulates the selection of broadcasting programs transmitted over such platforms (for example “must carry” obligations), and may also affect the contractual conditions for such transmissions. Moreover, the new legislation can be interpreted to suggest that in Germany, we are restricted in producing our own TV and radio programs as long as a significant part of our shares are controlled by the German government.

Other E.U. regulation requires TV set top boxes to have either no encryption technology or a common scrambling algorithm. The set top boxes we use for our German IPTV services rely on a special digital rights management technology that might not be entirely compatible with the common scrambling algorithm. However, the Federal Network Agency has granted us a preliminary exemption from this regulation until September 2009, and the Telecommunications Act explicitly allows for further exemptions. Until now, the Federal Network Agency has not decided about the future rules. If the current legislation is ultimately determined to apply to our set top boxes, this could result in our set top boxes not being in compliance with the legal requirements. Modification of the current digital rights management technology could prove costly and some features of our IPTV service may be discontinued.

Competition Law

The European Union’s competition rules have the force of law in all E.U. Member States. The main principles of the E.U. competition rules are set forth in Articles 81 and 82 of the European Community Treaty (“E.C. Treaty”) and in the E.U. Merger Regulation (the “Merger Regulation”). In general, the E.C. Treaty prohibits “concerted practices” and all agreements that may affect trade between Member States and which restrict, or are intended to restrict, competition within the European Union, and prohibits any abuse of a dominant position within the common market of the European Union, or any substantial part of it, that may affect trade between Member States. The European Commission enforces these rules in cooperation with the national competition authorities, which may also directly enforce the competition rules of the E.C. Treaty. In addition, the national courts have jurisdiction over alleged violations of E.U. competition law.

The Merger Regulation requires that all mergers, acquisitions and joint ventures involving participants meeting certain turnover thresholds are to be submitted to the European Commission for review, rather than to the national competition authorities. Under the amended Merger Regulation, concentrations will be prohibited if they significantly impede effective competition in the common European market, or a substantial part of it, in particular as a result of the creation or strengthening of a dominant position.

In addition, all E.U. Member States (and other jurisdictions in which we operate, such as the United States) have legislation in place, which is substantially similar to the E.U. competition rules. Thus, in markets where we are dominant, our ability to practice business freely and to establish our own prices can be restricted. Moreover, our opportunities to cooperate with other companies, or to enhance our business by fully or partially acquiring other businesses, can also be limited. In Germany, the authority responsible for the application of competition law is the Federal Cartel Office (Bundeskartellamt). For information regarding specific competition cases in which we are involved, see “Item 8. Financial Information—Legal Proceedings.”

German Telecommunications Regulation

Since the most substantial part of our business is located in Germany, German telecommunications regulation has an especially significant impact on our business. As in all E.U. Member States, German telecommunications regulation is based on the E.U. Framework. German telecommunications regulation is mainly derived from the Telekommunikationsgesetz (the “Telecommunications Act”).

We believe that, for the foreseeable future, the Federal Network Agency is likely to view us as a provider with significant market power in various German markets for public voice telephony services in the fixed network and in other markets, including most of those in which we held monopoly rights in the past. Additionally, we have been determined to be a provider with significant market power in the German market for mobile voice call termination. We expect that the strict regulatory provisions of the Telecommunications Act relating to providers with significant market power will be applied to our activities in those markets also in the future. Considering that in many markets our competitors are unlikely to gain significant market power in the near future, we expect that we will have to compete in important markets with providers not subject to those regulatory obligations. Therefore, these competitors may have more flexibility than we have in terms of the selection of services offered and customers served, pricing and the granting of network access.

Pricing

Under the Telecommunications Act, tariffs for telecommunications access services offered by providers with significant market power and their affiliates can be subject to price regulation, insofar as the tariffs relate to a market in which significant market power has been determined to exist. Other tariffs are essentially unregulated. The tariffs of all providers in Germany are, however, subject to generally applicable E.U. and German laws, including competition law and consumer protection rules.

The Telecommunications Act distinguishes between tariffs that require prior regulatory approval and those that are subject to retroactive review. Generally, regulated wholesale pricing requires prior approval, whereas regulated retail pricing is subject to retroactive review. Nevertheless, at present, we are required to disclose most retail pricing measures concerning our fixed telephony network to the Federal Network Agency two months before they become effective, which enables the Federal Network Agency to undertake a preliminary evaluation with respect to whether our prices comply with rules prohibiting abuse of significant market power. This requirement restricts our flexibility to react quickly to competition in the retail markets for fixed telephony.

General Network Access

Every operator of a public telecommunications network, irrespective of its market position, is obligated, upon request, to make an interconnection offer to other network operators for interconnection with its network. If the parties cannot agree on the terms and conditions of such interconnection, upon application by one of the parties, the Federal Network Agency can compel an operator that controls access to end users to allow interconnection to its network and can impose other access obligations.

Universal Services

The Telecommunications Act includes provisions to ensure the availability of certain basic telecommunications services (“universal services”) throughout Germany. Universal services comprise public fixed-line network voice telephony with certain ISDN features, directory services, telephone books, public pay phones and certain categories of transmission lines. These services must be universally available to all customers at a price determined by the Federal Network Agency to be an “affordable price.” We currently provide the universal services specified by the

Telecommunications Act voluntarily and without compensation.

Data Retention

On January 1, 2008, new rules on data retention for law enforcement purposes entered into force. This legislation implements an E.U. directive which came into force in 2006. The new requirements result in additional investment and recurring annual costs for us. The new rules oblige us to store certain data for six months, which is the minimum period the E.U. directive requires.

Fixed Regulation

Interconnection

Fixed-Fixed Interconnection

Fixed-fixed interconnection prices require prior approval by the Federal Network Agency. The current charges were approved until November 30, 2009. On September 19, 2008, we submitted our application for new prices from December 1, 2008 and applied for an increase in main interconnection prices of approximately 10%. The Federal Network Agency published its decision on November 28, 2008 and approved an increase of 4.4 %.

Local Loop Access

After concluding the market analyses procedures required by the Telecommunications Act, the Federal Network Agency published a Regulatory Order for access to the local loop in April 2005, which confirmed that we were considered to have significant market power in this market. Accordingly, although we have offered unbundled local loop access since 1998, this decision confirmed that we are still obligated to offer such access to other carriers. By allowing competitors to connect to customer access lines within our local networks, unbundling of the local loop allows our competitors to gain direct access to customers without having to build local networks of their own. In this way, competitors are able to use our customer access lines to offer a wide range of local services directly to customers.

Table of Contents

We are involved in a number of pending legal proceedings regarding recent decisions of the Federal Network Agency that concern access charges relating to the local loop, and which have resulted in severe reductions in our charges for access by our competitors. We believe that the Federal Network Agency did not take into account a number of our costs that were justifiable costs for these services, and that if it had done so, our permitted local loop access charges would have been higher. On November 27, 2008, the Cologne Administrative Court abolished a decision of the Federal Network Agency of 1999 concerning monthly rates for the local loop during the period from April 1, 1999 to March 31, 2001. After a decision in a preliminary ruling procedure of the European Court of Justice in this case, the Cologne Administrative Court (Verwaltungsgericht Köln) came to a disadvantageous decision concerning the relevant costs which are justifiable. We and the Federal Network Agency appealed against this decision and the proceeding is still pending. For more information, see "Item 8. Financial Information—Legal Proceedings—Proceedings Against Decisions of the Federal Network Agency."

On March 30, 2007, the Federal Network Agency reduced the monthly line rental charges we are allowed to charge our competitors, from EUR 10.65 to EUR 10.50. These charges are valid for the period from April 1, 2007 to March 31, 2009. In January 2009, we applied for new charges to become valid by April 1, 2009. On June 30, 2008, the Federal Network Agency also decided to reduce the one-time activation (takeover of an existing line) charge for ULL by approximately 1.4% to EUR 35.70 for the most common type of subscriber line (copper wire pair with high bit-rate use). The corresponding cancellation charges have been reduced as well between 0.2% and 4.1%. These one-time charges for ULL are valid until June 30, 2010.

Since January 2001, we have been offering line sharing (i.e., using a single access line for multiple purposes, including sharing access with competitors) in accordance with E.U. requirements. On June 30, 2008, the Federal Network Agency also reduced the monthly rental charge for line sharing from EUR 1.91 to EUR 1.78 until June 30, 2010. Further, the Federal Network Agency decided on the one-time activation charges for the provision of line sharing, which were reduced to EUR 43.99.

On December 20, 2007, the Federal Network Agency decided on our reference offer for access to unbundled local loop. We now have to pay penalties in the event of delayed provision or delayed fault repair.

In June 2007, the Federal Network Agency updated its regulatory order relating to local loop access. In addition to existing obligations (access to the local loop, co-location, ex-ante rates approval), we must also provide access to cable ducts and, under certain conditions, dark fiber and co-location within the street cabinets. We have initiated legal proceedings against this obligation and filed for a preliminary order to suspend the execution of the obligation until the Administrative Court has ruled on the issue. In its preliminary order of April 4, 2008, the Administrative Court upheld the obligations of the Federal Network Agency and we filed an appeal to the Federal Administrative Court (Bundesverwaltungsgericht) that is still pending.

Broadband Access—Bitstream

In the market analyses for wholesale broadband access services, we were determined as having significant market power and, therefore these markets are subject to regulation described below. The Federal Network Agency divided the broadband wholesale services market into separate IP Bitstream Access and ATM Bitstream Access markets.

In 2008, the Federal Network Agency reviewed the market analyses for wholesale broadband access services. We pointed out that it is essential to refrain from previous regulatory practice and decrease the existing nationwide regulation for IP Bitstream Access by following the model of other European regulatory authorities. If the Federal Network Agency agrees with our view, it might be possible that existing regulation will be reduced in regions with intense competition from local loop operators and cable-TV providers. The decision is expected in the first quarter of 2009.

IP Bitstream

For the IP Bitstream Access market, the Federal Network Agency issued a regulatory order in September 2006. According to the order, we are obliged to offer IP broadband access to our competitors and the rates are subject to prior approval by the Federal Network Agency. A final decision on our reference offer was issued on April 8, 2008. According to the Federal Network Agency's review, we are obliged to include SDSL and unbundled DSL access. Furthermore, we have to provide certain transmission quality levels sufficient for the provision of IP-based voice services. The Federal Network Agency ruled the reference offer to be valid until April 30, 2009. In accordance with the German Telecommunications Act, a review process for a new or altered reference offer will be initiated by February, 2009.

Table of Contents

On May 13, 2008 and May 26, 2008, the Federal Network Agency decided on charges for IP Bitstream Access and set the monthly charge for the "bundled" variant at EUR 8.65 and for the "stand-alone" variant at EUR 19.15. With the "stand-alone" variant the end user is no longer required to maintain a telephone access line with us. These charges are valid until June 30, 2009. IP Bitstream Access enables our competitors to offer all IP-access throughout Germany.

This regulatory decision has been repealed by the Federal Administrative Court on January 28, 2009 as far as the obligation to issue a reference offer and to get an approval for the rates was concerned. Due to contractual clauses we are bound for a further three months after the Court's decision to the existing (formerly regulated) IP-BSA prices (until April, 28, 2009). The reference offer is still valid but will be reviewed and adapted to the current situation by mid 2009.

Competitors' requests for VDSL access were dismissed. This decision was not based on the finding that VDSL constituted a new market, which, in accordance with the German Telecommunications Act, would not be regulated, but was based on the reasoning that our VDSL products did not fall within the scope of the underlying regulatory order of September 2006, which concerned DSL access up to the standard of ADSL2+ (maximum 16 Mbit/s).

ATM Bitstream

Since March 7, 2007, we are obligated to provide ATM bitstream access, the prices for which will be subject to retroactive approval of the Federal Network Agency. A reference offer for ATM bitstream access had first been published on June 8, 2007. However, since negotiations with our competitors are ongoing, the Federal Network Agency has temporarily suspended its proceedings. A new reference offer, based on the result of these negotiations, was published in January 2008 and adopted by the Federal Network Agency on August 20, 2008. Since then, ATM Bitstream Access is available to our competitors.

Broadband Access—DSL Resale

Besides unbundled local loop access and line sharing, we offer our Resale DSL products to our competitors on a voluntary basis.

Since August 2006, we have offered our Wholesale DSL product on the basis of fixed prices for bandwidths of 1, 2, 6 and 16 Mbit/s. This has resulted in considerable price reductions compared to the Resale DSL product (which is offered to competitors at a 20% discount to the retail price). Most ISPs have therefore already switched from Resale DSL to Wholesale DSL. Due to the lower prices of the regulated IP BSA products, more Wholesale DSL customers migrate to IP BSA.

Retail Regulation

On June 23, 2006, the Federal Network Agency had imposed on us the obligation to disclose to it any retail pricing measures within the markets for access to the public telephone network, as well as the markets for publicly available local and national telephone services provided at a fixed location for residential and non-residential customers, including VoIP services, two months before they become effective. However, this obligation generally does not apply to bundled products containing regulated and non-regulated services if the obligation has been met regarding the regulated components of the bundle, the regulated components are still offered unaltered on a stand-alone basis, and the difference between the price of the bundle and the sum of the prices of the regulated components is at least equal to the costs of the non-regulated components.

However, on September 5, 2007, the administrative court in Cologne rescinded this obligation with regard to national fixed-to-fixed-calls for VoIP services. This increases our ability to react quickly to market changes.

The Federal Network Agency has determined that we are a provider with significant market power for the markets for national fixed-to-mobile calls. In December 2007, the Federal Network Agency imposed on us the obligation to disclose to it any retail pricing measures within the market for national fixed-to-mobile calls (excluding VoIP services) two months before they become effective. National fixed-to-mobile calls for VoIP services are still subject to ex-post regulation measures. On October, 29, 2008, the Federal Administrative Court upheld this regulatory decision. Therefore, in general, these obligations to provide pricing measures two months prior to effectiveness (excluding VoIP services) will delay our ability to react quickly to market changes.

The Federal Network Agency still does not classify VoIP as a “publicly available telephone service,” which would imply an emergency services obligation. However, with the further development of VoIP, and the increasing use of this nomadic service, the Federal Network Agency has requested all market participants to submit proposals for a technical solution to the emergency services problem.

Table of Contents

The broadband access tariffs, as well as the broadband and narrowband service tariffs, that we offer to retail customers are not subject to regulation under the Telecommunications Act. However, these tariffs are indirectly affected by the regulation of wholesale tariffs for these services and will be taken into account by the Federal Network Agency in a review undertaken as part of a retroactive procedure if they form part of a product bundle that contains regulated components. Moreover, sector-specific regulation may be extended in the future to the broadband services market, which will depend on the results of the Federal Network Agency's current market analyses procedures.

On August 27, 2008, the Federal Network Agency published a draft of its market analyses results for retail products and determined that we are a provider with significant market power for the retail market "Access to the public telephone network at a fixed location for residential and non residential customers." All-IP Access is classified as access to the public telephone network. However, we believe that deregulation is possible in the markets for national fixed-to-fixed and fixed-to-mobile calls. We expect the final determination in April 2009.

Central, Southeastern European Telecommunications Regulation

Our subsidiaries in Hungary, Slovakia, Greece and Romania are subject to the same E.U. Framework as our fixed-line products and services in Germany. We also operate fixed-line and mobile networks in Croatia, Albania, Macedonia and Montenegro. These countries are also orientating their regulatory frameworks towards the E.U. Framework. Therefore, all of our subsidiaries in Central, Eastern and Southeastern Europe are generally exposed to a set of regulatory risks similar to those in Germany described above. Additional significant regulatory matters affecting specific subsidiaries are discussed below.

Hungary

Although some significant competition within the fixed-line network has existed in Hungary for several years, Magyar Telekom still possesses substantial market share in many telecommunications markets within Hungary. As expected, the Hungarian NRA has found Magyar Telekom to be an operator with significant market power in a large number of the markets currently subject to regulation, including subscriber lines and calling services.

Currently, Magyar Telekom has to comply with wholesale obligations regarding call origination and termination, unbundling, local and national bitstream access and price regulation for the termination of wholesale leased lines. As in previous years, Magyar Telekom also remains under the obligation to submit its reference offers for interconnection and unbundling to the NRA for prior approval.

As competition between Magyar Telekom and cable television providers for telephony, Internet access and television services becomes more intense, Magyar Telekom expects to be increasingly affected by the disparity of regulatory burdens between services provided over the fixed-line telephony network and those provided over cable networks. Unlike Magyar Telekom, cable network pro