GEN PROBE INC
Form 10-Q
May 02, 2007

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2007

OR

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 001-31279

GEN-PROBE INCORPORATED
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**33-0044608** (I.R.S. Employer Identification Number)
10210 Genetic Center Drive **San Diego, CA** (Address of Principal Executive Offices)	**92121** (Zip Code)

(858) 410-8000
(Registrant s Telephone Number, Including Area Code)

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 þ No o

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. (Check one):

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of April 27, 2007, there were 52,445,085 shares of the registrant s common stock, par value $0.0001 per share, outstanding.

GEN-PROBE INCORPORATED
TABLE OF CONTENTS
FORM 10-Q

	Page
PART I	
Item 1. Financial Statements	3
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3. Quantitative and Qualitative Disclosures about Market Risk	22
Item 4. Controls and Procedures	23
PART II	
Item 1. Legal Proceedings	24
Item 1A. Risk Factors	24
Item 6. Exhibits	38
SIGNATURES	39
EXHIBIT 10.97	
EXHIBIT 10.98	
EXHIBIT 10.99	
EXHIBIT 31.1	
EXHIBIT 31.2	
EXHIBIT 32.1	
EXHIBIT 32.2	

GEN-PROBE INCORPORATED
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	March 31, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 67,428	$ 87,905
Short-term investments	252,240	202,008
Trade accounts receivable, net of allowance for doubtful accounts of $620 and $670 at March 31, 2007 and December 31, 2006, respectively	27,582	25,880
Accounts receivable other	2,604	1,646
Inventories	51,713	52,056
Deferred income tax short term	6,905	7,247
Prepaid expenses	13,840	11,362
Other current assets	3,938	2,583
Total current assets	426,250	390,687
Property, plant and equipment, net	133,962	134,614
Capitalized software	17,809	18,437
Goodwill	18,621	18,621
Deferred income tax long term	2,064	2,064
License, manufacturing access fees and other assets	60,813	59,416
Total assets	$ 659,519	$ 623,839
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 12,038	$ 13,586
Accrued salaries and employee benefits	15,831	16,723
Other accrued expenses	3,142	3,320
Income tax payable	7,325	14,075
Deferred revenue	758	921
Total current liabilities	39,094	48,625
Non-current income tax payable	14,008	
Deferred income tax	4	
Deferred revenue	3,500	3,667
Deferred rent	100	128
Deferred compensation plan liabilities	1,480	1,211
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.0001 par value per share; 20,000,000 shares authorized, none issued and outstanding		
Common stock, $.0001 par value per share; 200,000,000 shares authorized, 52,405,312 and 52,233,656 shares issued and outstanding at March 31, 2007	5	5

and December 31, 2006, respectively				
Additional paid-in capital		344,713		334,184
Accumulated other comprehensive income (loss)		78		(5)
Retained earnings		256,537		236,024
Total stockholders equity		601,333		570,208
Total liabilities and stockholders equity	$	659,519	$	623,839

See accompanying notes to consolidated financial statements.

Table of Contents

GEN-PROBE INCORPORATED
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2007	**2006**
Revenues:		
Product sales	$ 87,152	$ 78,528
Collaborative research revenue	2,352	6,885
Royalty and license revenue	11,547	843
Total revenues	101,051	86,256
Operating expenses:		
Cost of product sales	29,160	26,609
Research and development	20,258	19,326
Marketing and sales	9,536	8,862
General and administrative	11,281	10,658
Total operating expenses	70,235	65,455
Income from operations	30,816	20,801
Total other income, net	2,545	1,757
Income before income tax	33,361	22,558
Income tax expense	11,886	8,330
Net income	$ 21,475	$ 14,228
Net income per share:		
Basic	$ 0.41	$ 0.28
Diluted	$ 0.40	$ 0.27
Weighted average shares outstanding:		
Basic	52,170	51,248
Diluted	53,634	52,865

See accompanying notes to consolidated financial statements.

Table of Contents

GEN-PROBE INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2007	**2006**
Operating activities		
Net income	$ 21,475	$ 14,228
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,273	6,061
Stock-based compensation charges	5,105	5,123
Stock option income tax benefits	58	
Excess tax benefit from employee stock options	(1,284)	(4,394)
Gain on disposal of property and equipment		(21)
Changes in assets and liabilities:		
Accounts receivable	(2,649)	2,571
Inventories	(39)	(191)
Prepaid expenses	(2,478)	3,246
Other current assets	(1,354)	(1,320)
Other long term assets	(598)	
Accounts payable	(1,549)	(601)
Accrued salaries and employee benefits	(891)	1,715
Other accrued expenses	(25)	1,240
Income tax payable	7,815	3,822
Deferred revenue	(330)	(2,507)
Deferred income tax	106	(188)
Deferred rent	(28)	(29)
Deferred compensation plan liabilities	269	
Net cash provided by operating activities	31,876	28,755
Investing activities		
Proceeds from sales and maturities of short-term investments	15,871	25,935
Purchases of short-term investments	(65,863)	(36,742)
Purchases of property, plant and equipment	(5,894)	(17,768)
Capitalization of intangible assets, including license and manufacturing access fees	(1,817)	(1,852)
Other assets	(352)	17
Net cash used in investing activities	(58,055)	(30,410)
Financing activities		
Excess tax benefit from employee stock options	1,284	4,394
Proceeds from issuance of common stock	4,402	9,449
Net cash provided by financing activities	5,686	13,843
Effect of exchange rate changes on cash and cash equivalents	16	74

Net (decrease) increase in cash and cash equivalents	(20,477)	12,262
Cash and cash equivalents at the beginning of period	87,905	32,328
Cash and cash equivalents at the end of period	$ 67,428	$ 44,590

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements (unaudited)

Note 1 Basis of presentation

The accompanying interim consolidated financial statements of Gen-Probe Incorporated (Gen-Probe or the Company) at March 31, 2007, and for the three month periods ended March 31, 2007 and 2006, are unaudited and have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In management s opinion, the unaudited consolidated financial statements include all adjustments, consisting only of normal recurring accruals, necessary to state fairly the financial information therein, in accordance with U.S. GAAP. Interim results are not necessarily indicative of the results that may be reported for any other interim period or for the year ending December 31, 2007.

These unaudited consolidated financial statements and footnotes thereto should be read in conjunction with the audited financial statements and footnotes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

Note 2 Summary of significant accounting policies

Recent accounting pronouncements

In September 2006, the Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, (SAB No. 108). SAB No. 108, which is effective for fiscal years ending after November 15, 2006, provides guidance on how the effects of prior year uncorrected misstatements, previously deemed to be immaterial, must be considered and adjusted during the current year. The Company adopted this statement effective January 1, 2006, which resulted in a recast of its financial results for the first quarter of 2006. The details are more fully discussed in Note 1 of the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN No. 48) Accounting for Uncertainty in Income Taxes an interpretation of Statement of Financial Accounting Standards (SFAS) No. 109, which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The Company adopted this statement effective January 1, 2007, which resulted in an adjustment of $962,000 for the net impact of the change in guidance. The adjustment was accounted for as a reduction in the beginning balance of retained earnings and an increase in the beginning balance of net tax liabilities. The Company does not anticipate that the adoption of FIN No. 48 will have a material effect on its statements of income and effective tax rate in future periods.

Contingencies

Contingent gains are not recorded in the Company s financial statements since this accounting treatment could result in the recognition of gains that might never be realized. Contingent losses are only recorded in the Company s financial statements if it is probable that a loss will result from a contingency and the amount can be reasonably estimated.

Principles of consolidation

The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries, Gen-Probe Sales and Service, Inc., Gen-Probe International, Inc., Gen-Probe UK Limited (GP UK Limited) and Molecular Light Technology Limited (MLT) and its subsidiaries. MLT and its subsidiaries are consolidated into the Company s financial statements one month in arrears. All intercompany transactions and balances have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. These estimates include assessing the collectibility of accounts receivable, the valuation of stock-based compensation, the valuation of inventories and long-lived assets, including

capitalized software, license and manufacturing access fees, income tax, and liabilities associated with employee benefit costs. Actual results could differ from those estimates.

Foreign currencies

The functional currency for the Company s wholly owned subsidiaries, GP UK Limited and MLT and its subsidiaries, is the British pound. Accordingly, balance sheet accounts of these subsidiaries are translated into United States dollars using the exchange rate in effect at the balance sheet date, and revenues and expenses are translated using the average exchange rates in effect during the period. The gains and losses from foreign currency translation of the financial statements of these subsidiaries are recorded directly as a separate component of stockholders equity under the caption Accumulated other comprehensive income (loss).

Note 3 Stock-based compensation

Share-based payments

On January 1, 2006, the Company adopted SFAS No. 123(R), Share-Based Payment. Under SFAS No. 123(R), stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee s requisite service period. The Company has no awards with market or performance conditions. Stock-based compensation expense recognized is based on the value of the portion of stock-based payment awards that is ultimately expected to vest, which coincides with the award holder s requisite service period. Certain of these costs are capitalized into inventory on the Company s balance sheet, and generally are recognized as an expense when the related products are sold.

The determination of fair value of stock-based payment awards on the date of grant using the Black-Scholes-Merton model is affected by the Company s stock price and the implied volatility on its traded options, as well as the input of other subjective assumptions. These assumptions include, but are not limited to, the expected term of stock options and the Company s expected stock price volatility over the term of the awards. The Company s stock options and the option component of the Company s Employee Stock Purchase Plan (ESPP) shares have characteristics significantly different from those of traded options, and changes in the assumptions can materially affect the fair value estimates.

The Company used the following weighted average assumptions (annualized percentages) to estimate the fair value of options granted and the shares purchased under the Company s stock option plan and ESPP for the three month periods ended March 31, 2007 and 2006:

	Stock Option Plans		**ESPP**	
	2007	**2006**	**2007**	**2006**
Risk-free interest rate	4.5%	4.4%	5.1%	4.0%
Volatility	36%	44%	29%	41%
Dividend yield	0	0	0	0
Expected term (years)	4.2	5.4	0.5	0.5
Resulting average fair value	$17.66	$23.13	$12.03	$12.52

The Company s unrecognized compensation expense, before income tax and adjusted for estimated forfeitures, related to outstanding unvested stock-based awards was approximately as follows (in thousands):

Awards	**Weighted Average Remaining Expense Life (Years)**	**Unrecognized Expense as of March 31, 2007**
Options	1.6	$ 29,150
ESPP	0.2	80
Restricted stock	1.6	7,726
Deferred Issuance Restricted Stock	1.3	1,592

	$	38,548

Table of Contents

At March 31, 2007, the Company had 236,163 unvested restricted stock and Deferred Issuance Restricted Stock awards that had a weighted average grant date fair value of $46.53 per share. The fair value of the 2,548 restricted stock and Deferred Issuance Restricted Stock awards that vested during the first quarter of 2007 was approximately $109,000.

Impact of SFAS No. 123(R)

The following table summarizes the stock-based compensation expense for stock option grants and ESPP shares that the Company recorded in its statement of income in accordance with SFAS No. 123(R) for the three month periods ended March 31, 2007 and 2006 (in thousands, except per share data):

	Three Months Ended March 31,	
	2007	**2006**
Cost of product sales	$ 952	$ 133
Research and development	1,243	1,889
Marketing and sales	508	793
General and administrative	1,582	1,852
Reduction of operating income before income tax	4,285	4,667
Income tax benefit	(1,879)	(1,651)
Reduction of net income	$ 2,406	$ 3,016
Reduction of net income per share:		
Basic	$ 0.05	$ 0.06
Diluted	$ 0.04	$ 0.06

Note 4 Net income per share

The Company computes net income per share in accordance with SFAS No. 128, Earnings Per Share and SFAS No. 123(R). Basic net income per share is computed by dividing the net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income for the period by the weighted average number of common and common equivalent shares outstanding during the period. The Company excludes stock options when the combined exercise price, average unamortized fair values and assumed tax benefits upon exercise are greater than the average market price for the Company s common stock from the calculation of diluted net income per share because their effect is anti-dilutive.

The following table sets forth the computation of net income per share (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2007	**2006**
Net income	$ 21,475	$ 14,228
Weighted average shares outstanding Basic	52,170	51,248
Effect of dilutive common stock options outstanding	1,464	1,617
Weighted average shares outstanding Diluted	53,634	52,865
Net income per share:		
Basic	$ 0.41	$ 0.28

Diluted	$ 0.40	$ 0.27

Dilutive securities include common stock options subject to vesting. Potentially dilutive securities totaling 1,765,984 and 1,156,782 shares for the three month periods ended March 31, 2007 and 2006, respectively, were excluded from the calculation of diluted earnings per share because of their anti-dilutive effect.

Note 5 Comprehensive income

In accordance with SFAS No. 130, Reporting Comprehensive Income, all components of comprehensive income, including net income, are reported in the consolidated financial statements in the period in which they are recognized. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net

Table of Contents

income and other comprehensive income (loss), which includes certain changes in stockholders equity such as foreign currency translation of the Company s wholly owned subsidiary s financial statements and unrealized gains and losses on their available-for-sale securities, are reported, net of their related tax effect, to arrive at comprehensive income. Components of comprehensive income, net of income tax, were as follows (in thousands):

	Three Months Ended March 31,	
	2007	**2006**
Net income	$ 21,475	$ 14,228
Change in unrealized gain (loss) on investments	191	(349)
Foreign currency translation adjustment	(108)	210
Other comprehensive income (loss), net	83	(139)
Comprehensive income	$ 21,558	$ 14,089

Note 6 Balance sheet information

The following tables provide details of selected balance sheet items (in thousands):

Inventories

	March 31, 2007	December 31, 2006
Raw materials and supplies	$ 9,554	$ 9,479
Work in process	25,188	25,018
Finished goods	16,971	17,559
	$ 51,713	$ 52,056

Property, plant and equipment

	March 31, 2007	December 31, 2006
Land	$ 13,862	$ 13,862
Building	70,946	70,928
Machinery and equipment	132,184	128,572
Tenant improvements	28,932	28,185
Furniture and fixtures	16,609	15,995
Construction in-progress	1,138	618
Property, plant and equipment (at cost)	263,671	258,160
Less accumulated depreciation and amortization	(129,709)	(123,546)
Property, plant and equipment (net)	$ 133,962	$ 134,614

License, manufacturing access fees and other assets

	March 31, 2007	December 31, 2006
Patents	$ 16,906	$ 16,689
Purchased intangible assets	33,636	33,636
License and manufacturing access fees	53,326	51,726
Investment in Molecular Profiling Institute, Inc.	2,500	2,500
Investment in Qualigen, Inc.	6,993	6,993
Other assets	2,890	2,293
	116,251	113,837
Less accumulated amortization	(55,438)	(54,421)
	$ 60,813	$ 59,416

Table of Contents

Note 7 Short-term investments

The following is a summary of short-term investments as of March 31, 2007 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal securities	$ 251,757	$ 92	$ (853)	$ 250,996
Foreign debt securities	1,244			1,244
Total short-term investments	$ 253,001	$ 92	$ (853)	$ 252,240

The following table shows the gross unrealized losses and estimated fair values of the Company s investments in individual securities that have been in a continuous unrealized loss position deemed to be temporary for less than 12 months and for more than 12 months, aggregated by investment category, as of March 31, 2007 (in thousands):

	Less than 12 Months		More than 12 Months	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Municipal securities	$ 85,639	$ (162)	$ 107,657	$ (691)
Foreign debt securities				
Total short-term investments	$ 85,639	$ (162)	$ 107,657	$ (691)

The unrealized losses on the Company s investments in municipal securities were caused by market interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. The Company does not consider its investments in municipal securities to be other-than-temporarily impaired at March 31, 2007 since the Company has the ability and intent to hold those investments until a recovery of fair value, which may be at maturity. There were no realized gains from the sale of short-term investments for the quarters ended March 31, 2007 and 2006. Gross realized losses from the sale of short-term investments were $0 and $21,000 for the quarters ended March 31, 2007 and 2006, respectively.

Note 8 Income tax

Effective January 1, 2007, the Company adopted FIN No. 48. In accordance with the transition guidance provided by FIN No. 48, the Company increased its accrual for unrecognized tax benefits, principally related to research tax credits, by adjusting for the net impact of the change in guidance, which was $962,000. The adjustment was accounted for as a reduction in the beginning balance of retained earnings and an increase in the beginning balance of net tax liabilities. As of January 1, 2007, including the cumulative effect increase, the Company had total gross unrecognized tax benefits of $17,512,000. The amount of unrecognized tax benefits (net of the federal benefit for state issues) that would favorably affect the effective income tax rate, if recognized, was $15,260,000.

While there have been no material changes to the total unrecognized tax benefits during the current period (notwithstanding the January 1, 2007 adjustment associated with the adoption of FIN No. 48), the Company estimates that its accrual for unrecognized tax benefits will decrease between $9,000,000 to $12,000,000 during the next twelve months. These decreases will be the result of tax audits expected to be completed, statutes of limitation set to expire, and positions expected to be taken in relation to its 2007 tax year. The unrecognized tax benefits generally relate to areas of tax law, including research tax credits, where the determination of an allowable benefit is highly subjective.

As discussed in Note 11, subsequent to the end of the three months ended March 31, 2007, a U.S. federal audit of the Company s 2003 and 2004 tax returns was completed. California tax returns for the 2003 and 2004 tax years are currently under exam. Material filings subject to future examination are the U.S. federal and California returns filed

for the 2005 year.

It is the Company s practice to include interest and penalties that relate to income tax matters as a component of income tax expense. Including the cumulative effect of adopting FIN No. 48, $2,157,000 of interest and $0 of penalties were accrued as of January 1, 2007.

During the three month periods ended March 31, 2007 and 2006, tax benefits of $1,342,000 and $4,394,000, respectively, related to employee stock options and stock purchase plans, were credited to stockholders equity.

Table of Contents

Note 9 Stockholders equity

Stock options

The Company s stock option program is a broad-based, long-term retention program that is intended to attract and retain talented employees and to align stockholder and employee interests. The Company s primary program consists of a broad-based plan under which stock options are granted to employees and directors. Substantially all of the Company s full-time employees have historically participated in the Company s stock option program.

A summary of the Company s stock option activity for all option plans is as follows (in thousands, except per share data and number of years):

	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)		Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2006	6,300	$	34.99			
Granted	134		48.73			
Exercised	(170)		25.80			
Cancelled	(107)		43.63			
Outstanding at March 31, 2007	6,157		35.39	6.7	$	71,972
Exercisable at March 31, 2007	3,447	$	27.72	6.3	$	66,720

The Company defines in-the-money options at March 31, 2007 as options that had exercise prices that were lower than the $47.08 closing market price of its common stock at that date. The aggregate intrinsic value of options outstanding at March 31, 2007 is calculated as the difference between the exercise price of the underlying options and the market price of its common stock for the 4,457,975 shares that were in-the-money at that date. The total intrinsic value of options exercised during the first quarter of 2007 was $3,950,000 determined as of the exercise dates. The total fair value (using Black-Scholes-Merton Model) of shares vested during the first quarter of 2007 was $4,968,000. The Company also had 80,000 shares of Deferred Issuance Restricted Stock awards and 194,080 shares of restricted stock outstanding as of March 31, 2007 that have not been reflected in the table above.

Additional information about stock options outstanding at March 31, 2007 with exercise prices less than or above $47.08, the closing price as of March 31, 2007, is as follows (in thousands, except per share data):

	Exercisable			Unexercisable			Total		
As of March 31, 2007	Shares		Weighted Average Exercise Price	Shares		Weighted Average Exercise Price	Shares		Weighted Average Exercise Price
In-the-Money	3,261	$	26.45	1,197	$	39.12	4,458	$	29.85
Out-of-the-Money	186		50.12	1,513		49.91	1,699		49.93
Total Options Outstanding	3,447			2,710			6,157		

A summary of the Company s unvested stock options at March 31, 2007, including the associated fair value of the awards using the Black-Scholes-Merton Model, and changes during the quarter then ended is as follows (in thousands, except per share data and number of years):

	Number of Shares		Weighted Average Grant-Date Fair Value	Weighted Average Remaining Contractual Life (Years)
Non-vested at December 31, 2006	2,959	$	19.51	
Granted	134		17.66	
Vested	(278)		17.87	
Forfeited	(105)		19.13	
Non-vested at March 31, 2007	2,710	$	19.73	7.3

Table of Contents

Changes in stockholders equity for the three months ended March 31, 2007 were as follows (in thousands):

Balance at December 31, 2006	$ 570,208
Net income	21,475
Cumulative effect adjustment upon adoption of FIN No. 48	(962)
Other comprehensive income, net	83
Net proceeds from the issuance of common stock	4,402
Purchase of common stock by board members	34
Cancellation of restricted stock awards	(46)
Stock-based compensation expense restricted stock	832
Stock-based compensation expense all other	4,285
Stock-based compensation net capitalized to inventory	(320)
Tax benefit from the exercise of stock options	1,342
Balance at March 31, 2007	$ 601,333

Note 10 Litigation

The Company is a party to the following litigation and may be involved in other litigation in the ordinary course of business. The Company intends to vigorously defend its interests in this matter. The Company expects that the resolution of this matter will not have a material adverse effect on its business, financial condition or results of operations. However, due to the uncertainties inherent in litigation, no assurance can be given as to the outcome of these proceedings.

Digene Corporation

In December 2006, Digene Corporation (Digene) filed a demand for binding arbitration against Roche with the International Centre for Dispute Resolution of the American Arbitration Association in New York. Digene s arbitration demand challenges the validity of the February 2005 supply and purchase agreement between the Company and Roche. Under the supply and purchase agreement, Roche manufactures and supplies the Company with human papillomavirus (HPV) oligonucleotide products. Digene s demand asserts, among other things, that Roche materially breached a cross-license agreement between Roche and Digene by granting the Company an improper sublicense and seeks a determination that the supply and purchase agreement is null and void. The Company is not named as a party to Digene s arbitration and Digene has declined the Company s request to join the arbitration. The Company has been informed that the arbitrators who will hear the arbitration had not been selected as of April 30, 2007.

On December 8, 2006, the Company filed a complaint in the Superior Court of the State of California for the County of San Diego naming Digene as defendant and the Roche entities as nominal defendants. On February 23, 2007, the Company filed a first amended complaint, which seeks a declaratory judgment that the supply and purchase agreement is valid and does not constitute a license or sublicense of the patents covered by the cross-license agreement between Roche and Digene. On March 26, 2007, Digene filed a motion to dismiss the first amended complaint. On March 28, 2007, the Company filed a motion for summary judgment of the claim for declaratory relief asserted in the first amended complaint.

The Company believes that the supply and purchase agreement is valid and that its purchases of HPV oligonucleotide products under the supply and purchase are and will be in accordance with applicable law. However, there can be no assurance that the matters will be resolved in favor of the Company.

Note 11 Subsequent Events

In April 2007, the Company received notification from the Internal Revenue Service that is has closed its examination of the Company s tax returns for the years through 2004, resolving a number of issues, including research tax credits. In connection with the settlement, the Company expects to reverse previously accrued taxes which will reduce the Company s tax provision for the three months ended June 30, 2007 by approximately $8,700,000.

In April 2007, the Company entered into an exclusive collaboration agreement with 3M Company (3M) to develop and commercialize rapid nucleic acid tests to detect certain dangerous healthcare-associated infections such as methicillin-resistant Staphylococcus aureus. Under the terms of the agreement, Gen-Probe will be responsible for assay development, which 3M largely will fund. 3M will be responsible for integrating these assays onto one of its proprietary integrated instrument platforms. Gen-Probe will conduct bulk manufacturing of assays, while 3M will produce disposables for use on its instrument. 3M will manage clinicals trials and regulatory affairs, and handle global sales and marketing with co-promotion assistance from Gen-Probe s sales representatives. 3M has agreed to pay milestones to Gen-Probe based on technical and commercial progress, and the companies will share profits from the sale of commercial products.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which provides a safe harbor for these types of statements. To the extent statements in this report involve, without limitation, our expectations for growth, estimates of future revenue, expenses, profit, cash flow, balance sheet items or any other guidance on future periods, these statements are forward-looking statements. Forward-looking statements can be identified by the use of forward-looking words such as believes, expects, hopes, may, will, intends, estimates, could, should, would, continue, seeks or anticipates, or other similar words, incluc the negative. Forward-looking statements are not guarantees of performance. They involve known and unknown risks, uncertainties and assumptions that may cause actual results, levels of activity, performance or achievements to differ materially from any results, level of activity, performance or achievements expressed or implied by any forward-looking statement. We assume no obligation to update any forward-looking statements.

The following information should be read in conjunction with our March 31, 2007 consolidated financial statements and related notes thereto included elsewhere in this quarterly report and with our consolidated financial statements and notes thereto for the year ended December 31, 2006 and the related Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2006. We also urge you to review and consider our disclosures describing various risks that may affect our business, which are set forth under the heading Risk Factors in this quarterly report and in our Annual Report on Form 10-K for the year ended December 31, 2006.

Overview

We are a global leader in the development, manufacture and marketing of rapid, accurate and cost-effective nucleic acid probe-based products used for the clinical diagnosis of human diseases and for screening of donated human blood. We also develop and manufacture nucleic acid probe-based products for the detection of harmful organisms in the environment and in industrial processes. We have over 24 years of nucleic acid detection research and product development experience, and our products, which are based on our patented nucleic acid testing, or NAT, technology, are used daily in clinical laboratories and blood collection centers in countries throughout the world.

We have achieved strong growth since 2002 in both revenues and earnings due to the success of our clinical diagnostic products for sexually transmitted diseases, or STDs, and our blood screening products that are used to detect the presence of human immunodeficiency virus (type 1), or HIV-1, hepatitis C virus, or HCV, hepatitis B virus, or HBV, and West Nile Virus, or WNV. Under our collaboration agreement with Novartis Vaccines and Diagnostics, Inc., or Novartis, formerly known as Chiron Corporation, we are responsible for the research, development, regulatory process and manufacturing of our blood screening products, while Novartis is responsible for marketing, sales, distribution and service of those products.

We are currently developing future nucleic acid probe-based products that we hope to introduce in the clinical diagnostic, blood screening and industrial microbiology testing markets, including products for the detection of human papillomavirus, or HPV, and for measuring markers for prostate cancer.

Recent Events

Financial Results

Product sales for the first quarter of 2007 were $87.2 million, compared to $78.5 million in the same period of the prior year, an increase of 11%. Total revenues for the first quarter of 2007 were $101.1 million, compared to $86.3 million in the same period of the prior year, an increase of 17%. Net income for the first quarter of 2007 was $21.5 million ($0.40 per diluted share), compared to $14.2 million ($0.27 per diluted share) in the same period of the prior year.

Corporate Collaborations

In April 2007, we entered into an exclusive collaboration agreement with 3M Company, or 3M, to develop and commercialize rapid nucleic acid tests to detect certain dangerous healthcare-associated infections, such as methicillin-resistant Staphylococcus aureus. Under the terms of the agreement, we will be responsible for assay development, which 3M largely will fund. 3M will be responsible for integrating these assays onto one of its proprietary integrated instrument platforms. We will conduct bulk manufacturing of assays, while 3M will produce disposables for use on its instrument. 3M will manage clinical trials and regulatory affairs, and will handle global

sales and marketing with co-promotion assistance from our sales representatives. 3M has agreed to pay milestones to us based on technical and commercial progress, and we will share profits from the sale of commercial products.

In November 2006, we entered into an exclusive development and supply agreement with 3M to develop, manufacture and market innovative NAT products to enhance food safety and increase the efficiency of testing for food producers. Under the terms of the agreement, 3M is responsible for developing sample processing methods that will be used with our NAT assays. 3M will be responsible for obtaining the necessary regulatory approvals and commercializing the products. We are responsible for assay development and manufacturing. 3M has agreed to make milestone payments to us based on technical progress, and to provide funding for assay development.

Product Development

In March 2007, the Food and Drug Administration, or FDA, approved our Procleix TIGRIS System, to screen donated blood, organs and tissues for WNV using the Procleix WNV assay. The fully automated, high throughput Procleix TIGRIS can process 1,000 blood samples in about 14 hours. This level of productivity facilitates individual donor testing, which increases screening sensitivity and blood safety. Blood testing sites typically screen for WNV using pooled samples; however, when predetermined WNV prevalence triggers are met in their geographic areas, they switch to individual donor testing.

In January 2007, the U.S. Army Medical Research and Material Command, which actively manages research programs for the Department of Defense, granted us a $2.5 million award for the development of improved cancer diagnostic assays.

Revenues

We derive revenues from three primary sources: product sales, collaborative research revenue and royalty and license revenue. The majority of our revenues come from product sales, which consist primarily of sales of our NAT assays tested on our proprietary instruments that serve as the analytical platform for our assays. We recognize as collaborative research revenue payments we receive from Novartis for the products provided under our collaboration agreement with Novartis prior to regulatory approval, and the payments we receive from Novartis and other collaboration partners for research and development activities. Our royalty and license revenues reflect fees paid to us by Bayer Corporation, or Bayer, and other third parties for the use of our proprietary technology. For the first quarter of 2007, product sales, collaborative research revenues, and royalty and license revenues equaled 86%, 2% and 12%, respectively, of our total revenues of $101.1 million. For the same period in the prior year, product sales, collaborative research revenues, and royalty and license revenues equaled 91%, 8%, and 1%, respectively, of our total revenues of $86.3 million.

Product sales

Our primary source of revenue is the sale of clinical diagnostic and blood screening products in the United States. Our clinical diagnostic products include our APTIMA, PACE, AccuProbe and Amplified Mycobacterium Tuberculosis Direct Test product lines. The principal customers for our clinical diagnostics products include large reference laboratories, public health institutions and hospitals.

We supply NAT assays for use in screening blood donations intended for transfusion. Our primary blood screening product in the United States detects HIV-1 and HCV in donated human blood. Our blood screening assays and instruments are marketed worldwide through our collaboration with Novartis under the Procleix and Ultrio trademarks. We recognize product sales from the manufacture and shipment of tests for screening donated blood at the contractual transfer prices specified in our collaboration agreement with Novartis for sales to end-user blood bank facilities located in countries where our products have obtained governmental approvals. Blood screening product sales are then adjusted monthly corresponding to Novartis payment to us of amounts reflecting our ultimate share of net revenue from sales by Novartis to the end user, less the transfer price revenues previously recorded. Net sales are ultimately equal to the sales of the assays by Novartis to third parties, less freight, duty and certain other adjustments specified in our collaboration agreement with Novartis, as amended, multiplied by our share of the net revenue. Our share of net revenues from commercial sales of assays that include a test for HCV is 45.75% under our collaboration agreement with Novartis. With respect to commercial sales of blood screening assays under our collaboration agreement with Novartis that do not include a test for HCV, such as the WNV assay, we receive 50% of net revenues after deduction of appropriate expenses. Our costs related to these products after commercialization primarily include manufacturing costs.

Collaborative research revenue

Under our collaboration agreement with Novartis, we have responsibility for research, development and manufacturing of the blood screening products covered by the agreement, while Novartis has responsibility for marketing, distribution and service of the blood screening products worldwide.

We have recorded revenues related to use of our blood screening products in the United States and other countries in which the products have not received regulatory approval as collaborative research revenue because of price restrictions applied to these products prior to FDA license approval in the United States and similar approvals in foreign countries. In December 2005, the FDA granted marketing approval for our WNV assay on our enhanced semi-automated instrument system, or eSAS, to screen donated human blood. In the first quarter of 2006, upon shipment of FDA-approved and labeled product, we changed the recognition of prospective sales of the WNV assay for use on eSAS from collaborative research revenue to product sales.

The costs associated with collaborative research revenue are based on fully burdened full time equivalent rates and are reflected in our consolidated statements of income under the captions Research and development, Marketing and sales and General and administrative, based on the nature of the costs. We do not separately track all of the costs applicable to collaborations and, therefore, are not able to quantify all of the direct costs associated with collaborative research revenue.

Royalty and license revenue

We recognize revenue for royalties due to us upon the manufacture, sale or use of our products or technologies under license agreements with third parties. For those arrangements where royalties are reasonably estimable, we recognize revenue based on estimates of royalties earned during the applicable period and adjust for differences between the estimated and actual royalties in the following period. Historically, these adjustments have not been material. For those arrangements where royalties are not reasonably estimable, we recognize revenue upon receipt of royalty statements from the applicable licensee. Non-refundable license fees are recognized over the related performance period or at the time that we have satisfied all performance obligations.

Cost of product sales

Cost of product sales includes direct material, direct labor, and manufacturing overhead associated with the production of inventories. Other components of cost of product sales include royalties, warranty costs, instrument and software amortization and allowances for scrap.

In addition, we manufacture significant quantities of raw materials, development lots, and clinical trial lots of product prior to receiving FDA approval for commercial sale. There were no large-scale blood screening development lots produced in the first quarter of either 2007 or 2006. The majority of costs associated with development lots are classified as research and development, or R&D, expense. The portion of a development lot that is manufactured for commercial sale outside the United States is capitalized to inventory and classified as cost of product sales upon shipment.

Our blood screening manufacturing facility has operated, and will continue to operate, below its potential capacity for the foreseeable future. A portion of this available capacity is utilized for R&D activities as new product offerings are developed for commercialization. As a result, certain operating costs of our blood screening manufacturing facility, together with other manufacturing costs for the production of pre-commercial development lot assays that are delivered under the terms of an Investigational New Drug, or IND, application are classified as R&D expense prior to FDA approval.

A portion of our blood screening revenues is from sales of TIGRIS instruments to Novartis, which totaled $2.0 million and $3.6 million, during the first quarter of 2007 and 2006, respectively. Under our collaboration agreement with Novartis, we sell TIGRIS instruments to them at prices that approximate cost. These instrument sales, therefore, negatively impact our gross margin percentage in the periods when they occur, but are a necessary precursor to increased sales of blood screening assays in the future.

Research and development

We invest significantly in R&D as part of our ongoing efforts to develop new products and technologies. Our R&D expenses include the development of proprietary products and instrument platforms, as well as expenses related to the co-development of new products and technologies in collaboration with our partners. R&D spending is expected to increase in the future due to new product development, clinical trial costs and manufacturing costs of development lots; however, we expect our R&D expenses as a percentage of total revenues to decline in future years. The timing of clinical trials and development manufacturing costs is variable and is affected by product development activities and the regulatory process.

In connection with our R&D efforts, we have various license agreements that provide us with rights to develop and market products using certain technologies and patent rights maintained by third parties. These agreements generally provide for a term that commences upon execution of the agreement and continues until expiration of the last patent covering the licensed technology.

R&D expenses include the costs of raw materials, development lots and clinical trial lots of products that we manufacture. These costs are dependent on the status of projects under development and may vary substantially between quarterly or annual reporting periods. We expect to incur additional costs associated with the manufacture of development lots and clinical trial lots for our blood screening products, further development of our TIGRIS instrument, initial development of a fully automated system for low and mid-volume laboratories, as well as for the development of assays for PCA3, HPV and for industrial applications.

Critical accounting policies and estimates

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, the collectibility of accounts receivable, valuation of inventories, long-lived assets, including license and manufacturing access fees, patent costs and capitalized software, income tax and valuation of stock-based compensation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, which form the basis for making judgments about the carrying values of assets and liabilities. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of our Board of Directors. Actual results may differ from these estimates.

We believe there have been no significant changes during the first quarter of 2007 to the items that we disclosed as our critical accounting policies and estimates in Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2006, except for the item discussed below.

New accounting requirement

Effective January 1, 2007, we adopted Financial Accounting Standards Board, or FASB, Interpretation No. 48 Accounting for Uncertainty in Income Taxes an interpretation of SFAS No. 109 , or FIN No. 48, which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. In accordance with the transition guidance provided by FIN No. 48, we made an adjustment of $1.0 million for the net impact of the change in guidance. The adjustment was accounted for as a reduction in the beginning balance of retained earnings and an increase in the beginning balance of net tax liabilities. We do not anticipate that the adoption of FIN No. 48 will have a material effect on our statements of income and effective tax rate in future periods.

Table of Contents

Results of Operations

	Three Months Ended March 31,		Change	
	2007	2006	Amount	%
	(In millions, except per share data)			
Statement of income:				
Revenues:				
Product sales	$ 87.2	$ 78.5	$ 8.7	11%
Collaborative research revenue	2.4	6.9	(4.5)	(65%)
Royalty and license revenue	11.5	0.9	10.6	1178%
Total revenues	101.1	86.3	14.8	17%
Operating expenses:				
Cost of product sales	29.2	26.6	2.6	10%
Research and development	20.3	19.3	1.0	5%
Marketing and sales	9.5	8.9	0.6	7%
General and administrative	11.3	10.7	0.6	6%
Total operating expenses	70.3	65.5	4.8	7%
Income from operations	30.8	20.8	10.0	48%
Total other income, net	2.6	1.7	0.9	53%
Income tax expense	11.9	8.3	3.6	43%
Net income	$ 21.5	$ 14.2	$ 7.3	51%
Net income per share				
Basic	$ 0.41	$ 0.28	$ 0.13	46%
Diluted	$ 0.40	$ 0.27	$ 0.13	48%
Weighted average shares outstanding				
Basic	52.2	51.2		
Diluted	53.6	52.9		

Amounts and percentages in this table and throughout our discussion and analysis of financial conditions and results of operations may reflect rounding adjustments. Percentages have been rounded to the nearest whole percentage.

Product sales

Product sales increased 11% to $87.2 million in the first quarter of 2007, from $78.5 million in the first quarter of 2006. The $8.7 million increase was primarily attributed to $4.3 million in higher blood screening assay sales and $9.5 million in higher APTIMA assay sales, partially offset by $2.8 million in lower instrument sales and a $2.9 million decrease in PACE product sales. Revenues from all other product lines increased a combined $0.6 million from the first quarter of 2006. Blood screening related sales, including assay, instrument, and ancillary sales, represented $39.6 million, or 45% of product sales, in the first quarter of 2007, compared to $38.4 million, or 49% of product sales in the first quarter of 2006. The increase in blood screening related sales during the first quarter of 2007 was principally attributed to the approval and commercial launch of our WNV assay, international expansion of Procleix Ultrio (HIV-1/HCV/HBV) assay sales, offset by decreased instrument sales to Novartis. Our share of

blood screening revenues is based upon sales of assays by Novartis, blood donation levels and the related price per donation. In 2006, growth of United States blood donation volumes screened using the Procleix HIV-1/HCV assay was relatively flat, as was the related pricing. Diagnostic product sales, including assay, instrument, and ancillary sales, represented $47.6 million, or 55% of product sales, in the first quarter of 2007, compared to $40.2 million, or 51% of product sales in the first quarter of 2006. This increase was primarily driven by volume gains in our APTIMA product line as the result of PACE conversions, market share gains attributed to the assays clinical performance and the availability of our fully automated TIGRIS instrument. Average pricing related to our primary APTIMA products remained consistent with 2006 levels.

We expect increased competitive pressures related to our STD and blood screening products in the future, primarily as a result of the introduction by others of competing products, and continuing pricing pressure as it relates to the STD market.

Collaborative research revenue

Collaborative research revenue decreased 65% in the first quarter of 2007 from the first quarter of 2006. The $4.5 million decrease was primarily the result of a $4.5 million decrease in revenue from Novartis related to deliveries of WNV tests on a cost recovery

18

basis in the first quarter of 2006 (now recorded as product sales), a $0.3 million decrease in reimbursements for expenses from Novartis for WNV assay development research, a $0.3 million decrease in revenue for shipments of discriminatory HBV, or dHBV, assays and a $0.3 million decrease in revenue for reimbursement from Millipore as the first assay under our collaboration is moving out of the development phase and into commercialization. These decreases were partially offset by a $0.6 million increase in revenue from the U.S. Army Medical Research and Material Command for the development of improved cancer diagnostic assays and a $0.2 million increase in revenue from 3M related to our food testing program.

Collaborative research revenue tends to fluctuate based on the amount of research services performed, the status of projects under collaboration and the achievement of milestones. Under the terms of our collaboration agreement with Novartis, a milestone payment of $10.0 million is due to us in the future if we obtain full FDA approval of our Procleix Ultrio assay for blood screening use on the TIGRIS instrument. Also, milestone payments from 3M are due to us in the future upon achievement of technological and commercial milestones. There is no guarantee we will achieve these milestones and receive the associated payments under these agreements.

Due to the nature of our collaborative research revenues, results in any one period are not necessarily indicative of results to be achieved in the future. Our ability to generate additional collaborative research revenues depends, in part, on our ability to initiate and maintain relationships with potential and current collaborative partners. These relationships may not be established or maintained and current collaborative research revenue may decline.

Royalty and license revenue

Royalty and license revenue increased $10.6 million in the first quarter of 2007 from the first quarter of 2006. The increase was principally attributed to a $10.3 million royalty payment from Bayer as part of our 2006 settlement agreement.

Royalty and license revenue may fluctuate based on the nature of the related agreements and the timing of receipt of license fees. For example, during the first quarter of 2007, our royalty and license revenue increased substantially, primarily as a result of a royalty payment from Bayer as part of our 2006 settlement agreement. Results in any one period are not necessarily indicative of results to be achieved in the future. In addition, our ability to generate additional royalty and license revenue will depend, in part, on our ability to market and capitalize on our technologies. We may not be able to do so and future royalty and license revenue may decline.

Cost of product sales

Cost of product sales increased 10% in the first quarter of 2007 from the first quarter of 2006. The $2.6 million increase was principally attributed to higher scrap provisions ($1.1 million), increased amortization of stock-based compensation expense ($0.9 million) and higher instrument amortization costs ($0.5 million).

Our gross profit margin as a percentage of product sales increased to 67% in the first quarter of 2007, from 66% in the first quarter of 2006. The increase in gross profit margin percentage was principally attributed to decreased sales of lower-margin instruments, including TIGRIS instruments and spare parts, and higher donation revenues associated with commercial sales of the WNV assay in the United States. These benefits were partially offset by additional scrap expense compared to the prior year period, increased amortization of stock-based compensation expense, and changes in production volumes.

Cost of product sales may fluctuate significantly in future periods based on changes in production volumes for both commercially approved products and products under development or in clinical trials. Cost of product sales are also affected by manufacturing efficiencies, allowances for scrap or expired materials, additional costs related to initial production quantities of new products after achieving FDA approval, and contractual adjustments, such as instrumentation costs, instrument service costs and royalties.

We anticipate that our blood screening customers requirements for smaller pool sizes or ultimately individual donor testing of blood samples will result in lower gross margin percentages, as additional tests would be required to deliver the sample results. We are not able to accurately predict the timing and extent to which our gross margin percentage will be negatively affected as a result of smaller pool sizes or individual donor testing, which depends on associated price changes. In general, international pool sizes are smaller than domestic pool sizes and, therefore, growth in blood screening revenues attributed to international expansion has led and will lead to lower gross margin percentages.

19

Research and development

Our R&D expenses include salaries and other personnel-related expenses, outside services, laboratory and manufacturing supplies, pre-commercial development lots and clinical evaluation trials. R&D expenses increased 5% in the first quarter of 2007 from the first quarter of 2006. The $1.0 million increase was primarily due to an increase in expenses associated with our new building ($1.4 million), partially offset by a decrease in stock-based compensation expense ($0.5 million).

Marketing and sales

Our marketing and sales expenses include salaries and other personnel-related expenses, promotional expenses, and outside services. Marketing and sales expenses increased 7% in the first quarter of 2007 from the first quarter of 2006. The $0.6 million increase was primarily due to increased expenses associated with our new building ($0.3 million) and an increase in spending for marketing evaluations related to the European Union, or EU, launch of our PCA3 assay ($0.2 million).

General and administrative

Our general and administrative, or G&A, expenses include salaries and other personnel-related expenses for finance, legal, strategic planning and business development, public relations and human resources, as well as professional fees for legal, patents and auditing services. G&A expenses increased 6% in the first quarter of 2007 from the first quarter of 2006. The $0.6 million increase was primarily the result of higher executive recruiting and relocation fees ($0.6 million) and higher expenses associated with our new building ($0.6 million). These increases were partially offset by a decrease in professional fees associated with our two patent infringement lawsuits against Bayer, which we settled in 2006 ($0.7 million).

Total other income, net

Total other income, net, generally consists of investment and interest income. The $0.9 million net increase in the first quarter of 2007 from the first quarter of 2006 was primarily due to an increase in interest income resulting from higher average balances of our short-term investments and higher yields on our investment portfolio.

Income tax expense

Income tax expense increased to $11.9 million, or 35.6% of pretax income, in the first quarter of 2007, from $8.3 million or 37.0% of pretax income, in the first quarter of 2006. The decrease in our effective tax rate was principally attributed to increases in our tax exempt interest income and benefits from the federal domestic manufacturing deduction. Excluding the expected favorable effect related to completion of a U.S. Federal audit in April 2007, the Company currently estimates its annual effective income tax rate to be approximately 35.0% to 36.0% for 2007, compared to the actual 36.0% effective income tax rate in 2006.

Liquidity and capital resources

(In thousands)

	March 31, 2007	December 31, 2006
Cash, cash equivalents and short-term investments	$ 319,668	$ 289,913
Working capital	$ 387,156	$ 342,062
Current ratio	11:1	8:1

The change in current ratio from December 31, 2006 to March 31, 2007, was principally attributed to a reclassification of $14.0 million in income tax payable from current to non-current resulting from the adoption of FIN No. 48 as of January 1, 2007.

	Three Months Ended March 31,		
	2007	2006	$ Change
Cash provided by (used in):			
Operating activities	$ 31,876	$ 28,755	$ 3,121

Investing activities	(58,055)	(30,410)	27,645
Financing activities	5,686	13,843	(8,157)
Purchases of property, plant and equipment (included in investing activities above)	$ (5,894)	$ (17,768)	$ (11,874)

20

Historically, we have financed our operations through cash from operations, including cash received from collaborative research agreements, royalty and license fees, and cash from capital contributions. At March 31, 2007, we had $319.7 million of cash and cash equivalents and short-term investments.

The $3.1 million increase in net cash provided by operating activities during the first quarter of 2007 from the first quarter of 2006 was primarily due to higher net income ($7.2 million) and a net increase in income tax payable, including the adoption of FIN No. 48, during the first quarter of 2007 ($4.0 million). These increases were partially offset by an overall net increase in prepaid expenses ($5.7 million), an increase in trade accounts receivable growth ($5.2 million) and a decrease in excess tax benefits related to employee stock options ($3.1 million).

The $27.6 million increase in net cash used in investing activities during the first quarter of 2007 from the first quarter of 2006 included an increase in purchases (net of sales) of short-term investments ($39.2 million), partially offset by a decrease in capital expenditures ($11.9 million). The increase in purchases of short-term investments was driven by the reinvestment of excess cash generated by operating activities as well as proceeds from the exercise of stock options. The decline in capital expenditures was primarily due to the completion of construction of our new building in 2006.

The $8.2 million decrease in net cash provided by financing activities during the first quarter of 2007 from the first quarter of 2006 was principally attributed to a decrease in proceeds from the exercise of stock options ($5.0 million) as well as a decrease in the associated excess tax benefits ($3.1 million). On a going-forward basis, cash from financing activities will continue to be affected by proceeds from the exercise of stock options and receipts from sales of stock under our Employee Stock Purchase Plan, or ESPP. We expect fluctuations to occur throughout the year, as the amount and frequency of stock-related transactions are dependent upon the market performance of our common stock, along with other factors.

We have an unsecured bank line of credit agreement with Wells Fargo Bank, N.A., which expires in July 2007, under which we may borrow up to $10.0 million at the bank s prime rate, or at LIBOR plus 1.0%. We have not taken advances against the line of credit since its inception. The line of credit agreement requires us to comply with various financial and restrictive covenants. As of March 31, 2007, we were in compliance with all covenants.

In May 2006, we completed construction of an additional building on our main San Diego campus. This new building consists of an approximately 292,000 square foot shell and currently has 214,000 square feet built-out with interior improvements. Approximately 78,000 square feet of unimproved expansion space remains to accommodate future growth. Construction costs as of March 31, 2007 were approximately $46.3 million. These costs were capitalized as incurred and depreciation commenced upon our move-in during May 2006. In November 2004, the FASB issued SFAS No. 151, Inventory Costs an Amendment of Accounting Research Bulletin No. 43, Chapter 4 , or SFAS No. 151, clarifying the accounting for idle facility expense to be recognized as a current-period charge. Costs associated with our San Diego campus are generally allocated based on square feet. Costs that are allocated to expansion space are expensed in the period incurred in accordance with SFAS No. 151.

We implemented a new ERP system that cost approximately $4.9 million in 2004. We incurred $3.3 and $2.9 million in additional costs in 2006 and 2005, respectively. We expect to incur approximately $2.0 million in costs in 2007 for further enhancements to our ERP system.

Contractual obligations and commercial commitments

Our contractual obligations due to lessors for properties that we lease, as well as amounts due for purchase commitments and collaborative agreements as of March 31, 2007 were as follows (in thousands):

	Total	2007	2008	2009	2010	Thereafter
Operating leases [1]	$ 887	$ 650	$ 167	$ 70	$	$
Material purchase commitments [2]	20,923	20,923				
Collaborative commitments [3]	14,775	1,960	10,765	1,400	650	
Total [4]	$ 36,585	$ 23,533	$ 10,932	$ 1,470	$ 650	$

(1) Reflects obligations on facilities under operating leases in place as of March 31, 2007. Future minimum lease payments are included in the table above.

Table of Contents

(2) Amounts represent our minimum purchase commitments from two key vendors for TIGRIS instruments and raw materials used in manufacturing. Of the $15.4 million expected to be used to purchase TIGRIS instruments, we anticipate that approximately $9.0 million will be sold to Novartis.

(3) In addition to the minimum payments due under our collaborative agreements included in the table above, we may be required to pay up to $10.0 million in milestone payments, plus royalties on net sales of any products using specified technology. Also, we may soon commit to spend up to $6.0 million in R&D costs to develop a new instrument

platform designed for mid to low volume customers.

(4) Does not include amounts relating to our obligations under our collaboration with Novartis, pursuant to which both parties have obligations to each other. We are obligated to manufacture and supply our blood screening assay to Novartis, and Novartis is obligated to purchase all of the quantities of this assay specified on a 90-day demand forecast, due 90 days prior to the date Novartis intends to take delivery, and certain quantities specified on a rolling 12-month forecast.

Additionally, we have liabilities for deferred employee compensation which totaled $2.8 million at March 31, 2007. The payments related to the deferred compensation are not included in the table above because they are typically dependent upon when certain key employees retire or otherwise terminate their employment. At this time, we cannot reasonably predict when these events may occur.

Our primary short-term needs for capital, which are subject to change, include continued R&D of new products, costs related to commercialization of products and purchases of TIGRIS instruments for placement with our customers. Certain R&D costs may be funded under collaboration agreements with partners.

We believe that our available cash balances, anticipated cash flows from operations and proceeds from stock option exercises will be sufficient to satisfy our operating needs for the foreseeable future. However, we operate in a rapidly

evolving and often unpredictable business environment that may change the timing or amount of expected future cash receipts and expenditures. Accordingly, we may in the future be required to raise additional funds through the sale of equity or debt securities or from additional credit facilities. Additional capital, if needed, may not be available on satisfactory terms, if at all. Further, debt financing may subject us to covenants restricting our operations. In August 2003, we filed a Form S-3 shelf registration statement with the SEC relating to the possible future sale of up to an aggregate of $150 million of debt or equity securities. To date, we have not raised any funds under this registration statement.

We may from time to time consider the acquisition of businesses and/or technologies complementary to our business. We could require additional equity or debt financing if we were to engage in a material acquisition in the future.

We do not currently have and have never had any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Available Information

Copies of our public filings are available on our Internet website at http://www.gen-probe.com as soon as reasonably practicable after we electronically file such material with, or furnish them to, the SEC.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risk for changes in interest rates relates primarily to the increase or decrease in the amount of interest income we can earn on our investment portfolio. Our risk associated with fluctuating interest income is limited to our investments in interest rate sensitive financial instruments. Under our current policies, we do not use interest rate derivative instruments to manage this exposure to interest rate changes. We seek to ensure the safety and preservation of our invested principal by limiting default risk, market risk, and reinvestment risk. We mitigate default risk by investing in short-term investment grade securities. A 100 basis point increase or decrease in interest rates would increase or decrease our current investment balance by approximately $4.2 million annually. While changes in our interest rates may affect the fair value of our investment portfolio, any gains or losses are not recognized in our statement of income until the investment is sold or if a reduction in fair value is determined to be a permanent impairment.

Table of Contents

Foreign Currency Exchange Risk

Although the majority of our revenue is realized in United States dollars, some portions of our revenue are realized in foreign currencies. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The functional currency of our wholly owned subsidiaries is the British pound. Accordingly, the accounts of these operations are translated from the local currency to the United States dollar using the current exchange rate in effect at the balance sheet date for the balance sheet accounts, and using the average exchange rate during the period for revenue and expense accounts. The effects of translation are recorded in accumulated other comprehensive income (loss) as a separate component of stockholders equity.

We are exposed to foreign exchange risk for expenditures in certain foreign countries, but the total receivables and payables denominated in foreign currencies as of March 31, 2007 were not material. Under our collaboration agreement with Novartis, a growing portion of blood screening product sales is from western European countries. As a result, our international blood screening product sales are affected by changes in the foreign currency exchange rates of those countries where Novartis business is conducted in Euros or other local currencies. We do not enter into foreign currency hedging transactions to mitigate our exposure to foreign currency exchange risks. Based on international blood screening product sales during the first quarter of 2007, a 10% movement of currency exchange rates would result in a blood screening product sales increase or decrease of approximately $4.9 million annually. We believe that our business operations are not exposed to market risk relating to commodity prices.

Item 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the quarter ended March 31, 2007.

An evaluation was also performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of any change in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation has included certain internal control areas in which we have made and are continuing to make changes to improve and enhance controls.

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We maintain disclosure controls and procedures and internal controls that are designed to ensure that information required to be disclosed in our current and periodic reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures and internal controls, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

A description of our material pending legal proceedings is disclosed in Note 10 Litigation, of the Notes to Consolidated Financial Statements included in Item 1 of Part I of this report and is incorporated by reference herein. We are also engaged in other legal actions arising in the ordinary course of our business and believe that the ultimate outcome of these actions will not have a material adverse effect on our business, financial condition or results of operations. However, due to the uncertainties inherent in litigation, no assurance can be given as to the outcome of these proceedings. If any of these matters were resolved in a manner unfavorable to us, our business, financial condition and results of operations would be harmed.

Item 1A. Risk Factors

The following information sets forth facts that could cause our actual results to differ materially from those contained in forward-looking statements we have made in this Quarterly Report and those we may make from time to time. We have marked with an asterisk those risk factors that reflect substantive changes from the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2006.

Our quarterly revenue and operating results may vary significantly in future periods and our stock price may decline.*

Our operating results have fluctuated in the past and are likely to continue to do so in the future. Our revenues are unpredictable and may fluctuate due to changes in demand for our products, the timing of the execution of customer contracts, the timing of milestone payments, or the failure to achieve and receive the same, and the initiation or termination of corporate collaboration agreements. A significant portion of our costs also can vary substantially between quarterly or annual reporting periods. For example, the total amount of research and development costs in a period often depends on the amount of costs we incur in connection with manufacturing developmental lots and clinical trial lots. Moreover, a variety of factors may affect our ability to make accurate forecasts regarding our operating results. For example, our new blood screening products and some of our clinical diagnostic products have a relatively limited sales history, which limits our ability to project future sales and the sales cycles accurately. In addition, we base our internal projections of our blood screening product sales and international sales of diagnostic products on projections prepared by our distributors of these products and therefore we are dependent upon the accuracy of those projections. Because of all of these factors, our operating results in one or more future quarters may fail to meet or exceed financial guidance we may provide from time to time and the expectations of securities analysts or investors, which could cause our stock price to decline. In addition, the trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about our business and that of our competitors.

We are dependent on Novartis and other third parties for the distribution of some of our products. If any of our distributors terminates its relationship with us or fails to adequately perform, our product sales will suffer.*

We rely on Novartis to distribute our blood screening products and Siemens to distribute some of our clinical diagnostic products for the detection of viral mircoorganisms. Commercial product sales by Novartis accounted for 39% of our total revenues for the first quarter of 2007 and 43% of our total revenues for 2006. As of March 31, 2007, we believe our collaboration agreement with Novartis will terminate in 2012 unless extended by the development of new products under the agreement, in which case the agreement will expire upon the later of the end of the original term or five years after the first commercial sale of the last new product developed during the original term. We do not know what effect, if any, Novartis recent acquisition of Chiron, our original corporate partner, will have on our blood screening collaboration.

In February 2001, we commenced an arbitration proceeding against Chiron in connection with our blood screening collaboration. The arbitration was resolved by mutual agreement in December 2001. In the event that we or Novartis commence arbitration against each other in the future under the collaboration agreement, proceedings could delay or decrease our receipt of revenue from Novartis or otherwise disrupt our collaboration with Novartis, which could cause our revenues to decrease and our stock price to decline.

Our agreement with Siemens (as assignee of Bayer) for the distribution of certain of our products will terminate in 2010. In November 2002, we initiated an arbitration proceeding against Bayer in connection with our clinical

diagnostic collaboration. We recently entered into a settlement agreement with Bayer regarding this arbitration and the patent litigation between the parties. Under the terms of the settlement agreement, the parties submitted a stipulated final award adopting the arbitrator s prior interim and supplemental awards, except that Bayer was no longer obligated to reimburse us $2.0 million for legal expenses previously awarded in the arbitrator s June

Table of Contents

5, 2005 Interim Award. The arbitrator determined that the collaboration agreement be terminated, as we requested, except as to the qualitative HCV assays and as to quantitative ASRs for HCV. Siemens retains the co-exclusive right to distribute the qualitative HCV tests and the exclusive right to distribute the quantitative HCV ASR. As a result of a termination of the agreement, we re-acquired the right to develop and market future viral assays that had been previously reserved for Siemens. The arbitrator s March 3, 2006 supplemental award determined that we are not obligated to pay an initial license fee in connection with the sale of the qualitative human immunodeficiency virus and HCV assays and that we will be required to pay running sales royalties, at rates we believe are generally consistent with rates paid by other licensees of the relevant patents.

On December 31, 2006, Bayer completed the sale of its diagnostics division to Siemens. We do not know what effect, if any, the sale of Bayer s diagnostics division to Siemens will have on the remaining elements of our collaboration for viral diagnostic products.

We rely upon bioMérieux for distribution of certain of our products in most of Europe, Rebio Gen, Inc. for distribution of certain of our products in Japan, and various independent distributors for distribution of our products in other regions. Distribution rights revert back to us upon termination of the distribution agreements. Our distribution agreement with Rebio Gen terminates on December 31, 2010, although it may terminate earlier under certain circumstances. Our distribution agreement with bioMérieux terminates on May 2, 2009, although it may terminate earlier under certain circumstances.

If any of our distribution or marketing agreements is terminated, particularly our collaboration agreement with Novartis, and we are unable to renew or enter into an alternative agreement, or if we elect to distribute new products directly, we will have to invest in additional sales and marketing resources, including additional field sales personnel, which would significantly increase future selling, general and administrative expenses. We may not be able to enter into new distribution or marketing agreements on satisfactory terms, or at all. If we fail to enter into acceptable distribution or marketing agreements or fail to market successfully our products, our product sales will decrease.

If we cannot maintain our current corporate collaborations and enter into new corporate collaborations, our product development could be delayed. In particular, any failure by us to maintain our collaboration with Novartis with respect to blood screening would have a material adverse effect on our business.

We rely, to a significant extent, on our corporate collaborators for funding development and marketing of our products. In addition, we expect to rely on our corporate collaborators for the commercialization of those products. If any of our corporate collaborators were to breach or terminate its agreement with us or otherwise fail to conduct its collaborative activities successfully and in a timely manner, the development or commercialization and subsequent marketing of the products contemplated by the collaboration could be delayed or terminated. We cannot control the amount and timing of resources our corporate collaborators devote to our programs or potential products.

The continuation of any of our collaboration agreements depends on their periodic renewal by us and our collaborators. For example, we believe our collaboration agreement with Novartis will terminate in 2012 unless extended by the development of new products under the agreement, in which case it will expire upon the later of the original term or five years after the first commercial sale of the last new product developed during the original term. The collaboration agreement is also subject to termination prior to expiration upon a material breach by either party to the agreement.

If any of our collaboration agreements is terminated, or if we are unable to renew those collaborations on acceptable terms, we would be required to devote additional internal resources to product development or marketing or to terminate some development programs or seek alternative corporate collaborations. We may not be able to negotiate additional corporate collaborations on acceptable terms, if at all, and these collaborations may not be successful. In addition, in the event of a dispute under our current or any future collaboration agreements, such as those under our agreements with Novartis and Siemens, a court or arbitrator may not rule in our favor and our rights or obligations under an agreement subject to a dispute may be adversely affected, which may have an adverse impact on our business or operating results.

If our TIGRIS instrument reliability does not meet market expectations, we may be unable to retain our existing customers and attract new customers.*

Complex diagnostic instruments such as our TIGRIS instrument typically require operating and reliability improvements following their initial introduction. We have initiated an in-service reliability improvement program for our TIGRIS instrument. However, this program may not result in the desired improvements in operating reliability of the instrument. If the reliability improvement program does not result in improved instrument reliability, we are likely to incur greater than anticipated service expenses. Additionally, failure to resolve reliability issues could limit market acceptance of the instrument, adversely affect our reputation, and prevent us from retaining our existing customers or attracting new customers.

Our future success will depend in part upon our ability to enhance existing products and to develop and introduce new products.*

The markets for our products are characterized by rapidly changing technology, evolving industry standards and new product introductions, which may make our existing products obsolete. Our future success will depend in part upon our ability to enhance existing products and to develop and introduce new products, including with our industrial collaborators. We believe that we will need to continue to provide new products that can detect and quantify a greater number of organisms from a single sample. We also believe that we must develop new assays that can be performed on automated instrument platforms, such as our TIGRIS instrument. The development of a new instrument platform, if any, in turn may require the modification of existing assays for use with the new instrument, and additional regulatory approvals.

The development of new or enhanced products is a complex and uncertain process requiring the accurate anticipation of technological and market trends, as well as precise technological execution. In addition, the successful development of new products will depend on the development of new technologies. We may be required to undertake time-consuming and costly development activities and to seek regulatory approval for these new products. We may experience difficulties that could delay or prevent the successful development, introduction and marketing of these new products. For example, we have experienced delays in FDA clearance for our TIGRIS instrument for blood screening with the Procleix Ultrio assay. Regulatory clearance or approval of these and any other new products may not be granted by the FDA or foreign regulatory authorities on a timely basis, or at all, and these and other new products may not be successfully commercialized.

We face intense competition, and our failure to compete effectively could decrease our revenues and harm our profitability and results of operations.

The clinical diagnostics industry is highly competitive. Currently, the majority of diagnostic tests used by physicians and other health care providers are performed by large reference, public health and hospital laboratories. We expect that these laboratories will compete vigorously to maintain their dominance in the diagnostic testing market. In order to achieve market acceptance of our products, we will be required to demonstrate that our products provide accurate, cost-effective and time saving alternatives to tests performed by traditional laboratory procedures and products made by our competitors.

In the markets for clinical diagnostic products, a number of competitors, including Roche, Abbott, Becton Dickinson, Siemens and bioMérieux, compete with us for product sales, primarily on the basis of technology, quality, reputation, accuracy, ease of use, price, reliability, the timing of new product introductions and product line offerings. Our competitors may be in better position than we are to respond quickly to new or emerging technologies, may be able to undertake more extensive marketing campaigns, may adopt more aggressive pricing policies and may be more successful in attracting potential customers, employees and strategic partners. Many of our competitors have, and in the future these and other competitors may have, significantly greater financial, marketing, sales, manufacturing, distribution and technological resources than we do. Moreover, these companies may have substantially greater expertise in conducting clinical trials and research and development, greater ability to obtain necessary intellectual property licenses and greater brand recognition than we do.

Competitors may make rapid technological developments which may result in our technologies and products becoming obsolete before we recover the expenses incurred to develop them or before they generate significant revenue or market acceptance. Some of our competitors have developed real time or kinetic nucleic acid assays and semi-automated instrument systems for those assays. Additionally, some of our competitors are developing assays that permit the quantitative detection of multiple analytes (or quantitative multiplexing). Although we are evaluating and/or developing such technologies, we believe some of our competitors are further in the development process than we are with respect to such assays and instrumentation.

In the market for blood screening products, our primary competitor is Roche, which received FDA approval of its PCR-based NAT tests for blood screening in December 2002. We also compete with blood banks and laboratories that have internally developed assays based on PCR technology, Ortho Clinical Diagnostics, a subsidiary of Johnson & Johnson, that markets an HCV antigen assay, and Abbott and Siemens with respect to immunoassay products. Abbott recently entered into a definitive agreement to sell its diagnostics division, which markets these products, to General

Electric. In the future, our blood screening products also may compete with viral inactivation or reduction technologies and blood substitutes.

26

Novartis, with whom we have a collaboration agreement for our blood screening products, retains certain rights to grant licenses of the patents related to HCV and HIV to third parties in blood screening. Prior to its merger with Novartis, Chiron granted HIV and HCV licenses to Roche in the blood screening and clinical diagnostics fields. Chiron also granted HIV and HCV licenses in the clinical diagnostics field to Bayer Healthcare LLC (now Siemens), together with the right to grant certain additional HIV and HCV sublicenses in the field to third parties. Bayer s rights have now been assigned to Siemens as part of Bayer s December 2006 sale of its diagnostics business. Chiron also granted an HCV license to Abbott and an HIV license to Organon Teknika (now bioMérieux) in the clinical diagnostics field. To the extent that Novartis grants additional licenses in blood screening or Siemens grants additional licenses in clinical diagnostics, further competition will be created for sales of HCV and HIV assays and these licenses could affect the prices that can be charged for our products.

We recently entered into collaboration agreements to develop NAT products for industrial testing applications. We have limited experience operating in these markets and may not successfully develop commercially viable products.

In July and August 2005, and November 2006, we entered into collaboration agreements to develop NAT products for detecting microorganisms in selected water applications and for microbiological and virus monitoring in the biotechnology, pharmaceutical and food manufacturing industries. Our experience to date has been primarily focused on developing products for the clinical diagnostic and blood screening markets. We have limited experience applying our technologies and operating in industrial testing markets. The process of successfully developing products for application in these markets is expensive, time-consuming and unpredictable. Research and development programs to create new products require a substantial amount of our scientific, technical, financial and human resources and there is no guarantee that new products will be successfully developed. We will need to make significant investments to ensure that any products we develop perform properly, are cost-effective and adequately address customer needs. Even if we develop products for commercial use in these markets, any products we develop may not be accepted in these markets, may be subject to competition and may be subject to other risks and uncertainties associated with these markets. We have no experience with customer and customer support requirements, sales cycles, and other industry-specific requirements or dynamics applicable to these new markets and we and our collaborators may not be able to successfully convert customers from traditional culture and other testing methods to tests using our NAT technologies, which we expect will be more costly than existing methods. We will be reliant on our collaborators in these markets. Our interests may be different from those of our collaborators and conflicts may arise in these collaboration arrangements that have an adverse impact on our ability to develop new products. As a result of these risks and other uncertainties, there is no guarantee that we will be able to successfully develop commercially viable products for application in industrial testing or any other new markets.

Disruptions in the supply of raw materials and consumable goods or issues associated with the quality thereof from our single source suppliers, including Roche Molecular Biochemicals, which is an affiliate of one of our primary competitors, could result in a significant disruption in sales and profitability.*

We purchase some key raw materials and consumable goods used in the manufacture of our products from single-source suppliers. We may not be able to obtain supplies from replacement suppliers on a timely or cost-effective basis or not at all. A reduction or stoppage in supply while we seek a replacement supplier would limit our ability to manufacture our products, which could result in a significant reduction in sales and profitability. In addition, an impurity or variation in a raw material, either unknown to us or incompatible with our products, could significantly reduce our ability to manufacture products. Our inventories may not be adequate to meet our production needs during any prolonged interruption of supply. We also have single source suppliers for proposed future products. Failure to maintain existing supply relationships or to obtain suppliers for our future products, if any, on commercially reasonable terms would prevent us from manufacturing our products and limit our growth.

Our current supplier of certain key raw materials for our amplified NAT assays, pursuant to a fixed-price contract, is Roche Molecular Biochemicals. We have a supply and purchase agreement for DNA oligonucleotides for human papillomavirus with Roche Molecular Systems. Each of these entities is an affiliate of Roche Diagnostics GmbH, one of our primary competitors. We currently are involved in litigation with Digene regarding the supply and purchase agreement with Roche Molecular Systems. Digene has filed a demand for binding arbitration against Roche that challenges the validity of the supply and purchase agreement. Digene s demand asserts, among other things, that Roche

materially breached a cross-license agreement between Roche and Digene by granting us an improper sublicense and seeks a determination that the supply and purchase agreement is null and void. There can be no assurance that the matter will be resolved in our favor.

We and our customers are subject to various governmental regulations, and we may incur significant expenses to comply with, and experience delays in our product commercialization as a result of, these regulations.*

The clinical diagnostic and blood screening products we design, develop, manufacture and market are subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. We generally are prohibited from marketing our clinical diagnostic products in the United States unless we obtain either 510(k) clearance or premarket approval from the FDA. Delays in receipt of, or failure to obtain, clearances or approvals for future products could result in delayed, or no, realization of product revenues from new products or in substantial additional costs which could decrease our profitability.

The process of seeking and obtaining regulatory approvals, particularly from the FDA and some foreign governmental authorities, to market our products can be costly and time consuming, and approvals might not be granted for future products on a timely basis, if at all. For example, in October 2005, the FDA notified us that it considers our TIGRIS instrument to be used for screening donated human blood with the Procleix Ultrio assay not substantially equivalent to our already cleared eSAS. The FDA made this determination in response to our 510(k) application for the TIGRIS instrument for blood screening.

In addition, we are required to continue to comply with applicable FDA and other regulatory requirements once we have obtained clearance or approval for a product. These requirements include, among other things, the Quality System Regulation, labeling requirements, the FDA s general prohibition against promoting products for unapproved or off-label uses and adverse event reporting regulations. Failure to comply with applicable FDA product regulatory requirements could result in, among other things, warning letters, fines, injunctions, civil penalties, repairs, replacements, refunds, recalls or seizures of products, total or partial suspension of production, the FDA s refusal to grant future premarket clearances or approvals, withdrawals or suspensions of current product applications and criminal prosecution. Any of these actions, in combination or alone, could prevent us from selling our products and harm our business.

Outside the United States, our ability to market our products is contingent upon maintaining our International Standards Organization (ISO) certification, and in some cases receiving specific marketing authorization from the appropriate foreign regulatory authorities. The requirements governing the conduct of clinical trials, marketing authorization, pricing and reimbursement vary widely from country to country. Our EU foreign marketing authorizations cover all member states. Foreign registration is an ongoing process as we register additional products and/or product modifications.

The use of our diagnostic products is also affected by the Clinical Laboratory Improvement Amendments of 1988, or CLIA, and related federal and state regulations that provide for regulation of laboratory testing. CLIA is intended to ensure the quality and reliability of clinical laboratories in the United States by mandating specific standards in the areas of personnel qualifications, administration, participation in proficiency testing, patient test management, quality and inspections. Current or future CLIA requirements or the promulgation of additional regulations affecting laboratory testing may prevent some clinical laboratories from using some or all of our diagnostic products.

Certain of the industrial testing products that we intend to develop may be subject to government regulation, and market acceptance may be subject to the receipt of certification from independent agencies. We will be reliant on our industrial collaborators in these markets to obtain any necessary approvals. There can be no assurance that these approvals will be received.

As both the FDA and foreign government regulators have become increasingly stringent, we may be subject to more rigorous regulation by governmental authorities in the future. Complying with these rules and regulations could cause us to incur significant additional expenses, which would harm our operating results.

Our gross profit margin percentage on the sale of blood screening assays will decrease upon the implementation of smaller pool size testing and individual donor testing.

We currently receive revenues from the sale of our blood screening assays primarily for use with pooled donor samples. In pooled testing, multiple donor samples are initially screened by a single test. Since Novartis sells our blood screening assays to blood collection centers on a per donation basis, our profit margins are greater when a single test can be used to screen multiple donor samples.

We expect the blood screening market ultimately to transition from pooled testing of large numbers of donor samples to smaller pool sizes and, ultimately, individual donor testing. A greater number of tests will be required for smaller pool sizes and individual donor testing than are now required. Under our collaboration agreement with Novartis, we bear the cost of manufacturing our blood

screening assays. The greater number of tests required for smaller pool sizes and individual donor testing will increase our variable manufacturing costs, including costs of raw materials and labor. If the price per donor or total sales volume does not increase in line with the increase in our total variable manufacturing costs, our gross profit margin percentage from sales of the blood screening assay will decrease upon the adoption of smaller pool sizes and individual donor testing. We are not able to predict accurately the extent to which our gross profit margin percentage will be negatively affected as a result of smaller pool sizes and individual donor testing, because we do not know the ultimate selling price that Novartis would charge to the end user if these testing changes are implemented.

Because we depend on a small number of customers for a significant portion of our total revenues, the loss of any of these customers or any cancellation or delay of a large purchase by any of these customers could significantly reduce our revenues.*

Historically, a limited number of customers has accounted for a significant portion of our total revenues, and we do not have any long-term commitments with these customers, other than our collaboration agreement with Novartis. Our blood screening collaboration with Novartis accounted for 41% of our total revenues for the first quarter of 2007 and 48% of our total revenues for 2006. Our blood screening collaboration with Novartis is largely dependent on two large customers in the United States, The American Red Cross and America s Blood Centers, although we did not receive any revenues directly from those entities. Novartis was our only customer that accounted for greater than 10% of our total revenues for the first quarter of 2007. We also received a one-time royalty payment of $10.3 million from Bayer in the first quarter of 2007 pursuant to our settlement agreement. In addition, Laboratory Corporation of America Holdings, Quest Diagnostics Incorporated and various state and city public health agencies accounted for an aggregate of 20% of our total revenues in each of the first quarter of 2007 and the fiscal year 2006. Although state and city public health agencies are legally independent of each other, we believe they tend to act similarly with respect to their product purchasing decisions. We anticipate that our operating results will continue to depend to a significant extent upon revenues from a small number of customers. The loss of any of our key customers, or a significant reduction in sales to those customers, could significantly reduce our revenues.

Intellectual property rights on which we rely to protect the technologies underlying our products may be inadequate to prevent third parties from using our technologies or developing competing products.

Our success will depend in part on our ability to obtain patent protection for, or maintain the secrecy of, our proprietary products, processes and other technologies for development of blood screening and clinical diagnostic products and instruments. Although we had more than 430 United States and foreign patents covering our products and technologies as of March 31, 2007, these patents, or any patents that we may own or license in the future, may not afford meaningful protection for our technology and products. The pursuit and assertion of a patent right, particularly in areas like nucleic acid diagnostics and biotechnology, involve complex determinations and, therefore, are characterized by substantial uncertainty. In addition, the laws governing patentability and the scope of patent coverage continue to evolve, particularly in biotechnology. As a result, patents might not issue from certain of our patent applications or from applications licensed to us. Our existing patents will expire by February 6, 2024 and the patents we may obtain in the future also will expire over time.

The scope of any of our issued patents may not be broad enough to offer meaningful protection. In addition, others may challenge our current patents or patents we may obtain in the future and, as a result, these patents could be narrowed, invalidated or rendered unenforceable, or we may be forced to stop using the technology covered by these patents or to license technology from third parties.

The laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States. Any patents issued to us or our partners may not provide us with any competitive advantages, and the patents held by other parties may limit our freedom to conduct our business or use our technologies. Our efforts to enforce and maintain our intellectual property rights may not be successful and may result in substantial costs and diversion of management time. Even if our rights are valid, enforceable and broad in scope, third parties may develop competing products based on technology that is not covered by our patents.

In addition to patent protection, we also rely on copyright and trademark protection, trade secrets, know-how, continuing technological innovation and licensing opportunities. In an effort to maintain the confidentiality and ownership of our trade secrets and proprietary information, we require our employees, consultants, advisors and others

to whom we disclose confidential information to execute confidentiality and proprietary information agreements. However, it is possible that these agreements may be breached, invalidated or rendered unenforceable, and if so, there may not be an adequate corrective remedy available. Furthermore, like many companies in our industry, we may from time to time hire scientific personnel formerly employed by other companies involved in one or more areas similar to the activities we conduct. In some situations, our confidentiality and proprietary information agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants or advisors have prior employment or consulting relationships. Although we require our employees and consultants to maintain the confidentiality of all confidential

information of previous employers, we or these individuals may be subject to allegations of trade secret misappropriation or other similar claims as a result of their prior affiliations. Finally, others may independently develop substantially equivalent proprietary information and techniques, or otherwise gain access to our trade secrets. Our failure to protect our proprietary information and techniques may inhibit or limit our ability to exclude certain competitors from the market and execute our business strategies.

The diagnostic products industry has a history of patent and other intellectual property litigation, and we have been and may continue to be involved in costly intellectual property lawsuits.

The diagnostic products industry has a history of patent and other intellectual property litigation, and these lawsuits likely will continue. From time-to-time in the ordinary course of business we receive communications from third parties calling our attention to patents or other intellectual property rights owned by them, with the implicit or explicit suggestion that we may need to acquire a license of such rights. We have faced in the past and may face in the future, patent infringement lawsuits by companies that control patents for products and services similar to ours or other lawsuits alleging infringement by us of their intellectual property rights. In order to protect or enforce our intellectual property rights, we may have to initiate legal proceedings against third parties. Legal proceedings relating to intellectual property typically are expensive, take significant time and divert management s attention from other business concerns. The cost of this litigation could adversely affect our results of operations, making us less profitable. Further, if we do not prevail in an infringement lawsuit brought against us, we might have to pay substantial damages, including treble damages, and we could be required to stop the infringing activity or obtain a license to use the patented technology.

Recently, we have been involved in a number of patent disputes with third parties. Our patent disputes with Bayer were resolved by settlement agreement in August 2006. In December 2006, Digene Corporation filed a demand for binding arbitration against Roche with the International Centre for Dispute Resolution of the American Arbitration Association in New York. Digene s demand asserts, among other things, that Roche materially breached a cross-license agreement between Roche and Digene by granting us an improper sublicense and seeks a determination that our supply and purchase agreement with Roche is null and void. We are not named as a party to Digene s arbitration and Digene has declined our request to join the arbitration. On December 8, 2006, we filed a complaint in the Superior Court of the State of California for the County of San Diego naming Digene as defendant and the Roche entities as nominal defendants. The complaint seeks a declaratory judgment that the supply and purchase agreement is valid and does not constitute a license or sublicense of the patents covered by the cross-license agreement between Roche and Digene.

We hold certain rights in the blood screening and clinical diagnostics fields under patents originally issued to Chiron (now Novartis) covering the detection of HIV. In February 2005, the U.S. Patent and Trademark Office declared two interferences related to U.S. Patent No. 6,531,276 (Methods For Detecting Human Immunodeficiency Virus Nucleic Acid) (the 276 patent), originally issued to Chiron (now Novartis). The first interference is between Novartis and Centocor, Inc., and pertains to Centocor s U.S. Patent Application No. 06/693,866 (Cloning and Expression of HTLV-III DNA) (the 866 application). The second interference is between Novartis and Institut Pasteur, and pertains to Institut Pasteur s U.S. Patent Application No. 07/999,410 (Cloned DNA Sequences, Hybridizable with Genomic RNA of Lymphadenopathy-Associated Virus (LAV)) (the 410 application). Novartis is the junior party in both interferences. If Novartis does not prevail in the proceedings, one or both of the senior parties may obtain patent rights covering the detection of HIV and those patent rights may cover our HIV tests. There can be no assurances as to the ultimate outcomes of these matters.

We may be subject to future product liability claims that may exceed the scope and amount of our insurance coverage, which would expose us to liability for uninsured claims.

While there is a federal preemption defense against product liability claims for medical products that receive premarket approval from the FDA, we believe that no such defense is available for our products that we market under a 510(k) clearance. As such, we are subject to potential product liability claims as a result of the design, development, manufacture and marketing of our clinical diagnostic products. Any product liability claim brought against us, with or without merit, could result in the increase of our product liability insurance rates. In addition, our insurance policies have various exclusions, and thus we may be subject to a product liability claim for which we have no insurance

coverage, in which case, we may have to pay the entire amount of any award. In addition, insurance varies in cost and can be difficult to obtain, and we may not be able to obtain insurance in the future on terms acceptable to us, or at all. A successful product liability claim brought against us in excess of our insurance coverage may require us to pay substantial amounts, which could harm our business and results of operations.

We are exposed to risks associated with acquisitions and other long-lived and intangible assets that may become impaired and result in an impairment charge.*

As of March 31, 2007, we had approximately $231.2 million of long-lived assets, including $17.8 million of capitalized software relating to our TIGRIS instrument, goodwill of $18.6 million, a $2.5 million investment in Molecular Profiling Institute, Inc., a $7.0 million investment in Qualigen, Inc., and $51.3 million of capitalized license and manufacturing access fees, patents and purchased intangibles. Additionally, we had $64.8 million of land and buildings, $14.9 million of tenant improvements, $1.1 million of construction in-progress and $53.2 million of equipment and furniture and fixtures. The carrying amounts of long-lived and intangible assets are affected whenever events or changes in circumstances indicate that the carrying amount of any asset may not be recoverable. These events or changes might include a significant decline in market share, a significant decline in profits, rapid changes in technology, significant litigation, an inability to successfully deliver an instrument to the marketplace and attain customer acceptance or other matters. Adverse events or changes in circumstances may affect the estimated undiscounted future operating cash flows expected to be derived from long-lived and intangible assets. If at any time we determine that an impairment has occurred, we will be required to reflect the impaired value as a charge, resulting in a reduction in earnings in the quarter such impairment is identified and a corresponding reduction in our net asset value. A material reduction in earnings resulting from such a charge could cause us to fail to be profitable in the period in which the charge is taken or otherwise fail to meet the expectations of investors and securities analysts, which could cause the price of our stock to decline.

Future changes in financial accounting standards or practices or existing taxation rules or practices may cause adverse unexpected revenue or expense fluctuations and affect our reported results of operations.*

A change in accounting standards or practices or a change in existing taxation rules or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and taxation rules and varying interpretations of accounting pronouncements and taxation practice have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. Our effective tax rate can also be impacted by changes in estimates of prior years items, past and future levels of research and development spending, the outcome of audits by federal, state and foreign jurisdictions and changes in overall levels of income before tax.

We expect to continue to incur significant research and development expenses, which may make it difficult for us to maintain profitability.

In recent years, we have incurred significant costs in connection with the development of our blood screening and clinical diagnostic products and our TIGRIS instrument. We expect our expense levels to remain high in connection with our research and development as we continue to expand our product offerings and continue to develop products and technologies in collaboration with our partners. As a result, we will need to continue to generate significant revenues to maintain profitability. Although we expect our research and development expenses as a percentage of revenue to decrease in future periods, we may not be able to generate sufficient revenues to maintain profitability in the future. Our failure to maintain profitability in the future could cause the market price of our common stock to decline.

We may not have financing for future capital requirements, which may prevent us from addressing gaps in our product offerings or improving our technology.

Although historically our cash flow from operations has been sufficient to satisfy working capital, capital expenditure and research and development requirements, we may in the future need to incur debt or issue equity in order to fund these requirements, as well as to make acquisitions and other investments. If we cannot obtain debt or equity financing on acceptable terms or are limited with respect to incurring debt or issuing equity, we may be unable to address gaps in our product offerings or improve our technology, particularly through acquisitions or investments.

We may need to raise substantial amounts of money to fund a variety of future activities integral to the development of our business, including, for example, for research and development to successfully develop new technologies and products, and to acquire new technologies, products or companies.

If we raise funds through the issuance of debt or equity, any debt securities or preferred stock issued will have rights, preferences and privileges senior to those of holders of our common stock in the event of a liquidation and may contain other provisions that adversely effect the rights of the holders of our common stock. The terms of any debt securities may impose restrictions on our operations. If we raise funds through the issuance of equity or debt convertible into equity, this issuance would result in dilution to our stockholders.

Table of Contents

We have only one third-party manufacturer for each of our instrument product lines, which exposes us to increased risks associated with delivery schedules, manufacturing capability, quality control, quality assurance and costs.

We have one third-party manufacturer for each of our instrument product lines. KMC Systems is the only manufacturer of our TIGRIS instrument. MGM Instruments, Inc. is the only manufacturer of our LEADER series of luminometers. We are dependent on these third-party manufacturers, and this dependence exposes us to increased risks associated with delivery schedules, manufacturing capability, quality control, quality assurance and costs. We have no firm long-term commitments from KMC Systems, MGM Instruments or any of our other manufacturers to supply products to us for any specific period, or in any specific quantity, except as may be provided in a particular purchase order. If KMC Systems, MGM Instruments or any of our other third-party manufacturers experiences delays, disruptions, capacity constraints or quality control problems in its manufacturing operations or becomes insolvent, then product shipments to our customers could be delayed, which would decrease our revenues and harm our competitive position and reputation.

Further, our business would be harmed if we fail to manage effectively the manufacture of our instruments. Because we place orders with our manufacturers based on forecasts of expected demand for our instruments, if we inaccurately forecast demand, we may be unable to obtain adequate manufacturing capacity or adequate quantities of components to meet our customers delivery requirements, or we may accumulate excess inventories.

We may in the future need to find new contract manufacturers to increase our volumes or to reduce our costs. We may not be able to find contract manufacturers that meet our needs, and even if we do, qualifying a new contract manufacturer and commencing volume production is expensive and time consuming. For example, we believe qualifying a new manufacturer of our TIGRIS instrument would take approximately 12 months. If we are required or elect to change contract manufacturers, we may lose revenues and our customer relationships may suffer.

If we or our contract manufacturers are unable to manufacture our products in sufficient quantities, on a timely basis, at acceptable costs and in compliance with regulatory requirements, our ability to sell our products will be harmed.

We must manufacture or have manufactured our products in sufficient quantities and on a timely basis, while maintaining product quality and acceptable manufacturing costs and complying with regulatory requirements. In determining the required quantities of our products and the manufacturing schedule, we must make significant judgments and estimates based on historical experience, inventory levels, current market trends and other related factors. Because of the inherent nature of estimates, there could be significant differences between our estimates and the actual amounts of products we and our distributors require, which could harm our business and results of operations.

Significant additional work will be required for scaling-up manufacturing of each new product prior to commercialization, and we may not successfully complete this work. Manufacturing and quality control problems have arisen and may arise as we attempt to scale-up our manufacturing of a new product, and we may not achieve scale-up in a timely manner or at a commercially reasonable cost, or at all. In addition, although we expect some of our newer products and products under development to share production attributes with our existing products, production of these newer products may require the development of new manufacturing technologies and expertise. For example, we anticipate that we will need to develop closed unit dose assay pouches containing both liquid and dried reagents to be used in industrial applications, which will be a new process for us. We may be unable to develop the required technologies or expertise.

The amplified NAT tests that we produce are significantly more expensive to manufacture than our non-amplified products. As we continue to develop new amplified NAT tests in response to market demands for greater sensitivity, our product costs will increase significantly and our margins may decline. We sell our products in a number of cost-sensitive market segments, and we may not be able to manufacture these more complex amplified tests at costs that would allow us to maintain our historical gross margin percentages. In addition, new products that detect or quantify more than one target organism will contain significantly more complex reagents, which will increase the cost of our manufacturing processes and quality control testing. We or other parties we engage to help us may not be able to manufacture these products at a cost or in quantities that would make these products commercially viable. If we are

unable to develop or contract for manufacturing capabilities on acceptable terms for our products under development, we will not be able to conduct pre-clinical and clinical and validation testing on these product candidates, which will prevent or delay regulatory clearance or approval of these product candidates and the initiation of new development programs.

Our blood screening and clinical diagnostic products are regulated by the FDA as well as other foreign medical regulatory bodies. In some cases, such as in the United States and the European Union, certain products may also require individual lot release testing. Maintaining

compliance with multiple regulators, and multiple centers within the FDA, adds complexity and cost to our overall manufacturing processes. In addition, our manufacturing facilities and those of our contract manufacturers are subject to periodic regulatory inspections by the FDA and other federal and state regulatory agencies, and these facilities are subject to Quality System Regulations requirements of the FDA. We or our contractors may fail to satisfy these regulatory requirements in the future, and any failure to do so may prevent us from selling our products.

Our products are subject to recalls even after receiving FDA approval or clearance.

The FDA and governmental bodies in other countries have the authority to require the recall of our products if we fail to comply with relevant regulations pertaining to product manufacturing, quality, labeling, advertising, or promotional activities, or if new information is obtained concerning the safety of a product. Our assay products incorporate complex biochemical reagents and our instruments comprise complex hardware and software. We have in the past voluntarily recalled products, which, in each case, required us to identify a problem and correct it. Our products may be subject to additional recalls in the future. Although none of our past product recalls had a material adverse impact on our business, a future government-mandated recall, or a voluntary recall by us, could divert managerial and financial resources, could be more difficult and costly to correct, could result in the suspension of sales of our products, and could harm our financial results and our reputation.

Our sales to international markets are subject to additional risks.*

Sales of our products outside the United States accounted for 18% of our total revenues for the first quarter of 2007 and 22% of our total revenues for 2006. Sales by Novartis of our blood screening products outside of the United States accounted for 76% of our international revenues for the first quarter of 2007 and 77% of our international revenues for 2006. Novartis has responsibility for the international distribution of our blood screening products, which includes sales in France, Australia, Singapore, New Zealand, South Africa, Italy and other countries. Our sales in France and Japan that were not made through Novartis accounted for 5% of our international sales in the first quarter of 2007 and for the year ended December 31, 2006.

We encounter risks inherent in international operations. We expect a significant portion of our sales growth, especially with respect to our blood screening products, to come from expansion in international markets. Other than Canada, our sales are currently denominated in United States dollars. If the value of the United States dollar increases relative to foreign currencies, our products could become less competitive in international markets. Our international sales also may be limited or disrupted by:

- the imposition of government controls,
- export license requirements,
- economic and political instability,
- price controls,
- trade restrictions and tariffs,
- differing local product preferences and product requirements, and
- changes in foreign medical reimbursement and coverage policies and programs.

We also may have difficulty introducing new products in international markets. For example, we do not believe our blood screening products will be widely adopted in Germany until we are able to offer an assay that screens for hepatitis A virus and parvo B19, as well as HBV, HIV-1 and HCV, or in Japan until we are able to offer an assay that meets particular Japanese requirements for screening for HBV, HIV-1 and HCV. When we seek to enter a new international market, we may be dependent on the marketing and sales efforts of our international distributors.

In addition, we anticipate that requirements for smaller pool sizes or ultimately individual donor testing of blood samples will result in lower gross margin percentages, as additional tests are required to deliver the sample results. In general, international pool sizes are smaller than domestic pool sizes and, therefore, growth in blood screening

revenues attributed to international expansion has led and will lead to lower gross margin percentages.

If third-party payors do not reimburse our customers for the use of our clinical diagnostic products or if they reduce reimbursement levels, our ability to sell our products will be harmed.

We sell our clinical diagnostic products primarily to large reference laboratories, public health institutions and hospitals, substantially all of which receive reimbursement for the health care services they provide to their patients from third-party payors, such as Medicare, Medicaid and other domestic and international government programs, private insurance plans and managed care programs. Most of these third-party payors may deny reimbursement if they determine that a medical product was not used in accordance with cost-effective treatment methods, as determined by the third-party payor, or was used for an unapproved indication. Third-party payors also may refuse to reimburse for experimental procedures and devices.

Third-party payors reimbursement policies may affect sales of our products that screen for more than one pathogen at the same time, such as our APTIMA Combo 2 product for screening for the causative agents of chlamydial infections and gonorrhea in the same sample. Third-party payors may choose to reimburse our customers on a per test basis, rather than on the basis of the number of results given by the test. This may result in reference laboratories, public health institutions and hospitals electing to use separate tests to screen for each disease so that they can receive reimbursement for each test they conduct. In that event, these entities likely would purchase separate tests for each disease, rather than products that test for more than one microorganism.

In addition, third-party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for medical products and services. Levels of reimbursement may decrease in the future, and future legislation, regulation or reimbursement policies of third-party payors may adversely affect the demand for and price levels of our products. If our customers are not reimbursed for our products, they may reduce or discontinue purchases of our products, which would cause our revenues to decline.

We are dependent on technologies we license, and if we fail to maintain our licenses or license new technologies and rights to particular nucleic acid sequences for targeted diseases in the future, we may be limited in our ability to develop new products.

We are dependent on licenses from third parties for some of our key technologies. For example, our patented Transcription-Mediated Amplification technology is based on technology we have licensed from Stanford University and the chemiluminescence technology we use in our products is based on technology licensed by our consolidated subsidiary, Molecular Light Technology Limited, from the University of Wales College of Medicine. We enter into new licensing arrangements in the ordinary course of business to expand our product portfolio and access new technologies to enhance our products and develop new products. Many of these licenses provide us with exclusive rights to the subject technology or disease marker. If our license with respect to any of these technologies or markers is terminated for any reason, we will not be able to sell products that incorporate the technology. In addition, we may lose competitive advantages if we fail to maintain exclusivity under an exclusive license.

Our ability to develop additional diagnostic tests for diseases may depend on the ability of third parties to discover particular sequences or markers and correlate them with disease, as well as the rate at which such discoveries are made. Our ability to design products that target these diseases may depend on our ability to obtain the necessary rights from the third parties that make any of these discoveries. In addition, there are a finite number of diseases and conditions for which our NAT assays may be economically viable. If we are unable to access new technologies or the rights to particular sequences or markers necessary for additional diagnostic products on commercially reasonable terms, we may be limited in our ability to develop new diagnostic products.

Our products and manufacturing processes require access to technologies and materials that may be subject to patents or other intellectual property rights held by third parties. We may discover that we need to obtain additional intellectual property rights in order to commercialize our products. We may be unable to obtain such rights on commercially reasonable terms or at all, which could adversely affect our ability to grow our business.

If we fail to attract, hire and retain qualified personnel, we may not be able to design, develop, market or sell our products or successfully manage our business.*

Competition for top management personnel is intense and we may not be able to recruit and retain the personnel we need. The loss of any one of our management personnel or our inability to identify, attract, retain and integrate additional qualified management personnel could make it difficult for us to manage our business successfully, attract

new customers, retain existing customers and pursue our strategic objectives. Although we have employment agreements with our executive officers, we may be unable to retain our existing management. We do not maintain key person life insurance for any of our executive officers. The position of Vice President, Research and Development has been vacant since April 16, 2007.

Competition for skilled sales, marketing, research, product development, engineering, and technical personnel is intense and we may not be able to recruit and retain the personnel we need. The loss of the services of key sales, marketing, research, product development, engineering, or technical personnel, or our inability to hire new personnel with the requisite skills, could restrict our ability to develop new products or enhance existing products in a timely manner, sell products to our customers or manage our business effectively.

We may acquire other businesses or form collaborations, strategic alliances and joint ventures that could decrease our profitability, result in dilution to stockholders or cause us to incur debt or significant expense.

As part of our business strategy, we intend to pursue acquisitions of complementary businesses and enter into technology licensing arrangements. We also intend to pursue strategic alliances that leverage our core technology and industry experience to expand our product offerings and geographic presence. We have limited experience with respect to acquiring other companies. Any future acquisitions by us could result in large and immediate write-offs or the incurrence of debt and contingent liabilities, any of which could harm our operating results. Integration of an acquired company also may require management resources that otherwise would be available for ongoing development of our existing business. We may not identify or complete these transactions in a timely manner, on a cost-effective basis, or at all, and we may not realize the anticipated benefits of any acquisition, technology license or strategic alliance.

To finance any acquisitions, we may choose to issue shares of our common stock as consideration, which would result in dilution to our stockholders. If the price of our equity is low or volatile, we may not be able to use our common stock as consideration to acquire other companies. Alternatively, it may be necessary for us to raise additional funds through public or private financings. Additional funds may not be available on terms that are favorable to us.

If a natural or man-made disaster strikes our manufacturing facilities, we will be unable to manufacture our products for a substantial amount of time and our sales will decline.

We manufacture products in our two manufacturing facilities located in San Diego, California. These facilities and the manufacturing equipment we use would be costly to replace and could require substantial lead time to repair or replace. Our facilities may be harmed by natural or man-made disasters, including, without limitation, earthquakes and fires, and in the event they are affected by a disaster, we would be forced to rely on third-party manufacturers. In the event of a disaster, we may lose customers and we may be unable to regain those customers thereafter. Although we possess insurance for damage to our property and the disruption of our business from casualties, this insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all.

If we use biological and hazardous materials in a manner that causes injury or violates laws, we may be liable for damages.

Our research and development activities and our manufacturing activities involve the controlled use of infectious diseases, potentially harmful biological materials, as well as hazardous materials, chemicals and various radioactive compounds. We cannot completely eliminate the risk of accidental contamination or injury, and we could be held liable for damages that result from any contamination or injury. In addition, we are subject to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The damages resulting from any accidental contamination and the cost of compliance with environmental laws and regulations could be significant.

The anti-takeover provisions of our certificate of incorporation and by-laws, and provisions of Delaware law could delay or prevent a change of control that our stockholders may favor.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a merger or other change of control that stockholders may consider favorable or may impede the ability of the holders of our common stock to change our management. The provisions of our amended and restated certificate of incorporation and amended and restated bylaws, among other things:

- divide our board of directors into three classes, with members of each class to be elected for staggered three-year terms,

limit the right of stockholders to remove directors,

- regulate how stockholders may present proposals or nominate directors for election at annual meetings of stockholders, and

- authorize our board of directors to issue preferred stock in one or more series, without stockholder approval.

In addition, because we have not chosen to be exempt from Section 203 of the Delaware General Corporation Law, this provision could also delay or prevent a change of control that our stockholders may favor. Section 203 provides that, subject to limited exceptions, persons that acquire, or are affiliated with a person that acquires, more than 15 percent of the outstanding voting stock of a Delaware corporation shall not engage in any business combination with that corporation, including by merger, consolidation or acquisitions of additional shares, for a three-year period following the date on which that person or its affiliate crosses the 15 percent stock ownership threshold.

We may not successfully integrate acquired businesses or technologies.

Through a series of transactions concluding in May 2005, we acquired all of the outstanding shares of Molecular Light Technology Limited and its subsidiaries and, in the future, we may acquire additional businesses or technologies. Managing this acquisition and any future acquisitions will entail numerous operational and financial risks, including:

- the inability to retain or replace key employees of any acquired businesses or hire enough qualified personnel to staff any new or expanded operations;

- the impairment of relationships with key customers of acquired businesses due to changes in management and ownership of the acquired businesses;

- the exposure to federal, state, local and foreign tax liabilities in connection with any acquisition or the integration of any acquired businesses;

- the exposure to unknown liabilities;

- higher than expected acquisition and integration costs that could cause our quarterly and annual operating results to fluctuate;

- increased amortization expenses if an acquisition results in significant goodwill or other intangible assets;

- combining the operations and personnel of acquired businesses with our own, which could be difficult and costly; and

- integrating or completing the development and application of any acquired technologies, which could disrupt our business and divert our management s time and attention.

If we do not effectively manage our growth, it could affect our ability to pursue opportunities and expand our business.

Growth in our business has placed and may continue to place a significant strain on our personnel, facilities, management systems and resources. We will need to continue to improve our operational and financial systems and managerial controls and procedures and train and manage our workforce. We will have to maintain close coordination among our various departments. If we fail to effectively manage our growth, it could adversely affect our ability to pursue business opportunities and expand our business.

Information technology systems implementation issues could disrupt our internal operations and adversely affect our financial results.

Portions of our information technology infrastructure may experience interruptions, delays or cessations of service or produce errors in connection with ongoing systems implementation work. In particular, we implemented a new ERP software system to replace our various legacy systems. As a part of this effort, we are transitioning data and changing processes and this may be more expensive, time consuming and resource intensive than planned. Any

disruptions that may occur in the operation of this system or any future systems could increase our expenses and adversely affect our ability to report in an accurate and timely manner the results of our consolidated operations, our financial position and cash flow and to otherwise operate our business, which could adversely affect our financial results, stock price and reputation.

Table of Contents

Our forecasts and other forward looking statements are based upon various assumptions that are subject to significant uncertainties that may result in our failure to achieve our forecasted results.

From time to time in press releases, conference calls and otherwise, we may publish or make forecasts or other forward looking statements regarding our future results, including estimated earnings per share and other operating and financial metrics. Our forecasts are based upon various assumptions that are subject to significant uncertainties and any number of them may prove incorrect. For example, our revenue forecasts are based in large part on data and estimates we receive from our partners and distributors. Our achievement of any forecasts depends upon numerous factors, many of which are beyond our control. Consequently, our performance may not be consistent with management forecasts. Variations from forecasts and other forward looking statements may be material and could adversely affect our stock price and reputation.

Compliance with changing corporate governance and public disclosure regulations may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and Nasdaq Global Select Market rules, are creating uncertainty for companies such as ours. To maintain high standards of corporate governance and public disclosure, we have invested, and intend to invest, in all reasonably necessary resources to comply with evolving standards. These investments have resulted in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities and may continue to do so in the future.

Table of Contents

Item 6. Exhibits

Exhibit Number	Description
2.1(1)	Separation and Distribution Agreement, dated and effective as of May 24, 2002, and amended and restated as of August 6, 2002, by and between Chugai Pharmaceutical Co., Ltd. and Gen-Probe Incorporated.
3.1(1)	Form of Amended and Restated Certificate of Incorporation of Gen-Probe Incorporated.
3.2(2)	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Gen-Probe Incorporated.
3.3(3)	Form of Amended and Restated Bylaws of Gen-Probe Incorporated.
3.4(4)	Certificate of Elimination of the Series A Junior Participating Preferred Stock of Gen-Probe Incorporated.
4.1(1)	Specimen common stock certificate.
10.97	Form of First Amendment to Employment Agreement (for Executive Vice Presidents and Vice Presidents).
10.98	Gen-Probe Incorporated 2007 Executive Bonus Plan.
10.99	Agreement between Gen-Probe Incorporated and Larry T. Mimms.
31.1	Certification dated May 1, 2007, of Principal Executive Officer required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification dated May 1, 2007, of Principal Financial Officer required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification dated May 1, 2007, of Principal Executive Officer required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification dated May 1, 2007, of Principal Financial Officer required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

Filed herewith.

Indicates management contract or compensatory plan, contract or arrangement.

(1) Incorporated by reference to Gen-Probe s

Amendment No. 2 to Registration Statement on Form 10 filed with the SEC on August 14, 2002.

(2) Incorporated by reference to Gen-Probe s Quarterly Report on Form 10-Q filed with the SEC on August 9, 2004.

(3) Incorporated by reference to Gen-Probe s Report on Form 8-K filed with the SEC on February 14, 2007.

(4) Incorporated by reference to Gen-Probe s Annual Report on Form 10-K for the year ended December 31, 2006 filed with the SEC on February 23, 2007.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: May 1, 2007 By: /s/ Henry L. Nordhoff

Henry L. Nordhoff
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

DATE: May 1, 2007 By: /s/ Herm Rosenman

Herm Rosenman
Vice President Finance and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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North America

4,148 3,928 3,780 3,642 3.8 11,856 10,599 11.9 14,931

Other

127 130 93 144 (35.4) 350 390 (10.3) 526

Cost of sales.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Cost of sales	(9,224)	(8,248)	(11.8)	(26,876)	(24,912)	(7.9)	(34,592)

The EUR 2.0 billion increase in cost of sales year-on-year is mainly attributable to the first-time full consolidation of OTE, which contributed EUR 2.3 billion to the Group’s cost of sales in the first nine months of the financial year. Furthermore, higher sales of higher value products and the roll-out of the 2G and 3G networks increased costs in the United States operating segment. Exchange rate effects of EUR 0.6 billion also increased cost of sales in the United States operating segment.

Sales-related declines in cost of sales, above all in the Germany, Europe and Systems Solutions operating segments and at Group Headquarters & Shared Services, impacted the Group by a total of EUR 0.5 billion. Positive exchange rate effects of EUR 0.5 billion in the Europe operating segment and EUR 0.1 billion in the Southern and Eastern Europe operating segment arising from the translation of pounds sterling, Polish zlotys, Czech korunas and Hungarian forints to euros also reduced the cost of sales.

11

Selling expenses.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Selling expenses	(3,697)	(3,948)	6.4	(11,752)	(11,467)	(2.5)	(15,952)

Selling expenses increased by EUR 0.3 billion compared with the same period in the prior year. The first-time full consolidation of OTE contributed EUR 0.9 billion to this increase; exchange rate effects also had a negative impact of EUR 0.2 billion. In the Germany operating segment, cost cuts in sales and in the accounts receivable department reduced selling expenses by EUR 0.6 billion. The Group's marketing expenses decreased by EUR 0.2 billion.

General and administrative expenses.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
General and administrative expenses	(983)	(1,230)	20.1	(3,588)	(3,563)	(0.7)	(4,821)

General and administrative expenses in the Group remained at the prior-year level. The effect from the first-time full consolidation of OTE of EUR 0.3 billion was offset by savings measures. Exchange rate effects played a minor role in this development.

Other operating income / expenses.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Other operating income	391	600	(34.8)	1,031	1,613	(36.1)	1,971
Other operating expenses	(251)	(315)	20.3	(2,463)	(749)	n.a.	(1,232)

Other operating income decreased by EUR 0.6 billion compared with the first nine months of 2008. The decline was mainly attributable to lower income from disposals. In the previous year, this item included a gain on the disposal of Media&Broadcast.

Other operating expenses rose by EUR 1.7 billion compared with the first nine months of 2008. This increase was mainly attributable to an impairment loss on the goodwill of the cash generating unit T-Mobile UK amounting to EUR 1.8 billion that was recorded in the first quarter of 2009. For further details, please refer to the "Depreciation, amortization and impairment losses" section.

Profit from operations.

Profit from operations of the Deutsche Telekom Group decreased by EUR 1.7 billion year-on-year to EUR 4.8 billion due to an impairment loss recognized in the first quarter of 2009 on goodwill of the cash generating unit T-Mobile UK in the former operating segment Mobile Communications Europe. While profit from operations in the Europe and Systems Solutions operating segments in particular decreased, the United States and Southern and Eastern Europe operating segments both reported a year-on-year increase. OTE contributed EUR 0.4 billion to Group profit from

operations in the first nine months of 2009.

The Germany operating segment recorded a 0.8-percent decrease in profit from operations compared with the prior-year period. The decrease in revenues was largely compensated by cost savings. Profit from operations increased slightly in the United States operating segment. In local currency, profit from operations decreased primarily as a result of the decline in revenues per customer.

An impairment loss of EUR 1.8 billion was recognized on goodwill of the cash generating unit T-Mobile UK in the Europe operating segment in the first quarter of 2009, mainly as a consequence of the significant economic slowdown, tough competition, and regulatory decisions in the United Kingdom. Furthermore, revenue decreases at T-Mobile UK and T-Mobile CZ and exchange rate effects of EUR 0.2 billion had a negative impact on profit from operations.

12

Profit from operations generated in the Systems Solutions operating segment in the prior-year period was impacted in particular by the gain on the disposal of Media&Broadcast.

	Q1 2009 millions of €	Q2 2009 millions of €	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Profit from operations in the Group	244	2,012	2,498	2,313	8.0	4,754	6,479	(26.6)	7,040
Germany	1,325	1,274	1,409	1,528	(7.8)	4,008	4,040	(0.8)	4,624
United States	530	654	595	570	4.4	1,779	1,656	7.4	2,299
Europe	(1,786)	226	349	201	73.6	(1,211)	486	n.a.	496
Southern and Eastern Europe	504	237	462	371	24.5	1,203	920	30.8	915
Systems Solutions	11	27	16	(11)	n.a.	54	407	(86.7)	81
Group Headquarters & Shared Services	(309)	(344)	(311)	(319)	2.5	(964)	(900)	(7.1)	(1,266)
Reconciliation	(31)	(62)	(22)	(27)	18.5	(115)	(130)	11.5	(109)

Profit (loss) from financial activities.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Profit (loss) from financial activities	(802)	(679)	(18.1)	(2,559)	(2,332)	(9.7)	(3,588)
Finance costs	(668)	(556)	(20.1)	(1,935)	(1,898)	(1.9)	(2,487)
Interest income	68	81	(16.0)	259	239	8.4	408
Interest expense	(736)	(637)	(15.5)	(2,194)	(2,137)	(2.7)	(2,895)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	7	60	(88.3)	21	76	(72.4)	(388)
Other financial income (expense)	(141)	(183)	23.0	(645)	(510)	(26.5)	(713)

The increase of EUR 0.2 billion in the loss from financial activities compared with the prior-year period is mainly attributable to an increase in other financial expense.

Finance costs were subject to two offsetting effects. On the one hand, interest expense increased in the first nine months of 2009 due to the first-time full consolidation of OTE in the consolidated financial statements. On the other hand, the downgrade of Deutsche Telekom’s rating in 2008 and the resulting adjustments to carrying amounts for a

number of bonds with rating-linked coupons had a one-time impact on interest expense in the prior-year period.

The EUR 0.1 billion increase in other financial expense compared with the prior-year period is mainly attributable to higher interest rate expenses on provisions and liabilities.

13

Personnel.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Personnel costs	(3,544)	(3,286)	(7.9)	(10,497)	(10,063)	(4.3)	(14,078)
Average number of employees	260,497	235,970	10.4	256,734	236,752	8.4	234,887

	Sept. 30, 2009	Dec. 31, 2008	Change	Change %	Sept. 30, 2008
Number of employees at balance sheet date	259,973	227,747	32,226	14.1	230,079
Domestic	130,429	131,713	(1,284)	(1.0)	135,701
International	129,544	96,034	33,510	34.9	94,378
Non-civil servants	229,377	195,634	33,743	17.2	196,940
Civil servants (domestic)	30,596	32,113	(1,517)	(4.7)	33,139
Trainees and student interns at balance sheet date	10,575	11,668	(1,093)	(9.4)	11,605

Personnel costs increased by EUR 0.4 billion year-on-year in the first nine months of 2009. The decrease resulting from personnel reductions in Germany was more than offset by the first-time full consolidation of OTE and retail distribution growth at T-Mobile USA. These factors had a corresponding effect on the average number of employees. The increase in the number of employees at the balance sheet date was primarily caused by OTE.

Depreciation, amortization and impairment losses.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Amortization and impairment of intangible assets	(865)	(783)	(10.5)	(4,340)	(2,332)	(86.1)	(3,397)
Of which: UMTS licenses	(193)	(217)	11.1	(616)	(655)	6.0	(868)
Of which: U.S. mobile communications licenses	-	-	-	-	(21)	n.a.	(21)
Of which: goodwill	(11)	-	n.a.	(1,817)	-	n.a.	(289)
Depreciation and impairment of property, plant and equipment	(2,031)	(1,798)	(13.0)	(6,269)	(5,604)	(11.9)	(7,578)
Total depreciation, amortization and impairment losses	(2,896)	(2,581)	(12.2)	(10,609)	(7,936)	(33.7)	(10,975)

Depreciation, amortization and impairment losses in the Group increased year-on-year due to the first-time full consolidation of OTE and to an impairment loss amounting to EUR 1.8 billion that was recognized on the goodwill of the cash generating unit T-Mobile UK in the first quarter of 2009. Events or circumstances that resulted in this impairment loss to be recognized at the cash-generating unit T-Mobile UK in the Mobile Communications Europe operating segment primarily include the major economic slowdown and more intense competition in the United Kingdom. Lower roaming revenues and new regulation of roaming and termination charges had a negative impact on revenue at the time of the impairment. Increased termination charges for the use of third-party mobile communications networks and high customer acquisition and retention expenses raised the cost base.

Profit before income taxes.

Profit before income taxes for the first nine months of 2009 was EUR 2.2 billion, a decrease by EUR 2.0 billion compared to the prior-year period. Profit before income taxes was impacted in particular by the impairment loss recognized on goodwill at the cash generating unit T-Mobile UK amounting to EUR 1.8 billion which was reflected in the profit from operations of the former operating segment Mobile Communications Europe.

Income taxes.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Income taxes	(551)	(553)	0.4	(1,378)	(1,459)	5.6	(1,428)

Despite significantly lower profit/loss before income taxes, income tax expense only decreased slightly compared with the prior-year period. This relatively small decrease in income tax expense is attributable to an impairment of goodwill in the first quarter of 2009 that has no tax effect.

Net profit.

Deutsche Telekom generated a net profit of EUR 0.4 billion in the first nine months of 2009, compared with a net profit of EUR 2.2 billion in the prior-year period due to the aforementioned effects.

15

Liquidity and Capital Resources

	Q3 2009 millions of €	Q3 2008 millions of €	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	FY 2008 millions of €
Net cash from operating activities	5,343	4,285	11,821	11,298	15,368
Net cash used in investing activities	(2,454)	(2,509)	(5,992)	(8,946)	(11,384)
Net cash used in financing activities	(2,561)	(616)	(2,751)	(1,478)	(3,097)
Effect of exchange rate changes on cash and cash equivalents	(21)	(3)	39	37	(61)
Changes in cash and cash equivalents associated with assets held for sale	(63)	-	(63)	-	-
Net increase (decrease) in cash and cash equivalents	244	1,157	3,054	911	826
Cash and cash equivalents, at the beginning of the period	5,836	1,954	3,026	2,200	2,200
Cash and cash equivalents, at end of the period	6,080	3,111	6,080	3,111	3,026

Net cash from operating activities.

Net cash from operating activities amounted to EUR 11.8 billion in the reporting period, an increase of EUR 0.5 billion over the prior year period. While cash generated from operations improved by EUR 0.8 billion, net interest paid increased by EUR 0.3 billion. The increase in cash generated from operations is the result of several factors, some of which offset each other. Consolidated profit from operations decreased by EUR 1.9 billion year on year. This decrease was caused in part by an increase of year on year EUR 2.7 million depreciation, amortization and impairment losses, which do not affect cash flow, and the gains on disposals of fully consolidated companies in the amount of EUR 0.4 billion. The change in assets carried as working capital increased by EUR 0.9 billion, mainly as a result of inflows of EUR 0.8 billion from the sale of receivables (factoring). By contrast, the changes in provisions and other liabilities carried as working capital decreased by EUR 1.2 billion year-on-year, mainly due to higher cash outflows for restructuring measures and increased utilization of provisions for personnel costs and provisions for litigation risks and dealers' commissions. In addition, income tax payments increased by EUR 0.4 billion year-on-year, in particular as a result of the first-time full consolidation of OTE from February 2009. The increase in net interest paid is also largely attributable to this effect.

Net cash used in investing activities.

Net cash used in investing activities totaled EUR 6.0 billion as compared with EUR 8.9 billion in the same period of the previous year. This development was mainly due to the addition of OTE’s cash and cash equivalents amounting to EUR 1.6 billion as part of the first-time full consolidation of OTE, whereas the prior-year period saw outflows for the acquisition of shares in OTE amounting to EUR 2.6 billion. Cash outflows for intangible assets and property, plant and equipment, however, increased by EUR 1.2 billion, primarily as a result of the network roll-out in the United States and, to a lesser extent, the United Kingdom.

The net cash effect for investments in fully consolidated companies increased by EUR 0.3 billion. Whereas cash outflows amounting to EUR 1.0 billion for the acquisition of SunCom and cash inflows of EUR 0.7 billion from the sale of Media&Broadcast were recorded in the first three quarters of 2008, the first nine months of 2009 saw cash outflows of EUR 0.7 billion largely for the acquisition of additional shares in OTE in connection with the put option exercised on July 31, 2009 by the Hellenic Republic and cash inflows of EUR 0.1 billion from the sale of Cosmofon.

Net cash used in financing activities.

Net cash used in financing activities amounted to EUR 2.8 billion in the first three quarters of 2009, compared with EUR 1.5 billion in the prior-year period.

This change was mostly attributable to EUR 0.9 billion lower year-on-year net proceeds from the issue of non-current financial liabilities. In addition, dividend payments increased by EUR 0.4 billion compared with 2008, in particular as a result of the first-time full consolidation of OTE in February 2009 and higher dividend payments at Slovak Telekom. The considerable decrease in issuance and repayment of current financial liabilities year-on-year is primarily attributable to the issuance of commercial paper in the first nine months of 2009 to finance short-term liquidity needs compared with the many drawdowns on credit lines in the prior-year period.

The issue of financial liabilities in first nine months of 2009 consisted in particular of a Eurobond for EUR 2.0 billion, medium-term notes for EUR 2.0 billion, a U.S. dollar bond for EUR 1.1 billion, and promissory notes for EUR 0.2 billion. Medium-term notes for an amount of EUR 2.2 billion, a U.S. dollar bond for an amount of EUR 0.7 billion, commercial paper in a net amount of EUR 0.5 billion, and promissory notes and other loans for EUR 0.2 billion were repaid during the same period.

Capital expenditures and investments

The following table provides information concerning capital expenditures and investments in subsidiaries, associated companies and related companies, as well as proceeds from the sale of non-current assets and investments.

Q3 2009 millions of €		Q3 2008 millions of €	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	FY 2008 millions of €
Capital expenditures	2,131	2,137	6,953	5,766	8,707
Investments in subsidiaries and non-current financial assets	746	121	910	3,832	4,291
Proceeds from disposal of non-current assets and investments	(82)	(2)	(452)	(1,085)	(1,252)
Other	(341)	253	(1,419)	433	(362)
Net cash used for investing activities	2,454	2,509	5,992	8,946	11,384

Total financial fiabilities

The following table summarizes our total financial liabilities as of September 30, 2009 and 2008, and December 31, 2008:

	September 30, 2009 millions of €	December 31, 2008 millions of €	Change millions of €	Change %	September 30, 2008 millions of €
Bonds	40,572	34,302	6,270	18.3	35,691
Liabilities to banks	4,617	4,222	395	9.4	4,409
Liabilities to non-banks from promissory notes	1,037	887	150	16.9	848
Liabilities from derivatives	1,120	1,088	32	2.9	894
Lease liabilities	1,943	2,009	(66)	(3.3)	2,029
Other financial liabilities	4,178	4,086	92	2.3	2,704
Total	53,467	46,594	6,873	14.8	46,575

Total financial liabilities increased as of September 30, 2009, as compared with December 31, 2008, primarily as a result of the first-time full consolidation of OTE and the issuance of bonds of EUR 3.1 billion (EUR 2.0 billion, USD 1.5 billion) Medium Term Notes of EUR 2.0 billion (EUR 1.0 billion, CHF 0.4 billion, GBP 0.7 billion). This was partially offset by redemptions of EUR 3.7 billion. Additionally financial liabilities decreased by EUR 0.3 billion due to changes in foreign exchange rates.

Segment reporting.

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

The business activities in four of these five operating segments are assigned by regions and in the fifth by customers and products.

The Germany operating segment comprises all fixed-network and mobile activities in Germany. In addition, the operating segment provides wholesale telecommunications services for the Group’s other operating segments. The United States operating segment combines all mobile activities in the U.S. market. The Europe operating segment covers all activities of the mobile communications companies in the United Kingdom, Poland, the Netherlands, the Czech Republic and Austria, as well as the International Carrier Sales and Services unit, which provides wholesale telecommunications services for the Group’s other operating segments. The Southern and Eastern Europe operating segment comprises fixed-network and mobile communications operations of the national companies in Hungary, Croatia, Slovakia, Greece, Romania, Bulgaria, Albania, Macedonia, and Montenegro.

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

The mobile communications business offers mobile voice and data services to consumers and business customers. Handsets and other hardware are sold in connection with the services offered. In addition, T-Mobile services are sold to resellers and to companies that buy network services and market them independently to third parties (MVNOs).

The Systems Solutions operating segment bundles business with ICT products and solutions for large multinational corporations (corporate customers) under the T-Systems brand. The operating segment offers its customers information and communication technology (ICT) from a single source. It develops and operates infrastructure and industry solutions for its corporate customers. Products and services offered to medium-sized enterprises range from standard products and high-performance networks based on the Internet Protocol (IP) to complete ICT solutions.

Group Headquarters & Shared Services comprises Service Headquarters and those subsidiaries of Deutsche Telekom AG that are not allocated to the operating segments.

Around 160,000 business customers of the Systems Solutions operating segment (called the Business Customers operating segment until December 31, 2008), which were transferred to the Broadband/Fixed Network operating segment as of January 1, 2009, have been included in the Germany operating segment since July 1, 2009.

All of the information presented here has been incorporated into the following tables, and prior-year and comparative figures have been adjusted accordingly.

The following tables give an overall summary of Deutsche Telekom's operating segments and Group Headquarters & Shared Services for the third quarters and the first nine months of the years 2009 and 2008, as well as for the full 2008 financial year. Segment reporting further includes a reconciliation of the total profit/loss of the segments to the Group's profit/loss for the respective periods.

18

Segment information in the quarters.

Q3 2009 Q3 2008	Net revenue millions of €	Intersegment revenue millions of €	Total revenue millions of €	Profit (loss) from operations millions of €	Depreciation and amortization millions of €	Impairment losses millions of €	Segment assets millions of €	Investments accounted for using the equity method millions of €
Germany	6,008	463	6,471	1,409	(1,037)	-	29,600	23
	6,160	441	6,601	1,528	(1,017)	(2)	31,156	17
United States	3,755	3	3,758	595	(492)	(2)	32,693	18
	3,653	4	3,657	570	(447)	-	32,763	15
Europe	2,405	147	2,552	349	(389)	-	16,321	0
	2,791	149	2,940	201	(548)	-	20,671	14
Southern and Eastern Europe	2,564	52	2,616	462	(608)	(12)	21,784	52
	1,215	50	1,265	371	(211)	(1)	8,811	66
Systems Solutions	1,467	658	2,125	16	(167)	-	6,720	54
	1,553	740	2,293	(11)	(190)	(1)	7,072	26
Group	63	530	593	(311)	(166)	(33)	10,345	0
Headquarters & Shared Services	82	666	748	(319)	(156)	(11)	10,681	2,683
Total	16,262	1,853	18,115	2,520	(2,859)	(47)	117,463	147
	15,454	2,050	17,504	2,340	(2,569)	(15)	111,154	2,821
Reconciliation	-	(1,853)	(1,853)	(22)	11	(1)	(3,294)	13
	-	(2,050)	(2,050)	(27)	1	2	(2,884)	(1)
Group	16,262	-	16,262	2,498	(2,848)	(48)	114,169	160
	15,454	-	15,454	2,313	(2,568)	(13)	108,270	2,820

19

Segment information in the first nine months.

Q1 – Q3 2009 Q1 – Q3 2008	Net revenue millions of €	Intersegment revenue millions of €	Total revenue millions of €	Profit (loss) from operations millions of €	Depreciation and amortization millions of €	Impairment losses millions of €	Segment assets millions of €	Investments accounted for using the equity method millions of €
Germany	17,828	1,194	19,022	4,008	(3,131)	(7)	29,600	23
	18,583	1,209	19,792	4,040	(3,119)	(2)	31,156	17
United States	11,802	11	11,813	1,779	(1,545)	(2)	32,693	18
	10,606	10	10,616	1,656	(1,316)	(21)	32,763	15
Europe	7,145	416	7,561	(1,211)	(1,282)	(1,803)	16,321	0
	8,142	417	8,559	486	(1,718)	-	20,671	14
Southern and Eastern Europe	6,965	131	7,096	1,203	(1,677)	(26)	21,784	52
	3,382	117	3,499	920	(648)	(4)	8,811	66
Systems Solutions	4,465	1,945	6,410	54	(517)	0	6,720	54
	4,595	2,149	6,744	407	(565)	(9)	7,072	26
Group	197	1,626	1,823	(964)	(486)	(162)	10,345	0
Headquarters & Shared Services	249	1,930	2,179	(900)	(467)	(91)	10,681	2,683
Total	48,402	5,323	53,725	4,869	(8,638)	(2,000)	117,463	147
	45,557	5,832	51,389	6,609	(7,833)	(127)	111,154	2,821
Reconciliation	-	(5,323)	(5,323)	(115)	30	(1)	(3,294)	13
	-	(5,832)	(5,832)	(130)	24	-	(2,884)	(1)
Group	48,402	-	48,402	4,754	(8,608)	(2,001)	114,169	160
	45,557	-	45,557	6,479	(7,809)	(127)	108,270	2,820

Segment information for the 2008 financial year.

FY 2008	Net revenue millions of €	Inter segment revenue millions of €	Total revenue millions of €	Profit (loss) from operations millions of €	Depreciation and amortization millions of €	Impairment losses millions of €	Segment assets millions of €	Investments accounted for using the equity method millions of €
Germany	24,754	1,646	26,400	4,624	(4,164)	(16)	31,551	18
United States	14,942	15	14,957	2,299	(1,863)	(21)	34,302	14
Europe	10,798	556	11,354	496	(2,229)	(128)	17,988	3
Southern and Eastern Europe	4,497	148	4,645	915	(861)	(173)	8,428	65
Systems Solutions	6,368	2,975	9,343	81	(765)	(16)	6,863	46
Group Headquarters & Shared Services	307	2,474	2,781	(1,266)	(646)	(127)	10,625	3,411
Total	61,666	7,814	69,480	7,149	(10,528)	(481)	109,757	3,557

Reconciliation	-	(7,814)	(7,814)	(109)	33	1	(3,090)	0
Group	61,666	-	61,666	7,040	(10,495)	(480)	106,667	3,557

20

Reconciliation of the total profit (loss) from operations of the reporting segments to the Group's profit for the period.

	Q3 2009 millions of €	Q3 2008 millions of €	Q1-Q3 2009 millions of €	Q1 - Q3 2008 millions of €	FY 2008 millions of €
Total profit (loss) from operations of the reporting segments	2,520	2,340	4,869	6,609	7,149
Reconciliation to the Group	(22)	(27)	(115)	(130)	(109)
Profit from operations of the Group	2,498	2,313	4,754	6,479	7,040
Profit (loss) from financial activities	(802)	(679)	(2,559)	(2,332)	(3,588)
Profit before taxes	1,696	1,634	2,195	4,147	3,452
Income taxes	(551)	(553)	(1,378)	(1,459)	(1,428)
Profit	1,145	1,081	817	2,688	2,024

Development of business in the operating segments.
Germany: Customer development and selected KPIs.

	Sept. 30, 2009 millions	June 30, 2009 millions	Change Sept. 30, 2009/ June 30, 2009 %	Dec. 31, 2008 millions	Change Sept. 30, 2009/ Dec. 31, 2008 %	Sept. 30, 2008 millions	Change Sept. 30, 2009/ Sept. 30, 2008 %
Fixed network							
Fixed-network linesa	26.7	27.2	(1.8)	28.3	(5.7)	29.0	(7.9)
Retail broadband linesa	11.3	11.2	0.9	10.6	6.6	10.2	10.8
Resale/IP-BSAb	1.8	2.0	(10.0)	2.5	(28.0)	2.9	(37.9)
ULLsc	8.9	8.7	2.3	8.3	7.2	7.9	12.7
IP-BSA SAd	0.5	0.4	25.0	0.2	n.a.	n.a.	n.a.
Mobile communications							
Mobile customerse,f	39.3	39.1	0.5	39.1	0.5	38.8	1.3

Totals were calculated on the basis of precise figures and rounded to millions. Percentages are calculated on the basis of figures shown. The Business Customers unit was transferred from the Systems Solutions segment into the former Broadband/Fixed Network segment effective January 1, 2009 and has been reported under the Germany operating segment since July 1, 2009. All prior-quarter and prior-year figures have been adjusted for better comparability. Deutsche Telekom's mobile communications subsidiaries count their 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). The mobile communications 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 Deutsche Telekom's 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. Competitors may calculate their churn rates using different methods. In addition, the respective churn figures are not comparable across all national operations, because different general terms and conditions and thus different deactivation methodologies are used in different jurisdictions.

a Lines in operation excluding internal use and public telecommunications systems, including IP-based lines and congstar.
b Resale: Sale of broadband lines based on DSL technology to alternative providers outside Deutsche Telekom, including bundled IP-BSA. In the case of IP-Bitstream Access (IP-BSA), Deutsche Telekom leases DSL lines to the competitor and transports the datastream carried over the lines.
c Unbundled local loop line: Deutsche Telekom wholesale service that can be leased by alternative telecommunications operators without upstream technical equipment in order to offer their own customers a telephone or DSL line.
d IP-BSA Stand Alone: wholesale service not bundled with a PSTN line. Allows competitors to offer an all-IP product range.
e One mobile communications card corresponds to one customer.

f Due to various rulings on the expiry of prepaid credit and the limited validity of prepaid cards, T-Mobile Deutschland changed its terms of contract and therefore its deactivation policy in the first quarter of 2007 in favor of its prepay customers. These customers can now use their prepaid credit longer than before. As a result of the change in the terms of contract, prepaid contracts no longer end automatically, but run for an unlimited duration and can be terminated by the customer at any time and by T-Mobile with one month's notice. T-Mobile Deutschland reserves the right to make use of this right of termination and to deactivate cards in the system.

Fixed network.

In a more slowly growing broadband market in Germany, the number of retail broadband lines operated by Deutsche Telekom increased by 1.1 million year-on-year to a total of 11.3 million as of September 30, 2009. Since 2007, Deutsche Telekom’s broadband customer market share has remained stable at around 46 percent despite increasingly fierce competition. Broadband net add growth slowed in the third quarter of 2009 due to the expiry of the 24-month contracts for the complete packages marketed so successfully in 2007.

The number of Entertain lines increased to 678,000 by the end of the third quarter of 2009. By that point in time, approximately 885,000 Entertain lines had been sold .

Fixed-network line losses in Germany totaled 573,000 in the third quarter of 2009, roughly the same as in the same prior-year period. The line losses include fixed-network lines previously operated by Deutsche Telekom but now run as IP-based lines by other providers on the basis of the unbundled local loop line (ULL). Other line losses are mainly attributable to customers switching to alternative cable, local network, and mobile operators.

Growth in ULLs slowed down compared with the previous year. In the third quarter of 2009, the number of ULLs rose by 172,000 to 8.9 million. The decrease of 200,000 in resale/IP-BSA lines in the third quarter of 2009 to 1.8 million has partially been offset by the growth in IP-BSA Stand Alone (SA) lines, which were introduced over a year ago and reached a total of 517,000 by the end of the third quarter of 2009.

Mobile communications.

The total number of customers in Germany rose to 39.3 million, an increase of 1.3 percent compared with the end of the prior-year quarter.

The higher-value contract customer business developed positively in the third quarter of 2009. Compared with the prior-year quarter, the number of customers increased by 2.4 percent to 17.1 million. The share of contract customers increased year-on-year to 44 percent of the total customer base.

The focus on sustainable growth can clearly be seen in the higher number of high-value calling plans, along with stabilized average revenue and increased usage per customer.

Germany: Development of operations.

	Q1 2009 millions of €	Q2 2009 millions of €	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Total revenue	6,331	6,220	6,471	6,601	(2.0)	19,022	19,792	(3.9)	26,400
Of which: fixed network	4,724	4,628	4,711	4,884	(3.5)	14,063	14,795	(4.9)	19,782
Of which: mobile communications	1,952	1,947	2,109	2,079	1.4	6,008	6,062	(0.9)	8,069
Profit from operations	1,325	1,274	1,409	1,528	(7.8)	4,008	4,040	(0.8)	4,624
Depreciation, amortization and impairment losses	(1,016)	(1,085)	(1,037)	(1,019)	(1.8)	(3,138)	(3,121)	(0.5)	(4,180)
Cash capexa	(800)	(684)	(771)	(684)	(12.7)	(2,255)	(1,843)	(22.4)	(3,038)
Number of employeesb	86,086	85,142	84,369	89,215	(5.4)	85,199	90,888	(6.3)	89,961
Of which: fixed network	80,075	79,064	78,251	83,167	(5.9)	79,130	84,854	(6.7)	83,932
Of which: mobile communications	6,011	6,078	6,118	6,048	1.2	6,069	6,034	0.6	6,029

The contributions of the segments generally show the unconsolidated view, and did not take into consideration consolidation effects at the operating segment level.

Totals were calculated on the basis of precise figures and rounded to millions. Percentages are calculated on the basis of figures shown.

a Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the cash flow statement.

b Average number of employees.

In addition to the adjustments in the Germany operating segment already described, Deutsche Telekom's reorganization effective July 1, 2009 and the associated changes in the presentation of operating segments also required a number of reallocations within the Group. Power and Air Condition Solution Management GmbH & Co. KG (PASM) is now shown as part of the fixed-network business. The International Carrier Sales and Services business has been transferred to the Europe operating segment. The figures for the mobile communications operations include T-Mobile Deutschland (TMD) and also Deutsche Funkturm GmbH (DFMG). The Global Network operations and the share of Deutsche Telekom AG in the Product House have been moved to Group Headquarters & Shared Services. All prior-quarter and prior-year figures have been adjusted for better comparability.

Germany: Revenue.
Total revenue in the Germany operating segment in the first three quarters of 2009 decreased by 3.9 percent year-on-year to EUR 19.0 billion. This decline was mainly caused by the continuing losses of fixed-network lines due to competition and by regulatory pricing measures in fixed-network and mobile communications.

Total fixed-network revenue in the first three quarters of 2009 decreased 4.9 percent year-on-year to EUR 14.1 billion. This decline is primarily attributable to continuing line losses resulting from increased competition, the increased sales of complete packages (telephony and Internet) with a flat-rate component, and falling usage-related charges. Other factors included decreases in revenue from resale and network services, and interconnection. Volume growth in complete packages in the broadband business and in unbundled local loop lines only partially offset the decline in revenue.

In the first three quarters of 2009, total mobile communications revenue (TMD and DFMG) decreased by EUR 54 million or 0.9 percent to EUR 6.0 billion. The decrease in revenue at TMD is also attributable to lower national roaming revenues with O2. Furthermore, the more restrictive regulatory environment, in particular lower termination charges from April 1, 2009, and intense competition contributed to this decline.

In addition, continued growth in non-voice revenue had a positive effect. Data revenue alone in the first three quarters of 2009 increased by 51 percent year-on-year.

Germany: ARPU

	Q3 2009 Service Revenue millions of €	Q3 2009 ARPU €	Q3 2009 Average number of customers (millions)	Q3 2008 Service Revenue millions of €	Q3 2008 ARPU €	Q3 2008 Average number of customers (millions)
Germany	1,798	15	39.1	1,806	16	38.7

Germany: Profit from operations.
Profit from operations in Germany declined slightly year on year due primarily to the gain on the disposal of an intangible asset in the previous year. Declines in fixed-network and mobile revenue were not entirely offset by declines in costs primarily due to lower revenue-driven costs and reduced costs for rental, personnel as well as further costs reduction under the Save for Service program.

Germany: Cash capex.
Cash capex for the first three quarters of 2009 increased by EUR 0.4 billion year-on-year to EUR 2.3 billion. This increase is attributable to expenditures on the fixed network (approximately EUR 0.36 billion), stemming mainly from investments in the IP transport platform, broadband roll-out, and IT systems, and to TMD (EUR 0.07 billion).

Germany: Personnel.
The average headcount decreased by 6.3 percent in the first three quarters of 2009 to 85,199 employees. In the fixed network area, the average number of employees was down by 6.7 percent as a result of workforce reduction measures. The average number of employees in mobile communications remained at the prior-year level.

United States.

United States: Customer development and selected KPIs.

	Sept. 30, 2009 millions	June 30, 2009 millions	Change Sept. 30, 2009/ June 30, 2009/ %	Dec. 31, 2008 millions	Change Sept. 30, 2009/ Dec. 31, 2008 %	Sept. 30, 2008 millions	Change Sept. 30, 2009/ Sept. 30, 2008 %
United States							
Mobile communications							
Mobile customersa	33.4	33.5	(0.3)	32.8	1.8	32.1	4.0

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

The United States operating segment lost 77,000 net customers in the third quarter of 2009, compared with net customer additions of 670,000 in the third quarter of 2008 and 325,000 in the second quarter of 2009. The drivers for fewer customers in the third quarter of 2009 came from higher churn and a decrease year-on-year in contract gross customer additions. Both of these are the result of competitive intensity, including handset innovation. Contract customers, which in addition to traditional postpay include FlexPay contract and machine-to-machine customers, accounted for 80 percent of the customer base in the third quarter of 2009, compared to 83 percent in the third quarter of 2008 and 81 percent in the second quarter of 2009. The decrease in contract customers as a percentage of the customer base sequentially and year-on-year was due to growth of wholesale customers, which are included in prepay customers.

United States: Development of operations.

	Q1 2009 millions of €	Q2 2009 millions of €	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Total revenue	4,137	3,918	3,758	3,657	2.8	11,813	10,616	11.3	14,957
Profit from operations	530	654	595	570	4.4	1,779	1,656	7.4	2,299
Depreciation, amortization and impairment losses	(531)	(522)	(494)	(447)	(10.5)	(1,547)	(1,337)	(15.7)	(1,884)
Cash capexa	(865)	(785)	(552)	(656)	15.9	(2,202)	(1,797)	(22.5)	(2,540)
Number of employeesb	37,720	37,863	37,996	36,636	3.7	37,859	35,641	6.2	36,076

Including first-time consolidation of SunCom from February 22, 2008.

a Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the cash flow statement.

b Average number of employees.

United States: Total revenue.

Due to the strength of the dollar against the euro, revenue for the United States operating segment grew by 11.3 percent year-on-year in the first three quarters of 2009 to EUR 11.8 billion. In U.S. dollars the operating segment revenue decreased slightly year-on-year due to the fall in average revenue per user (ARPU), which was partially offset by the full nine-month consolidation benefit of the SunCom acquisition. The fall in ARPU year-on-year is primarily related to fewer higher-ARPU customers and lower voice usage revenues, including roaming revenues, both of which were partially offset by data revenue growth.

25

United States: ARPU

	Q3 2009 Service Revenue millions of €	Q3 2009 ARPU €	Q3 2009 Average number of customers (millions)	Q3 2008 Service Revenue millions of €	Q3 2008 ARPU €	Q3 2008 Average number of customers (millions)
United States	3,233	32	33.4	3,180	33	31.8

United States: Profit from operations.

Profit from operations increased in euros year-on-year by 7.4 percent. Currency fluctuations increased total revenues year-on-year. Expenses also increased year-on-year due to currency fluctuations and higher cost of sales related to the 3G network. This increase was partially offset by lower commission costs related to fewer higher ARPU customer additions and cost saving initiatives.

United States: Cash capex.

The continued focus on the improvement of network quality and coverage as well as the roll-out of the UMTS/HSDPA network caused total incurred capex to remain stable year-on-year. Cash capex increased year-on-year from EUR 1.8 billion to EUR 2.2 billion in the first nine months of 2009 due to currency fluctuations and cash payment timing differences. Cash payment timing differences increased 2009 cash capex by USD 400 million over 2008's cash capex.

United States: Personnel.

The average number of employees rose year-on-year, which is attributed primarily to retail distribution growth.

26

Europe.

Europe: Customer development and selected KPIs.

	Sept. 30, 2009 millions	June 30, 2009 millions	Change Sept. 30, 2009/ June 30, 2009/ %	Dec. 31, 2008 millions	Change Sept. 30, 2009/ Dec. 31, 2008 %	Sept. 30, 2008 millions	Change Sept. 30, 2009/ Sept. 30, 2008 %
Europea	44.4	44.3	0.2	44.2	0.5	43.9	1.1
Of which: T-Mobile UKb	16.6	16.6	0.0	16.8	(1.2)	16.8	(1.2)
Of which: T-Mobile Netherlands (NL)c	5.5	5.4	1.9	5.3	3.8	5.3	3.8
Of which: PTC (Poland)	13.5	13.4	0.7	13.3	1.5	13.0	3.8
Of which: T-Mobile CZ	5.5	5.4	1.9	5.4	1.9	5.4	1.9
Of which: T-Mobile Austria	3.4	3.4	0.0	3.4	0.0	3.3	3.0

Deutsche Telekom's mobile communications subsidiaries count their 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). The mobile communications 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 Deutsche Telekom's 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. Competitors may calculate their churn rates using different methods. In addition, the respective churn figures are not comparable across all national operations, because different general terms and conditions and thus different deactivation methodologies are used in different jurisdictions.

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

b Including Virgin Mobile.

c The consolidation of Online (formerly Orange Nederland Breedband B.V.) in the second quarter of 2008 has no effect on the number of customers of the T-Mobile Netherlands group, as only mobile communications customers are shown.

The number of customers in the operating segment Europe had increased slightly to 44.4 million by the end of the third quarter of 2009, representing growth of 0.5 percent in total customer numbers compared with the end of 2008. Apart from T-Mobile UK, all mobile communications operations in the Europe segment contributed to this positive result, either consolidating or slightly expanding their customer base. T-Mobile Netherlands recorded a growth rate of just under 4 percent, the highest since the end of 2008 among all operations in the Europe segment.

When broken down into prepay and contract customers, customer numbers exhibited differing trends in the first nine months of 2009. T-Mobile Netherlands increased both prepay and contract customer figures, with growth in the high-value contract segment accounting for the larger portion of the increase. The contract customer business also

developed successfully at T-Mobile CZ, PTC and T-Mobile Austria, although the prepay customer base decreased slightly.

At T-Mobile UK, the slight decline in the total customer base compared to the end of 2008 is mainly due to the reduction in Virgin customers. However, compared to the second quarter of 2009, the decrease in Virgin customers was compensated for by higher numbers of T-Mobile UK's own customers. Virgin customers are assigned to the prepay segment at T-Mobile UK.

Overall, the high-value contract customer business was the growth driver for the total customer base in the first nine months of 2009. All mobile communications companies contributed to contract customer growth in both absolute and relative terms, i.e., as a proportion of the total customer base. The percentage of contract customers in the total customer base for the Europe operating segment rose by around one percentage point compared with the end of 2008, to 40.4 percent (including Virgin).

This positive development is due to the focused customer acquisition strategy which appeals to high-value contract customers with calling plans with minute buckets, flat-rate plans, and new hardware offered in conjunction with a fixed-term contract. In addition, innovative mobile Internet services installed on high-performance cell phones and introduced as part of the connected life and work strategy successfully attracted new groups of customers. The launch of the T-Mobile G1/ G2 and the Apple iPhone 3G S contributed to considerable success in the contract customer business. T-Mobile expects the market launch of the T-Mobile Pulse, the third Android-based smartphone, to be a further milestone in the product portfolio to build on the previous successes.

Europe: Development of operations.

	Q1 2009 millions of €	Q2 2009 millions of €	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Total revenue	2,436	2,573	2,552	2,940	(13.2)	7,561	8,559	(11.7)	11,354
Of which: T-Mobile UK	836	886	853	999	(14.6)	2,575	3,073	(16.2)	4,051
Of which: T-Mobile NL	444	465	452	477	(5.2)	1,361	1,340	1.6	1,806
Of which: PTC	416	440	450	618	(27.2)	1,306	1,722	(24.2)	2,260
Of which: T-Mobile CZ	275	310	313	357	(12.3)	898	1,000	(10.2)	1,329
Of which: T-Mobile A	267	255	260	271	(4.1)	782	815	(4.0)	1,085
Of which: Othera	216	231	238	236	0.8	685	663	3.3	896
Profit (loss) from operations	(1,786)	226	349	201	73.6	(1,211)	486	n.a.	496
Depreciation, amortization and impairment losses	(2,247)	(449)	(389)	(548)	29.0	(3,085)	(1,718)	(79.6)	(2,357)
Cash capexb	(368)	(142)	(149)	(242)	38.4	(659)	(714)	7.7	(1,152)
Number of employeesc	18,277	18,355	18,114	17,867	1.4	18,248	17,876	2.1	17,945

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

a "Other": primarily International Carrier Sales and Services (ICSS).

b Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the cash flow statement.

c Average number of employees.

Europe: Total revenue.

Total revenue in the Europe operating segment decreased year-on-year by EUR 1.0 billion or 11.7 percent in the first nine months of 2009. The main reasons for the decrease in revenue were negative exchange rate effects, which had a strong adverse impact regarding the pound sterling, the Polish zloty, and the Czech koruna. Revenue generated by the Europe operating segment in the first three quarters of 2009 was also negatively affected by the strained economic situation, continuing high competitive pressure and regulatory factors.

PTC did not quite reach its prior-year revenue figure adjusted for exchange rate effects, which was primarily attributable to regulatory conditions. The reduction in revenue at T-Mobile UK was largely related to the prepay business. Regulatory decisions and continued fierce competition additionally impacted T-Mobile UK's revenue. At T-Mobile CZ and T-Mobile Austria, regulatory decisions also had a negative effect on revenue. At T-Mobile Netherlands revenue growth mainly resulted from revenue generated at Online (broadband/fixed-network business), which has been consolidated within T-Mobile Netherland's results since mid-2008. The year-on-year increase in non-voice revenue from all mobile network operations in the Europe segment partially offset the revenue decrease from voice telephony.

Europe: ARPU

	Q3 2009 Service Revenue millions of €	Q3 2009 ARPU €	Q3 2009 Average number of customers (millions)	Q3 2008 Service Revenue millions of €	Q3 2008 ARPU €	Q3 2008 Average number of customers (millions)
T-Mobile UK a	779	21	12.1	915	26	11.9
T-Mobile NL	372	23	5.5	388	24	5.3
PTC	434	11	13.5	602	16	12.9
T-Mobile CZ	300	19	5.4	346	21	5.4
T-Mobile (A)	247	24	3.4	255	26	3.3

a Excludes Virgin Mobile customers and revenues for purposes of calculating ARPU.

Europe: Profit (loss) from operations.

Profit (loss) from operations in the Europe operating segment declined by EUR 1.7 billion year-on-year in the first nine months of 2009. This includes the impairment loss of EUR 1.8 billion recognized on the goodwill of the cash generating unit T-Mobile UK in the first quarter of 2009. Lower depreciation, amortization and impairment losses, particularly at PTC, T-Mobile Netherlands and T-Mobile Austria, had an offsetting effect to the decline in profit (loss) from operations.

Europe: Cash capex.

Cash capex in the Europe operating segment decreased by EUR 55 million year-on-year to EUR 659 million, mainly down to significantly lower capital expenditures in the Netherlands and Poland which were only partially offset by slightly increased capex levels in the United Kingdom, Austria and the Czech Republic.

Europe: Personnel.

The number of employees in the Europe operating segment remained almost constant in the first three quarters of 2009 compared with the prior-year figure. PTC recorded growth in its headcount due to an increase in staff levels in the third and fourth quarters of 2008 to account for the strategic focus on direct sales channels and the associated roll-out of additional shops. The workforce at T-Mobile CZ also increased in the second quarter of 2009 due to the transfer of temporary customer care staff to permanent contracts. At T-Mobile Netherlands, the year-on-year headcount increase was mainly attributable to technical integration projects associated with the acquisition of Orange. By contrast, the number of employees at T-Mobile UK declined both at the call centers and in the technology area as a result of outsourcing measures.

Southern and Eastern Europe: Customer development and selected KPIs.

	Sept. 30, 2009 millions	June 30, 2009 millions	Change Sept. 30, 2009/ June 30, 2009 %	Dec. 31, 2008 millions	Change Sept. 30, 2009/ Dec. 31, 2008 %	Sept. 30, 2008 millions	Change Sept. 30, 2009/Sept. 30, 2008%
Southern and Eastern Europe							
Fixed network							
Fixed-network lines a	12.2	12.4	(1.6)	12.8	(4.7)	13.0	(6.2)
Retail broadband lines	3.4	3.3	3.0	3.0	13.3	2.7	25.9
Resale/IP-BSAb	0.2	0.3	(33.3)	0.3	(33.3)	0.4	(50.0)
ULLsc	1.0	0.9	11.1	0.7	42.9	0.6	66.7
Mobile communications							
Mobile customersd	33.7	33.0	2.1	31.6	6.6	29.8	13.1
Hungary							
Fixed network							
Fixed-network linesa	1.9	1.9	0.0	2.0	(5.0)	2.1	(9.5)
Broadband linese	0.8	0.8	0.0	0.8	0.0	0.7	14.3
Mobile communications							
Mobile customersd	5.2	5.3	(1.9)	5.4	(3.7)	5.2	0.0
Croatia							
Fixed network							
Fixed-network linesa	1.5	1.5	0.0	1.6	(6.3)	1.6	(6.3)
Broadband linese	0.5	0.5	0.0	0.5	0.0	0.4	25.0
Mobile communications							
Mobile customersd	2.9	2.9	0.0	2.7	7.4	2.6	11.5
Slovakia							
Fixed network							
Fixed-network linesa	1.1	1.1	0.0	1.1	0.0	1.1	0.0
Broadband linese	0.4	0.4	0.0	0.3	33.3	0.3	33.3
Mobile communications							
Mobile customersd	2.3	2.3	0.0	2.3	0.0	2.3	0.0
Greece							
Fixed network							
Fixed-network linesa	4.3	4.4	(2.3)	4.6	(6.5)	4.7	(8.5)

Broadband linese	1.1	1.0	10.0		1.0	10.0		0.9	22.2	
Mobile communications										
Mobile customersd	9.1	8.8	3.4		7.9	15.2		7.4	23.0	
Romania										
Fixed network										
Fixed-network linesa	2.8	2.9	(3.4	)	3.0	(6.7	)	3.0	(6.7	)
Broadband linese	0.8	0.7	14.3		0.7	14.3		0.6	33.3	
Mobile communications										
Mobile customersd	6.6	6.3	4.8		5.9	11.9		5.2	26.9	
Bulgaria										
Mobile communications										
Mobile customersd	4.0	4.0	0.0		4.1	(2.4	)	4.0	0.0	
Albania										
Mobile communications										
Mobile customersd	1.8	1.5	20.0		1.4	28.6		1.3	38.5	
Otherf										
Fixed network										
Fixed-network linesa	0.7	0.7	0.0		0.8	(12.5	)	0.8	(12.5	)
Broadband linese	0.2	0.2	0.0		0.1	n.a.		0.1	n.a.	
Mobile communications										
Mobile customersd	1.9	1.9	0.0		1.8	5.6		1.8	5.6	

Southern and Eastern Europe includes the fixed-network and mobile communications subsidiaries of T-Hrvatski Telekom, Slovak Telekom, Magyar Telekom, Makedonski Telekom, Crnogorski Telekom and the OTE group: OTE, COSMOTE, Romtelecom, COSMOTE Romania, Globul (Bulgaria) and AMC (Albania). OTE has been consolidated since February 1, 2009. Prior-year figures have been adjusted accordingly on a pro forma basis. Deutsche Telekom's mobile communications subsidiaries count their 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). The mobile communications 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 Deutsche Telekom's 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. Competitors may calculate their churn rates using different methods. In addition, the respective churn figures are not comparable across all national operations, because different general terms and conditions and thus different deactivation methodologies are used in different jurisdictions.

a Lines in operation excluding internal use and public telecommunications, including IP-based lines.

b Resale: Sale of broadband lines based on DSL technology to alternative providers outside Deutsche Telekom, including bundled IP-BSA. In the case of IP-Bitstream Access (IP-BSA), Deutsche Telekom leases DSL lines to the

competitor and transports the datastream carried over the lines.

c Unbundled local loop line: Deutsche Telekom wholesale service that can be leased by alternative telecommunications operators without upstream technical equipment in order to offer their own customers a telephone or DSL line.

d One mobile communications card corresponds to one customer.

e Total of retail and resale broadband lines

f "Other" includes the companies Makedonski Telekom (Macedonia), T-Mobile Macedonia (Macedonia) and Crnogorski Telekom (Montenegro: mobile communications and fixed network).

30

Southern and Eastern Europe : Total

Customer development in Southern and Eastern Europe is influenced by the first-time inclusion in 2009 of the OTE group, which has fixed-network operations in Greece and Romania, and mobile communications operations in Greece, Romania, Bulgaria and Albania.

Southern and Eastern Europe: Fixed network.

The broadband market in Southern and Eastern Europe continued to grow in the first nine months of 2009. With a total of 3.7 million broadband lines including bundled and unbundled resale/IP-BSA, the operating segment recorded an increase of 576,000 lines compared with the same period last year. This figure includes 337,000 broadband lines in the fixed network of OTE Greece and Romtelecom (Romania).

Southern and Eastern Europe: Mobile communications.

The mobile communications market in Southern and Eastern Europe is exhibiting slow growth reflecting macro-economic trends in many countries, while customer numbers in Hungary and Slovakia are stagnating compared with the prior year. All mobile communications companies contributed to the increase in customer numbers in absolute terms. With the exception of Greece, the percentage proportion of contract customers relative to the entire customer base also increased.

Southern and Eastern Europe: Development of operations.

	Q1 2009 millions of €	Q2 2009 millions of €	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Total revenue	1,964	2,516	2,616	1,265	n.a.	7,096	3,499	n.a.	4,645
Of which: Hungary	391	412	437	550	(20.5)	1,240	1,524	(18.6)	2,006
Of which: Croatia	278	292	315	339	(7.1)	885	921	(3.9)	1,223
Of which: Slovakia	244	246	244	262	(6.9)	734	736	(0.3)	994
Of which: Greece	655	1,058	1,087	-	-	2,800	-	-	-
Of which: Romania	204	295	296	-	-	795	-	-	-
Of which: Bulgaria	81	104	119	-	-	304	-	-	-
Of which: Albania	26	36	41	-	-	103	-	-	-
Of which: Othera	99	105	111	119	(6.7)	315	328	(4.0)	435
Profit from operations	504	237	462	371	24.5	1,203	920	30.8	915
Depreciation, amortization and impairment losses	(476)	(607)	(620)	(212)	n.a.	(1,703)	(652)	n.a.	(1,034)

Cash capex	(380)	(383)	(413)	(176)	n.a.	(1,176)	(577)	n.a.	(865)
Number of employeesb	43,348	54,242	53,593	21,083	n.a.	50,395	21,321	n.a.	21,229

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

Southern and Eastern Europe includes the fixed network and mobile communications companies T-Hrvatski Telekom, Slovak Telekom, Magyar Telekom, Makedonski Telekom, Crnogorski Telekom and the OTE group: Fixed Network Greece and COSMOTE Greece (financial figures include the domestic mobile operator COSMOTE and the sales company Germanos); Romtelecom and COSMOTE Romania (financial figures include the domestic mobile operator COSMOTE and the sales company Germanos); COSMOTE Bulgaria (financial figures include the domestic mobile operator Globul and the sales company Germanos) and COSMOTE Albania (includes the national operator AMC).

a "Other" includes revenue at the companies Makedonski Telekom (Macedonia), T-Mobile Macedonia (Macedonia) and Crnogorski Telekom (Montenegro: mobile communications and fixed network).

b Average number of employees.

31

Southern and Eastern Europe: Total revenue.

Total revenue in the Southern and Eastern Europe operating segment increased year-on-year by EUR 3.6 billion in the first nine months of 2009. This positive revenue trend is largely attributable to the first-time consolidation of the OTE group in early February 2009. Adjusted for the integration of the OTE group, revenue decreased by EUR 0.3 billion primarily due to negative exchange rate effects, and in Hungary, owing to the strained macro-economic situation and continued competitive pressure both in mobile communications and in the traditional fixed-network business. Broadband growth in all countries did not make up for the decline in revenue in the traditional fixed network area.

Hungary. Revenue from both mobile communications and fixed-network business decreased as a result of the difficult economic situation, but the main driver of the revenue decrease in euro terms is the exchange rate effect from the sharp fall in the Hungarian forint.

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

Slovakia. Revenue is stable in euro terms, with operating revenue from both fixed network and mobile communications slightly down on last year.

Southern and Eastern Europe: ARPU

	Q3 2009 Service Revenue millions of €	Q3 2009 ARPU €	Q3 2009 Average number of customers (millions)	Q3 2008 Service Revenue millions of €	Q3 2008 ARPU €	Q3 2008 Average number of customers (millions)
Hungary	227	14	5,207	275	18	5,156
Croatia	150	17	2,885	174	23	2,620
Slovakia	131	19	2,301	144	21	2,317
Greece	444	17	9,064	-	-	-
Romania	94	5	6,599	-	-	-
Bulgaria	97	8	3,966	-	-	-
Albania	40	8	1,753	-	-	-

Southern and Eastern Europe: Profit from operations

In the first nine months of 2009, profit from operations in the Southern and Eastern Europe operating segment increased year-on-year by EUR 0.3 billion. The increase from the first-time consolidation of the OTE group in February 2009 amounting to EUR 0.4 billion was offset by a decline in profit from operations of EUR 0.1 billion in Hungary. That decline was due in part to negative exchange rate effects, and in part to the declines in revenue due to the difficult econominc situation. The decline in revenues in Hungary was partly mitigated by cost cutting measures.

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

Southern and Eastern Europe: Cash capex.

Cash capex in the Southern and Eastern Europe operating segment rose by EUR 0.6 billion year-on-year to EUR 1.2 billion. This increase was substantially due to the first-time consolidation of the OTE group. The slight increase in the level of capital expenditure is attributable to the broadband roll-out in Croatia and Hungary and to the successful marketing of satellite TV in Hungary.

Southern and Eastern Europe: Personnel.

The average number of employees increased sharply in the first nine months of 2009 compared with the same period last year, mainly due to the first-time consolidation of the OTE group, whose headcount at the date of consolidation was 33,600. Apart from this, the number of employees was reduced in almost all fixed-network companies by the further improvement of performance processes. In the current year, this is also true of the fixed-network parts of the OTE group.

Systems Solutions.

Systems Solutions: Selected KPIs.

	Sept. 30, 2009	June 30, 2009	Change Sept. 30, 2009/ June 30, 2009 %	Dec. 31, 2008	Change Sept. 30, 2009/ Dec. 31, 2008 %	Sept. 30, 2008	Change Sept. 30, 2009/ Sept. 30, 2008 %
Computing & Desktop Services							
Number of servers managed and serviced (units)	47,845	54,626	(12.4)	56,734	(15.7)	49,940	(4.2)
Number of workstations managed and serviced (millions)	1.50	1.51	(0.7)	1.51	(0.7)	1.47	2.0
Systems Integrationa							
Hours billedb (millions)	7.2	4.8	50.0	10.7	(32.7)	8.2	(12.2)
Utilization ratec (%)	80.9	80.7	0.2 p	80.9	0.0 p	80.7	0.2 p

Percentages calculated on the basis of figures shown.

a Domestic: excluding changes in the composition of the Group.

b Cumulative figures at the balance sheet date.

c Ratio of average number of hours billed to maximum possible hours billed per period.

Development of business.

The systems solutions market for ICT services was impacted by the effects of the financial and economic crisis in the first nine months of 2009. Despite an encouraging number of new deals, new orders were down 18.5 percent year-on-year in the first nine months of 2009. It should be noted that the prior-year figure included a major contract with Shell. In addition, companies in various sectors, especially the automotive industry, are showing a certain restraint in the current economic environment. It is therefore all the more encouraging that T-Systems was able to win major deals such as the contract with MAN. T-Systems also beat out competition to win attractive contracts outside Germany, for example from Nobel Biocare, the world leader in dental solutions.

33

Systems Solutions: Development of operations.

	Q1 2009 millions of €	Q2 2009 millions of €	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Total revenue	2,106	2,179	2,125	2,293	(7.3)	6,410	6,744	(5.0)	9,343
Computing & Desktop Services	900	933	952	961	(0.9)	2,785	2,745	1.5	3,877
Systems Integration	400	404	370	415	(10.8)	1,174	1,285	(8.6)	1,741
Telecommunications	806	842	803	917	(12.4)	2,451	2,714	(9.7)	3,725
Profit (loss) from operations	11	27	16	(11)	n.a.	54	407	(86.7)	81
Depreciation, amortization and impairment losses	(177)	(173)	(167)	(191)	12.6	(517)	(574)	9.9	(781)
Cash capexa	(161)	(171)	(144)	(290)	50.3	(476)	(611)	22.1	(823)
Number of employeesb	44,449	44,863	45,877	46,028	(0.3)	45,063	46,109	(2.3)	46,095

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

a Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the cash flow statement.

b Average number of employees.

34

Systems Solutions: Total revenue.

Total revenue generated by the Systems Solutions operating segment in the first nine months of 2009 amounted to EUR 6.4 billion, a year-on-year decrease of 5.0 percent. This is due to a decline in both external and internal revenue. International revenue, by contrast, increased by around 1 percent and continued the trend of prior quarters. This positive development is partly attributable to deals from 2008, for example with Shell and Old Mutual Group. In Germany, revenue declined by 7.2 percent, mainly due to lower revenues generated within the Group, which decreased by 9.1 percent. By setting more favorable prices for IT services, T-Systems is supporting the other Group units.

Systems Solutions: Net revenue.

T-Systems generated revenue of EUR 4.5 billion in the first three quarters of 2009 from business with customers outside the Deutsche Telekom Group, a year-on-year decrease of 2.8 percent. Net revenue from Computing & Desktop Services increased by 5.3 percent, primarily due to developments outside of Germany, such as the contract signed with Shell. At Systems Integration, encouraging deals concluded in 2008 and the first nine months of 2009 were not sufficient to compensate for negative volume effects induced by the financial crisis. In telecommunications, prices for voice and data business also continued to fall.

Systems Solutions: Profit from operations.

Profit/loss from operations in the reporting period amounted to EUR 54 million. The figure for the prior-year period included the proceeds from the sale of Media&Broadcast, which explains the year-on-year decrease of EUR 0.4 billion.

Systems Solutions: Cash capex.

At EUR 0.5 billion, cash capex in the reporting period decreased by 22.1 percent year-on-year. This decline is primarily attributable to capital expenditures in the same period of last year in connection with the Shell contract.

Systems Solutions: Personnel.

The average headcount at T-Systems declined by 1,046 to 45,063, a decrease of 2.3 percent compared with the same period last year. In Germany, the average number of employees decreased by 2,648 year-on-year to 25,628. This decrease of 9.4 percent is mainly due to the workforce restructuring program. The average headcount abroad rose by 1,602, an increase of 9.0 percent, which was mainly attributable to the expansion of activities outside of Germany, the hiring of employees in connection with major outsourcing deals, and the expansion of nearshore capacities.

Group Headquarters & Shared Services.

Group Headquarters & Shared Services performs strategic and cross-divisional management functions for the Deutsche Telekom Group and is responsible for operating activities that are not directly related to the core business of the operating segments. The Shared Services unit consists of the Real Estate Services unit, whose activities include the management and servicing of Deutsche Telekom AG's real estate portfolio in Germany; DeTeFleetServices GmbH, a full-service provider of fleet management and mobility services; and Vivento. In addition, Group Headquarters & Shared Services includes the Products & Innovation unit which is responsible for products and innovation in the Group, as well as other Group-wide functions in the area of technology, IT and mobile communications that are assigned to the Chief Operating Officer.

In the third quarter of 2009, Vivento, Deutsche Telekom's personnel service provider, continued its activities to acquire additional external employment opportunities for civil servants and non-civil servant employees, predominantly in the public sector, as well as sustainable placement management to support staff restructuring in the Group. In addition, Vivento offers Group employees temporary and permanent employment opportunities at Vivento Customer Services GmbH with the aim of further improving the deployment of personnel resources.

The workforce at Vivento totaled around 9,400 employees effective September 30, 2009. This included around 4,000 employees who were deployed externally, mainly in the public sector, for example at the Federal Employment Agency. External deployment at normal market terms and conditions is intended to finance partially the personnel costs of the assigned employees. Another 2,400 or so people were employed within the Group, especially in call centers, and around 3,000 employees were placed in Vivento’s operational and strategic units or provided with support by Vivento. Vivento took on a total of around 2,900 employees from the Group in the first nine months of the 2009 financial year, while around 1,600 employees left Vivento in the reporting period to pursue new opportunities. The employment rate remained high in the reporting period. During the first nine months of 2009, around 78 percent of the approximately 8,400 employees (excluding management) were in employment or undergoing training.

Development of operations.

	Q1 2009 millions of €	Q2 2009 millions of €	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Total revenue	618	612	593	748	(20.7)	1,823	2,179	(16.3)	2,781
Loss from operations	(309)	(344)	(311)	(319)	2.5	(964)	(900)	(7.1)	(1,266)
Depreciation, amortization and impairment losses	(259)	(190)	(199)	(167)	(19.2)	(648)	(558)	(16.1)	(773)
Cash capexa	(98)	(105)	(126)	(94)	(34.0)	(329)	(268)	(22.8)	(426)
Number of employeesb	19,445	19,915	20,548	25,141	(18.3)	19,970	24,917	(19.9)	23,581
	8,400	8,700	9,400	8,500	10.6	9,400	8,500	10.6	8,200

Of which: at Vivento[c]

a Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the cash flow statement.
b Average number of employees.
c Number of employees at the balance sheet date, including Vivento's own staff and management; figures rounded.

36

Group Headquarters & Shared Services: Total revenue.

Total revenue generated at Group Headquarters & Shared Services decreased by 16.3 percent in the first nine months of the 2009 financial year. The revenue decrease was primarily attributable to the deconsolidation of DeTeImmobilien effective September 30, 2008 and the more efficient use of floor space by the operating segments. Other factors were a reduction in revenue generated at Global Network Factory due to lower product prices and purchased quantities, and lower proceeds from vehicle sales. The negative development was partially offset by an increase in revenues from the billing of accounting services to the operating segments by Deutsche Telekom Accounting GmbH, which was established as of April 1, 2008.

Group Headquarters & Shared Services: Loss from operations.

Loss from operations increased by EUR 64 million compared with the prior-year period. This was primarily attributable to an increase in depreciation and amortization, which mainly related to Deutsche Telekom's real estate portfolio, and the more efficient use of rented floor space by the operating segments, especially for technical facilities. In addition, the year-on-year increase was attributable to the non-recurrence of income from the reversal of provisions recorded in the first nine months of 2008. Other factors were the non-recurrence of the positive contribution of DeTeImmobilien as a result of its deconsolidation effective September 30, 2008 and the reduction in revenue at the Global Network Factory. In the comparative period, negative effects were primarily comprised of expenses related to the disposal of DeTeImmobilien and call centers.

Group Headquarters & Shared Services: Personnel.

The average number of employees in the reporting period was 19,970. The decrease of 4,947 compared with the first nine months of 2008 was primarily attributable to the sale of DeTeImmobilien. The headcount increase at Vivento, mainly due to the expansion of employment opportunities for civil servants and non-civil servant employees, and the merger of the operating segments' accounting activities into Deutsche Telekom Accounting GmbH had a partially offsetting effect.

Risks and opportunities.

This section provides an overview of important new aspects of risks and opportunities since the publication of Deutsche Telekom AG's 2008 Annual Report.

Impacts of the economic crisis.

Following the sharp downturn, the global economy is increasingly showing signs of recovery according to the 2009 Fall Report submitted by the Joint Diagnosis project group to the Federal Ministry of Economics and Technology. Certain regions, including the United States and Central and Eastern Europe, are expected to take longer to recover than others. As a result, despite positive development overall, negative effects of the general economic situation on Deutsche Telekom's results cannot be ruled out. There is a risk that restrained consumer spending as a consequence of rising unemployment alongside restrictions on companies' capital expenditure budgets will negatively impact on sales and revenue. It may also lead to increased churn propensity, high price sensitivity to improved rate packages, and the purchase of terminal equipment.

Financial risks.

Risky investments by subsidiaries in Southern and Eastern Europe in particular exist on account of transfer restrictions or shareholder resolutions. Following the consolidation of OTE, investments deposited with various, mostly Greek banks were also taken over. The goal is to spread these investments and to shift them gradually to government bonds.

The situation on the international financial markets continued to ease in the third quarter. As of now, access to the international debt capital markets is not seriously jeopardized. The first nine months of 2009 were marked by substantial new issuances. By the end of September 2009, Deutsche Telekom had raised debt capital of just under EUR 5.3 billion in various markets.

Minimum contract terms for bundled products.

In a ruling dated October 14, 2009, the Düsseldorf Higher Regional Court – unlike the court of lower instance – upheld Tele2’s complaint against minimum contract terms for bundled products. Under this ruling, Deutsche Telekom is prohibited from offering bundled retail products comprising a calling plan for a fixed-network line, including calls on that line, a DSL line, and Deutsche Telekom’s DSL access service (bundled product) with a minimum contract term of 12 or more months and a tacit contract extension of 12 months in each case subject to termination with due notice. Furthermore, the Higher Regional Court ruled that Deutsche Telekom is obligated to pay Tele2 damages that have arisen or will arise as a result of the prohibited conduct. An appeal to the Federal Court of Justice has been permitted. Deutsche Telekom intends to appeal against the ruling of the Düsseldorf Higher Regional Court.

Legal dispute with Vivendi Universal SA (Paris) for the acquisition of shares in the Polish company PTC.

In its appeal against the Paris Commercial Court’s decision to reject the claim, Vivendi Universal SA has now reduced its claim from EUR 1.9 billion to approximately EUR 53 million. Further lawsuits and arbitration proceedings are pending in connection with the dispute with Vivendi SA regarding the stakes in PTC.

In the course of the legal dispute concerning the acquisition of shares in the Polish company PTC, an arbitral award of November 24, 2004 (Second Vienna Partial Award) was upheld in Deutsche Telekom’s favor by a Polish court of first instance. In its ruling of September 24, 2009, the Warsaw court of appeal upheld Vivendi’s appeal against the decision to recognize that award. Deutsche Telekom intends to appeal (cassatia) this ruling to the Polish Supreme Court.

Deutsche Telekom's full consolidation of PTC is not affected by the ruling.

Court rulings on 1999 and 2001 ULL rates.

In November 2008, the Cologne Administrative Court revoked the rates approval for the unbundled local loop line (ULL) from 1999 with regard to the monthly charges. Both Deutsche Telekom and the Federal Network Agency filed complaints against non-allowance of appeal. In a ruling dated October 5, 2009, the Federal Administrative Court rejected these complaints because the points raised relate to the old legal framework. The rulings of the Cologne Administrative Court revoking the approvals thus became legally effective and the rate approval proceedings from 1999 were revived, i.e., the Federal Network Agency must decide again on ULL monthly charges for the period from February 1999 to March 2001.

In rulings dated August 27, 2009, the Cologne Administrative Court revoked the rates approval for the ULL from 2001 with regard to both the monthly charge and the one-time rates. These rulings are not legally effective because both Deutsche Telekom and the Federal Network Agency have filed complaints against non-allowance of appeal. If the rulings become legally effective, the Federal Network Agency would have to decide again on the rates for the period April 2001 to March 2003.

Other.

Magyar Telekom.

As previously reported, in the course of conducting their audit of Magyar Telekom's 2005 financial statements, Magyar Telekom's independent auditors identified two contracts the nature and business purposes of which were not readily apparent, and Magyar Telekom commenced an independent internal investigation of these contracts. The independent investigators have further identified additional contracts and related issues that warranted review, and Magyar Telekom has expanded the scope of the independent investigation to cover these additional contracts and related issues. The independent and internal investigation is continuing into these and other contracts and certain related issues identified by the independent investigators.

By letter dated February 27, 2009, addressed to counsel of Magyar Telekom's Audit Committee, the Department of Justice (the "DOJ") requested that the Audit Committee pursue all reasonable avenues of investigation prior to completing and issuing a final report of the internal investigation, including investigation into matters recently identified to counsel for the Audit Committee by the DOJ. The DOJ recognized that a delay in the completion of the report may result from investigation into these matters. The DOJ also requested that the Audit Committee refrain from disseminating any such final report until further notice from the DOJ because of the DOJ's concern that such dissemination could interfere with the DOJ's investigation. In its February 27 letter, the DOJ stated that the internal investigation had been of assistance to the DOJ and that such assistance will be taken into account in determining the appropriate disposition of this matter by the DOJ, if any.

In March 28, 2009, the Hungarian National Bureau of Investigation (the "NBI") informed Magyar Telekom that, based on a report received by the NBI, it had begun a criminal investigation into alleged misappropriation of funds relating to payments made in connection with Magyar Telekom's ongoing internal investigation into certain contracts entered into by members of the Magyar Telekom group and related matters. The NBI has requested materials and information relating to such payments from Magyar Telekom. On September 21, 2009, the NBI informed the Company that it had extended the scope of its investigation to examine possible misuse of personal data of employees in the context of the internal investigation. Magyar Telekom is cooperating with the ongoing NBI investigation.

With respect to Deutsche Telekom, we continue to cooperate by providing documents and information to the U.S. Securities and Exchange Commission and the DOJ in connection with their review of our role in certain matters relating to the Magyar Telekom investigation, including the involvement of our employees or personnel assigned to Magyar Telekom and its subsidiaries, and the actions taken by Magyar Telekom and Deutsche Telekom in response to the findings of and issues raised by the Magyar Telekom investigation.

For additional explanations regarding the risk and opportunity situation, please refer to the Annual Report on Form 20-F.

Significant events after the balance sheet date (September 30, 2009).

Group.

Deutsche Telekom launches De-Mail pilot in Friedrichshafen.

At the beginning of October 2009, Deutsche Telekom joined the Federal Ministry of the Interior and other partners to launch a De-Mail pilot project in Friedrichshafen. De-Mail makes it possible to send documents securely and in

legally binding form via the Internet in future, thus establishing legally binding Internet communication across Germany for citizens, business and administration. The application will be trialed in Friedrichshafen for six months.

United States.

T-Mobile USA introduces innovative new price plans.

On October 25, T-Mobile USA introduced the new Even More and Even More Plus price plans. These plans respond to customer needs for affordable nationwide calling, texting, and data plans; while providing new ways to get new phones and data devices with Equipment Installment Plans.

Southern and Eastern Europe.

COSMOTE group completes the acquisition of Zapp in Romania.

On October 29, 2009, the Romanian authorities approved the takeover of 100 percent of Telemobil S.A (Zapp).

Development of revenue and profits. 1

Market expectations.

The no more than modest economic recovery in domestic and international markets may continue to force companies around the world to cut costs, which in turn may impact business with corporate and business customers in telecommunications and information technology. Although consumer restraint in telecommunications expenditure is not yet particularly pronounced in Germany, downward trends in the mobile communications markets in the United States and many parts of Europe as a result of the economic situation cannot be ruled out. Deutsche Telekom's main sales markets will also face intense competition and a continuing decline in prices.

Deutsche Telekom is well positioned.

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

Although the situation on the international financial markets has eased up in recent months, there is still uncertainty regarding future sustainable development. Debt capital markets have become less strained since the beginning of the year, making major issuances possible. By the end of October 2009, Deutsche Telekom had issued bonds totaling EUR 5.1 billion and promissory notes with a volume of EUR 0.2 billion. Deutsche Telekom managed to cover its refinancing needs for 2009 entirely by issuing longer term debt. Deutsche Telekom continues to enjoy a strong liquidity with bilateral bank lines and current assets available as liquidity reserves.

Deutsche Telekom intends to pursue its financial targets, i.e., a sustained strong cash flow and the payment of an attractive dividend, despite a still uncertain economic outlook. This will be supported by the systematic implementation of cost-cutting measures. Where this requires adjustment to the personnel structure, any necessary staff reductions will be primarily implemented using socially responsible, voluntary instruments such as partial and early retirement arrangements and severance and voluntary redundancy payments. In addition, where it makes sense as part of the further internationalization of Deutsche Telekom, consolidation may also be an option in markets where the Group is already active. Activities outside these markets are also possible to leverage international economies of scale and synergies.

General statement on the business development in the Group.

In view of the expected market situation in the individual operating segments, Deutsche Telekom aims to again achieve positive results for the entire Group.

1 The following forecasts for the development of revenue and profit - contain forward-looking statements that reflect management's current views with respect to future events. Words such as "assume," "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "plan," "project," "should," "want" and similar expressions identify forward-looking statements. These forward-looking statements include statements on the expected development of net revenue, earnings, and personnel figures for 2009 and 2010. Such statements are subject to risks and uncertainties, such as an economic downturn in Europe or North America, changes in exchange and interest rates, the outcome of disputes in which Deutsche Telekom is involved, and competitive and regulatory developments.

Some uncertainties or other imponderabilities that might influence Deutsche Telekom's ability to achieve its objectives, are described in the "Risk and opportunities management“ section in the management report and in the "Forward Looking Statements“ and "Risk Factors“ sections in the Annual Report on Form 20-F and the disclaimer at the end of the Annual Report as well as in the chapter "Risks and opportunities" of this Interim Group Report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. We do not guarantee that our forward-looking statements will prove correct. The forward-looking statements presented here are based on the current structure of the Group, without regard to significant acquisitions, dispositions or business combinations Deutsche Telekom may choose to undertake. These statements are made with respect to conditions as of the date of this document's publication. Without prejudice to existing obligations under capital market law, we do not intend or assume any obligation to update forward-looking statements.

Germany.

Deutsche Telekom intends to use convergence products that bring together mobile communications, Internet and the fixed network in the context of connected life and work to enhance its product portfolio and increase the number of high-value customer relationships over the long term.

Investment priorities in Germany will focus on growth and innovation, particularly further integrated and value-enhanced broadband expansion in fixed-network and mobile communications as well as quality and service initiatives.

The Germany operating segment is affected by the difficult macroeconomic situation, continuing fierce competition and regulatory measures.

Deutsche Telekom will defend its market leadership in the fixed-network business, even though its traditional access business will continue to suffer competition-driven losses of market share.

One of the key issues in 2009 and 2010 will be the further development of the mass market with Entertain products through a combination of fast broadband lines and attractive content and features, including high-performance packages that provide TV and Entertain content via DSL and fixed-network lines with flat rates.

Based on the underlying assumptions, the downward trend in revenue and earnings in the fixed network is expected to slow down in the medium term.

In the mobile communications market, mobile data usage is the key growth driver. For the overall market in Germany, a growth rate of 25 to 30 percent is expected for mobile data in 2009. With intelligent terminals, attractive rate plans and innovative applications, the mass and customized solutions market is to be further developed through data services for cell phones and laptops. Smartphones will boost mobile Internet use and increase mobile data revenue even further.

With specially tailored rate plans, network access services, and new strategic partnerships, T-Mobile is successfully participating in the future-oriented growth area of machine-to-machine (M2M) technology. M2M solutions are set to generate substantial value-added in many areas of life and work.

Top priority will be to maintain valuable customer relationships so it can successfully defend its position in terms of revenue and margin in a highly competitive market.

United States.

In local currency, the United States operating segment is expected to record a slight year-on-year decrease in terms of total revenue.

The United States operating segment will continue to focus capital expenditure on the enhancement of network quality and coverage, including the continued build out of the 3G mobile communications network.

Europe.

Deutsche Telekom expects customer numbers to continue growing in the Europe operating segment. Ongoing development of the mobile Internet with innovative data services and new, intelligent mobile handsets at attractive

prices are proving to be important and constant growth drivers.

Cost-cutting initiatives will safeguard the development of earnings and thus support Deutsche Telekom's position. Nevertheless, Deutsche Telekom continues to face a difficult macroeconomic situation and ongoing fierce competition in the Europe operating segment. In addition, regulatory measures and exchange rate fluctuations in individual countries may have a negative effect on revenue and earnings when translated to euros.

The key areas of capital expenditure in Europe will be improvements in GSM network quality and the further roll-out of UMTS networks, as part of the drive to introduce the technology for next-generation mobile networks. Deutsche Telekom has already successfully tested the Long Term Evolution (LTE) technical standard in Germany and Austria as one of the possible future technologies for mobile communications networks.

Southern and Eastern European.

The acquisition of a stake in OTE has given Deutsche Telekom a foothold in further Southern and Eastern European markets. To a larger degree, Deutsche Telekom expects the Southern and Eastern Europe operating segment to record a stable earnings development in the medium term, also supported by broad strategic initiatives and cost cutting programs. The continuing tough macro-economic situation and intense competition will bring a slight decrease in revenues. In addition, regulatory measures and exchange rate fluctuations in individual countries, plus mobile communications taxes recently imposed or increased in Croatia and Greece, may have a negative effect on revenue and earnings on a euro basis.

Systems Solutions.

T-Systems is active on the growing ICT services market, offering systems solutions for Deutsche Telekom’s corporate customers. Drawing on a global infrastructure of computing centers and networks, T-Systems manages information and communication services for some 400 corporate customers, including multinational corporations and public-sector and public health institutions. T-Systems also provides global systems integration services and has a proven industry track record, as the example of the automotive industry shows. On this basis, Deutsche Telekom’s corporate customer arm provides integrated solutions for the networked future of business and society. Outside Germany, companies' increasing globalization is translating into growing demand in the international ICT market overall – demand that is being addressed by T-Systems. Cost-cutting measures are already showing clear effects and will continue. The operating segment's revenue is expected to remain below the prior-year level in 2009 due to the negative impact of the economic crisis and the corresponding pressure on prices. Taking into account the measures described and the efficiency program that is already in place, earnings are expected to be slightly better than in the prior year.

Group Headquarters & Shared Services.

Earnings at Group Headquarters & Shared Services will be negatively affected primarily by the performance of Vivento, mainly as a result of the efforts to acquire employment opportunities for civil servants and non-civil servant employees. In particular, the improvement and centralization of functions aimed at achieving efficiency gains for the Group will also put pressure on the results of the Shared Services.

Interim consolidated financial statements.
Consolidated balance sheet.

	Sept. 30, 2009 millions of €	Dec. 31, 2008a millions of €	Change millions of €	Change %	Sept. 30, 2008a millions of €
Assets					
Current assets	24,384	15,431	8,953	58.0	16,215
Cash and cash equivalents	6,080	3,026	3,054	n.a.	3,111
Trade and other receivables	6,847	7,393	(546)	(7.4)	7,369
Current recoverable income taxes	137	273	(136)	(49.8)	132
Other financial assets	1,842	1,692	150	8.9	2,213
Inventories	1,353	1,294	59	4.6	1,308
Non-current assets and disposal groups held for sale	6,402	434	5,968	n.a.	426
Other assets	1,723	1,319	404	30.6	1,656
Non-current assets	104,953	107,709	(2,756)	(2.6)	107,170
Intangible assets	51,837	53,927	(2,090)	(3.9)	55,293
Property, plant and equipment	45,320	41,559	3,761	9.0	41,502
Investments accounted for using the equity method	160	3,557	(3,397)	(95.5)	2,820
Other financial assets	1,852	1,863	(11)	(0.6)	967
Deferred tax assets	5,240	6,234	(994)	(15.9)	6,035
Other assets	544	569	(25)	(4.4)	553
Total assets	129,337	123,140	6,197	5.0	123,385
Liabilities and shareholders' equity					
Current liabilities	26,404	24,242	2,162	8.9	22,104
Financial liabilities	11,449	9,584	1,865	19.5	8,776
Trade and other payables	6,114	7,073	(959)	(13.6)	6,035
Income tax liabilities	427	585	(158)	(27.0)	491
Other provisions	2,824	3,437	(613)	(17.8)	3,057
Liabilities directly associated with non-current assets and disposal groups held for sale	1,358	95	1,263	n.a.	0
Other liabilities	4,232	3,468	764	22.0	3,745
Non-current liabilities	61,344	55,786	5,558	10.0	56,466
Financial liabilities	42,018	37,010	5,008	13.5	37,799
Provisions for pensions and other employee benefits	6,176	5,157	1,019	19.8	5,347
Other provisions	2,577	3,304	(727)	(22.0)	3,314
Deferred tax liabilities	6,978	7,108	(130)	(1.8)	6,957
Other liabilities	3,595	3,207	388	12.1	3,049
Liabilities	87,748	80,028	7,720	9.6	78,570
Shareholders' equity	41,589	43,112	(1,523)	(3.5)	44,815
Issued capital	11,165	11,165	0	0.0	11,165
Capital reserves	51,529	51,526	3	0.0	51,525
Retained earnings including carryforwards	(20,956)	(18,761)	(2,195)	(11.7)	(18,944)
Total other comprehensive income	(3,914)	(5,411)	1,497	27.7	(4,352)
Total other comprehensive income directly associated with non-current assets and disposal	(2,242)	-	(2,242)	n.a.	-

groups held for sale					
Net profit	356	1,483	(1,127)	(76.0)	2,213
Treasury shares	(5)	(5)	0	0.0	(5)
Issued capital and reserves attributable to owners of the parent	35,933	39,997	(4,064)	(10.2)	41,602
Non-controlling interests	5,656	3,115	2,541	81.6	3,213
Total liabilities and shareholders’ equity	129,337	123,140	6,197	5.0	123,385

a Figures for the comparative reporting dates adjusted. Changes in the presentation of derivatives. For explanations, please refer to "Selected explanatory notes / Accounting policies."

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

43

Consolidated income statement.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Net revenue	16,262	15,454	5.2	48,402	45,557	6.2	61,666
Cost of sales	(9,224)	(8,248)	(11.8)	(26,876)	(24,912)	(7.9)	(34,592)
Gross profit	7,038	7,206	(2.3)	21,526	20,645	4.3	27,074
Selling expenses	(3,697)	(3,948)	6.4	(11,752)	(11,467)	(2.5)	(15,952)
General and administrative expenses	(983)	(1,230)	20.1	(3,588)	(3,563)	(0.7)	(4,821)
Other operating income	391	600	(34.8)	1,031	1,613	(36.1)	1,971
Other operating expenses	(251)	(315)	20.3	(2,463)	(749)	n.a.	(1,232)
Profit from operations	2,498	2,313	8.0	4,754	6,479	(26.6)	7,040
Finance costs	(668)	(556)	(20.1)	(1,935)	(1,898)	(1.9)	(2,487)
Interest income	68	81	(16.0)	259	239	8.4	408
Interest expense	(736)	(637)	(15.5)	(2,194)	(2,137)	(2.7)	(2,895)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	7	60	(88.3)	21	76	(72.4)	(388)
Other financial income (expense)	(141)	(183)	23.0	(645)	(510)	(26.5)	(713)
Profit (loss) from financial activities	(802)	(679)	(18.1)	(2,559)	(2,332)	(9.7)	(3,588)
Profit before income taxes	1,696	1,634	3.8	2,195	4,147	(47.1)	3,452
Income taxes	(551)	(553)	0.4	(1,378)	(1,459)	5.6	(1,428)
Profit	1,145	1,081	5.9	817	2,688	(69.6)	2,024
Profit attributable to	1,145	1,081	5.9	817	2,688	(69.6)	2,024
Owners of the parent (net profit (loss))	959	895	7.2	356	2,213	(83.9)	1,483
Non-controlling interests	186	186	0.0	461	475	(2.9)	541

Earnings per share.

	Q3 2009	Q3 2008	Change %	Q1-Q3 2009	Q1-Q3 2008	Change %	FY 2008

Earnings per share/ADS								
Basic	(€)	0.22	0.21	4.8	0.08	0.51	(84.3	)	0.34
Diluted	(€)	0.22	0.21	4.8	0.08	0.51	(84.3	)	0.34

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

44

Consolidated statement of comprehensive income.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2009 millions of €	Change %	FY 2008 millions of €
Profit	1,145	1,081	5.9	817	2,688	(69.6)	2,024
Acturial gains and losses on defined benefit plans and other employee benefits	(490)	0	n.a.	(490)	0	n.a.	227
Revaluation due to business combinations	0	1	n.a.	(33)	0	n.a.	0
Exchange differences on translating foreign operations	(630)	1,681	n.a.	(578)	718	n.a.	(352)
Available-for-sale financial assets							
Change in other comprehensive income (not recognized in income statement)	11	0	n.a.	5	1	n.a.	1
Recognition of other comprehensive income in income statement	0	0	-	0	0	-	0
Fair value measurement of hedging instruments							
Change in other comprehensive income (not recognized in income statement)	(98)	15	n.a.	(65)	92	n.a.	60
Recognition of other comprehensive income in income statement	22	(5)	n.a.	(4)	(14)	71.4	(101)
Other income and expense recognized directly in equity	0	4	n.a.	11	4	n.a.	(8)
Income taxes relating to	156	(2)	n.a.	162	(24)	n.a.	(53)

components of other comprehensive income							
Other comprehensive income	(1,029)	1,694	n.a.	(992)	777	n.a.	(226)
Total comprehensive income	116	2,775	(95.8)	(175)	3,465	n.a.	1,798
Total comprehensive income attributable to	116	2,775	(95.8)	(175)	3,465	n.a.	1,798
Owners of the parent	(79)	2,608	n.a.	(681)	2,857	n.a.	1,251
Non-controlling interests	195	167	16.8	506	608	(16.8)	547

Consolidated statement of changes in equity.

	Issued capital and reserves attributable to owners of the parent						
	Equity contributed		Consolidated shareholders' equity generated		Total other comprehensive income		
	Issued capital millions of €	Capital reserves millions of €	Retained earnings incl. carryforwards millions of €	Net profit (loss) millions of €	Translation of foreign operations millions of €	Revaluation surplus millions of €	Available-for-sale financial assets millions of €
Balance at January 1, 2008	11,165	51,524	(16,218)	571	(5,999)	308	2
Unappropriated profit (loss) carried forward			571	(571)			
Dividends			(3,386)				
Proceeds from the exercise of stock options		1					
Total comprehensive income				2,213	585		1
Transfer to retained earnings			89			(89)	
Balance at September 30, 2008	11,165	51,525	(18,944)	2,213	(5,414)	219	3
Balance at January 1, 2009	11,165	51,526	(18,761)	1,483	(6,356)	202	3
Changes in the composition of the Group							
Unappropriated profit (loss) carried forward			1,483	(1,483)			
Dividends			(3,386)				
Proceeds from the exercise of stock options		3					
Total comprehensive income			(357)	356	(616)	(33)	(2)
Transfer to retained earnings			65			(65)	
	11,165	51,529	(20,956)	356	(6,972)	104	1

Balance at September 30, 2009

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

46

	Total other comprehensive income			Treasury shares	Total	Non-controlling interests	Total shareholders' equity
	Cash flow hedges	Other comprehensive income	Deferred taxes				
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Balance at January 1, 2008	1,126	0	(344)	(5)	42,130	3,115	45,245
Unappropriated profit (loss) carried forward					0		0
Dividends					(3,386)	(510)	(3,896)
Proceeds from the exercise of stock options					1		1
Total comprehensive income	78	4	(24)		2,857	608	3,465
Transfer to retained earnings					0		0
Balance at September 30, 2008	1,204	4	(368)	(5)	41,602	3,213	44,815
Balance at January 1, 2009	1,085	(11)	(334)	(5)	39,997	3,115	43,112
Changes in the composition of the Group					0	2,876	2,876
Unappropriated profit (loss) carried forward					0		0
Dividends					(3,386)	(841)	(4,227)
Proceeds from the exercise of stock options					3		3
Total comprehensive income	(69)	11	29		(681)	506	(175)
Transfer to retained earnings					0		0
Balance at September 30, 2009	1,016	0	(305)	(5)	35,933	5,656	41,589

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Consolidated cash flow statement.

	Q3 2009 millions of €	Q3 2008 millions of €	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	FY 2008 millions of €
Profit	1,145	1,081	817	2,688	2,024
Depreciation, amortization and impairment losses	2,896	2,581	10,609	7,936	10,975
Income tax expense (benefit)	551	553	1,378	1,459	1,428
Interest income and interest expenses	668	556	1,935	1,898	2,487
Other financial (income) expense	141	183	645	510	713
Share of (profit) loss of associates and joint ventures accounted for using the equity method	(7)	(60)	(21)	(76)	388
(Profit) loss on the disposal of fully consolidated subsidiaries	-	48	(23)	(451)	(455)
Other non-cash transactions	(48)	28	(148)	(44)	(147)
(Gain) loss from the disposal of intangible assets and property, plant and equipment	3	14	36	41	70
Change in assets carried as working capital	1,098	308	1,112	177	286
Change in provisions	53	(65)	(1,138)	(421)	493
Change in other liabilities carried as working capital	(232)	(243)	(873)	(361)	(130)
Income taxes received (paid)	(248)	(107)	(747)	(375)	(520)
Dividends received	9	6	16	45	13
Net payments from entering into or canceling interest rate swapsa	-	-	242	-	-
Cash generated from operations	6,029	4,883	13,840	13,026	17,625
Interest paid	(836)	(844)	(2,812)	(2,590)	(3,431)
Interest received	150	246	793	862	1,174
Net cash from operating activities	5,343	4,285	11,821	11,298	15,368
Cash outflows for investments in					
Intangible assets	(419)	(437)	(1,087)	(1,005)	(1,799)
Property, plant and equipment	(1,712)	(1,700)	(5,866)	(4,761)	(6,908)
Non-current financial assets	(63)	(119)	(159)	(2,802)	(3,261)
Investments in fully consolidated subsidiaries and business units	(683)	(2)	(751)	(1,030)	(1,030)
Proceeds from disposal of					
Intangible assets	3	(11)	5	15	34
Property, plant and equipment	71	59	233	241	338
Non-current financial assets	8	(39)	94	93	102
Investments in fully consolidated subsidiaries and business units	-	(7)	120	736	778
Net change in short-term investments and marketable securities and receivables	340	(38)	(47)	(202)	611
Net change in cash and cash equivalents due to the first-time full inclusion of OTE	-	-	1,558	-	-
Other	1	(215)	(92)	(231)	(249)
Net cash used in investing activities	(2,454)	(2,509)	(5,992)	(8,946)	(11,384)
Proceeds from issue of current financial liabilities	224	9,703	3,168	37,915	39,281

Repayment of current financial liabilities	(2,705)	(12,042)	(6,756)	(41,503)	(44,657)
Proceeds from issue of non-current financial liabilities	327	1,979	5,307	6,199	6,477
Repayment of non-current financial liabilities	24	(29)	(89)	(85)	(96)
Dividend payments	(401)	(195)	(4,287)	(3,897)	(3,963)
Proceeds from the exercise of stock options	1	1	1	3	3
Repayment of lease liabilities	(31)	(33)	(95)	(110)	(142)
Net cash used in financing activities	(2,561)	(616)	(2,751)	(1,478)	(3,097)
Effect of exchange rate changes on cash and cash equivalents	(21)	(3)	39	37	(61)
Changes in cash and cash equivalents associated with assets held for sale	(63)	-	(63)	-	-
Net increase (decrease) in cash and cash equivalents	244	1,157	3,054	911	826
Cash and cash equivalents, at the beginning of the period	5,836	1,954	3,026	2,200	2,200
Cash and cash equivalents, at end of the period	6,080	3,111	6,080	3,111	3,026

a Disclosure was adjusted. For explanations, please refer to "Selected explanatory notes / Accounting policies."

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Selected explanatory notes.
Accounting policies.

The interim consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB). The interim consolidated financial statements for the period ended September 30, 2009 are in compliance with International Accounting Standard (IAS) 34. As permitted by IAS 34, it has been decided to publish a condensed version compared to the consolidated financial statements at December 31, 2008.

Statement of compliance.
In the opinion of the Board of Management, the quarterly financial report includes all standard adjustments to be applied on an ongoing basis that are required to give a true and fair view of the results of operations, financial position and cash flows of the Group. Please refer to the notes to the consolidated financial statements as of December 31, 2008 and the following additions for the accounting policies applied for the Group's financial reporting.

To implement its "Focus, fix and grow" strategy, Deutsche Telekom transferred around 160,000 business customers from T-Systems to the Broadband/Fixed Network operating segment under the umbrella of T-Home, Sales and Service with effect from January 1, 2009. At the same time, the Business Customers operating segment was renamed Systems Solutions. These 160,000 business customers have been assigned to the Germany operating segment since July 1, 2009.

Deutsche Telekom adjusted the presentation of its cash flow statement in 2009. Net payments from entering into or canceling interest rate swaps are disclosed as cash generated from operations under "Net cash from operating activities." Deutsche Telekom believes that this change better reflects the economic nature of the transaction. The change has an immaterial effect on prior-year periods, hence no adjustments were made.

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

In September 2007, the IASB issued an amendment to IAS 1 „Presentation of Financial Statements." The amendments to IAS 1 were endorsed by the European Union in December 2008 and are effective for financial years beginning on or after January 1, 2009. In accordance with the amendments to IAS 1, Deutsche Telekom has adjusted the presentation of its results of operations, financial position and cash flows as follows:

All changes in shareholders' equity resulting from transactions with owners are presented separately from those changes in shareholders' equity not resulting from transactions with owners (non-owner changes).

Income and expenses are presented separately from transactions with owners in two components of the financial statements (consolidated income statement and consolidated statement of comprehensive income).

The components of "Other comprehensive income" are presented in the consolidated statement of comprehensive income.

"Total other comprehensive income" is presented in the consolidated statement of changes in equity.

The amendment to IAS 1 also requires the relevant amount of income tax per component of other comprehensive income to be stated and the amounts reclassified as other comprehensive income to be presented.

As a result of the first annual improvement project, the IASB issued a collective standard with amendments to various IFRSs in May 2008. It relates to a large number of smaller amendments to existing standards whose implementation was regarded as necessary, but non-urgent. The European Union endorsed this standard in January 2009. In the collective standard, the IASB clarified that derivative financial instruments classified as held for trading are not always required to be presented in the balance sheet as current assets or liabilities. Since January 1, 2009, Deutsche Telekom has therefore reported its held-for-trading derivative financial instruments as either current or non-current depending on the maturity of the particular contract. The figures for the comparative reporting dates have been adjusted accordingly. The other amendments to IFRSs resulting from the collective standard did not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

In March 2007, the IASB issued an amendment to IAS 23 "Borrowing Costs." The European Union endorsed IAS 23 in December 2008. The amendment to the standard mainly relates to the elimination of the option of recognizing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as an expense. In accordance with Deutsche Telekom's accounting principles, qualifying assets are construction projects or other assets for which a period of at least 12 months is necessary in order to get them ready for their intended use or sale. Borrowing costs relating to assets measured at fair value and to inventories that are manufactured or produced in large quantities on a repetitive basis must not be capitalized, even if they take a substantial period of time to get ready for use or sale.

Since January 1, 2009, Deutsche Telekom has capitalized borrowing costs as a portion of the cost of acquisition or production of qualifying assets in cases in which the criteria for capitalization set out in IAS 23 were met. The amount of the borrowing costs required to be capitalized was calculated on the basis of an average capitalization rate of 6.8 percent applied across the Group. The figures for prior-year periods have not been adjusted.

In June 2007, the IFRIC issued IFRIC 13 "Customer Loyalty Programmes." The European Union endorsed IFRIC 13 in December 2008. The interpretation is effective for financial years beginning on or after July 1, 2008. The interpretation addresses the accounting of customer loyalty programs that grant customers points (credits) that allow them to acquire free or discounted goods or services from the seller or a third party. The question to be clarified was whether the award credits are a liability in the context of a sale or an advance payment for a future sales transaction. The interpretation now issued requires the proceeds of the sale to be divided into two components. One component is attributable to the transaction which resulted in the credit awards. The other component is allocable to the future sales transaction resulting from the credit awards to be redeemed. The portion of the proceeds allocated to the goods or service already delivered is recognized as revenue. The portion of the proceeds allocated to the award credits is deferred as an advance payment until the customer redeems the credit award, or the obligation in respect of the credit award is fulfilled. Deutsche Telekom adjusted its accounting policies accordingly as of January 1, 2009. The adoption of IFRIC 13 did not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

In January 2009, the IFRIC issued IFRIC 18 "Transfer of Assets from Customers." The European Union has not yet endorsed IFRIC 18. The interpretation clarifies the IFRS requirements for agreements whereby an entity receives from a customer an item of property, plant and equipment (or cash which is used only for the construction or acquisition of an item of property, plant and equipment) that the entity must then use to connect the customer to a network and/or to provide the customer with ongoing access to a supply of goods or services. IFRIC 18 is to be applied prospectively to transactions that will be carried out on or after July 1, 2009. The adoption of IFRIC 18 did not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position or cash flows.

Business combinations.

OTE.
On May 16, 2008, Deutsche Telekom acquired just under 20 percent of the shares in Hellenic Telecommunications Organization S.A., Athens, Greece (OTE) from Marfin Investment Group at a price of EUR 2.6 billion. On May 14, 2008, Deutsche Telekom also entered into a shareholders' agreement with the Hellenic Republic providing for an increase in this holding to 25 percent plus one vote - each share is entitled to one vote - and granting Deutsche Telekom the possibility of controlling OTE’s financial and operating policies, as defined by IAS 27, following the completion of all necessary steps of the transaction.

To this end, Deutsche Telekom and the Hellenic Republic entered into a share purchase agreement on May 14, 2008 for the acquisition of an additional 3 percent of the shares at a price of EUR 0.4 billion. Under the share purchase agreement, Deutsche Telekom has additionally granted the Hellenic Republic two put options for an additional 5 percent (put option I) and 10 percent (put option II) of the shares. Deutsche Telekom assumed present ownership of the shares of put option I when the share purchase agreement became effective, meaning the agreed purchase price of EUR 0.7 billion was recognized as acquisition costs. The Hellenic Republic exercised put option I on July 31, 2009. Put option II can be exercised at market price plus a premium initially of 20 percent for a period of twelve months from November 10, 2009, after which it can be exercised at market price plus a premium of 15 percent until December 31, 2011. The consummation of the shareholders' agreement and the share purchase agreement was also contingent upon the acquisition of an additional 2 percent of the shares in OTE by Deutsche Telekom from the market, which was executed on July 17, 2008 at a total value of EUR 0.1 billion.

The share purchase agreement became legally valid following full approval given by the responsible national and international supervisory authorities by the beginning of November 2008. Consequently, Deutsche Telekom acquired an additional 3 percent of OTE's shares from the Hellenic Republic on November 5, 2008, thus effecting the legal validity of the shareholders' agreement. Deutsche Telekom holds a stake in OTE of 30 percent plus one share as a result of the aforementioned transactions. The changes to OTE's Articles of Incorporation necessary for full implementation of the shareholders' agreement were approved at the extraordinary shareholders' meeting of OTE on February 6, 2009. Consequently, Deutsche Telekom has taken control of 50 percent plus two voting shares and therefore the company's financial and operating policies.

Upon implementation of the shareholders’ agreement on February 6, 2009, OTE is no longer included using the equity method, but fully consolidated for the first time. As part of the first-time full consolidation of OTE, put option II was recognized as contingent consideration, thus resulting in the recording of a liability and corresponding cost of the acquisition of EUR 0.6 billion. As a result, the interest attributable to Deutsche Telekom amounts to 40 percent plus one vote. The total cost of the acquisition including costs directly attributable to the transaction amounts to EUR 4.4 billion, of which EUR 3.7 billion had an effect on cash flows until September 30, 2009. The following table shows the purchase price as of the date of acquisition:

	Interest %	billions of €
Purchase price for acquired shares	25.0	3.1
Shares acquired from Marfin Investment Group	20.0	2.6
Shares acquired from the market	2.0	0.1
Shares acquired from the Hellenic Republic	3.0	0.4
Put option I (exercised on July 31, 2009)	5.0	0.7
Put option II	10.0	0.7
Dividend received from pre-acquisition profits		(0.1)
Purchase price	40.0	4.4

The total liability for put option II comprises the covered shares measured at market price as well as a market price premium. The carrying amounts of the liabilities for put option II are adjusted in each period in the event of changes in market price, as well as in the event that it is not exercised. As of the balance sheet date, liabilities for put option II adjusted for changes in market prices amounted to EUR 0.6 billion; accordingly, goodwill decreased by EUR 0.1 billion compared with the date of acquisition to EUR 2.4 billion.

The business combination with OTE resulted in the recognition of goodwill of EUR 2.5 billion as of the date of acquisition, determined on the basis of a preliminary purchase price allocation. This goodwill arises from synergies expected from the two companies, in particular due to integrated market approach and procurement.

The fair values of OTE's acquired assets, liabilities and contingent liabilities recognized at the date of acquisition and their carrying amounts immediately prior to the business combination are presented in the table below. Since the purchase price allocation is still preliminary, the amounts can be subject to change. As soon as the measurement has been finalized, the final purchase price allocation will be carried out.

	Fair value at acquisition date millions of €	Carrying amounts immediately prior to the business combination millions of €
Assets	16,674	14,567
Current assets	3,455	3,455
Cash and cash equivalents	1,580	1,580
Non-current assets and disposal groups held for sale	159	159
Other assets	1,716	1,716
Non-current assets	13,219	11,112
Intangible assets	5,346	4,751
Of which: goodwill	2,482	3,835
Property, plant and equipment	7,091	5,611
Other assets	782	750
Liabilities	9,854	9,441
Current liabilities	3,012	3,012
Financial liabilities	637	637
Trade and other payables	901	901
Liabilities directly associated with non-current assets and disposal groups held for sale	21	21
Other liabilities	1,453	1,453
Non-current liabilities	6,842	6,429
Financial liabilities	5,133	5,411
Other liabilities	1,709	1,018

Following the developments in the economy overall during the fourth quarter of 2008 and the associated increase in the volatility of the discount rates, Deutsche Telekom tested the OTE investment for impairment at the end of 2008. This test resulted in Deutsche Telekom recognizing an impairment loss of EUR 0.5 billion on the carrying amount of OTE. The impairment loss was disclosed as a decrease in the goodwill when OTE was fully consolidated for the first time.

The supervisory authorities approved the acquisition of the stake in OTE subject to the requirement to sell Cosmofon, OTE's Macedonian subsidiary. Cosmofon was sold as of May 12, 2009 and is therefore no longer included in the consolidated balance sheet as of the reporting date.

OTE was included in Deutsche Telekom's consolidated financial statements for the first time as of February 6, 2009. Net revenue increased by EUR 3,934 million in the reporting period as a result of the acquisition of OTE. Had the business combination already occurred on January 1, 2009, Deutsche Telekom's net revenue would have been EUR 499 million higher. Deutsche Telekom's profit for the current period includes a profit at OTE of EUR 75 million.

Had the business combination already occurred on January 1, 2009, the profit would have been EUR 24 million higher.

Changes in the composition of the Group.

In the past year, Deutsche Telekom acquired and disposed of interests in various companies that were not yet, or were only partially, included in the consolidated financial statements for the first nine months of 2008. This primarily relates to SunCom, which was included in the consolidated financial statements for the first time as of February 22, 2008. Furthermore, DeTeImmobilien was deconsolidated effective September 30, 2008. The equity interest in CAP Customer Advantage Program GmbH was sold as of January 30, 2009. In addition, OTE was fully consolidated for the first time on February 6, 2009 upon implementation of the shareholders' agreement.

Effect of changes in the composition of the Group on the consolidated income statement for the first nine months of 2009.

	Germany millions of €	United States millions of €	Europe millions of €	Southern and Eastern Europe millions of €	Systems Solutions millions of €	Group Headquarters & Shared Services millions of €	Total millions of €
Net revenue	(23)	102	0	3,906	7	5	3,997
Cost of sales	6	(42)	0	(2,318)	(10)	(78)	(2,442)
Gross profit (loss)	(17)	60	0	1,588	(3)	(73)	1,555
Selling expenses	16	(39)	0	(865)	2	1	(885)
General and administrative expenses	3	(4)	0	(336)	1	81	(255)
Other operating income	(1)	0	0	26	(1)	29	53
Other operating expenses	0	0	0	(10)	0	6	(4)
Profit (loss) from operations	1	17	0	403	(1)	44	464
Finance costs	(3)	0	0	(215)	0	(9)	(227)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	0	0	0	0	0	0	0
Other financial income (expense)	(1)	0	0	(3)	0	(6)	(10)
Profit (loss) from financial activities	(4)	0	0	(218)	0	(15)	(237)
Profit (loss) before income taxes	(3)	17	0	185	(1)	29	227
Income taxes	0	(6)	0	(135)	1	(6)	(146)
Profit (loss)	(3)	11	0	50	0	23	81

Selected notes to the consolidated income statement.

Net revenue.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1 - Q3 2008 millions of €	Change %	FY 2008 millions of €
Net revenue	16,262	15,454	5.2	48,402	45,557	6.2	61,666

In the first nine months of the 2009 financial year, Deutsche Telekom generated a year-on-year revenue increase of EUR 2.8 billion or 6.2 percent. The first-time full consolidation of the OTE group was the primary driver behind the rise, contributing EUR 3.9 billion. Adjusted for the effects of changes in the consolidated group (EUR 4.0 billion) and positive exchange rate effects (EUR 0.2 billion), net revenue was below the prior-year level.

Revenue in Deutsche Telekom's operating segments developed as follows:

The Germany operating segment recorded a 3.9-percent decrease in revenue year-on-year to EUR 19.0 billion, mainly due to line losses resulting from increased competition in the fixed network and regulatory pricing measures in the fixed network and mobile communications sectors.

The EUR 1.2 billion revenue increase in the United States operating segment in the first nine months of the financial year was primarily the result of positive exchange rate effects from the translation of U.S. dollars to euros. Adjusted for exchange rate effects revenue decreased slightly, due above all to lower revenue per customer.

Revenue from the Europe operating segment declined by EUR 1.0 billion or 11.7 percent year-on-year to EUR 7.6 billion. EUR 0.8 billion of this decline was caused by exchange rate effects from the translation of pounds sterling, Polish zlotys and Czech korunas to euros. The strained macroeconomic situation and strong competitive pressure continue to impact negatively on revenue.

Revenue in the Southern and Eastern Europe operating segment increased by EUR 3.6 billion year-on-year mainly as a result of the first-time full consolidation of OTE. By contrast, revenue in Hungary decreased by EUR 0.3 billion, EUR 0.2 billion of which was due to negative exchange rate effects.

The Systems Solutions operating segment recorded a revenue decrease of EUR 0.3 billion or 5.0 percent, largely due to lower revenues in the Systems Integration and Telecommunications units as a result of increased competition.

Cost of sales.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Cost of sales	(9,224)	(8,248)	(11.8)	(26,876)	(24,912)	(7.9)	(34,592)

The EUR 2.0 billion increase in cost of sales year-on-year is mainly attributable to the first-time full consolidation of OTE, which contributed EUR 2.3 billion to the Group's cost of sales in the first nine months of the financial year. Furthermore, higher sales of higher value products and the roll-out of the 2G and 3G networks increased costs in the United States operating segment. Exchange rate effects of EUR 0.6 billion also increased cost of sales in the United States operating segment.

Sales-related declines in cost of sales, in particular in the Germany, Europe and Systems Solutions operating segments and at Group Headquarters & Shared Services, impacted the Group by a total of EUR 0.5 billion. Positive exchange rate effects of EUR 0.5 billion in the Europe operating segment and EUR 0.1 billion in the Southern and Eastern Europe operating segment arising from the translation of pounds sterling, Polish zlotys, Czech korunas and Hungarian forints to euros also reduced the cost of sales.

Selling expenses.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Selling expenses	(3,697)	(3,948)	6.4	(11,752)	(11,467)	(2.5)	(15,952)

Selling expenses increased by EUR 0.3 billion compared with the same period in the prior year.

The first-time full consolidation of OTE contributed EUR 0.9 billion to this increase; exchange rate effects also had a negative impact of EUR 0.2 billion.

In the Germany operating segment, cost cuts in operational sales and accounts receivable management reduced selling expenses by EUR 0.6 billion. The Group’s marketing expenses decreased by EUR 0.2 billion.

General and administrative expenses.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
General and administrative expenses	(983)	(1,230)	20.1	(3,588)	(3,563)	(0.7)	(4,821)

General and administrative expenses in the Group remained at the prior-year level. The effect from the first-time full consolidation of OTE of EUR 0.3 billion was offset by savings measures. Exchange rate effects played a minor role in this development.

Other operating income / expenses.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Other operating income	391	600	(34.8)	1,031	1,613	(36.1)	1,971
Other operating expenses	(251)	(315)	20.3	(2,463)	(749)	n.a.	(1,232)

Other operating income decreased by EUR 0.6 billion compared with the first nine months of 2008. The decline was mainly attributable to lower income from disposals. In the previous year, this item included a gain on the disposal of Media&Broadcast.

Other operating expenses rose by EUR 1.7 billion compared with the first nine months of 2008. This increase was mainly attributable to an impairment loss on the goodwill of the cash generating unit T-Mobile UK amounting to EUR 1.8 billion that was recorded in the first quarter of 2009. For further details, please refer to the "Depreciation, amortization and impairment losses" section.

Profit (loss) from financial activities.

	Q3 2009 millions of €	Q3 2008 millions of €	Change´ %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Profit (loss) from financial activities	(802)	(679)	(18.1)	(2,559)	(2,332)	(9.7)	(3,588)
Finance costs	(668)	(556)	(20.1)	(1,935)	(1,898)	(1.9)	(2,487)
Interest income	68	81	(16.0)	259	239	8.4	408
Interest expense	(736)	(637)	(15.5)	(2,194)	(2,137)	(2.7)	(2,895)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	7	60	(88.3)	21	76	(72.4)	(388)
Other financial income (expense)	(141)	(183)	23.0	(645)	(510)	(26.5)	(713)

The increase of EUR 0.2 billion in the loss from financial activities compared with the prior-year period is mainly attributable to an increase in other financial expense.

Finance costs were subject to two offsetting effects. On the one hand, interest expense increased in the first nine months of 2009 due to the first-time full consolidation of OTE in the consolidated financial statements. On the other hand, the downgrade of Deutsche Telekom’s rating in 2008 and the resulting adjustments to carrying amounts for a number of bonds with rating-linked coupons had a one-time impact on interest expense in the prior-year period.

The EUR 0.1 billion increase in other financial expense compared with the prior-year period is mainly attributable to higher interest rate expenses on provisions and liabilities.

Income taxes.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Income taxes	(551)	(553)	0.4	(1,378)	(1,459)	5.6	(1,428)

Despite significantly lower profit/loss before income taxes, income tax expense only decreased slightly compared with the prior-year period. This relatively small decrease in income tax expense is attributable to an impairment of goodwill in the first quarter of 2009 that has no tax effect.

Other disclosures.

Personnel.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Personnel costs	(3,544)	(3,286)	(7.9)	(10,497)	(10,063)	(4.3)	(14,078)
Average number of employees	260,497	235,970	10.4	256,734	236,752	8.4	234,887

	Sept. 30, 2009	Dec. 31, 2008	Change	Change %	Sept. 30, 2008
Number of employees at balance sheet date	259,973	227,747	32,226	14.1	230,079
Domestic	130,429	131,713	(1,284)	(1.0)	135,701
International	129,544	96,034	33,510	34.9	94,378
Non-civil servants	229,377	195,634	33,743	17.2	196,940
Civil servants (domestic)	30,596	32,113	(1,517)	(4.7)	33,139
Trainees and student interns at balance sheet date	10,575	11,668	(1,093)	(9.4)	11,605

Personnel costs increased by EUR 0.4 billion year-on-year in the first nine months of 2009. The decrease resulting from personnel reductions in Germany was more than offset by the first-time full consolidation of OTE and the retail distribution growth at T-Mobile USA. These factors had a corresponding effect on the average number of employees. The increase in the number of employees at the balance sheet date was primarily caused by the first-time full inclusion of OTE.

Depreciation, amortization and impairment losses.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Amortization and impairment of intangible assets	(865)	(783)	(10.5)	(4,340)	(2,332)	(86.1)	(3,397)
Of which: UMTS licenses	(193)	(217)	11.1	(616)	(655)	6.0	(868)
Of which: U.S. mobile communications licenses	-	-	-	-	(21)	n.a.	(21)
Of which: goodwill	(11)	-	n.a.	(1,817)	-	n.a.	(289)
Depreciation and impairment of property, plant and equipment	(2,031)	(1,798)	(13.0)	(6,269)	(5,604)	(11.9)	(7,578)
Total depreciation, amortization and impairment losses	(2,896)	(2,581)	(12.2)	(10,609)	(7,936)	(33.7)	(10,975)

Depreciation, amortization and impairment losses in the Group increased year-on-year due to the first-time full consolidation of OTE and to an impairment loss amounting to EUR 1.8 billion that was recognized on the goodwill of the cash generating unit T-Mobile UK in the first quarter of 2009. Events or circumstances that resulted in this impairment loss to be recognized at the cash-generating unit T-Mobile UK in the former operating segment Mobile Communications Europe in the first quarter of 2009 primarily include the major economic slowdown and more intense competition in the United Kingdom. Lower roaming revenues and new regulation of roaming and termination charges had a negative impact on revenue at the time of the impairment. Increased termination charges for the use of third-party mobile communications networks and high customer acquisition and retention expenses raised the cost base.

Selected notes to the consolidated balance sheet.

Cash and cash equivalents.

Cash and cash equivalents increased from EUR 3.0 billion to EUR 6.1 billion as of September 30, 2009. This increase was primarily attributable to the first-time full consolidation of OTE, together with its cash and cash equivalents, in the consolidated financial statements, free cash flow, and net proceeds from the issue of financial liabilities. These factors were partially offset by dividend payments and the acquisition of additional shares in OTE. Detailed information can be found in the consolidated cash flow statement.

Non-current assets and disposal groups held for sale.

As of September 30, 2009, current assets recognized in the consolidated balance sheet included EUR 6.4 billion in non-current assets and disposal groups held for sale and directly associated liabilities totaling EUR 1.4 billion. The following table sets out the major classes of assets and liabilities classified as held for sale:

Major classes of assets and liabilities classified as held for sale:

	T-Mobile UK Europe operating segment millions of €	Deutsche Telekom AG real estate portfolio Group Headquarters & Shared Services millions of €	Other millions of €	Sept. 30, 2009 millions of €
Current assets	586	0	0	586
Trade and other receivables	346	0	0	346
Other current assets	240	0	0	240
Non-current assets	5,615	120	81	5,816
Intangible assets	3,721	0	31	3,752
Property, plant and equipment	1,527	120	50	1,697
Other non-current assets	367	0	0	367
Non-current assets and disposal groups held for sale	6,201	120	81	6,402
Current liabilities	766	0	0	766
Trade and other payables	527	0	0	527
Other current liabilities	239	0	0	239
Non-current liabilities	592	0	0	592
Liabilities directly associated with non-current assets and disposal groups held for sale	1,358	0	0	1,358

T-Mobile UK.

On September 8, 2009, Deutsche Telekom AG and France Télécom SA announced that they had entered into exclusive negotiations to combine T-Mobile UK and Orange UK into a joint venture company in which the two companies would hold 50 percent each. After completion of the transaction, Deutsche Telekom AG would account for its share in the joint venture using the equity method. The entire transaction is subject to approval by the relevant competition authorities in particular. In addition to the assets and liabilities shown in the table above, EUR -2.2 billion (currency translation of foreign subsidiaries) of the total other comprehensive income reported as of September 30, 2009 is attributable to T-Mobile UK.

Deutsche Telekom AG's real estate portfolio.

Real estate amounting to EUR 0.2 billion (December 31, 2008: EUR 0.4 billion) was shown as held for sale in the consolidated balance sheet at the reporting date as a result of measures to make the use of floor space more efficient, especially in technical facilities. This primarily relates to real estate owned by Deutsche Telekom AG. Impairment losses of EUR 0.1 billion were expensed in the first nine months of 2009 in connection with the reclassification of real estate. Given the current difficult market environment for real estate, Deutsche Telekom does not anticipate disposal of certain land and buildings intended for sale in the near future. According to the relevant accounting regulations (IFRS 5), this real estate at Group Headquarters & Shared Services was no longer permitted to be recognized on the consolidated balance sheet as held for sale and had to be reclassified as non-current assets and measured at the lower of amortized cost and recoverable amount. The resulting measurement differences of EUR 0.1 billion have been recognized under "Other operating income" in the income statement.

Intangible assets and property, plant and equipment.

	Sept. 30, 2009 millions of €	Dec. 31, 2008 millions of €	Change millions of €	Change %	Sept. 30, 2008 millions of €
Intangible assets	51,837	53,927	(2,090)	(3.9)	55,293
Of which: UMTS licenses	6,710	10,005	(3,295)	(32.9)	10,899
Of which: U.S. mobile communications licenses	16,806	17,666	(860)	(4.9)	17,112
Of which: goodwill	20,788	20,626	162	0.8	21,729
Property, plant and equipment	45,320	41,559	3,761	9.0	41,502

The decrease in intangible assets of EUR 2.1 billion largely results from the effect of the change in presentation of T-Mobile UK now classified as held for sale totaling EUR 3.7 billion and from amortization and impairment losses of EUR 4.3 billion as well as exchange rate effects of EUR 0.7 billion. The figure for amortization and impairment losses includes an impairment loss of EUR 1.8 billion on the goodwill of the cash generating unit T-Mobile UK from the first quarter of 2009. These effects are partially offset by additions from the first-time full consolidation of OTE and additions from investing activities, amounting to EUR 6.4 billion in total.

Additions to the carrying amounts of property, plant and equipment mainly relate to additions from the first-time full consolidation of OTE and capital expenditure, totaling EUR 12.2 billion. These additions are partially offset by depreciation of EUR 6.3 billion as well as the effect of the change in presentation of T-Mobile UK now classified as held for sale, amounting to EUR 1.5 billion.

Additions to assets.

	Q3 2009 millions of €	Q3 2008 millions of €	Change %	Q1-Q3 2009 millions of €	Q1-Q3 2008 millions of €	Change %	FY 2008 millions of €
Additions to assets	2,027	2,166	(6.4)	8,713	6,480	34.5	10,117
Intangible assets	445	457	(2.6)	3,536	1,896	86.5	2,740
Property, plant and equipment	1,582	1,709	(7.4)	5,177	4,584	12.9	7,377

The increase in investment volume compared with the first nine months of 2008 resulted mainly from goodwill recognized in connection with the first-time consolidation of OTE amounting to EUR 2.4 billion. In the prior-year period, a goodwill from the first-time full inclusion of SunCom was recorded (EUR 0.9 billion).

Additions to assets in the reporting period relate to effects from the first-time full inclusion of the OTE group in the Southern and Eastern Europe operating segment as well as network roll-out in the United States and Germany operating segments.

Investments accounted for using the equity method.

Deutsche Telekom fully consolidated OTE for the first time as of February 6, 2009. Until that date, the existing shares in OTE were carried as an investment accounted for using the equity method. For further details relating to the acquisition of OTE, please refer to the "Business combinations" section.

Financial liabilities.

	Sept. 30, 2009 millions of €	Due ≤1 year millions of €	Due >1 years ≤3 years millions of €	Due >3 years ≤5 years millions of €	Due > 5 years millions of €
Bonds and other securitized liabilities	40,572	6,342	10,611	7,626	15,993

Liabilities to banks	4,617	856	1,107	1,608	1,046
Lease liabilities	1,943	130	220	233	1,360
Liabilities to non-banks from promissory notes	1,037	-	-	164	873
Other interest-bearing liabilities	644	301	140	84	119
Other non-interest-bearing liabilities	3,534	3,451	79	1	3
Derivative financial liabilities	1,120	369	308	200	243
Financial liabilities	53,467	11,449	12,465	9,916	19,637

59

Shareholders’ equity: Disclosure of tax effects relating to each component of "Other comprehensive income."

	Q1 – Q3 2009			Q1 – Q3 2008		
	Before tax amount millions of €	Tax (expense) benefit millions of €	Net of tax amount millions of €	Before tax amount millions of €	Tax (expense) benefit millions of €	Net of tax amount millions of €
Actuarial gains and losses	(490)	133	(357)	-	-	-
Revaluation due to business combinations	(33)	0	(33)	0	0	0
Exchange differences on translation of foreign subsidiaries	(578)	0	(578)	718	0	718
Available-for-sale financial assets	5	(2)	3	1	0	1
Of which: recognized in income statement	0	0	0	0	0	0
Fair value measurement of hedging instruments	(69)	31	(38)	78	(25)	53
Of which: recognized in income statement	(4)	2	(2)	(14)	(2)	(16)
Other income and expense recognized directly in equity	11	0	11	4	1	5
Other comprehensive income	(1,154)	162	(992)	801	(24)	777
Profit (loss)			817			2,688
Total comprehensive income			(175)			3,465

Contingencies.

There were no significant changes at September 30, 2009 to the contingencies reported in the 2008 consolidated financial statements, with the exception of the following matters.

T-Online appraisal rights proceedings.

After the merger of T-Online International AG into Deutsche Telekom AG became effective on June 6, 2006, Deutsche Telekom AG was served around 250 applications for a court review of the fairness of the exchange ratio stipulated in the merger agreement dated May 8, 2005. Under the German Reorganization and Transformation Act (Umwandlungsgesetz), former shareholders of T-Online can request the Frankfurt/Main Regional Court to review the fairness of the exchange ratio in the course of appraisal rights proceedings (Spruchverfahren). The court ruled on March 13, 2009 that the exchange ratio for the T-Online shares was not fair and deemed a supplementary payment of EUR 1.15 per share fair. This decision is not yet final and legally binding. Deutsche Telekom filed an appeal (sofortige Beschwerde) against the ruling immediately and within the stipulated period. Because the complaints do not stipulate a precise numerical claim, but rather target a supplementary cash payment in the amount deemed appropriate by the court, it is not possible at present to estimate whether Deutsche Telekom will be ordered to make a supplementary payment and if so, in what amount. Deutsche Telekom believes the plaintiffs’ claims are unfounded. However, should the current ruling of the Regional Court of Frankfurt/Main become legally binding and Deutsche Telekom be ordered to make a supplementary payment of EUR 1.15 per share to the former shareholders of T-Online, this could result in a payment of approximately EUR 0.2 billion. The amount of EUR 1.15 per share is a possible, but not the most probable outcomein the event that the Higher Regional Court determines that there is to be a

supplementary cash payment. It is also possible that in this event the Higher Regional Court will call in an expert consultant to conduct a partial or full revaluation. The expert consultant's (partial) revaluation may result in no supplementary cash payment at all, but may also result in a higher payment than EUR 1.15 per share.

1999 / 2001 ULL rate approvals.

Under the rulings dated November 27, 2008 and August 27, 2009, the Cologne Administrative Court revoked the Federal Network Agency's ULL approvals of monthly charges for the period from February 1999 to March 2001 (1999 ULL), and monthly charges and one-time charges for the period from April 2001 to March 2003 (2001 ULL). The Administrative Court criticized the Federal Network Agency's calculation method in each of its rulings. Leave to appeal against the rulings was refused. The Federal Network Agency and Deutsche Telekom therefore filed complaints with the German Federal Administrative Court against the refusal of permission to appeal the rulings. The German Federal Administrative Court rejected the complaints against non-allowance of appeal for the 1999 ULL in a ruling on October 5, 2009 and a letter of October 12, 2009. The original rate application has therefore been revived. The German Federal Administrative Court has not yet ruled on the complaints against non-allowance of appeal for the 2001 ULL. The Federal Network Agency must now decide again on Deutsche Telekom's rate approval applications for 1999 ULL and, where necessary, use different calculation methods. It is not possible at present to estimate whether these decisions will require Deutsche Telekom to make payments or price adjustments and if so, in what amount.

60

Executive bodies.

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

At the Supervisory Board meeting on February 26, 2009, the Supervisory Board appointed Timotheus Höttges as the new Member of the Board of Management for Finance effective March 1, 2009 and Niek Jan van Damme as the new Member of the Board of Management for T-Home, Sales and Service, also effective March 1, 2009. The establishment of a new Board of Management department for Southern and Eastern Europe with effect from March 1, 2009 was also approved at the meeting on February 26, 2009 to account for the growing significance of the Southern and Eastern European region and to bundle responsibility for the existing, integrated operations in the region following the take-over of management control of the Greek company OTE. This department is headed by Guido Kerkhoff, who was appointed to the Group Board of Management effective March 1, 2009.

On April 29, 2009, the Supervisory Board decided to merge responsibility for standard fixed-network and mobile communications business for consumers and business customers in Germany into a single Board of Management department – "Germany" – with effect from July 1, 2009. This department is headed by Niek Jan van Damme. Reinhard Clemens retains responsibility for the ICT solution business with corporate customers – T-Systems. In addition, the Chief Operating Officer's department was established, which is led by Hamid Akhavan, effective July 1, 2009. This new department brings together the responsibility for technology, IT, procurement, products and innovations for standard business for consumers and business customers in the Group. Hamid Akhavan is also responsible for the Group's mobile communications subsidiaries in the United Kingdom, the Netherlands, Austria, the Czech Republic and Poland.

Significant events after the balance sheet date (September 30, 2009).

COSMOTE group completes the acquisition of Zapp in Romania.

On October 29, 2009, the Romanian authorities approved the takeover of 100 percent of Telemobil S.A (Zapp). The COSMOTE group has signed an agreement in Bucharest for the takeover of Telemobil S.A. (Zapp). The enterprise value, and therefore the value of the Zapp shares, is estimated at around EUR 61 million. COSMOTE will also take over the financial and other liabilities of Zapp, estimated at EUR 146 million and mainly relating to the roll-out of the 3G and CDMA networks. Zapp is the oldest mobile communications provider in the Romanian market. The 3G network currently covers 23 cities in Romania. Zapp generated revenue of EUR 61 million in 2008 with over 374,000 contract customers.

Selected notes to the consolidated cash flow statement.

Net cash from operating activities.

Net cash from operating activities amounted to EUR 11.8 billion in the reporting period, an increase of EUR 0.5 billion over the prior year period. While cash generated from operations improved by EUR 0.8 billion, net interest paid increased by EUR 0.3 billion. The increase in cash generated from operations is the result of several factors, some of which offset each other. Consolidated profit from operations decreased by EUR 1.9 billion year on year. This decrease was caused in part by an increase of year on year EUR 2.7 million depreciation, amortization and impairment losses, which do not affect cash flow, and the gains on disposals of fully consolidated companies in the amount of EUR 0.4 billion. The change in assets carried as working capital increased by EUR 0.9 billion, mainly as a result of inflows of EUR 0.8 billion from the sale of receivables (factoring). By contrast, the changes in provisions and other liabilities carried as working capital decreased by EUR 1.2 billion year-on-year, mainly due to higher cash outflows for restructuring measures and increased utilization of provisions for personnel costs and provisions for litigation risks and dealers' commissions. In addition, income tax payments increased by EUR 0.4 billion year-on-year, in particular as a result of the first-time full consolidation of OTE from February 2009. The increase in net interest paid is also largely attributable to this effect.

Net cash used in investing activities.

Net cash used in investing activities totaled EUR 6.0 billion as compared with EUR 8.9 billion in the same period of the previous year. This development was mainly due to the addition of OTE’s cash and cash equivalents amounting to EUR 1.6 billion as part of the first-time full consolidation of OTE, whereas the prior-year period saw outflows for the acquisition of shares in OTE amounting to EUR 2.6 billion. Cash outflows for intangible assets and property, plant and equipment, however, increased by EUR 1.2 billion, primarily as a result of the network roll-out in the United States and, to a lesser extent, the United Kingdom.

The net cash effect for investments in fully consolidated companies increased by EUR 0.3 billion. Whereas cash outflows amounting to EUR 1.0 billion for the acquisition of SunCom and cash inflows of EUR 0.7 billion from the sale of Media&Broadcast were recorded in the first three quarters of 2008, the first nine months of 2009 saw cash outflows of EUR 0.7 billion largely for the acquisition of additional shares in OTE in connection with put option I, and cash inflows of EUR 0.1 billion from the sale of Cosmofon.

Net cash used in financing activities.

Net cash used in financing activities amounted to EUR 2.8 billion in the first three quarters of 2009, compared with EUR 1.5 billion in the prior-year period.

This change was mostly attributable to EUR 0.9 billion lower year-on-year net proceeds from the issue of non-current financial liabilities. In addition, dividend payments increased by EUR 0.4 billion compared with 2008, in particular as a result of the first-time full consolidation of OTE in February 2009 and higher dividend payments at Slovak Telekom. The considerable decrease in issuance and repayment of current financial liabilities year-on-year is primarily attributable to the issuance of commercial papers in the first nine months of 2009 to finance short-term liquidity needs compared with the many drawdowns on credit lines in the prior-year period.

The issue of financial liabilities in first nine months of 2009 consisted in particular of the issue of a Eurobond for EUR 2.0 billion, medium-term notes for EUR 2.0 billion, a U.S. dollar bond for EUR 1.1 billion, and promissory

notes for EUR 0.2 billion. Medium-term notes for an amount of EUR 2.2 billion, a U.S. dollar bond for an amount of EUR 0.7 billion, commercial papers for a net amount of EUR 0.5 billion, and promissory notes and other loans for EUR 0.2 billion were repaid during the same period.

Segment reporting.

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

The business activities in four of these five operating segments are assigned by regions and in the fifth by customers and products.

The Germany operating segment comprises all fixed-network and mobile activities in Germany. In addition, the operating segment provides wholesale telecommunications services for the Group’s other operating segments. The United States operating segment combines all mobile activities in the U.S. market. The Europe operating segment covers all activities of the mobile communications companies in the United Kingdom, Poland, the Netherlands, the Czech Republic and Austria, as well as the International Carrier Sales and Services unit, which provides wholesale telecommunications services for the Group’s other operating segments. The Southern and Eastern Europe operating segment comprises fixed-network and mobile communications operations of the national companies in Hungary, Croatia, Slovakia, Greece, Romania, Bulgaria, Albania, Macedonia, and Montenegro.

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

The mobile communications business offers mobile voice and data services to consumers and business customers. Handsets and other hardware are sold in connection with the services offered. In addition, T-Mobile services are sold to resellers and to companies that buy network services and market them independently to third parties (MVNOs).

The Systems Solutions operating segment bundles business with ICT products and solutions for large multinational corporations under the T-Systems brand. The operating segment offers its customers information and communication technology (ICT) from a single source. It develops and operates infrastructure and industry solutions for multinational corporations and public institutions. The products and services offered range from standard products and IP-based high-performance networks through to complete ICT solutions.

Group Headquarters & Shared Services comprises Service Headquarters and those subsidiaries of Deutsche Telekom AG that are not allocated to the operating segments.

The around 160,000 business customers of the Systems Solutions operating segment (called the Business Customers operating segment until December 31, 2008), which were transferred to the Broadband/Fixed Network operating segment as of January 1, 2009, have been included in the Germany operating segment since July 1, 2009.

All of the information presented here has been incorporated into the following tables, and prior-year and comparative figures have been adjusted accordingly.

The following tables give an overall summary of Deutsche Telekom's operating segments and Group Headquarters & Shared Services for the third quarters and the first nine months of the years 2009 and 2008, as well as for the full 2008 financial year. Segment reporting further includes a reconciliation of the total profit/loss of the segments to the

Group's profit/loss for the respective periods.

Segment information in the quarters.

Q3 2009 Q3 2008	Net revenue millions of €	Intersegment revenue millions of €	Total revenue millions of €	Profit (loss) from opera tions millions of €	Depreciation and amortization millions of €	Impairment losses millions of €	Segment assets millions of €	Investments accounted for using the equity method millions of €
Germany	6,008	463	6,471	1,409	(1,037)	-	29,600	23
	6,160	441	6,601	1,528	(1,017)	(2)	31,156	17
United States	3,755	3	3,758	595	(492)	(2)	32,693	18
	3,653	4	3,657	570	(447)	-	32,763	15
Europe	2,405	147	2,552	349	(389)	-	16,321	0
	2,791	149	2,940	201	(548)	-	20,671	14
Southern and Eastern Europe	2,564	52	2,616	462	(608)	(12)	21,784	52
	1,215	50	1,265	371	(211)	(1)	8,811	66
Systems Solutions	1,467	658	2,125	16	(167)	-	6,720	54
	1,553	740	2,293	(11)	(190)	(1)	7,072	26
Group	63	530	593	(311)	(166)	(33)	10,345	0
Headquarters & Shared Services	82	666	748	(319)	(156)	(11)	10,681	2,683
Total	16,262	1,853	18,115	2,520	(2,859)	(47)	117,463	147
	15,454	2,050	17,504	2,340	(2,569)	(15)	111,154	2,821
Reconciliation	-	(1,853)	(1,853)	(22)	11	(1)	(3,294)	13
	-	(2,050)	(2,050)	(27)	1	2	(2,884)	(1)
Group	16,262	-	16,262	2,498	(2,848)	(48)	114,169	160
	15,454	-	15,454	2,313	(2,568)	(13)	108,270	2,820

Segment information in the first nine months.

Q1 – Q3 2009 Q1 – Q3 2008	Net revenue millions of €	Intersegment revenue millions of €	Total revenue millions of €	Profit (loss) from opera-tions millions of €	Depreciation and amortization millions of €	Impairment losses millions of €	Segment assets millions of €	Investments accounted for using the equity method millions of €
Germany	17,828	1,194	19,022	4,008	(3,131)	(7)	29,600	23
	18,583	1,209	19,792	4,040	(3,119)	(2)	31,156	17
United States	11,802	11	11,813	1,779	(1,545)	(2)	32,693	18
	10,606	10	10,616	1,656	(1,316)	(21)	32,763	15
Europe	7,145	416	7,561	(1,211)	(1,282)	(1,803)	16,321	0
	8,142	417	8,559	486	(1,718)	-	20,671	14
Southern and Eastern Europe	6,965	131	7,096	1,203	(1,677)	(26)	21,784	52
	3,382	117	3,499	920	(648)	(4)	8,811	66
Systems Solutions	4,465	1,945	6,410	54	(517)	0	6,720	54
	4,595	2,149	6,744	407	(565)	(9)	7,072	26
Group	197	1,626	1,823	(964)	(486)	(162)	10,345	0
Headquarters & Shared Services	249	1,930	2,179	(900)	(467)	(91)	10,681	2,683
Total	48,402	5,323	53,725	4,869	(8,638)	(2,000)	117,463	147
	45,557	5,832	51,389	6,609	(7,833)	(127)	111,154	2,821
Reconciliation	-	(5,323)	(5,323)	(115)	30	(1)	(3,294)	13
	-	(5,832)	(5,832)	(130)	24	-	(2,884)	(1)
Group	48,402	-	48,402	4,754	(8,608)	(2,001)	114,169	160
	45,557	-	45,557	6,479	(7,809)	(127)	108,270	2,820

Segment information for the 2008 financial year.

FY 2008	Net revenue millions of €	Inter-segment revenue millions of €	Total revenue millions of €	Profit (loss) from opera-tions millions of €	Depreciation and amortization millions of €	Impair-ment losses millions of €	Segment assets millions of €	Investments accounted for using the equity method millions of €
Germany	24,754	1,646	26,400	4,624	(4,164)	(16)	31,551	18
United States	14,942	15	14,957	2,299	(1,863)	(21)	34,302	14
Europe	10,798	556	11,354	496	(2,229)	(128)	17,988	3
Southern and Eastern Europe	4,497	148	4,645	915	(861)	(173)	8,428	65
Systems Solutions	6,368	2,975	9,343	81	(765)	(16)	6,863	46
Group Headquarters & Shared Services	307	2,474	2,781	(1,266)	(646)	(127)	10,625	3,411
Total	61,666	7,814	69,480	7,149	(10,528)	(481)	109,757	3,557
Reconciliation	-	(7,814)	(7,814)	(109)	33	1	(3,090)	0
Group	61,666	-	61,666	7,040	(10,495)	(480)	106,667	3,557

Reconciliation of the total profit (loss) from operations of the reporting segments to the Group's profit for the period.

	Q3 2009 millions of €	Q3 2008 millions of €	Q1-Q3 2009 millions of €	Q1 - Q3 2008 millions of €	FY 2008 millions of €
Total profit (loss) from operations of the reporting segments	2,520	2,340	4,869	6,609	7,149
Reconciliation to the Group	(22)	(27)	(115)	(130)	(109)
Profit from operations of the Group	2,498	2,313	4,754	6,479	7,040
Profit (loss) from financial activities	(802)	(679)	(2,559)	(2,332)	(3,588)
Profit before taxes	1,696	1,634	2,195	4,147	3,452
Income taxes	(551)	(553)	(1,378)	(1,459)	(1,428)
Profit	1,145	1,081	817	2,688	2,024

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DEUTSCHE TELEKOM AG

By:	/s/ Raphael Kübler
Name:	Raphael Kübler
Title:	Senior Vice President Controlling and Accounting

Date: November 5, 2009