Deutsche Telekom AG

Annual financial statements and management report as of December 31, 2006

Deutsche Telekom

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Deutsche Telekom AG's single-entity financial statements and management report for the 2006 financial year are published in the electronic Federal Gazette (Bundesanzeiger) and can also be accessed on the website of the register of companies.

List of abbreviations.

AB KG	Active Billing GmbH & Co. KG, Bonn
AktG	Aktiengesetz (Stock Corporation Act)
Arcor	Arcor AG & Co. KG, Eschborn
BMF	Bundesministerium für Finanzen (Federal Ministry of Finance)
BNetzA	Bundesnetzagentur (Federal Network Agency)
BoD	Board of Directors
BPS-PT	Bundes-Pensions-Service für Post und Telekommunikation e.V., Bonn (joint pension fund for civil servants of Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom)
Deutsche Telekom	Deutsche Telekom AG, Bonn
DFMG	DFMG Deutsche Funkturm GmbH, Münster
DSL	Digital subscriber line
DT Finance	Deutsche Telekom International Finance B.V., Amsterdam
DTBS	Deutsche Telekom Betriebsrenten-Service e.V., Bonn (special pension fund)
DTI	DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster
Ernst & Young	Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart
EStG	Einkommensteuergesetz (Income Tax Act)
EU	European Union
EUR	Euro
GAS	German Accounting Standard(s)
GBP	Pound sterling
GG	Grundgesetz (Basic Law)
GHS	Group Headquarters & Shared Services
GMG	GMG Generalmietgesellschaft mbH, Münster
GN	Global Networks (business unit transferred from T-Systems Enterprise Services in 2005 for incorporation into Deutsche Telekom)
HGB	Handelsgesetzbuch (Commercial Code)
HRK	Croatian kuna
HUF	Hungarian forint
ICSS	International Carrier Sales & Solutions (business unit transferred from T-Systems Enterprise Services in 2005 for incorporation into Deutsche Telekom)
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
Intelsat Ltd.	Intelsat Ltd., Hamilton, Bermuda
IP	Internet Protocol
ISDN	Integrated Services Digital Network
ISP	Internet service provider
IT	Information technology

KfW	Kreditanstalt für Wiederaufbau, Frankfurt/Main
MagyarCom Holding	MagyarCom Holding GmbH, Bonn
MTIP	Mid-Term Incentive Plan
MVBS	Marketing Vertrieb und Business Services (Marketing/Sales/Business Services business unit)
NGN	Next Generation Network
PASM	PASM Power and Air Condition Solution Management GmbH & Co. KG, Munich
PLN	Polish zloty
PostBeaKK	Civil Service Health Insurance Fund
Powertel	Powertel Inc., Bellevue, Washington, United States
PTNeuOG	Postneuordnungsgesetz (Posts and Telecommunications Reorganization Act)
PwC	PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main
RegTP	Regulatory Authority for Telecommunications and Posts
SAR	Stock appreciation right
SEC	Securities and Exchange Commission
SOP	Stock Option Plan
T-Com	A Deutsche Telekom brand
TKG	Telekommunikationsgesetz (Telecommunications Act)
T-Mobile	T-Mobile International AG & Co. KG, Bonn
T-Online	T-Online International AG, Darmstadt
Triple play	Combination of telephony, Internet and TV
TS BS	T-Systems Business Services GmbH, Bonn
T-Systems	T-Systems International GmbH, Frankfurt/Main
USD	U.S. dollar
UStG	Umsatzsteuergesetz (Value-Added Tax Act)
VAP	Versorgungsanstalt der Deutschen Bundespost (special pension fund of Deutsche Bundespost)
VAT	Value-added tax
VDSL	Very high bit rate Digital Subscriber Line (New technology used to transmit exceptionally high data rates via a fiber-optic network)
Vivento	Service provider of Deutsche Telekom AG for personnel and business (legally dependent organizational unit)
VoIP	Voice over Internet protocol (technology enabling telephone calls via the Internet)
ZB BC	Zentralbereich Billing & Collection

Management Report of Deutsche Telekom AG.

1 Company structure.

Legal company structure

Deutsche Telekom AG, Bonn, is the parent of the Deutsche Telekom Group and also its largest operating company. Its shares are traded on several stock exchanges, including Frankfurt, New York, and Tokyo. As of December 31, 2006, 68.30 percent of the shares were in free float (2005: 62.51 percent), 14.83 percent were held by the Federal Republic of Germany (2005: 15.40 percent), and 16.87 percent were held by KfW Bankengruppe (2005: 22.09 percent). The shareholding deemed to be held by the Federal Republic amounted to 31.70 percent (2005: 37.49 percent).

The change in the shareholdings over the previous year is principally attributable to the reduction in the interest held by KfW Bankengruppe resulting from the sale of a package of shares to the private investment company Blackstone Group in April 2006. The share held by the Blackstone Group totaled 4.39 percent at December 31, 2006. The Blackstone Group agreed with KfW Bankengruppe to lock up its holding for at least two years. In addition, KfW Bankengruppe has agreed to a one-year lock-up with respect to further sales of its shares in Deutsche Telekom.

As of December 31, 2006, the capital stock of Deutsche Telekom AG totaled approximately EUR 11,164 million and was composed of some 4,361 million no par value registered ordinary shares. Each share entitles the holder to one vote. The voting rights are nevertheless restricted in relation to the treasury shares (around 1.9 million as of December 31, 2006) and the trust shares (around 21.5 million as of December 31, 2006).

The trust shares are connected with the acquisition of VoiceStream and Powertel in 2001. As part of this acquisition, Deutsche Telekom issued new shares from authorized capital to trustees for the benefit of holders of warrants, options, and conversion rights, among others. As regards the shares issued to trusts, the trustee in question waived voting rights and subscription rights and, in general, dividend rights for the duration of the trust's existence. The shares issued to the trusts can be sold on the stock exchange on the instructions of Deutsche Telekom if the beneficiaries do not exercise their options or conversion rights or if these expire. The proceeds from the sale accrue to Deutsche Telekom.

The Articles of Incorporation authorize the Board of Management to increase the capital stock with the approval of the Supervisory Board by up to EUR 2,399,410,734.08 by issuing up to 937,269,818 no par value registered shares for non-cash contributions in the period ending on May 17, 2009 (2004 authorized capital). They also authorize the Board of Management to increase the capital stock, with the consent of the Supervisory Board, by up to EUR 38,400,000 by issuing up to 15,000,000 no par value registered shares for cash and/or non-cash contributions in the period ending on May 2, 2011. The new shares are to be issued for the sole purpose of granting shares to employees of Deutsche Telekom AG and lower-tier affiliated companies (employee shares) (2006 authorized capital) (http://www.deutschetelekom.com/dtag/cms/contentblog/dt/en/37314/blogBinary/dtag-articles-of-incorporation.pdf).

The shareholders' meeting of May 3, 2006 authorized the Board of Management to purchase up to 419,807,790 no par value shares in the Company by November 2, 2007, with the amount of capital stock accounted for by these shares totaling up to EUR 1,074,707,942.40, subject to the proviso that the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company which the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e of the German Stock Corporation Act (AktG) do not at any time account for more than 10 percent of the Company's stock. The shares may also be purchased by dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or by third parties for the account of Deutsche Telekom AG or the dependent Group companies of Deutsche Telekom pursuant to § 17 AktG. The purchase may take place without prejudice to the principle of equal treatment through the stock exchange or using a public purchase offer addressed to all shareholders. By resolution of the shareholders' meeting of May 3, 2006, the Board of Management is authorized, with the consent of the Supervisory Board, to redeem Deutsche Telekom AG's shares purchased on the basis of the above authorization, without such redemption or its implementation requiring a further resolution of the shareholders' meeting (http://www.deutschetelekom.com/dtag/cms/content/dt/en/4788).

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

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

The merger of T-Online International AG into Deutsche Telekom AG, which had been approved in 2005, initially could not become effective due to lawsuits filed by some T-Online shareholders. However, with a final and conclusive ruling of the Federal Court of Justice (Bundesgerichtshof), made public on June 1, 2006, the so-called release proceedings initiated by T-Online International AG were successfully completed, enabling the merger to be entered into the commercial register on June 6, 2006 and thereupon to become effective.

Business background

The Deutsche Telekom Group is an integrated telecommunications provider that offers its customers worldwide a comprehensive portfolio of state-of-the-art services in the areas of telecommunications and IT. In 2005, the Group realigned its structures and processes with the three main growth sectors of the industry: Broadband/Fixed Network, Mobile Communications, and Business Customers. A description of the Group's structure and the development of business at major associated and related companies can be found in the Group management report. The legal entity Deutsche Telekom consists of part of the strategic business area Broadband/Fixed as well as parts of Group Headquarters & Shared Services (GHS). The strategy and the goals of these units within the legal entity Deutsche Telekom are based on the overall strategy of the Group.

Deutsche Telekom's **T-Com** business unit is assigned to the strategic business area Broadband/Fixed Network. T-Com offers consumers and small businesses state-of-the-art infrastructure for traditional fixed-network services, broadband Internet access, and multimedia services. This strategic business area also conducts business with national and international network operators and with resellers (wholesale including resale). In addition, it provides wholesale telecommunications services for Deutsche Telekom's other strategic business areas.

When the merger of T-Online International AG into Deutsche Telekom AG became effective on June 6, 2006, T-Online ceased to report as a separate unit. However, in the market T-Online continues to be managed as a product brand.

In Germany, Broadband/Fixed Network operates one of the world's most modern and powerful infrastructures for fast, secure information exchange – an infrastructure that includes more than 200,000 kilometers of optical fiber and an IP network operating with forward-looking multi-protocol label switching (MPLS) technology.

The business area has expanded the network infrastructure for the broadband communications market of the future in large parts of Germany. As of the end of 2006, DSL technology for fast Internet access was available to almost 93 percent of all T-Com access customers. In addition to further expanding the T-DSL network, Broadband/Fixed Network is increasing the performance of broadband Internet access. In ten conurbations, it has used VDSL technology to build an ultra-modern optical-fiber infrastructure for high-speed Internet access. The lines offer transfer rates of up to 50 megabits per second (Mbit/s). By the end of 2006, around 6 million households in the ten conurbations were accessible via the high-speed network. Outside the high-speed coverage areas, T-Com is also increasing the transfer rates for T-DSL customers. The ADSL2+ technology used for this purpose gives customers bandwidths of up to 16 megabits per second.

The Group **Headquarters & Shared Services** unit includes all Group units and subsidiaries that cannot be allocated directly to one of the strategic business areas. The main task of Deutsche Telekom's Group Headquarters is the strategic and financial management of the Group. Group Headquarters leads the strategic planning process, adopts goals for the Group and the strategic business areas, and manages their implementation, for example within the scope of the Save for Services program. In addition, it is responsible for portfolio management, which involves defining the cornerstones of the entire Group's internationalization strategy and investment policy.

Shared Services is also responsible for all other operating functions that are not directly related to the core business of the strategic business areas. The management of Shared Services, which comprises in particular Vivento, Real Estate Services and fleet management, is also the responsibility of Group Headquarters.

The purpose of Vivento, the internal personnel service agency, is to systematically qualify and find employment within and outside the Group for staff who can no longer be employed in an economically sensible way in their current jobs. Besides systematically training these members of staff for deployment in other parts of the Group Vivento also develops employment prospects in newly developed business areas.

Management and supervision

The management and supervisory structures, as well as the compensation system for the Board of Management and the Supervisory Board, follow the statutory framework and are focused on the long-term performance of the Group. In particular, they comply with the recommendations of the German Corporate Governance Code.

Board of Management responsibilities are distributed across six Board departments. In addition to the central management areas assigned to the Chairman of the Board of Management, the Board member responsible for Finance, and the Board member responsible for Human Resources, three Board departments were established in December 2006 that combine business area-specific and Group-wide tasks: the Business Customers and Production board department, the T-Com, Sales and Service board department and the T-Mobile, Product Development and Product Innovation board department. The Supervisory Board of Deutsche Telekom oversees the management of business by the Board of Management and advises the Board. It is composed of twenty members, of whom ten represent the shareholders and the other ten the employees.

Deutsche Telekom's Supervisory Board resolved at the end of 2006 to reorganize the Company's top management:

- With effect from November 13, 2006 René Obermann – previously the member of the Board of Management responsible for T-Mobile – was appointed as the new Chairman of Deutsche Telekom's Board of Management in succession to Kai-Uwe Ricke, who resigned with effect from November 12, 2006.

- Walter Raizner – previously responsible for the Broadband/Fixed Network business area – resigned from the Board of Management with effect from December 5, 2006. He was succeeded as of December 5, 2006 by Timotheus Höttges who, as a member of the Board, assumes responsibility not only for the Broadband/Fixed Network strategic business area, but also for Sales & Service at T-Com and T-Mobile in Germany.

- Hamid Akhavan was also appointed to the Board with effect from December 5, 2006. He is responsible for T-Mobile in Europe and also assumes responsibility for an integrated market approach in Hungary, Croatia, and Slovakia. Mr. Akhavan also manages Group-wide innovation and product development in the consumer business.

- T-Systems CEO Lothar Pauly continues to manage the network and IT strategy plus procurement in the infrastructure area, as well as the Business Customers area.

- Dr. Heinz Klinkhammer, Chief Human Resources Officer for many years, retired from the Board of Management as of January 1, 2007. Chief Financial Officer Dr. Karl-Gerhard Eick has provisionally managed the Human Resources Board department since January 1, 2007. He remains Chief Financial Officer and Deputy Chairman of the Board of Management.

The new management team will develop the Group's strategic thrust further, both nationally and internationally. The operational focus will be on improving service quality and customer satisfaction.

The appointment and discharge of members of the Board of Management is in accordance with § 84 and § 85 AktG. Amendments to the Articles of Incorporation are made pursuant to § 179 and § 133 AktG; the Supervisory Board is also authorized, without a resolution by the shareholders' meeting, to adjust the Articles of Incorporation to comply with new legal provisions that become binding for the Company and to make changes that merely affect the wording.

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

The total remuneration of Supervisory Board members is governed by § 13 of the Articles of Incorporation and includes a fixed annual component plus variable, performance-related remuneration with short-term and long-term components, depending on the development of net income per share. The compensation of the members of the Board of Management and the Supervisory Board is reported individually in the Notes to the financial statements under Note [34] "Compensation of the Board of Management and the Supervisory Board," broken down by the various components.

Value-oriented management and financial performance indicators

Value-oriented management is focused on the Deutsche Telekom Group and its strategic business areas. For this purpose, the legal entity Deutsche Telekom is considered as separate. Financial management uses a system of key figures based on a small number of closely related key performance indicators (KPIs). These performance indicators define the delicate balance of growth, profitability and financial security the Group has to maintain when pursuing its primary goal of profitable growth:

Revenue growth forms the basis for almost every company's statement of income and reflects the concept of substantive growth. A further KPI is EBITDA, which corresponds to operating results excluding depreciation, amortization, and write-downs. The Group uses the development of EBITDA to measure its short-term operational performance and the success of its individual operations. Financial security is primarily measured using the "gearing" and "relative debt" KPIs. The key financial indicators also include net debt. To measure the profitability of business development, the Group uses the return on capital employed as a relative indicator and the economic value added (EVA®) as an indicator of value creation. For further details please refer to the Group management report.

Dependent company report

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

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

2 Economic environment.

Global economic development

The global economy continued to develop very robustly in 2006, though some worldwide momentum was lost after the summer. A clear cyclical divide between the major economic areas became apparent. While Europe experienced a dynamic upswing during the year, aggregate capacity utilization in the United States and Japan declined. In the EU accession countries, production continued its vigorous upward trend, although the pace of growth varied slightly in the individual countries. The euro strengthened against the U.S. dollar and the Japanese yen in 2006, reflecting an improvement in the euro zone's economic prospects.

An increasingly restrictive monetary policy had a dampening effect on the economies of almost all major industrial countries in 2006. However, the macroeconomic environment underwent a slight improvement in the third quarter of 2006 compared with previous quarters. While oil prices reached new highs in August 2006, they had rapidly slid back down again by the end of December 2006, even falling to below 2005 prices. Other raw material prices also stagnated or dropped around the end of the year. This pushed down the rate of inflation in industrialized countries in the last few months of the year to such an extent that although the inflation rate in 2006 rose slightly on account of increasing acceleration in the wage drift, it was still exceedingly low.

Real GDP growth in Germany was an estimated 2.6 percent. In contrast to previous years, however, this growth was not driven by exports alone. The sharp increase in investments in noncurrent assets and the appreciable rise in consumer demand at the end of the year also contributed to this positive development.

Telecommunications market

The deregulation of the telecommunications sector has led to intense price pressure. This is again reflected in the Federal Statistical Office figures for the price index for telecommunications services (fixed network, mobile communications, and Internet) for the period January to December 2006. From the perspective of private households, consumer prices for telecommunication services in 2006 were on average 3.0 percent lower than in the previous year. This was principally due to the year-on-year drop in prices for Internet use (5.1 percent), caused by the price war among DSL providers in 2006.

Broadband/ fixed-network market

In Germany, competition in the fixed-network market has intensified further. In addition to increasing competition from large European telecommunications companies and city network operators, pressure from cable operators is also growing. Substitution by mobile communications also continues. According to Bitkom, companies in Germany generated 4.5 percent less revenue from fixed-network calls in 2006. This source of revenue amounted to only EUR 18.8 billion, in contrast to the mobile communications market, which grew by 2 percent in 2006 to EUR 23.9 billion.

According to Bitkom, revenue from voice services in the telecommunications market is currently declining by EUR 1 billion per year. At the same time, there is “dynamic” growth in data services (Bitkom). Together with mobile communications, which is growing moderately, revenue from telecommunication services in Germany increased by a modest 0.9 percent to EUR 56.6 billion in 2006.

In Europe’s online markets, too, the Internet remained an important growth driver for the fixed network. Jupiter Research estimates that the number of private Internet users in Western Europe increased from around 196 million to approximately 209 million in 2006. This equates to a growth of 7 percent. This means that, overall, significantly more than 50 percent of Western Europe’s population already has access to the Internet. The proportion of households in Western Europe with broadband access increased from 31 percent to 40 percent. The increase in the number of broadband households is accompanied by the growing use of data-intensive applications giving online access to entertainment programs such as films, music, and games, for example.

Despite these difficult market conditions, the Broadband/Fixed Network business area was able to maintain its strong foothold as a broadband provider with new integrated complete packages, especially after the merger of T-Online International AG into Deutsche Telekom AG, and expand its excellent positioning in the hard-fought broadband market with a total of 11.7 million broadband lines (full year 2005: 8.6 million). The 3x3 complete packages launched in mid-September 2006 are evidence of this business area's outstanding market success with 3.6 million marketed customers by the end of 2006. Over 70 percent of the rates are sold as a complete package comprising a traditional voice line, an innovative broadband line and a voice and Internet component, as well as an Internet flat rate. Through up-selling and new service packages Deutsche Telekom has succeeded in addressing new customer groups, thus boosting the dynamic growth of the broadband market once more in the fourth quarter of 2006. In addition, the business area had over 16.6 million Internet customers with a billing relationship throughout Europe in 2006 (2005: 15.2 million).

A further decrease in the number of call minutes in the fixed network was recorded. According to a study by Dialog consult and analyses and forecasts by VATM, T-Com's competitors account for more than 50 percent of call minutes. The increase in competitors' market share of call minutes is primarily due to the higher sales of full-package lines on their part.

At T-Com, the development of call minutes in 2006 was marked by opposing trends. Firstly, T-Com increased minutes loyalty for all call types compared with the previous year, especially as a result of the successful marketing of calling plans and introduction of complete packages in fall 2006. This was also illustrated by the increase in overall minutes loyalty, which rose by 4.7 percentage points year-on-year to 68.4 percent. T-Com has therefore managed to defend itself against competitors' call-by-call and preselection offers. Secondly, the absolute number of call minutes in T-Com's network fell sharply again. This is attributable to the ongoing line losses, increasing substitution by mobile communications, and – albeit to a lesser extent – substitution by VoIP.

Regulatory influence on Deutsche Telekom's business

Deutsche Telekom's business activities are strongly affected by regulation, combined with extensive powers of government agencies to intervene in product design and pricing. The German Telecommunications Act (Telekommunikationsgesetz – TKG) stipulates far-reaching regulation for many areas of telecommunications services.

Under the TKG, the Federal Network Agency can impose obligations on companies with significant market power in individual markets regarding the services they offer on those markets. For example, such companies may be obliged to offer certain upstream products at prices that are subject to prior approval by the Federal Network Agency. Regulation therefore substantially encroaches on the entrepreneurial freedom of these companies.

In applying the TKG, the Federal Network Agency has so far refused to reduce the intensity of regulation. With the exception of a few cases, the regulations are applied unchanged and even extended to new cover services and markets. These regulations apply not only to services and markets that were not regulated in the past, but also to those that are just emerging. For example, the innovative voice over IP service is now part of the regulated voice telephony market. Similarly, VDSL lines have generally been allocated to the broadband wholesale services segment (a regulated market), although Deutsche Telekom has only just completed development of this technology. A new provision to be included in the TKG, which specifies that new markets should always be exempt from regulation, is expected to improve the regulatory framework. Final implementation of this regulation is still pending, given that the EU Commission has already instituted breach-of-contract proceedings against the Federal Republic of Germany alleging that the regulation is in conflict with the EU's legal framework. Deutsche Telekom will make its decisions on additional investments in broadband networks dependent not only on demand, but also on the regulatory environment.

3 Development of business.

The development of the business was marked by a number of very different effects in the financial year, arising both from the day-to-day business of the company and from the restructuring activities carried out. These effects also include those transactions under company law conducted as part of the strategic realignment of the Group, which also affected Deutsche Telekom AG itself. These effects and developments are discussed in more detail below.

Deutsche Telekom reported income after taxes for the 2006 financial year of EUR 1.5 billion. This represents a decrease of EUR 1.8 billion from the previous year's figure.

Transactions relevant under company law

The structure of Deutsche Telekom changed in comparison with the previous period mainly as a result of the transactions under company law described below. On the one hand, the Company is now expanding its operating activities within the Broadband/Fixed Network strategic business area compared to the previous year, following the successful merger of T-Online International AG. On the other hand, the Company was no longer active in the financial year – in contrast to the previous year – in the Business Customers strategic business area, after hiving off the corporate department Billing & Collection and the Marketing, Sales and Business Services department into legally independent subsidiaries. In the financial year, Deutsche Telekom shared in the results of these subsidiaries in the form of profit transfers.

Results

Due to the spin-off of MVBS and ZBBC, Deutsche Telekom's revenues declined considerably year-on-year. Now allocated to the Business Customers area, the two units generated around 12 percent of the Company's entire net revenue in the 2006 financial year. Deutsche Telekom AG generated no revenues through Business Customers in the reporting year.

Revenue in the **Broadband/Fixed Network** strategic business area within Deutsche Telekom was higher in 2006 than in the previous financial year due to the T-Online merger. Adjusted for this special effect revenues declined in 2006, continuing the trend established in the previous year. This decrease is mainly attributable to lower call revenues and a reduction in the number of narrowband lines, but also to declines in interconnection services and price erosion in the ISP market. Despite considerable price reductions, some of which were imposed by the regulatory authorities (e.g., the 9.8 percent reduction in rates for subscriber lines effective April 1, 2005 and the price reductions for the DSL resale product in 2006), this revenue shortfall was partly offset by volume growth in DSL resale and leased subscriber lines. Revenue development is discussed in more detail below.

Revenues in **Network Communications** declined sharply in the reporting year. Under tough competitive conditions, there was a slight decline in narrowband revenues caused by continuing reductions in the number of lines. More intensive marketing of option rates as a component of these lines, intended to improve customer loyalty, did not offset this decline. Call revenues decreased sharply. Declining call minutes, and hence decreasing call revenues, were brought about by continuing decreases in the numbers of narrowband lines, substitution by mobile telephony (and to a lesser extent by VoIP), the fall in average per-minute call charges (as a result of increased market penetration by option rates) and by passing on decreases in fixed-mobile call termination charges.

Revenue development in **Wholesale Services** was marked by contrasting effects. The significant volume-driven growth in revenue from leased subscriber lines and the DSL resale product had a positive effect. Conversely, revenue came under pressure from the aforementioned regulatory price cuts. These also include the average 10 percent decrease in interconnection charges from June 1, 2006. There were also volume effects in the area of interconnection calls, caused by the increase in direct network interconnection between competitors. Revenues from wholesale originating services for Internet service providers were negatively impacted by migration from narrowband to broadband and price cuts in the broadband sector.

Internet revenue rose in 2006 compared to the previous year as a result of the merger. Volume growth in terms of DSL lines was unable to fully offset the price erosion. Customers increasingly opted for complete packages with a flat rate component.

Expenditure in the Broadband/Fixed Network strategic business area was affected for example by changes in the corporate structure and by other unrelated factors. A general increase in expenditure was recorded in the reporting year, in particular with regard to personnel costs. In combination with the development of net revenue described above, adjusted for the effects of the structural changes within the Company **EBITDA** in the business area declined compared to the previous year. A number of contributing factors are described in more detail below.

Personnel costs underwent a sharp rise year-on-year due to structural changes at Deutsche Telekom. This is attributable, in particular, to measures launched in the previous year to reorganize the Company's staff structure, which continued in 2006. In this connection, there were further transfers to accruals for severance and voluntary redundancy while accruals were formed for partial retirement costs and the civil servants' early retirement scheme. For more detailed information on staff reorganization at Deutsche Telekom please refer to the "Employees" section.

Other expenditure also rose year-on-year, again mainly driven by structural changes at Deutsche Telekom. While measures to reduce rental costs together with optimized receivables management and data processing systems lowered expenditures, new product launches led to higher expenditures than in the prior year.

Deutsche Telekom increased its total investments in connection with the expansion of the VDSL high-speed network in the 2006 financial year, focusing in particular on transmission equipment and the telecommunications network. This, plus a changeover to the declining-balance depreciation method, led to higher depreciation and amortization. Overall, however, **depreciation and amortization** in the reporting period declined year-on-year due to the already completed depreciation of individual assets.

Only a very small amount of net revenue is generated by **Group Headquarters & Shared Services** in the reporting period (< EUR 0.1 million). The share of Deutsche Telekom's total revenue accounted for by GHS' revenue is therefore of little significance. The contribution of Group Headquarters & Shared Services to the results from ordinary business activities in 2006 was strongly influenced by expenditure relating to Deutsche Telekom's staff restructuring measures. These costs are mainly attributable to activities connected with early retirement, partial retirement and voluntary redundancies and severance payments. Conversely, prior-year results were strongly influenced by income from the reversal of accruals as commitments to balance the annual deficit of the Civil Service Health Insurance fund (PBeaKK) were reduced, and by an extraordinary loss caused by the transfer of ICSS and GN from T-Systems Enterprise Services GmbH and their merger into Deutsche Telekom.

As the Group parent, Deutsche Telekom has a number of subsidiaries, associated and related companies. It has an interest in the results of these companies in the form of profit transfers. Deutsche Telekom's income related to subsidiaries and associated and related companies decreased significantly in 2006 compared to the previous year. This is covered in more detail under Note [8] "Financial income/expense, net."

Net worth

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

	Dec. 31, 2006		Dec. 31, 2005		Change
	millions of €	%	millions of €	%	millions of €
Intangible assets	753	0.8	718	0.7	35
Property, plant and equipment	22,406	23.3	23,920	23.4	(1,514)
Financial assets	65,460	68.1	67,219	65.7	(1,759)
Noncurrent assets	**88,619**	**92.2**	**91,857**	**89.8**	**(3,238)**
Inventories, materials and supplies	127	0.1	98	0.1	(29)
Receivables	4,388	4.6	5,215	5.1	(827)
Other assets	1,132	1.2	1,175	1.1	(43)
Marketable securities	284	0.3	237	0.2	47
Cash and cash equivalents	1,325	1.4	3,457	3.4	(2,132)
Current assets	**7,256**	**7.4**	**10,182**	**9.9**	**(2,926)**
Prepaid expenses and deferred charges	286	0.3	274	0.3	12
Total assets	**96,161**	**100.0**	**102,313**	**100.0**	**(6,152)**

	Dec. 31, 2006		Dec. 31, 2005		Change
	millions of €	%	millions of €	%	millions of €
Capital stock and reserves	47,050	48.9	46,237	45.2	812
Unappropriated net income	3,160	3.3	3,570	3.5	(409)
Shareholders' equity	**50,210**	**52.2**	**49,807**	**48.7**	**403**
Pensions and similar obligations	3,510	3.7	3,434	3.3	76
Taxes	391	0.4	597	0.6	(206)
Other accruals	4,558	4.7	4,270	4.2	(288)
Accruals	**8,459**	**8.8**	**8,301**	**8.1**	**(158)**
Debt	2,847	3.0	2,834	2.8	13
Other liabilities	34,619	36.0	41,346	40.4	(6,727)
Liabilities	**37,466**	**39.0**	**44,180**	**43.2**	**(6,714)**
Deferred income	26	0.0	25	0.0	1
Total capital	**96,161**	**100.0**	**102,313**	**100.0**	**(6,152)**

Noncurrent assets

Property, plant and equipment decreased by approximately EUR 1.5 billion in the reporting year mainly as a result of further real estate sales and planned depreciation. In the reporting year, the German Tax Incentives for the Promotion of Growth and Employment Act (Gesetz zur steuerlichen Förderung von Wachstum und Beschäftigung) of May 5, 2006 permitted a temporary increase in the maximum amount for the depreciation of movable noncurrent assets allowable for tax purposes under the declining-balance method. As a result, since the start of the reporting year, additions to movable items of property, plant and equipment have also been depreciated on the commercial balance sheet according to the declining-balance method at the maximum rate permitted by tax law; the straight-line method will be applied as soon as this leads to higher depreciation amounts.

Total investments in the reporting year include investments in property, plant and equipment of EUR 2.1 billion; this item includes EUR 1.5 billion for technical equipment and machinery. Within this asset class EUR 756 million were invested in transmission equipment and EUR 633 million the telecommunications network. The increase in investments, higher advance payments and changes in the construction in progress item are principally related to the construction of the VDSL high-speed network in connection with the T-Home Speed project.

The EUR 398 million increase in intangible assets is attributable primarily to software purchased as part of IT projects, and concessions and licenses. Less depreciation and amortization in 2006 of EUR 3.7 billion, the residual value of property, plant and equipment at December 31, 2006 is EUR 22.4 billion.

The investment ratio for property, plant and equipment, i.e., the ratio of net investment (additions less disposals at residual values) to historical acquisition and manufacturing cost, increased by 1.2 percentage points to 2.6 percent. The proportion of noncurrent assets in total assets (asset utilization) increased, in particular as a result of the year-on-year decrease in the level of total assets, by 2.4 percentage points to 92.2 percent. Noncurrent assets are covered by shareholders' equity to 56.7 percent (prior year: 54.2 percent).

Financial assets changed significantly as a result of the structural changes within Deutsche Telekom. The financial year saw the merger of T-Online into Deutsche Telekom, the hive-off of Billing & Collection from Deutsche Telekom to Active Billing GmbH & Co. KG (AB KG), and the spin-off of MVBS to T-Systems Business Services GmbH. These events resulted in the following changes in the value of investments in subsidiaries compared to the prior year: a reduction by EUR 2.9 billion due to the de-recognition of the carrying amount of the investment in T-Online International AG, an increase of EUR 1.5 billion due to the addition of the former subsidiaries of T-Online, an increase of EUR 56 million resulting from the spin-off of the MVBS area and an increase of EUR 12 million due to the contribution to AB KG. Investments in subsidiaries were further reduced by the write-down of the carrying amount of MagyarCom Holding GmbH by EUR 511 million.

Current assets

Current assets decreased by EUR 2.9 billion year-on-year to EUR 7.3 billion. This was predominantly a result of the EUR 2.1 billion reduction in cash and cash equivalents. Trade accounts receivable also declined. The ratio of current assets to total assets (current asset ratio) was 7.4 percent, down 2.4 percentage points year-on-year. For detailed information on cash and cash equivalents, please refer to the notes on the Company's financial position.

Shareholders' equity

The positive change in the equity ratio (reporting year: 52.2 percent; previous year: 48.7 percent) is attributable to the increase in shareholders' equity on the one hand and to the decrease in current assets on the other. The year-on-year increase in shareholders' equity is primarily due to the conversion of the mandatory convertible bond (shareholders' equity up by EUR 2.1 billion), the current net income (shareholders' equity up by EUR 1.5 billion) and the profit distribution for prior years (shareholders' equity down by EUR 3.0 billion).

Accruals

The Second Act to Amend the Act for the Improvement of the Staff Structure at the Residual Special Asset of the Federal Railways and the Successor Companies of the Former Deutsche Bundespost (Zweites Gesetz zur Änderung des Gesetzes zur Verbesserung der personellen Struktur beim Bundeseisenbahnvermögen und in den Unternehmen der Deutschen Bundespost) was passed during the reporting year. Under this legislation, civil servants can apply for early retirement upon reaching the age of 55, provided that they meet all the criteria stipulated in the act. Deutsche Telekom pays contributions to BPS-PT to compensate for part of the resulting deductions and the costs in connection with early retirement. Accruals totaling EUR 1.6 billion were raised for such offsetting payments as at December 31, 2006. The accrual for partial retirement increased by EUR 171 million as a result of the rise in the number of people taking up the option of partial retirement. On the other hand, there were decreases of EUR 593 million in accruals for staff reorganization, of EUR 174 million for other commitments in the HR areas, and of EUR 311 million for investment risks.

Liabilities

The decrease in liabilities by approximately EUR 6.7 billion is predominantly attributable to the decline in payables to subsidiaries. The largest item under payables to subsidiaries is the liability to Deutsche Telekom's financing company, Deutsche Telekom International Finance B.V., Amsterdam, which amounts to EUR 23.1 billion (prior year: EUR 25.1 billion). As part of its regular financing activities, Deutsche Telekom has corresponding liabilities to its subsidiary, for example, arising from funds generated through bonds issued and passed on to Deutsche Telekom.

In addition, liabilities to subsidiaries assigned to the Mobile Communications strategic business area have changed in particular. While liabilities to T-Mobile International AG & Co. KG were reduced by EUR 5.0 billion to EUR 0.3 billion, liabilities to T-Mobile International Holding GmbH, Bonn, rose by approximately EUR 1.7 billion and those to T-Mobile Global Holding GmbH, Bonn, by EUR 0.5 billion. Due to the merger of T-Online International AG into Deutsche Telekom, liabilities to subsidiaries also decreased year-on-year by an additional EUR 4.0 billion.

Financial position

The main elements of the cash flow statement are summarized to elaborate on the Company's financial position.

The selected key figures below give a brief overview of Deutsche Telekom's financial position.

	2006 millions of €	2005 millions of €	Change millions of €
Net cash provided by operating activities	3,264	5,083	(1,819)
Net cash used for investing activities	(1,824)	(2,810)	986
Net cash used for financing activities	(3,572)	(5,089)	1,517
Net change in cash and cash equivalents	(2,132)	(2,816)	-
Cash and cash equivalents, at beginning of period	3,457	6,273	-
Cash and cash equivalents, at end of period	1,325	3,457	-

The main cause of the decline in net cash from operating activities is the decrease of EUR 1.8 billion in income after taxes and the increase in noncash income resulting from the T-Online merger gain in the reporting year. A contrasting, positive effect on cash flow came from the reduction in short-term receivables and the increase in accruals. Two effects that have an effect on cash flow, the decrease in income from profit transfers and the increase in expenses from loss transfers, also contributed to the decline in net cash provided by operating activities.

Net cash used for investing activities amounted to EUR 1.8 billion, a year-on-year decrease of EUR 986 million. While cash outflows for investments in property, plant and equipment rose by EUR 911 million, cash outflows for investments in financial assets decreased by EUR 1.7 billion. The change in investments for financial assets is primarily due to the cash outflows for the acquisition of T-Online shares totaling EUR 1.8 billion in the previous year. The rise in cash outflows for investments in property, plant and equipment is primarily a result of the roll-out of the V-DSL high-speed network. The total reduction in cash inflows of EUR 350 million is due to the disposal of noncurrent assets. Although cash inflows from the disposal of property, plant and equipment increased year-on-year due to the disposal of real estate, those from the disposal of financial assets decreased as a result of the lower repayment amounts compared with the prior year. In addition, an increase was recorded in cash inflows from a net change in marketable securities and financial receivables/debt of EUR 642 million, of which EUR 322 million is attributable to the transfer of T-Online's cash and the reduction in financial receivables.

Net cash used for financing activities decreased by EUR 1.5 billion year-on-year to EUR 3.6 billion. The cash outflow incurred in the reporting period is primarily attributable to the payment of the dividend for the 2005 financial year.

Statement on business development in 2006

For Deutsche Telekom, the 2006 financial year was marked by rapid technological change and tough competition in the telecommunications industry. In addition, both the accelerated decline in prices and the staff restructuring measures within the Company produced a tangible effect in the reporting period.

4 Research and development.

Innovation activities that are closely aligned with customer requirements are the Company's key factor in becoming the leading service provider in the European telecommunications and information technology industry. This is why the Group never ceases to explore and develop top-quality, highly efficient, innovative products and services. Our goal is to deliver customers the highest possible benefit at all times.

Innovation activities are managed overall by the realigned Innovation, Research & Development central department, which is responsible for innovation strategies and innovation management across the Group, innovation marketing, Group-wide research and development, and corporate venture capital.

The department designs these innovation strategies using systematically gleaned knowledge about customers, technologies and markets, and thus guarantees a holistic view. The major topics of innovation Deutsche Telekom concentrated on in 2006 and will concentrate on in the future are IP-TV, mobile Internet, and ICT services. In addition, the Group is systematically tapping the potential for fixed-mobile convergence products and innovative business ideas such as IP value-added services.

Central innovation management ensures the successful transfer of innovation strategies and research and development activities to the market via our strategic business areas.

Innovation marketing creates insights, both internally and externally, into the Group's portfolio for the future, while generating synergy effects, impetus, and new ideas. T-Gallery is a forward-looking forum that enables products and services to be experienced from a customer perspective. With these products and services, Deutsche Telekom intends to shape the day-to-day lives of its consumers in the future and promote the development of the society of tomorrow. Thanks to the work done in this area, major savings and efficiency potential have been identified and large numbers of new projects and business models launched to promote new business for the future.

The Company's focus on tomorrow's markets is supported by Deutsche Telekom Laboratories, a central research and development unit.

In 2006, Deutsche Telekom once again concentrated its research activities on the five existing areas of innovation (known as 5i):

- Inherent Security meets customers' demands for end-to-end security of their communication applications. Deutsche Telekom identifies technologies and applications to offer network-based security solutions. Harmful software programs are stopped before they get near the PC, connections are secure, and the backbone network hardware is made failsafe. Users are able to identify with whom they are communicating so that they can execute secure transactions or conclude agreements.

- Intuitive Usability ensures that services and functions that are currently still complicated to use will be easy for all customers to use in the future. Services and functions are to be adapted to the needs of users and not the other way round.

- Intelligent Access aims to ensure that customers are offered the best service available, independent of the terminal device used – anywhere, at any time, and without requiring action on their part. Users are no longer forced to establish complex connections to the network manually – the network does it for them automatically.

- Integrated Communication focuses on relieving people of routine tasks by creating automatic technical networks between everyday objects and automatically integrating electronic object and Internet information.

- Infrastructure Development expands and optimizes technology platforms to satisfy customers' bandwidth, mobility, and security needs as efficiently as possible.

Launched in 2005, Deutsche Telekom Laboratories established itself in 2006 as a central research and development institute and an international science institution. It manages the continuous flow of project results to the strategic business areas and is a regular contributor to science journals.

Deutsche Telekom Laboratories is divided into two areas: the Innovation Development Laboratory and the Strategic Research Laboratory. Both are organized to ensure the uninterrupted transfer of knowledge and findings from academic research into product design in the Group's business areas.

To this end, the Innovation Development Laboratory has become a general contractor for applied research and development. On the basis of the five innovation areas (5i), it manages Deutsche Telekom's R&D portfolio and prepares the ground for new products and services. It develops and assesses innovative ideas, implements test environments, demonstrators, and prototypes, costs business models, and transfers the results into the business areas.

The Strategic Research Laboratory carries out long-term and applied fundamental research and technology research and through this sphere of activity provides important basic insights for the development of innovative products and solutions. To achieve this, the Berlin Technical University (TU Berlin) and Deutsche Telekom have set up four fields of research at the university, each under an endowed chair. Research topics include Usability, Security in Telecommunications, Service Centric Networking, and Intelligent Networks and Management of Distributed Systems.

Both areas also continued to expand their partner network. The first subsidiary university institute was established, entitled Deutsche Telekom Laboratories at Ben Gurion University. This venture intensifies the cooperation that was launched in 2005 with Israel's Ben Gurion University and focuses primarily on network security. Ben Gurion University is one of the world's top universities for research in this field. Initial results in the area of network security allow, for example, the identification and elimination of attackers, such as viruses and worms, in the network before they reach users' computers or mobile phones.

Other ventures include the collaboration with the German Research Center for Artificial Intelligence (DFKI), Stanford University, whose Prof. Girod chairs the Steering Committee of Deutsche Telekom Laboratories, the Massachusetts Institute of Technology (MIT), and EPFL in Lausanne. Deutsche Telekom cooperates with German universities, including Leipzig University, where Deutsche Telekom sponsors an endowed chair for applied telematics/e-business, and Bonn University, where Prof. Buse holds the endowed Heinrich Hertz chair, which is financed by Deutsche Telekom.

Institutions such as the European Center for Information and Communication Technologies (EICT), which was founded in June 2006, also actively promote the consistent pooling of scientific and applied research with the development expertise of leading companies in industry. Deutsche Telekom Laboratories is the Group's interface to the EICT, a public-private-partnership company whose five founding partners – Deutsche Telekom, Siemens, DaimlerChrysler, Fraunhofer-Gesellschaft, and TU Berlin – pool research and development activities in the area of ICT and turn them into joint projects.

The Group innovation unit at Deutsche Telekom's headquarters and Deutsche Telekom Laboratories focus primarily on issues that are relevant to all strategic business areas and on new technologies that are expected to be launched or ready for the market in two to five years. The strategic business areas are primarily responsible for product innovations that are near to market launch, i.e., with a development lead time of up to 24 months.

The transfer of results, a decisive criterion for the success of the centralized Group innovation unit at Deutsche Telekom's headquarters and Deutsche Telekom Laboratories, was driven forward in 2006 and significant results were integrated into the activities of the strategic business areas.

In the 2006 financial year, the Broadband/Fixed Network business area introduced compelling, forward-looking innovations, products, and services on the market. T-Com now provides broadband lines with transfer rates of between 1 and 16 Mbit/s to 93 percent of all access customers, an increase of 1.6 percent year-on-year. In its broadband strategy, Deutsche Telekom not only envisages the expansion of the DSL network, but is also working on substantially increasing the performance of fast Internet connections. The most important infrastructural measure in 2006 was the roll-out of the high-speed VDSL-based network. The VDSL network installed in recent months will initially provide bandwidths of up to 50 Mbit/s in Germany's ten largest conurbations – Berlin, Hamburg, Hanover, Leipzig, Frankfurt, Düsseldorf, Cologne, Stuttgart, Munich, and Nuremberg – as well as in the cities of Offenbach and Fürth. Deutsche Telekom is using VDSL to systematically develop a new market that will allow it to offer innovative TV and broadband services in Germany, too.

Deutsche Telekom's new complete packages (Max 06) proved to be a huge success, with around 3.6 million customers subscribing to one of the new packages in the three months since marketing began last September. By introducing T-Home, Deutsche Telekom is Germany's pioneering force in following the key movement on European markets toward triple-play services and the related interest in bundled products. Subscribers to the T-Home complete packages have access to individually retrievable entertainment services, such as live TV, on-demand TV, pay TV, and video on demand. By connecting the broadband line to the customer's conventional television set via a media receiver, T-Home enables the broadcast of live television on the Internet. Besides the wide variety of programs on offer, T-Home users can tailor television viewing to their individual interests and schedules. IPTV sets new standards of convenience and comfort in particular. Additional services such as time-shift allow users to watch TV content whenever they wish. The available bandwidth can also display live TV in high definition (HD), and an electronic program guide and the picture-in-picture function (where several programs can be watched on a screen simultaneously) provide the ultimate in convenience. These technically sophisticated value-added services, a revolution in television viewing, are designed for customers' ease of use.

The growing penetration of high bit rate lines is opening up opportunities for new business models, e.g., for online games. Gamesload launched a range of games in time for the Games Convention that are optimized for the image resolution of a television screen and can be played with the remote control. In November 2006 Deutsche Telekom launched Softwareload, a new download portal for software. Softwareload provides a selection of more than 17,000 titles covering a range of applications. Following in the footsteps of the first two successful download platforms, Musicload and Gamesload, Softwareload is the third brand in the Load product line. Another innovative product of 2006 is the trial version of t-community.com, a social community where customers can store their personal profiles and use features such as blogging, chat clients, and media archives.

The unbundling of the DSL line from the telephone line was also announced in 2006. The market launch is planned for 2007. The new product will consist of the following core components: IP access, voice/data rate, non-voice services (voice/videobox, text messaging), and an integrated access device (IAD).

Localized and interest-specific web TV applications and services, based largely on user-generated content, will round off Deutsche Telekom's broadband-based entertainment offering in 2007.

Research and development expenditure

Research and development expenditure amounted to EUR 0.2 billion in the 2006 financial year, the same level as in the previous year. Typical research and development activities included the development of new data transmission processes and innovative telecommunications products. In the reporting year, 578 employees at Deutsche Telekom were involved in projects and activities to create new products and market them efficiently to customers.

Patent applications and intellectual property rights

The number of patent applications increased by around 35 percent year-on-year to 557. The intellectual property rights held (inventions, patent applications, patents, utility models, and design models) are reviewed on a regular basis and those rights that are no longer relevant are eliminated. This led to a reduction to 5,663 rights in the reporting year. IPR management is governed by strict cost/benefit considerations.

5 Employees.

In light of the immense changes in the market, the human resources strategy in 2006 targeted three areas: staff restructuring, an improved personnel cost ratio, i.e., the ratio between personnel costs and revenue, and a focus on leadership quality and customer service.

As announced in 2005, Deutsche Telekom launched the necessary staff restructuring program. At the heart of this program is the provision of socially responsible staff restructuring tools such as partial retirement arrangements, voluntary redundancy and severance payments, and early retirement. Another key component of staff restructuring at Deutsche Telekom is the creation of new employment opportunities in promising market segments, such as the roll-out of the VDSL network.

The Company uses a package of innovative HR tools in its staff restructuring measures. Each measure is aimed at making any workforce reductions socially responsible.

A special voluntary redundancy payment program, Abfindung Spezial, was one of the main components of the package put in place to reduce surplus staff. This voluntary redundancy payment offer for Deutsche Telekom employees aged between 40 and 55 was limited to the period March 1, 2006 through August 31, 2006. Deutsche Telekom offered eligible employees increased severance payments of up to EUR 225,000 if they agreed to leave the Company. As well as restructuring the workforce, this special voluntary redundancy program also aimed to bring down the high average age of the workforce, particularly at T-Com.

In addition, employees due to reach retirement age within the next two years were offered participation in the Rente minus 2 (Pension minus 2) early retirement plan, under which Deutsche Telekom compensates for 50 percent of any shortfalls in the employee’s pension as a result of early retirement with a special credit that is paid into the company pension scheme. Another attractive offer for employees covered by collective agreements and for civil servants approaching retirement age is the partial retirement program.

Civil servants are also included in the staff restructuring process. The Second Act to Amend the Act for the Improvement of the Staff Structure at the Residual Special Asset of the Federal Railways and the Successor Companies of the Former Deutsche Bundespost (Zweites Gesetz zur Änderung des Gesetzes zur Verbesserung der personellen Struktur beim Bundeseisenbahnvermögen und in den Unternehmen der Deutschen Bundespost) came into effect on November 16, 2006. One of the aims of this Act is to help correct the negative consequences of a structural feature of the successor companies to Deutsche Bundespost. This results from the fact that these companies employ a high proportion of civil servants in Western Germany, while staff covered by collective agreements make up the majority of the workforce in Eastern Germany. The Act allows Deutsche Telekom to include its civil servants in the staff restructuring process in a socially responsible manner. According to this law, civil servants of all service grades who are working in areas where there is a surplus of staff and for whom employment in another area is not possible or cannot reasonably be expected in line with civil service legislation will be able to apply for early retirement from the age of 55.

The workforce has responded well to these offers. By the end of 2006, Deutsche Telekom had implemented around one-third of the overall workforce reduction plan which runs until 2008. In addition to deconsolidation and natural attrition, this was achieved in particular through voluntary measures. Approximately 6,500 employees decided to leave the Company on the basis of the available voluntary workforce reduction instruments. In addition, numerous contracts have already been signed which will lead to employees leaving in 2007.

In 2006 the Business Customers unit within Deutsche Telekom (consisting of MVBS and Billing & Collection) was spun off and transferred to T-Systems. The workforce in this unit was hence at zero at December 31, 2006.

Vivento, the internal service provider for surplus staff management and employee placement, continues to play an important role in staff restructuring. Vivento is the driving force behind the Group's internal labor market, and a number of its forward-looking projects have had a significant influence on shaping staff restructuring at Deutsche Telekom.

In the second quarter of 2006, Deutsche Telekom established Vivento Interim Services GmbH, whose aim is to fill temporary gaps caused by staff restructuring where no other suitable employees are available. The newly formed company is staffed by junior Deutsche Telekom employees on fixed-term contracts who have successfully completed their training but have yet to find a follow-up position and can thus gain further professional experience in the Group through Vivento Interim Services.

In a ruling dated June 22, 2006, the German Federal Administrative Court clarified the legal situation regarding the transfer of civil servants to Vivento, declaring the transfer not legally permissible. Since then, no more civil servants have been transferred to Vivento. The situation for the civil servants already transferred will remain unchanged – they will stay at Vivento and will continue to be assigned to temporary employment or a new permanent position inside or outside the Group. The transfers made to Vivento to date are legally valid because the transfer process is completed.

Staff restructuring at Deutsche Telekom nevertheless continued as before, covering non-civil servants and civil servants alike. For civil servants who are affected by rationalization measures and for whom transfer to Vivento is impermissible according to the ruling of the German Federal Administrative Court, the original organizational unit will use Vivento's expertise to offer them counseling and job placement services.

The collective bargaining agreement that Deutsche Telekom reached in its negotiations with the trade unions will lead to an increase in productivity and thus safeguard the Group's position in the face of fierce competition. For employees covered by collective agreements, the agreement provides for a one-time payment of EUR 350, a pay freeze until October 2006, and a 3-percent increase in salaries starting November 2006. The collective wage agreement will run for 16 months until July 31, 2007. Separate arrangements have been agreed for civil servants, including a one-time payment of up to EUR 735 depending on their salary grade. To improve productivity and thus enhance competitiveness, paid breaks for staff using workstation monitors were reduced and paid recuperation times abolished in some areas. This has helped to cushion the cost of the pay increase. The additional capacity generated by these measures will be used to scale back outsourcing to third parties in the areas of services and installation going forward.

Deutsche Telekom is planning a range of measures to make customer service more efficient and align it even more closely with its customers' needs. In 2007 around 45,000 employees are to be spun off from T-Com as part of the T-Service project. These employees will come from the technical service units and call center units. Concentrating these service units enables Deutsche Telekom to focus on the quality of its service under conditions that reflect the market situation. The aim is to safeguard the competitiveness of the Company and, at the same time, protect jobs in the Group. The Group also aims to systematically align working conditions and remuneration systems with market levels.

Human resources development at Deutsche Telekom in 2006 focused on continuing the STEP up! program (Systematic & Transparent Executive Development Program) and introducing Go Ahead!, a staff development program for expert careers. In addition, the Company drove forward its staff restructuring with demand-based training.

The first measures under the STEP up! program started at the end of 2005. STEP up! is a Group-wide program for the development of executive staff. The program is based on an end-to-end approach that integrates all the steps in the process from recruitment and executive development through to target management and personnel marketing. STEP up! creates uniform standards and procedures for executive development to be applied throughout the Group, thus ensuring that development and staffing processes become highly transparent to all concerned. The Group is committed to a policy of systematically encouraging top performers and employees with strong potential.

The full implementation of the program for all executives, including those at the Group's international subsidiaries, is set to be completed by the end of 2007.

Deutsche Telekom recognizes the importance of advancement for experts as a way of meeting changing market requirements while offering interesting career prospects to valued employees. Go Ahead! is a special framework model established by the Group together with employee representatives, which redefines tried-and-trusted HR development tools and applies them for executive development purposes. A focus on service as a vital general skill is being increasingly promoted in all expert careers. With its systematic, Group-wide career architecture, Go Ahead! is a roadmap for expert careers within the Deutsche Telekom Group. Go Ahead! clearly demonstrates how much Deutsche Telekom values the abilities and skills of its professional employees and proves that they, too, enjoy as many development opportunities as the executives.

Telekom Training, the Group's in-house further training provider, provided training programs for expert and executive staff. Demand-based training in the context of the staff restructuring program and strategic HR development both play a critical role in this regard. Even with major projects – such as seminars on the development of the new VDSL high-speed network – training is tailored to demand.

Deutsche Telekom introduced a Code of Conduct on April 19, 2006 that is applicable to the Company's entire workforce and lays down binding rules for value-oriented, legally correct conduct in day-to-day business. The level of compliance with the Code is measured in the course of the annual employee survey. Company executives are given extensive training on this topic. On the one hand, the Code of Conduct expresses the Group's T-Spirit values in concrete terms; on the other, it provides employees with guidance on the Company's internal regulations. The Code of Conduct was developed in cooperation with the employee representatives. The value-oriented and law-abiding behavior of the Company and its employees is to promote confidence in Deutsche Telekom in the long term. At the same time, it fulfils the requirements placed on companies listed in the United States. A Group-wide portal was introduced under the Code of Conduct to give all employees and stakeholders the opportunity to report violations of the Code.

On September 1, 2006, around 4,300 young people started their training at Deutsche Telekom in a total of twelve different professions and in various dual study courses. The Company has added a new vocational track, namely that of dialog marketing assistant which focuses on product and service advice and sales in call centers. Deutsche Telekom's training programs boast a high level of quality and a large number of participants. Every year, the chambers of commerce number Deutsche Telekom-trained staff among the best in their intake. Deutsche Telekom's training goes far beyond its own requirements.

In 2006, some 1,000 trainees were taken on by the Group. Deutsche Telekom's total number of trainees in Germany was around 11,700 at the end of 2006.

Workforce development at Deutsche Telekom AG (as of Dec. 31)

Employees	2006	2005
Total	**92,575**	**106,604**
T-Com	76,058	80,993
Group Headquarters & Shared Services	16,517	16,184
Business Customers	0	9,427

6 Sustainability and environmental protection.

Deutsche Telekom considers climate protection one of the most important tasks of our time and is committed to implementing the Kyoto Protocol. This is why Deutsche Telekom aims to minimize the emission of greenhouse gases that are harmful to the climate by implementing a comprehensive package of strategies and actions. The main objective is to sever the link between power consumption and CO_2 emissions. Deutsche Telekom campaigns heavily to reduce the emission of greenhouse gases in spite of rising energy consumption.

As an enterprise with international operations, Deutsche Telekom's goals are to maximize the sustainability of its business activities, to tap potential for climate protection both within the Group and at customers and suppliers, and to make a contribution to society as a whole with its environmental policy. Deutsche Telekom's sustainability strategy receives international recognition as demonstrated by its leading positions in the sustainability rankings of Swiss agency INrate and of the DAX companies, the latter based on a study by rating agency Scoris that was published in January 2006 in the economics and finance magazine €uro.

Minimizing CO_2 emissions. By taking a number of measures, Deutsche Telekom has already achieved a significant reduction in CO_2 emissions. Deutsche Telekom will continue to pursue such actions in the future. Through its inhouse service provider PASM (Power and Air Condition Solutions Management GmbH & Co. KG), Deutsche Telekom makes sure that it purchases environmentally friendly energy: By buying RECS (Renewable Energy Certificate System) certificates, PASM made sure that in 2006 one billion kilowatt hours of electricity were procured from renewable energy sources with a virtually neutral impact on the climate. This corresponds to around one-third of the Group's total electricity consumption in Germany. Using RECS certificates, PASM aims to halve CO_2 emissions from power generation for Deutsche Telekom in Germany by 2010, compared with 1995 levels. Thanks to its climate protection efforts Deutsche Telekom has been included in the KLD Global Climate 100 Index by KLD Research & Analytics Inc..

Green Goal: Soccer with a neutral climate impact. Approximately 100,000 additional tons of greenhouse gases were produced during the soccer World Cup in Germany. As one of the main sponsors of this event, Deutsche Telekom felt it had a responsibility to offset these emissions. For this reason, PASM purchased emissions certificates for 20,000 tons of carbon dioxide, thus compensating for 20 percent of the emissions produced during the World Cup. The money paid for the certificates will go to two climate protection projects in South Africa that focus on renewable energies.

International collaboration. As a member of ETNO (European Public Telecommunications Network Operators' Association), Deutsche Telekom was involved in a project to identify potential energy savings in digital switching technology. As part of this project, Deutsche Telekom wants to team up with system manufacturers to develop binding criteria for purchasing resource-efficient technologies that are easy to reuse or can be disposed of in an environmentally friendly manner.

Commitment to science and research. Deutsche Telekom is promoting the development of environmentally friendly technology by testing alternative sources of energy under real-life conditions: Firstly, Deutsche Telekom is working closely together with manufacturers in testing mobile and stationary fuel cells. For example, Deutsche Telekom used environmentally friendly telestations run by fuel cells at the World Cup and tested them under live conditions. The LED lamps of the telestations use approximately 50 percent less energy for the same light output.

7 Risk and opportunity management.

Deutsche Telekom employs a holistic risk and opportunity management system to systematically leverage its opportunities without losing sight of the related risks. In accordance with the Group's risk management principles, risks are taken in a controlled manner – and only if an appropriate level of added value can be expected. The early identification, assessment, and management of risks and opportunities are an integral component of the Group-wide planning, control, and monitoring systems. Opportunities are analyzed primarily within the framework of strategy and innovation development activities. Deutsche Telekom attaches particular importance to detailed market studies, scenarios, projections, the relevant drivers and critical success factors, using them to derive specific potential opportunities for its strategic business areas and markets.

Risks and opportunities are regularly analyzed by the strategic business areas and also centrally at Group Headquarters. The risk early warning systems used in this process are based on prescribed Group-wide methods and are tailored to individual requirements. Potential deviations in the planning period are analyzed to determine the potential scope and probability of occurrence, including methods such as scenario modeling. The reference variables for the potential scope are the Group's target values (including EBITDA). The Group's "aggregate risk" is determined from the totality of the individual risks. The individual risks are aggregated into an overall risk potential using combination and simulation processes and taking probabilities of occurrence and correlations into account. An indicator system that captures all material risk areas is used to determine the change in aggregate risk. The analysis also includes what are known as "issues" – topics that could adversely affect the Group's image and reputation.

Reporting of the principal risks and opportunities is on a standard quarterly cycle, with additional ad hoc reports generated in the event of unexpected risks. Specific materiality thresholds for risks are defined for each reporting level. Corporate Risk Management is in charge of the methods and systems used for this Group-wide, standardized risk reporting system and ensures that it works efficiently. The Board of Management, Supervisory Board, and Audit Committee are informed on a quarterly basis about all material risks and the Group's overall risk position.

To reduce risks relating to criminal behavior (fraud) within the Group, Deutsche Telekom's Board of Management passed a resolution in 2005 to set up a uniform anti-fraud management process. The tasks of this anti-fraud management process are to improve structures for the prevention, exposure, and penalization of fraud in the Company and to ensure that these risks and the requirements placed on the Group are dealt with appropriately. Training and awareness-raising activities were held in 2006 and specific measures were introduced, for example in the field of procurement.

Deutsche Telekom also attaches particular importance to managing risks arising from financial positions. All treasury activities – in particular the use of derivatives – are subject to the principle of risk minimization. For this reason, all financial transactions and risk positions are managed in a central treasury system. The Group management is informed about these positions on a regular basis. Derivatives are used to hedge interest rate and currency exposures which could have an effect on cash flow.

Certain financial transactions require the prior approval of the Board of Management, which is also regularly briefed on the severity and amount of the current risk exposure. Simulations are performed using different market and worst case scenarios to estimate the effects of different conditions on the market. Selected derivative and non-derivative hedging instruments are used to hedge market risk, depending on the risk assessment. However, Deutsche Telekom only hedges the risks that affect the Group's cash flow. Derivatives are used exclusively as hedging instruments, i.e., not for trading or other speculative purposes.

The efficiency of risk management processes and compliance with the regulations and guidelines defined in Deutsche Telekom's Risk Management Manual are regularly reviewed by the Corporate Audit department. Within the scope of the legal mandate to audit the Company's annual financial statements, the external auditors examine whether the risk management system is able to identify at an early stage risks and developments that could jeopardize the continued existence of the Company as a going concern. The system ensures that business risks and opportunities are identified early on and that the Group is in a position to deal with them actively and effectively. It complies with the statutory requirements for risk early warning systems and conforms to German corporate governance principles.

The risks.

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

Competition

Intensified competition and technological progress have dramatically reduced prices for fixed-network (telephony, Internet) and mobile communications. This affects both voice communication and data traffic, as shown by the price erosion in Internet flat rates. There is a danger that this dip in prices will not be compensated for by corresponding volume growth.

Competitive pressure could rise even further as a result of a significant expansion of coverage by (regional) local loop operators, the continuing trend toward bundled products, technological innovations, reductions in wholesale prices for competitor products, and ongoing substitution, assisted by price erosion and flat rates for mobile communications as well as convergence products. Moreover, up to now pure mobile communications providers in Germany have increasingly offered fixed-network and DSL products on the market. Another possibility is that cable operators may corner a larger share of the market, for example by offering attractive triple-play services. In addition, a general competitive trend is emerging where Deutsche Telekom increasingly has to compete with players that do not belong to the telecommunications sector as such, including major companies from the consumer electronics and Internet sectors. Despite having lost some market shares already, Deutsche Telekom believes that it is exposed to the risk of further loss of market shares and falling margins. Apart from other factors, Deutsche Telekom's future competitive position depends in particular on the quality of the service it provides. There is still room for improvement in this area.

Products, services, and innovations

As a result of rapid technological progress and increasing technological convergence, it is possible that new and established technologies or products may not only complement, but in some cases even substitute one another. This may lead to lower prices and revenues in both voice and data traffic.

There is also a risk that Deutsche Telekom will not be able to convince customers sufficiently of the benefits of current and future services or raise the level of acceptance of these services among customers. Identified market demand may not be satisfied quickly enough, or only with insufficiently matured products. These risks also constitute a threat to potential growth drivers in the fixed network, such as the triple-play product T-Home.

Economy and industry

The general state of the economy in Germany, Europe, and the United States also influences Deutsche Telekom's business performance. Current forecasts suggest that economic growth in Germany will slow down slightly in 2007. If economic growth proves lower than expected, this may have an adverse effect on consumer spending by Deutsche Telekom's residential customers. As a consequence, revenue targets might not be reached, e.g., for the higher-value, DSL-based access products in the fixed network (double play, triple play, etc.) and for mobile Internet access.

Regulation

Existing network access and price regulation relates to telecommunications services offered by network operators with "significant market power." In Germany, Deutsche Telekom is considered to be a company with significant market power and is therefore subject to strict regulation in the broadband/fixed network communication area. This situation is exacerbated by the extensive powers of government agencies to intervene in product design and pricing, which can have a drastic effect on operations. Deutsche Telekom is able to anticipate such intervention, which may further intensify existing price and competitive pressure, to a limited extent only.

The regulatory framework is currently being reviewed at European level. To date, regulation has been scaled back only in markets of minor significance, such as the German market for fixed-network international calls. There is no indication of any significant efforts being made for further sector-specific deregulation. Rather, it is feared that the outcome of the ongoing review will increase the extent of regulation. A tendency toward increased regulation can be seen, for example, in the EU Commission's plan to impose strict regulation on roaming rates in wholesale and retail markets.

Despite the Federal Network Agency's latest regulatory intervention in termination rates in November 2006, it is possible that termination rates will be lowered even further.

Regulatory intervention is also on the horizon for investments in new infrastructures, e.g., in the high-speed fiber-optic network as a platform for new broadband applications (triple play). Regulated wholesale services for broadband access to competitors in the end-customer market also entail considerable revenue and cost risks. In this context there is a substantial risk that future investments will not pay off and product innovations will not deliver a first-mover advantage if they have to be made available to competitors at the same time. Relief is promised by a new regulation in the Telecommunications Act according to which new products will in principle not be subject to regulation.

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

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

In addition, the European Union passed an EU-wide directive on data retention in 2006 that sets minimum standards for the type of data to be retained by network operators and for applicable retention periods. The EU requirements now have to be translated into national law in each EU member state. In Germany the first bill has already been drawn up. Depending on how the national statutory provisions are ultimately formulated they could lead to substantial capital expenditure and costs. Whether these costs will be reimbursed remains unclear.

Human resources

Deutsche Telekom announced a staff restructuring program for its operations in Germany in November 2005, under which approximately 32,000 employees are scheduled to leave the Group by 2008. Some of these employees will leave Deutsche Telekom and, together with their jobs, join another employer as part of a deconsolidation of Group companies from Vivento. Deutsche Telekom will continue to comply with the agreement reached with the trade unions to avoid compulsory redundancies until the end of 2008. One-third of the planned staff reductions was realized in 2006; the continued implementation depends on various framework parameters.

The staff restructuring is being realized using voluntary, target group-specific measures. Part of it is realized through partial retirement arrangements for salaried employees subject to collective agreements (non-civil servants). Employees will also have the opportunity to leave the Group on a bilateral voluntary basis with severance packages. The severance models offered in 2006, including the Abfindung Spezial program, were very well received by the employees.

More employees are to leave the Company with severance packages by 2008. The implementation of these plans will depend on the general development of the labor market and the details of the severance offers.

Since November 16, 2006, the "Second Bill to Amend the Act for the Improvement of the Staff Structure at the Residual Special Asset of the Federal Railways and the Successor Companies of the Former Deutsche Bundespost" has made it possible to include civil servants in the socially responsible staff restructuring program. Civil servants aged 55 and over who work in areas with excess personnel and who cannot be deployed in other areas may apply for early retirement; there is no legal entitlement for them to do so.

Deutsche Telekom is planning a range of measures to make customer service more efficient and align it even more closely with its customers' needs. In 2007 around 45,000 employees are to be transferred from T-Com as part of the T-Service project. These employees will come from both the technical service units and the call centers. The transfers enable Deutsche Telekom to focus on the quality of its service under conditions that reflect the market situation. The aim is to safeguard the competitiveness of the Company and at the same time protect jobs in the Group. The Group also aims to systematically align working conditions and remuneration systems with market levels. Constructive support by the unions and the works councils is crucial for the successful implementation of the three goals – quality, competitiveness, and job safety – in equal measure.

Health and the environment

Electromagnetic fields are repeatedly associated with potential environmental and health damage. This is a controversial issue and the subject of public debate. There are public concerns about the impact of networks and the use of terminal equipment. The World Health Organization has declared that, on the basis of current scientific knowledge, there are no known adverse effects on health below the international threshold standards. Nor does it expect any serious dangers to arise in the future, though it does recommend continued research due to ongoing scientific uncertainties.

Deutsche Telekom aims to overcome doubts among the general public by pursuing an objective, scientifically well-founded, and transparent information policy. Deutsche Telekom's efforts to provide state-of-the-art technologies therefore include funding scientific research that aims to detect possible risks at an early stage.

IT/telecommunications infrastructure

Deutsche Telekom's production processes are supported by information and telecommunications technology (data centers, switching nodes, transmission systems, etc.) and software applications that are subject to constant innovative development to increase competitiveness and exploit additional cost savings potential, for example by developing a cross-product shared IP platform for fixed-network and mobile communications.

The products, services, and IT/telecommunications networks used by Deutsche Telekom itself and those offered in the competitive market may be subject to malfunction and outages, e.g., due to hacker attacks, sabotage, power failures, natural disasters, technical faults, or other events. This could affect Deutsche Telekom's mobile communications, Internet, ICT, and fixed-network products and services. Deutsche Telekom counteracts these risks by employing a large number of measures, including back-up systems, protective systems such as firewalls and virus scanners, regular technical network tests, building security as well as organizational precautions. Early warning systems ensure that automated and manual countermeasures can be initiated in the event of disruptions. In addition, organizational and technical emergency procedures are in place to minimize damage. Group-wide insurance programs have also been established to cover operational interruptions and damage to current and noncurrent assets.

Purchasing

As an ICT service provider, operator, and provider of IT/telecommunications products, Deutsche Telekom cooperates with a broad variety of suppliers of technical components (e.g., software, hardware, transmission systems, switching systems, outside plant, terminal equipment for fixed-network and mobile communications applications). The Company employs a large number of organizational, contractual, and procurement strategy measures as precautions to counteract potential risks, such as supplier default or dependence on individual suppliers.

Litigation

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

More than 2,000 lawsuits have been filed against Deutsche Telekom in Germany by shareholders who claim to have bought shares of Deutsche Telekom on the basis of the offering prospectuses dated May 28, 1999 and May 26, 2000. Many of these lawsuits also allege improper recognition of the carrying amount of the real estate assets. Some of these lawsuits are also directed at KfW Bankengruppe and/or the Federal Republic of Germany. The aggregate amount of the claims filed under these lawsuits is approximately EUR 76.0 million. The Frankfurt/Main Regional Court has issued two certified questions to the Frankfurt Higher Regional Court pursuant to the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG). Moreover, several thousand additional investors have initiated conciliatory proceedings with a state institution in Hamburg, the "Öffentliche Rechtsauskunfts- und Antragsstelle der Freien und Hansestadt Hamburg."

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

In the arbitration proceedings filed by the Federal Republic of Germany against Deutsche Telekom AG, DaimlerChrysler Financial Services AG, and Toll Collect GbR (in which Deutsche Telekom AG holds a 45-percent stake) regarding disputes relating to the truck toll collection system, Deutsche Telekom received the Federal Republic's statement of claim on August 2, 2005 in which the Federal Republic maintains its claim to lost toll revenues of approximately EUR 3.5 billion plus interest, alleging – among other things – that it was deceived as to the likelihood of operations commencing on September 1, 2003. The total of the asserted claims for contractual penalties was increased to approximately EUR 1.65 billion plus interest. The contractual penalties are based on alleged violations of the operator agreement (lack of consent to subcontracting, delayed provision of on-board units and monitoring equipment). The defendants responded on June 30, 2006.

The Federal Republic is refusing to issue the final operating permit on the grounds that alleged further obligations under the operating agreement, specifically the assignment of certain industrial property rights to Toll Collect GmbH, have not been fulfilled. As a consequence of the refusal to grant the final operating permit, the Federal Republic of Germany considers itself entitled, effective December 21, 2006, to initiate proceedings for the termination of the operating agreement by serving notice of termination. The operating agreement entitles the Federal Republic to do so if the final operating permit is not granted within 12 months from the granting of the interim operating permit. The right of termination on the part of the Federal Republic assumes that Toll Collect GmbH does not alleviate the grounds for termination within a certain period from receipt of the termination notice. The right of termination is limited to a period of six months after the Federal Republic becomes aware of the grounds for termination. There are presently no indications that the Federal Republic will file a termination notice.

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

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

On October 23, 2006 Vivendi filed a suit against Deutsche Telekom AG, T-Mobile USA, Inc., T-Mobile International AG, T-Mobile Deutschland GmbH and others with the U.S. District Court in Seattle, Washington State, claiming that the defendants had colluded illegally to cause Vivendi to lose its alleged interest in PTC. The lawsuit is based on the Racketeer Influenced and Corrupt Organizations (RICO) Act. In the lawsuit, Vivendi is seeking damages of approximately USD 7.5 billion, among other things.

On October 19, 2005, following enforcement proceedings, Deutsche Telekom received a claim for damages of approximately EUR 86.1 million from telegate AG. telegate alleges that Deutsche Telekom charged excessive prices for the provision of subscriber data between 1997 and 1999, which resulted in telegate AG having insufficient funds available for marketing measures and preventing it from achieving its planned market share. Following enforcement proceedings, Deutsche Telekom received a claim for damages of approximately EUR 328.63 million from Dr. Harisch, also on October 19, 2005. Dr. Harisch alleges that due to the excessive prices for the provision of subscriber data between 1997 and 1999, the equity ratio of telegate AG fell significantly on several occasions, resulting in the need for capital increases. This required Dr. Harisch and another shareholder to release shares from their own holdings, thereby diluting their remaining shareholdings.

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

On May 29, 2005, Deutsche Post AG filed a request for arbitration against Deutsche Telekom relating to a warranty for defects from an acquisition agreement concerning logistics sites. Deutsche Post AG is seeking damages of approximately EUR 37 million as well as the determination of other unquantified damages for alleged lack of planning permissions, quantified at approximately EUR 68 million before the hearing.

On October 31, 2005 the satellite operator Eutelsat sued Deutsche Telekom AG, T-Systems Business Services GmbH and SES Societé Européenne des Satellites S.A for compensation amounting to approximately EUR 141.5 million. The plaintiff is basing its claim on an alleged breach of contractual duty. The action is pending before the Commercial Court in Paris.

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

Financial risks

Deutsche Telekom is exposed to financial risks, particularly liquidity, default, currency, and interest rate risks. The primary instruments used for medium- to long-term financing are bonds and medium-term notes (MTNs) issued in a variety of currencies and jurisdictions. A liquidity reserve in the form of credit lines and cash is maintained to guarantee the solvency and financial flexibility of Deutsche Telekom at all times. As of December 31, 2006, Deutsche Telekom had access to credit lines totaling EUR 17.4 billion, provided by 29 banks. The bilateral credit agreements have a maturity of 36 months and can, after each period of 12 months, be extended by a further 12 months to renew the maturity of 36 months. Spreading the maturities over the year significantly reduces the loan extension risk. Deutsche Telekom believes that there is only a minor risk that it will have difficulty in accessing the capital markets due to a decline in its ratings. The financial risks of the single entity Deutsche Telekom are covered due to its integration in the Group.

Impairment of Deutsche Telekom's assets

The value of the assets of Deutsche Telekom and its subsidiaries is reviewed periodically. In addition to the regular annual measurements, whenever the value of intangible assets or items of property, plant and equipment may have decreased (as a result of changes in the economic, regulatory, business, or political environment) Deutsche Telekom verifies the necessity to carry out certain impairment tests that may lead to impairments but not disbursements. This could impact to a considerable extent on Deutsche Telekom AG's results, which in turn may depress the Deutsche Telekom share and ADS prices.

Sales of shares by the Federal Republic and KfW Bankengruppe

Together with KfW Bankengruppe, the Federal Republic holds approximately 31.7 percent of Deutsche Telekom's shares (as of December 31, 2006). On April 24, 2006, the Blackstone Group purchased an interest in Deutsche Telekom's registered equity from KfW Bankengruppe. The share held by the Blackstone Group totaled 4.39 percent at December 31, 2006. In this connection, KfW Bankengruppe and Blackstone agreed on a one-year lock-up for further sales of KfW's shares in Deutsche Telekom. Blackstone agreed with KfW Bankengruppe to lock up its Deutsche Telekom shareholding for two years.

It is possible that the Federal Republic will continue its policy of privatization and sell further equity interests, including shares in Deutsche Telekom AG, in a manner designed not to disrupt the capital markets and with the involvement of KfW Bankengruppe. For Deutsche Telekom, there is a danger that the sale of a significant volume of Deutsche Telekom shares by the Federal Government or KfW Bankengruppe, or speculation to this effect on the markets, could have a negative short-term impact on the price of Deutsche Telekom shares.

Aggregate risk position

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

All three rating agencies maintained Deutsche Telekom's long-term rating at A- or A3, as in 2005. However, S&P has changed its outlook to "negative."

The opportunities

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

Innovative bundled products as well as convergence products are also areas of opportunity for Deutsche Telekom. As a large, integrated ICT provider not only can Deutsche Telekom cope with substitution risks better than specialized providers; it can also drive ahead innovation by offering new bundled products such as triple or quad-play. Major industry trends such as convergence products and IPTV are also promising areas for Deutsche Telekom.

Civic, social, and ecological considerations such as a state-of-the-art health care system, efficient climate protection, mobility geared to seniors, citizen-oriented administration, mobile working, or even transparent goods traceability (e.g., commodity online services) are further starting points for the development of new products and services. In particular, IP-based solutions or, for example, the use of RFID facilitate new business models that can reduce the quantities of resources used and also the costs to the environment and society. Here, Deutsche Telekom makes a further contribution to the sustained development of society.

With projects such as T-City, Deutsche Telekom is demonstrating its capabilities and its customer service, presentting state-of-the-art networking technology and enabling its customers to experience a host of products in everyday use. Much improved locational factors in cities, towns, and regions provide new opportunities for medium-sized enterprises as well as potential sources of revenue for Deutsche Telekom. Through cooperation with municipalities, for example, T-DSL can be expanded to cover as yet undeveloped regions and its market potential increased.

In addition to its opportunities for products and projects, Deutsche Telekom has considerable potential to substantially improve its customer service in particular.

8 Key events after December 31, 2006.

PTC

On January 18, 2007, the Polish Supreme Court overturned two rulings by courts of lower instance which had acknowledged the validity in Poland of the verdict of the Vienna arbitrational court of November 2004. The case was sent back to the first instance to be heard anew. This decision was solely the result of a procedural error by the court of first instance and, in relation to the case itself, affects neither the content nor the validity of the Vienna arbitrational verdict of November 2004. Furthermore, with this decision, the Polish Supreme Court has not ruled in favor of the Vivendi's claimed ownership of the disputed 48-percent stake in PTC. Deutsche Telekom's legal position concerning the ownership of the stake in PTC thus remains unchanged.

9 Outlook.[1]

Economic outlook

In spite of the good starting position resulting from the current economic upswing, the fall bulletins for 2007 by Germany's six leading economic research institutes are predicting that economic growth in Germany will slow to 1.4 percent because of the increase in the VAT rate. Structural problems, such as high unemployment and stagnating consumer spending, will dampen economic growth. Driven by the global economy – which is expected to cool slightly in 2007 but will still grow by 3.1 percent – the institutes' economists believe that exports will rise by 6.2 percent. In addition to export-driven growth, increases in capital expenditure on plant and equipment will remain an important growth factor for economic performance in Germany.

For the euro zone, the economic research institutes expect rapid economic expansion to continue in 2007, although the declining boom in the global economy will pull growth back slightly to 2.3 percent.

Market expectations

Developments in Deutsche Telekom's domestic sales markets are still dominated by slowing growth in mobile communications and the rapid decline in prices on the telecommunications market, in particular for consumer DSL and voice telephony.

Consequences for corporate management control

Deutsche Telekom is responding to the challenges of rapid technological changes and strong competition in the telecommunications industry with specific measures to ensure the long-term sustainability of customer relationships and thus revenue and profit growth. In particular, a sustainable improvement of the customer care culture, investments in future product areas, and simplified price structures will safeguard Deutsche Telekom's customer relationships and in turn its revenues. Additional cost reductions, achieved with the help of increased rationalization investments, such as in new, more cost-efficient IP-based networks, will result in a corresponding development of profit and therefore ensure the long-term sustainability of cash flow. These measures assist Deutsche Telekom in pursuing its goal of continuing to offer its shareholders an attractive dividend. The immense changes in Deutsche Telekom's market environment – in particular the rapid technological change – are forcing it to adjust its workforce structure by cutting jobs in a socially responsible way. The workforce reduction will be implemented using voluntary instruments such as partial retirement arrangements, severance payments and early retirement.

[1] The Outlook contains forward-looking statements that reflect management's current views with respect to future events. Words such as "assume," "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "plan," "project," "should," "want" and similar expressions identify forward-looking statements. These forward-looking statements include statements on the expected development of net revenue, earnings, and personnel figures for 2007 and 2008. Such statements are subject to risks and uncertainties, such as an economic downturn in Europe or North America, changes in exchange and interest rates, the outcome of disputes in which Deutsche Telekom is involved, and competitive and regulatory developments. Some uncertainties or other imponderabilities that might influence Deutsche Telekom's ability to achieve its objectives, are described in the "Risk and opportunity management" section in the management report and in the "Forward Looking Statements" and "Risk Factors" sections in the Annual Report on Form 20-F and the disclaimer at the end of this Annual Report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. Deutsche Telekom does not guarantee that its forward-looking statements will prove correct. The forward-looking statements presented here are based on the current corporate structure, without regard to significant acquisitions, dispositions or business combinations the Company may choose to undertake. They are made with respect to conditions as of the date of this document's publication. Deutsche Telekom does not intend or assume any obligation to update forward-looking statements.

Broadband business to be further expanded

In the DSL business, Deutsche Telekom will defend its market share and expects a significant increase in the number of lines. Additionally, Deutsche Telekom wants to establish its triple-play products offered under T-home. A major element of this strategy will be the expansion of the high-speed Internet infrastructure, provided that such an investment is economically viable in the regulatory environment in the medium term. Aside from the VDSL roll-out, investments in 2007 will focus on expanding the DSL and IP network and maintaining and extending the existing network infrastructure.

In 2007 the traditional fixed-network business will continue to be affected by competition-induced loss of market share, fixed-mobile substitution, price cuts due to regulatory requirements, and market-related price erosion. Broadband/Fixed Network will launch a quality and service campaign in 2007 to safeguard and defend the core voice and access business and extend its broadband business to include new, innovative products. Preparations are also underway to migrate the old PSTN system to the new IP-based environment and in turn introduce an innovative, competitive IP connection that will facilitate many additional functions for customers such as video telephony.

Based on these assumptions, Deutsche Telekom expects the negative earnings trend to continue initially.

To make our service function more efficiently and to optimize its alignment with customer needs, at least 35,000 employees in Germany are to be spun off in the course of 2007 as part of the T-Service project; they will be responsible for technical infrastructure and customer service. The 10,000 jobs currently in call centers will also be spun off into a dedicated unit. These spin-offs allow Deutsche Telekom to focus on the quality of its service under conditions that reflect the market situation. The goal is to maintain the Company's competitiveness in the long term, while safeguarding jobs both in the Group and in Germany. The Group also aims to systematically align working conditions and remuneration systems with market levels and to increase productivity.

Group Headquarters & Shared Services

Earnings at Group Headquarters & Shared Services are influenced largely by the continued staff restructuring program and by Vivento (largely due to the successful development of business models and the realization of employment opportunities). Other influential factors include measures to achieve centralized cost savings and improve efficiency at Shared Services.

Statement on the development of business

In view of the expected market situation, Deutsche Telekom aims to again achieve positive earnings.

Annual financial statements of Deutsche Telekom AG.
Statement of income for the period from January 1 to December 31, 2006.

	Note	2006 millions of €	2005 millions of €
Net revenue	[1]	**20,936**	23,058
Changes in inventories and other own capitalized costs	[2]	415	283
Total operating performance		**21,351**	23,341
Other operating income	[3]	3,642	4,072
Goods and services purchased	[4]	(4,893)	(4,977)
Personnel costs	[5]	(8,477)	(6,882)
Depreciation, amortization and write-downs	[6]	(3,730)	(3,874)
Other operating expenses	[7]	(7,800)	(7,775)
Financial income (expense), net	[8]	(637)	248
Results from ordinary business activities		**(544)**	4,153
Extraordinary income (loss)	[9]	1,844	(585)
Taxes	[10]	151	(293)
Income after taxes		**1,451**	3,275
Unappropriated net income carried forward from previous year		559	295
Transfer from treasury shares		-	2
Transfer from retained earnings		1,858	-
Expense from the retirement of shares		(708)	-
Income from capital decrease		161	-
Transfer to additional paid-in capital		(161)	-
Transfer to retained earnings		-	(2)
Unappropriated net income		**3,160**	3,570

Balance sheet as of December 31, 2006.

	Note	2006 millions of €	2005 millions of €
ASSETS			
Noncurrent assets			
Intangible assets	[11]	753	718
Property, plant and equipment	[12]	22,406	23,920
Financial assets	[13]	65,460	67,219
		88,619	**91,857**
Current assets			
Inventories, materials and supplies	[14]	127	98
Receivables	[15]	4,388	5,215
Other assets	[16]	1,132	1,175
Marketable securities	[17]	284	237
Liquid assets	[18]	1,325	3,457
		7,256	**10,182**
Prepaid expenses and deferred charges	[19]	**286**	**274**
		96,161	**102,313**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	[20]		
Capital stock	[21]	11,164	10,747
Contingent capital of EUR 718 million			
Additional paid-in capital	[22]	26,628	24,374
Retained earnings	[23]	9,258	11,116
Unappropriated net income		3,160	3,570
		50,210	**49,807**
Accruals			
Pensions and similar obligations	[25]	3,510	3,434
Taxes	[26]	391	597
Other	[27]	4,558	4,270
		8,459	8,301
Liabilities	[28]		
Debt		2,847	2,834
Other		34,619	41,346
		37,466	**44,180**
Deferred income		**26**	**25**
		96,161	**102,313**

Statement of cash flows.

	Note	2006 millions of €	2005 millions of €
Income after taxes		1,451	3,275
Depreciation, amortization and write-ups		4,124	3,874
Income tax expense		(178)	265
Net interest expense		1,851	2,336
Net (gains) losses from the disposal of intangible assets, property, plant and equipment, and financial assets		(109)	52
Results from associated companies		(9)	(5)
(Increase) decrease in inventories, receivables, other assets, prepaid expenses, and deferred charges		1,417	(587)
Changes in accruals		1,002	(1,169)
Other noncash income		(3,755)	(1,438)
(Increase) decrease in payables and deferred income		(2,325)	(2,082)
Income taxes paid		(124)	(498)
Dividends received, profit transfers and cash outflows for loss transfers		1,809	3,128
Cash generated from operations		**5,154**	7,151
Interest paid		(3,625)	(3,252)
Interest received		1,735	1,184
Net cash provided by operating activities	[29]	**3,264**	5,083
Cash outflows for investments in intangible assets		(408)	(329)
Cash outflows for investments in property, plant and equipment		(2,545)	(1,634)
Cash outflows for investments in financial assets		(499)	(2,183)
Cash inflows from the disposal of intangible assets		20	1
Cash inflows from the disposal of property, plant and equipment		766	197
Cash inflows from the disposal of financial assets		576	1,514
Net change in short-term investments and financial receivables/debt		266	(376)
Net cash used for investing activities	[30]	**(1,824)**	(2,810)
Issuance of short-term debt		4,705	5,796
Repayment of short-term debt		(9,387)	(12,598)
Issuance of medium- and long-term debt		7,711	7,438
Repayment of medium- and long-term debt		(2,894)	(3,159)
Dividends paid		(3,010)	(2,586)
Changes in shareholders' equity (in particular share buy-back)		(697)	20
Net cash used for financing activities	[31]	**(3,572)**	(5,089)
Net decrease in cash and cash equivalents (maturity ≤ 3 months)		**(2,132)**	(2,816)
Cash and cash equivalents at start of year		**3,457**	6,273
Cash and cash equivalents at end of year		**1,325**	3,457
Change in cash and cash equivalents (maturity ≤ 3 months)		(2,132)	(2,816)

Statement of shareholders' equity.

	Capital stock		Additional paid-in capital	Retained earnings		Unappro-priated net income	Total
	Shares issued and outstanding (in thou-sands)	millions of €	millions of €	Treasury stock millions of €	Other retained earnings millions of €	millions of €	millions of €
Balance at Jan. 1, 2004	**4,197,752**	**10,746**	**24,333**	7	**9,074**	**2,035**	**46,195**
Proceeds from stock options granted	102	1	21				22
Income after taxes						2,881	2,881
Transfer to retained earnings					2,035	(2,035)	-
Balance at Dec. 31, 2004	**4,197,854**	**10,747**	**24,354**	7	**11,109**	**2,881**	**49,098**
Dividends for 2004						(2,586)	(2,586)
Proceeds from stock options granted	224		20				20
Income after taxes						3,275	3,275
Transfer to retained earnings				(2)	2		-
Balance at Dec. 31, 2005	**4,198,078**	**10,747**	**24,374**	5	**11,111**	**3,570**	**49,807**
Dividends for 2005 (Deutsche Telekom AG)						(3,006)	(3,006)
Dividends for 2005 (T-Online)						(5)	(5)
Proceeds from stock options granted	53		11				11
Mandatory convertible bond	162,988	417	1,722				2,139
Transfer from retained earnings					(1,150)	1,150	-
T-Online merger	62,730	161	360				521
Share buy-back/retirement following T-Online merger	(62,730)	(161)	161		(708)		(708)
Income after taxes						1,451	1,451
Balance at Dec. 31, 2006	**4,361,119**	**11,164**	**26,628**	**5**	**9,253**	**3,160**	**50,210**

Notes to the financial statements of Deutsche Telekom AG.

Statement of noncurrent assets.

	Acquisition costs					
	Last revised Jan. 1, 2006	Changes due to mergers and spin-offs	Additions	Dis-posals	Reclassi-fications	Last revised Dec. 31, 2006
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
I. Intangible assets						
1. Concessions, industrial and similar rights and assets, and licenses in such rights and assets	1,230	(16)	290	(345)	89	1,248
2. Advance payments	126	(34)	108	(4)	(85)	111
	1,356	**(50)**	**398**	**(349)**	**4**	**1,359**
II. Property, plant and equipment						
1. Land and equivalent rights and buildings, including buildings on land owned by third parties	14,021	23	26	(596)	(2)	13,472
2. Technical equipment and machinery	55,410	(380)	1,498	(718)	303	56,113
3. Other equipment, plant, and office equipment	1,064	117	106	(107)	11	1,191
4. Advance payments and construction in progress	546	(3)	497	(16)	(316)	708
	71,041	**(243)**	**2,127**	**(1,437)**	**(4)**	**71,484**
III. Financial assets						
1. Investments in subsidiaries	66,841	(1,309)	93	(302)	(1)	65,322
2. Loans to subsidiaries	625	146	238	(185)	0	824
3. Invesments in associated and related companies	174	50	81	(22)	1	284
4. Long-term loans to associated and related companies	0	0	83	(83)	0	0
5. Other long-term loans	12	0	0	(1)	0	11
	67,652	**(1,113)**	**495**	**(593)**	**0**	**66,441**
Total noncurrent assets	**140,049**	**(1,406)**	**3,020**	**(2,379)**	**0**	**139,284**

Depreciation, amrotization and write-downs								Net carrying amounts	
Last revised Jan. 1, 2006	**Changes due to mergers and spin-offs**	**Addiditions**	**Disposals**	**Reclassi-fications**	**Transfer (from other Group companies)**	**Write-ups**	**Last revised Dec. 31, 2006**	**Last revised Dec. 31, 2006**	**Last revised Dec. 31, 2005**
millions of €	**millions of €**	**millions of €**	**millions of €**	**millions of €**	**millions of €**	**millions of €**	**millions of €**	**millions of €**	**millions of €**
638	(8)	313	(337)	0	0	0	606	642	592
0	0	0	0	0	0	0	0	111	126
638	**(8)**	**313**	**(337)**	**0**	**0**	**0**	**606**	**753**	**718**
7,000	4	500	(420)	(4)	1	(78)	7,003	6,469	7,021
39,249	(269)	2,805	(672)	1	4	0	41,118	14,995	16,161
872	62	112	(95)	3	3	0	957	234	192
0	0	0	0	0	0	0	0	708	546
47,121	**(203)**	**3,417**	**(1,187)**	**0**	**8**	**(78)**	**49,078**	**22,406**	**23,920**
246	82	511	(7)	0	0	0	832	64,490	66,595
29	20	0	0	0	0	(12)	37	787	596
158	0	82	(20)	0	0	(108)	112	172	16
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	11	12
433	**102**	**593**	**(27)**	**0**	**0**	**(120)**	**981**	**65,460**	**67,219**
48,192	**(109)**	**4,323**	**(1,551)**	**0**	**8**	**(198)**	**50,665**	**88,619**	**91,857**

Exchange rates used.

	Annual average rate		Rate at balance sheet date	
	2006 €	2005 €	Dec. 31, 2006 €	Dec. 31, 2005 €
100 Swiss francs (CHF)	63.5749	64.5951	62.2351	64.2964
100 Czech korunas (CZK)	3.5284	3.3574	3.6377	3.44983
1 Pound sterling (GBP)	1.4667	1.4621	1.4897	1.4554
100 Hungarian forint (HUF)	0.3784	0.4032	0.3973	0.3956
100 Indonesian rupiahs (IDR)	0.0087	0.0083	0.0084	0.0086
100 Japanese yen (JPY)	0.6848	0.7302	0.6378	0.7188
100 Malaysian ringgits (MYR)	21.7143	21.2083	21.4862	22.3684
100 Philippine pesos (PHP)	1.5529	1.4600	1.5476	1.5907
100 Polish zlotys (PLN)	25.6656	24.8608	26.0855	25.9021
100 Russian rubles (RUB)	2.9314	2.8400	2.8822	2.9423
100 Singapore dollars (SGD)	50.1359	48.2920	49.4505	50.8466
100 Slovak korunas (SKK)	2.6856	2.5915	2.8976	2.6399
100 Croatian kuna (HRK)	13.6532	13.5128	13.6067	13.5648
1 U.S. dollar (USD)	0.7963	0.8033	0.7585	0.84496

Members of the Board of Management of Deutsche Telekom AG in 2006 including seats on the supervisory boards of other companies.

René Obermann

Chairman of the Board of Management since November 13, 2006

(Board member responsible for Mobile Communications until November 12, 2006)

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- T-Mobile Deutschland GmbH, Bonn (from 6/2002 to 12/2006), Chairman of the Supervisory Board
- T-Mobile International AG, Bonn (since 11/2006), Chairman of the Supervisory Board (since 12/2006)
- T-Mobile USA Inc., Bellevue, United States, Board of Directors (since 1/2003), Chairman of the Board of Directors (since 12/2006)
- T-Systems Enterprise Services GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 12/2006)
- T-Systems Business Services GmbH, Bonn, Chairman of the Supervisory Board (since 12/2006)

Hamid Akhavan

Board member responsible for T-Mobile and Product Development & Innovation since December 5, 2006

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- T-Mobile Deutschland GmbH, Bonn (since 1/2007)
- T-Mobile Czech Republic a.s., Prague, Czech Republic (since 2/2003)
- T-Mobile Netherlands Holding B.V., The Hague, Netherlands (since 1/2004)
- T-Mobile UK Ltd., Hertfordshire, United Kingdom (since 3/2004)
- T-Venture Telekom Funds Beteiligungs GmbH, Bonn (since 8/2004), Investment Committee

Dr. Karl-Gerhard Eick

Deputy Chairman of the Board of Management

Board member responsible for Finance

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

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (since 2/2002)
- GMG Generalmietgesellschaft mbH, Münster (from 1/2000 to 3/2006), Chairman of the Supervisory Board (since 5/2002)
- Sireo Real Estate Asset Management GmbH, Heusenstamm, Chairman of the Supervisory Board (since 5/2001)
- T-Mobile International AG, Bonn (since 3/2000)
- T-Online International AG, Darmstadt (from 2/2000 to 6/2006; company was merged into Deutsche Telekom in 6/2006)
- T-Systems Enterprise Services GmbH, Frankfurt/Main (since 6/2002)
- T-Systems Business Services GmbH, Bonn (since 12/2005)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Deutsche Bank AG, Frankfurt/Main (since 8/2004)
- FC Bayern München AG, Munich (since 10/2004)

Timotheus Höttges

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

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- T-Mobile Austria GmbH, Vienna, Austria (since 5/2006)
- T-Mobile Austria Holding GmbH, Vienna, Austria (since 2/2003)
- T-Mobile Deutschland GmbH, Bonn (since 4/2005)
- T-Mobile Czech Republic a.s., Prague, Czech Republic (since 2/2003)
- T-Mobile Netherlands Holding B.V., The Hague, Netherlands (since 2/2003)
- T-Mobile UK Ltd., Hertfordshire, United Kingdom (since 3/2004)
- T-Punkt Vertriebsgesellschaft mbH, Bonn (since 6/2004), Chairman of the Supervisory Board (since 12/2006)

Lothar Pauly

Board member responsible for Business Customers and Production since December 5, 2006

(Board member responsible for Business Customers since October 1, 2005)

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

Member of comparable supervisory bodies of companies in Germany or abroad:
- Siemens VDO Automotive AG, Schwalbach (from 7/2001 to 3/2006)

Board members who left during 2006:

Dr. Heinz Klinkhammer

Board member responsible for Human Resources until December 31, 2006

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (from 2/2002 to 12/2006), Chairman of the Supervisory Board (since 4/2002)
- GMG Generalmietgesellschaft mbH, Münster (from 6/1996 to 3/2006)
- Sireo Real Estate Asset Management GmbH, Frankfurt/Main (from 5/2001 to 4/2006)
- T-Mobile International AG, Bonn (from 5/2003 to 12/2006)
- T-Online International AG, Darmstadt (from 2/2003 to 6/2006; company was merged into Deutsche Telekom in 6/2006)
- T-Systems Enterprise Services GmbH, Frankfurt/Main (from 11/2000 to 12/2006)
- T-Systems Business Services GmbH, Bonn (from 12/2005 to 12/2006)

Walter Raizner

Board member responsible for Broadband/ Fixed Network until December 5, 2006

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- T-Punkt Vertriebsgesellschaft mbH, Bonn, Chairman of the Supervisory Board (from 2/2005 to 9/2006)
- T-Com Innovationsgesellschaft mbH, Berlin (from 9/2005 to 12/2006)

Kai-Uwe Ricke

Chairman of the Board of Management until November 13, 2006

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- T-Online International AG, Darmstadt (from 10/2001 to 6/2006; company was merged into Deutsche Telekom in 6/2006), Chairman of the Supervisory Board (since 9/2002),
- T-Mobile International AG, Bonn (from 11/2002 to 11/2006), Chairman of the Supervisory Board (since 12/2002)
- T-Mobile USA Inc., Bellevue, United States, Board of Directors (from 5/2001 to 11/2006), Chairman of the Board of Directors (since 8/2004)
- T-Systems Enterprise Services GmbH, Frankfurt/Main, Chairman of the Supervisory Board (from 1/2003 to 11/2006)
- T-Systems Business Services GmbH, Bonn, Chairman of the Supervisory Board (from 4/2005 to 11/2006)

Member of comparable supervisory bodies of companies in Germany or abroad:
- JPMC International Council of JPMorgan Chase & Co., New York, United States (since 3/2005)

Members of the Supervisory Board of Deutsche Telekom AG in 2006 including seats on the boards of other companies.

Dr. Klaus Zumwinkel

Member of the Supervisory Board
since March, 7, 2003

Chairman of the Supervisory Board
since March 14, 2003

Chairman of the Board of Management
of Deutsche Post AG

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

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

Lothar Schröder

Member of the Supervisory Board
since June 22, 2006

Deputy Chairman of the Supervisory Board
since June 29, 2006

Member of the ver.di National Executive Board, Berlin

- T-Mobile International AG, Bonn (from 6/2004 to 10/2006)
- T-Mobile Deutschland GmbH, Bonn (since 8/2003), Deputy Chairman of the Supervisory Board (since 9/2003)

Monika Brandl

Member of the Supervisory Board
since November 6, 2002

Chairwoman of the Central Works Council
at Group Headquarters/GHS,
Deutsche Telekom AG, Bonn

– no other seats –

Josef Falbisoner

Member of the Supervisory Board
since October 2, 1997

Chairman of the District of Bavaria,
ver.di trade union, Munich

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

Dr. Hubertus von Grünberg

Member of the Supervisory Board
since May 25, 2000

Serves on the Supervisory Board of Continental Aktiengesellschaft, Hanover, and on other supervisory boards

- Allianz Versicherungs-AG, Munich (since 5/1998)
- Continental AG, Hanover, Chairman of the Supervisory Board (since 6/1999)
- Deutsche Post AG, Bonn (since 5/2006)
- MAN Aktiengesellschaft, Munich (since 2/2000)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Schindler Holding AG, Hergiswil, Switzerland, Board of Directors (since 5/1999)

Lawrence H. Guffey

Member of the Supervisory Board
since June 1, 2006

Senior Managing Director, The Blackstone Group International Ltd., London

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

Ulrich Hocker

Member of the Supervisory Board
since October 14, 2006

Manager in Chief, Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), Düsseldorf

- E.ON AG, Düsseldorf (since 6/2000; formerly: Veba since 10/1999; Veba was merged into E.ON in 6/2000)
- Feri Finance AG, Bad Homburg (since 12/2001), Deputy Chairman of the Supervisory Board (since 12/2005)
- Gildemeister AG, Bielefeld (from 5/2003 to 12/2006)
- Karstadt Quelle AG, Essen (since 7/1998)
- ThyssenKrupp Stainless AG, Duisburg (since 11/2005)

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

Lothar Holzwarth

Member of the Supervisory Board
since November 6, 2002

Chairman of the Central Works Council at
T-Systems Business Services GmbH, Bonn

- PSD Bank RheinNeckarSaar eG, (since 1/1996), Deputy Chairman of the Supervisory Board (from 7/2004 to 6/2006), Chairman of the Supervisory Board (since 7/2006)
- T-Systems Enterprise Services GmbH, Frankfurt/Main (since 9/2006)

Waltraud Litzenberger

Member of the Supervisory Board
since June 1, 1999

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

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

Michael Löffler

Member of the Supervisory Board
since January 1, 1995

Member of the Works Council at
Deutsche Telekom AG, Networks
Branch Office, Dresden

– no other seats –

Ingrid Matthäus-Maier

Member of the Supervisory Board
since May 3, 2006

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

- Deutsche Post AG, Bonn (since 10/2006)
- RAG Aktiengesellschaft, Essen (since 3/2005)
- RAG Beteiligungs-AG, Essen (since 9/2006)
- Salzgitter Mannesmann Handel GmbH, Düsseldorf (since 3/2000)

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

Dr. Thomas Mirow

Member of the Supervisory Board
since January 17, 2006

State Secretary,
Federal Ministry of Finance, Berlin

– no other seats –

Prof. Dr.-Ing. Wolfgang Reitzle

Member of the Supervisory Board
since February 10, 2005

Chairman of the Executive Board
of Linde AG, Wiesbaden

- Allianz Lebensversicherungs-AG, Stuttgart (since 12/2002)
- STILL GmbH, Hamburg[1], Chairman of the Supervisory Board (from 1/2004 to 12/2006)

Prof. Dr. Wulf von Schimmelmann

Member of the Supervisory Board
since May 3, 2006

Chairman of the Board of
Management of Deutsche Postbank AG, Bonn

- BHW Holding AG, Berlin/Hameln[1] (since 6/2005), Chairman of the Supervisory Board (since 1/2006)
- BHW Bausparkasse AG, Hameln[1], Chairman of the Supervisory Board (since 1/2006)
- Deutsche Post Retail GmbH, Bonn[1] (since 5/2005), renamed Postbank Filialvertrieb AG, Bonn (since 7/2006), Chairman of the Supervisory Board (since 2/2006)
- Postbank Finanzberatung AG, Hameln[1] (since 7/2006), Chairman of the Supervisory Board (since 8/2006)
- PB Lebensversicherung AG, Hilden[1] (since 2/1999)
- PB Versicherung AG, Hilden[1] (since 2/1999)
- Tchibo Holding AG, Hamburg (since 8/2003)

Member of comparable supervisory bodies
of companies in Germany or abroad:
- accenture Corp., Irving, Texas, United States (since 10/2001)
- Altadis S.A., Madrid, Spain (since 5/2004)
- Bundesverband deutscher Banken e.V., Berlin, Member of the Board of Directors (since 1/2005)
- Deutsche Postbank Financial Services GmbH, Frankfurt/Main[1], Deputy Chairman of the Supervisory Board (since 6/2001)
- PB (USA) Holdings, Inc., Wilmington, Delaware, United States[1], Chairman of the Board of Directors (since 9/2001)
- PB Capital Corp., Wilmington, Delaware, United States[1], Chairman of the Board of Directors (since 9/2001)

Dr. Klaus G. Schlede

Member of the Supervisory Board
since May 20, 2003

Member of the Supervisory Board
of Deutsche Lufthansa AG, Cologne

- Deutsche Postbank AG, Bonn (since 4/2000)
- Deutsche Lufthansa AG, Cologne (since 6/1998)

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

Wolfgang Schmitt

Member of the Supervisory Board
since October 2, 1997

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

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

Michael Sommer

Member of the Supervisory Board
since April 15, 2000

Chairman of the German Confederation
of Trade Unions (DGB), Berlin

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

Ursula Steinke

Member of the Supervisory Board
since January 1, 1995

Expert consultant to the Works Council
at Deutsche Telekom AG, Kiel

– no other seats –

Bernhard Walter

Member of the Supervisory Board
since May 27, 1999

Former Chairman of the Board of
Managing Directors at Dresdner Bank AG,
Frankfurt/Main

- Bilfinger Berger AG, Mannheim (since 7/1998), Chairman of the Supervisory Board (since 5/2006)
- DaimlerChrysler AG, Stuttgart (since 5/1998)
- Henkel KGaA, Düsseldorf (since 5/1998)
- Staatliche Porzellan-Manufaktur Meißen GmbH, Meißen (since 1/2001), Deputy Chairman of the Supervisory Board
- Wintershall AG, Kassel (since 2/2001), Deputy Chairman of the Supervisory Board
- Wintershall Holding AG, Kassel (since 11/2006)

Wilhelm Wegner

Member of the Supervisory Board
since July 1, 1996

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

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

The following individuals resigned from the Supervisory Board in 2006:

Dr. Mathias Döpfner

Member of the Supervisory Board
from May 3, 2006 to October 13, 2006

Chairman of the Board of Management
of Axel Springer AG, Berlin

- ProSiebenSAT.1Media AG, Unterföhring (since 12/2001)
- Schering AG, Berlin (from 4/2001 to 9/2006)

Member of comparable supervisory bodies
of companies in Germany or abroad:
- Brillant 310 GmbH, Berlin, Managing Director (since 7/2006)
- dpa Deutsche Presse Agentur GmbH, Hamburg (since 12/2000)
- Leipziger Verlags- und Druckereigesellschaft mbH & Co. KG, Leipzig, Member of the Advisory Board (since 9/2000)
- Time Warner Inc., New York, United States, Board of Directors (since 7/2006)

Volker Halsch

Member of the Supervisory Board
from October 1, 2004 to January 16, 2006

Former State Secretary, Federal Ministry
of Finance, Berlin

- Deutsche Bahn AG, Berlin (from 2/2003 to 3/2006)

Dr. sc. techn. Dieter Hundt

Member of the Supervisory Board
from January 1, 1995 to May 3, 2006

Managing Shareholder of Allgaier
Werke GmbH, Uhingen; President of
the Confederation of German Employers'
Associations (BDA), Berlin

- EvoBus GmbH, Stuttgart (since 5/1995)
- Pensions-Sicherungs-Verein, Cologne, (since 6/2005)
- SHB Stuttgarter Finanz- und Beteiligungs Aktiengesellschaft, Stuttgart, Deputy Chairman of the Supervisory Board (since 7/2004)
- Stuttgarter Hofbräu Verwaltungs-AG, Stuttgart (since 5/1999), Deputy Chairman of the Supervisory Board (since 9/2005)

Member of comparable supervisory bodies
of companies in Germany or abroad:
- Landesbank Baden-Württemberg, Stuttgart, Administrative Board (since 1/1999)

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

Hans-W. Reich

Member of the Supervisory Board
from May 27, 1999 to May 3, 2006

Former Chairman of the Board of Managing Directors, KfW Bankengruppe, Frankfurt/Main

- Aareal Bank AG, Wiesbaden (since 6/2002), Chairman of the Supervisory Board (since 6/2004)
- Deutsche Post AG, Bonn (from 9/2004 to 9/2006)
- HUK-COBURG Haftpflicht-Unterstützungs-Kasse kraftfahrender Beamter Deutschlands a.G., Coburg (since 7/2000)
- HUK-COBURG-Holding AG, Coburg (since 7/2000)
- IKB Deutsche Industriebank AG, Düsseldorf (from 9/1999 to 8/2006), Deputy Chairman of the Supervisory Board
- Thyssen Krupp Steel AG (formerly: ThyssenKrupp Stahl AG, renamed in 10/2005), Duisburg (since 12/2005)

Member of comparable supervisory bodies of companies in Germany or abroad:
- DePfa Bank plc., Dublin, Ireland, Board of Directors (since 3/2002)

Dr. jur. Hans-Jürgen Schinzler

Member of the Supervisory Board
from May 20, 2003 to May 31, 2006

Chairman of the Supervisory Board of Münchener Rückversicherungs-Gesellschaft AG, Munich

- Metro AG, Düsseldorf (since 5/2002)

Member of comparable supervisory bodies of companies in Germany or abroad:
- UniCredit S.p.A., Genoa, Italy (since 1/2006)

Prof. Dr. h.c. Dieter Stolte

Member of the Supervisory Board
from January 1, 1995 to May 3, 2006

Former Director General of ZDF (Zweites Deutsches Fernsehen), Mainz

- Ströer Out-of-home Media AG, Cologne (since 10/2002)
- ZDF Enterprises GmbH, Mainz (since 1992)

Franz Treml

Member of the Supervisory Board
from July 8, 2003 to June 21, 2006

Deputy Chairman of the Supervisory Board
from August 21, 2003 to June 21, 2006

Former Deputy Chairman of ver.di trade union, Berlin since April 1, 2006

- DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster, Deputy Chairman (from 3/2000 to 6/2006)
- DBV-Winterthur-Leben, Wiesbaden (since 4/2000)

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

Summary of accounting policies.

Description of business activities

Deutsche Telekom AG[1] (hereinafter also referred to as Deutsche Telekom or Company) is a full-service telecommunications provider. Its key areas of activity include network communications, data communications, carrier services, and value-added services. Deutsche Telekom also supplies, leases, and services terminal equipment.

The strategic realignment of the Group begun in the previous reporting period resulted in the spin-off from Deutsche Telekom AG of the Marketing, Sales, Business Services (MVBS) and Billing & Collection business areas, which were part of the Business Customers strategic business area.

In the reporting period, T-Online International AG was also merged into Deutsche Telekom AG and allocated to the Broadband/Fixed Network business area.

Deutsche Telekom's business units are therefore now solely part of the Broadband/Fixed Network and the Group Headquarters and Shared Services (GHS) business areas.

Within the **Broadband/Fixed Network** business area, Deutsche Telekom offers consumers and small business customers state-of-the-art infrastructure for traditional fixed-network services, broadband Internet access with combined packages for network access, communication, and entertainment services (known as "triple play"), and customer-oriented multimedia services. Broadband/Fixed Network also does business with national and international network operators (carrier services) and with resellers (wholesale including resale), and provides upstream services within the Deutsche Telekom Group.

The **GHS** business area consists of Group Headquarters and shared services. Deutsche Telekom's Group Headquarters focuses on strategic and cross-divisional management functions. All other operating functions not directly related to the core business of the Broadband/Fixed Network business area are the responsibility of Shared Services at Deutsche Telekom AG, provided that these functions are not carried out by legally independent entities.

Description of the relationship with the Federal Republic of Germany

The Federal Republic of Germany's direct and indirect shareholding in Deutsche Telekom amounted to 31.70 percent as of December 31, 2006. According to a letter dated January 8, 2007, the direct shareholding amounts to 14.83 percent (646,575,126 shares); according to a letter dated January 9, 2006, a further 16.87 percent (735,667,390 shares) are held by a federally-owned corporation, the Kreditanstalt für Wiederaufbau, Frankfurt/Main (KfW). The Federal Republic administers its shareholding and exercises its rights as a shareholder through a public law entity, the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency), which, following the dissolution of the Federal Ministry of Posts and Telecommunications (BMPT) on December 31, 1997, is subject to supervision by the Federal Ministry of Finance (BMF).

The Federal Network Agency for Electricity, Gas, Telecommunications, Posts, and Railways (Federal Network Agency) is a higher federal authority responsible to the Federal Ministry of Economics and Technology and was formed on July 13, 2005 from the Regulatory Authority for Telecommunications and Posts.

One of the tasks of the Federal Network Agency is to supervise the telecommunications sector in Germany. In this capacity it regulates the business activities of Deutsche Telekom.

[1] Deutsche Telekom was entered in the commercial register of the Bonn District Court (Amtsgericht – HRB 6794) under the name Deutsche Telekom AG on January 2, 1995.

Comparability with prior-year figures on account of the strategic realignment

The measures initiated in the previous reporting period towards the strategic realignment of the Deutsche Telekom Group principally resulted in the following changes at Deutsche Telekom AG during the reporting year:

The merger of T-Online International AG (T-Online) into Deutsche Telekom, which had been approved in 2005, initially could not become effective due to lawsuits filed by some T-Online shareholders. However, with a final and conclusive ruling of the Federal Court of Justice, received on June 1, 2006, the so-called release proceedings initiated by T-Online International AG were successfully completed, enabling the merger to be entered into the commercial register on June 6, 2006 and thereupon become effective.

All assets of T-Online were transferred internally to Deutsche Telekom with effect from midnight on December 31, 2005 (merger by absorption). As from January 1, 2006, the date on which the merger took effect, all activities and transactions by T-Online are deemed to be performed for the account of Deutsche Telekom. Deutsche Telekom has rolled over the assets and liabilities carried on T-Online's closing balance sheet to its annual financial statements (basis rollover).

Deutsche Telekom also entered into a spin-off and asset transfer agreement with T-Systems Business Services GmbH (TS BS) by way of which the Marketing, Sales and Business Services (MVBS) unit maintained by Deutsche Telekom was transferred internally to TS BS with effect from January 1, 2006. After the Deutsche Telekom shareholders' meeting of May 3, 2006 had approved the transaction, the spin-off became effective by being entered in Deutsche Telekom's commercial register on July 24, 2006.

Furthermore, on December 23, 2005, Deutsche Telekom and ActiveBilling GmbH & Co. KG (AB KG) entered into an agreement on the incorporation of Deutsche Telekom's Billing & Collection central department (ZB BC) into AB KG. Under this agreement Billing & Collection, which had been operated by Deutsche Telekom, was transferred to AB KG as of January 1, 2006 by way of singular succession.

Prior-year comparatives have not been adjusted due to the T-Online merger and the spin-off of MVBS and ZB BC. Where required for greater transparency, the transactions are presented separately in the notes to the individual items in the balance sheet and the statement of income.

Summary of significant accounting principles

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

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

All amounts shown are in millions of euros (€/EUR). Certain items have been combined for presentation purposes in the balance sheet and the statement of income in order to make the financial statements more informative and understandable. These items are disclosed separately in the notes. The accounts also include a statement of cash flows and a statement of shareholders' equity. In conformity with international practice, reporting begins with the statement of income, and the statement of cash flows and the statement of shareholders' equity precede the notes to the financial statements.

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

This annual report and the Annual Report on Form 20-F, filed with the SEC as a requirement of the listing of Deutsche Telekom on the New York Stock Exchange, are available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

Accounting policies

Net revenue contains all revenue from the ordinary business activities of Deutsche Telekom. For example, these include revenues from the rendering of services and the sale of goods and products that are typical for Deutsche Telekom. Net revenue is recorded net of value-added tax and sales-related reductions. They are recognized in the accounting period concerned in accordance with the realization principle.

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

Research and development costs are expensed as incurred.

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

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

Marketing expenses are expensed as incurred.

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

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

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

Other items of property, plant and equipment are carried at cost, less depreciation. Production cost includes directly attributable costs and an appropriate allocation of indirect material and labor cost. General and administrative costs are not capitalized.

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

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

In the reporting year, the German Tax Incentives for the Promotion of Growth and Employment Act (Gesetz zur steuerlichen Förderung von Wachstum und Beschäftigung) of May 5, 2006 permitted a temporary increase in the maximum amount for the depreciation of movable noncurrent assets allowable for tax purposes under the declining-balance method. As a result, since the start of the reporting year, additions to movable items of property, plant and equipment have also been depreciated on the commercial balance sheet according to the declining-balance method at the maximum rate permitted by tax law; the straight-line method will be applied as soon as this leads to higher depreciation amounts.

The following specific useful lives are applied to depreciation:

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

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

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

Maintenance and repair costs are expensed as incurred.

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

Equity investments and **other financial assets** are carried at the lower of cost or market value. In the case of financial assets acquired in a foreign currency, the exchange rate at the transaction date is used to determine the acquisition cost; in the case of hedges, the hedging rate for the purchased foreign currency is used. Loan receivables correspond to the loan amounts less repayments and – if applicable – less any write-downs to the lower fair value. Non-scheduled write-downs are charged only if the impairment of financial assets is assumed to be permanent. Loss absorption obligations are accrued, and the amount recognized through profit or loss is reported in net financial income/expense.

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

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

Foreign currency receivables are measured at the lower of the exchange rate applicable on the transaction date or the rate applicable at the balance sheet date, as are foreign currency fixed-term deposits included under liquid assets. The official bid rate is used for the measurement of cash in banks, the official middle rate of the bid and ask rates for receivables.

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

Stock options refer to so-called equity-settled plans granted in the course of a contingent capital increase and are recognized at the date the options are exercised, and not at the grant date. On the exercise date, the amount received by the Company is transferred to the capital stock in the amount of the corresponding capital increase, with any premium transferred to additional paid-in capital in accordance with § 272 (2) No.1 HGB. By contrast, the Mid-Term Incentive Plan (2004, 2005, and 2006 MTIP), being what is known as a cash-settled plan, is recognized in the statement of income on a pro-rata basis from the time of its implementation.

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

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

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

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

Accruals are not discounted, except for pensions and similar obligations, other employee-related accruals, and the accrual for the civil service health insurance fund shortfall.

Liabilities are recognized at the higher of nominal value or repayment amount. In instances where the repayment amount of a liability is greater than the principal amount, the difference is recorded under prepaid expenses and deferred charges, and distributed over the term of the liability. Foreign currency liabilities are carried at the higher of the exchange rate applicable on the transaction date or the rate applicable at the balance sheet date. The official ask rate is used for the measurement of liabilities to banks, the official middle rate of the bid and ask rates for other liabilities.

In line with the imparity principle, unrealized losses relating to **derivative financial instruments** are expensed when incurred. If the financial instrument qualifies for hedge accounting, the unrealized loss exceeding the positive fair values is recognized in net income or loss through an accrual, whereas unrealized gains are deferred until realized.

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

Notes to the statement of income.

[1] Net revenue

Revenue by area of activity.

	2006 millions of €	2005 millions of €
Broadband/Fixed Network	20,936	20,283
Business Customers	-	2,775
Group Headquarters & Shared Services	-	-
	20,936	23,058

The development of net revenue is the result of offsetting effects.

As a result of the spin-off of the MVBS and Billing & Collection areas – which together previously made up the Business Customer business area within Deutsche Telekom AG – the corresponding revenues are no longer included in the reporting year.

Revenue in the Broadband/Fixed Network business area increased year-on-year. This development is attributable to the merger of T-Online into Deutsche Telekom that was completed in the reporting year.

Within the Broadband/Fixed Network business area, revenue from narrowband lines decreased as a result of customer migration to competitors, substitution by mobile communications and, to a lesser extent, voice over IP.

On the other hand, the broadband market enjoyed dynamic growth in volumes in the reporting year, but this only partially compensated for the drop in revenue from narrowband lines because of the falling price level.

Altogether, the merger of T-Online and the spin-off of MVBS and Billing & Collection led to a decrease in revenue of EUR 1.0 billion.

Revenue by geographic area.

	2006 millions of €	2005 millions of €
Domestic	20,369	22,514
International	567	544
	20,936	23,058

All net revenues generated outside of Germany are related to the ICSS area.

[2] Changes in inventories and other own capitalized costs

	2006 millions of €	2005 millions of €
Change in inventories of work in process	11	(3)
Own capitalized costs	404	286
	415	283

The increase in other own capitalized costs is mainly attributable to the introduction of new switching and transmission technologies such as T-Home Speed, as well as to a significant decrease in outsourcing to third parties.

[3] Other operating income

	2006 millions of €	2005 millions of €
Income from rental and lease agreements	737	894
Cost reimbursements	637	502
Reversal of accruals	586	1,558
Income from foreign currency transaction gains	416	113
Income from write-ups of noncurrent assets	199	93
Income from the disposal of noncurrent assets	198	79
Ancillary services	155	135
Income from derivatives	140	64
Bonuses from asset-backed securitization	125	206
Income from the elimination of liabilities	105	25
Income from insurance compensation	39	78
Income from reversal of valuation adjustments	28	34
Refund of value-added tax (§ 15a UStG)	0	5
Other income	277	286
	3,642	4,072

Income from rental and lease agreements results from the transfer of use of real estate and is paid by GMG Generalmietgesellschaft mbH, Münster to Deutsche Telekom as part of its activities as a subletting company.

Income from cost reimbursements consists primarily of income from the transfer for personnel costs amounting to EUR 406 million (prior year: EUR 331 million).

Income from the reversal of accruals resulted especially from the reversal of personnel-related accruals (EUR 136 million), the accrual for cash compensation related to convertible bonds issued in previous years (EUR 97 million), reversal of the remaining accrual for the housing benefit arbitration proceedings (EUR 71 million), outstanding invoices (EUR 94 million). The decrease in income from the reversal of accruals is principally attributable to a drop in the settlement amounts for the Postbeamtenkrankenkasse [Postal Civil Service Health Insurance Fund] and a change in the method for the measurement of pension accruals (conversion of measurement to the provisions of § 6a EstG) that resulted in a significant increase of income in the previous year.

Income from foreign currency transaction gains resulted mainly from the granting of short-term loans and investments (EUR 221 million), the valuation of accrued interest (EUR 69 million) as well as the balance sheet date valuation of bank accounts (EUR 20 million).

Income from write-ups of noncurrent assets includes income of EUR 108 million from the write-up of the carrying amount of the investment in Toll Collect GmbH, Berlin.

Income from the disposal of noncurrent assets relates principally (EUR 173 million, prior year: EUR 43 million) to the disposal of property, plant and equipment, with income from the disposal of financial assets accounting for a further EUR 23 million (prior year: EUR 35 million).

Of the total amount of other operating income, EUR 1.1 billion (prior year: EUR 1.7 billion) is attributable to other accounting periods. The income relating to other accounting periods resulted in particular from the reversal of accruals (EUR 586 million), the disposal of noncurrent assets (EUR 198 million), and the reversal of valuation allowances for accounts receivable (EUR 28 million).

Other operating income decreased as a result of the merger of T-Online and the spin-off of MVBS and Billing & Collection in the reporting year.

[4] Goods and services purchased

	2006 millions of €	2005 millions of €
Goods purchased		
Raw materials and supplies	193	162
Goods purchased	442	316
	635	**478**
Services purchased		
Domestic network access charges	1,924	2,371
International network access charges	567	683
Other services	1,767	1,445
	4,258	**4,499**
	4,893	**4,977**

Goods and services purchased decreased slightly year-on-year. This is attributable to lower expenses for services purchased. This was partially offset by an increase in expenditure for goods purchased resulting from the Max06 marketing campaign in the reporting year.

The decrease in expenditures for services purchased resulted from lower network access charges paid due to a decline in volumes. Other reasons include price reductions for call termination services billed by mobile communications network operators under domestic network access charges and lower international call termination charges under foreign network access charges.

The increase in other services relates mainly to billing services. In the prior year, Deutsche Telekom performed these services itself. Following the incorporation of Billing & Collection into Active Billing GmbH & Co. KG (AB KG), these services are now purchased from AB KG.

An offsetting effect under other services resulted from the non-recurrence of corresponding expenditures caused in the prior year by the MVBS area, which has meanwhile been spun off.

Goods and services purchased decreased in the reporting year as a result of the merger of T-Online and the spin-off of MVBS and Billing & Collection.

[5] Personnel costs/Average number of employees

	2006 millions of €	2005 millions of €
Wages and salaries	**6,667**	5,332
Social security contributions and expenses for pension plans and benefits		
Payments to Bundes-Pensions-Service für Post und Telekommunikation e.V.	860	862
Social security contributions	454	480
Expenses for pension plans for non-civil servants	367	63
Health care expenses	129	145
	1,810	1,550
	8,477	6,882

The increase in expenses for wages and salaries is primarily due to the addition of EUR 2.3 billion to the accruals for staff adjustments (prior year: EUR 682 million). This relates almost exclusively to the additions resulting from the Early Retirement Act [Vorruhestandsgesetz] adopted by the German Bundestag in September of 2006.

As part of the **civil servants pension plan**, Deutsche Telekom AG maintained a special pension fund for its active and former civil servants until the 2000 financial year. By way of a notarized agreement dated December 7, 2000, this fund was merged with the special pension funds of Deutsche Post AG and Deutsche Postbank AG to form the joint pension fund Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT). On January 11, 2001, the fund was entered in the Register of Associations with retroactive effect from July 1, 2000. The registered office of BPS-PT is Bonn. BPS-PT works for the funds of all three companies and also handles the financial administration for the Federal Republic on a trust basis. It carries out all transactions for pension and allowance payments in respect of civil servants for Deutsche Post AG, Deutsche Postbank AG, and Deutsche Telekom AG.

In accordance with the provisions of the German Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz – PTNeuOG), BPS-PT makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil servant status. The level of Deutsche Telekom's payment obligations to BPS-PT is stipulated in § 16 of the Act concerning the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz – PostPersRG). Since 2000, Deutsche Telekom has been legally required to make an annual contribution to BPS-PT amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. This contribution is recognized as ongoing expenses in the respective year and amounted to EUR 842 million in the reporting period (prior year: EUR 862 million).

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

The increase in the expenses for pension plans of employees is mainly due to the absence of special effects that reduced the total amount of expenses in the prior year, as well as the year-on-year increase in the number of new partial retirement agreements.

The merger of T-Online led to an increase in expenditure in the reporting year. The spin-off of MVBS and Billing & Collection had an offsetting effect. These effects led to a net decrease in personnel costs of EUR 312 million.

The average number of employees developed as follows:

	2006 Number	2005 Number
Civil servants	42,969	46,525
Non-civil servants	58,869	61,902
	101,838	**108,427**
Trainees and student interns	10,216	10,162

In the 2006 financial year, the average number of employees decreased by 6.1 percent as a result of staff adjustment measures and the spin-off of MVBS and Billing & Collection to other Group companies.

[6] Depreciation, amortization and write-downs

	2006 millions of €	2005 millions of €
Depreciation and amortization		
Amortization of intangible assets	313	307
Depreciation of property, plant and equipment	3,197	3,317
	3,510	**3,624**
Write-downs		
in accordance with § 253 (2) sentence 3 HGB	220	250
	3,730	**3,874**

The declining-balance depreciation method has been used for newly acquired, movable depreciable noncurrent assets since the beginning of the reporting year (change in the depreciation method). Seen on its own, this change leads to an increase in expense. There are additional effects that increase expense further, such as the year-on-year increase in investments (see Note [12]). Nevertheless depreciation and amortization decreased by EUR 120 million year-on-year. This was mainly the result of the offsetting effect from the now completed depreciation of large proportions of the Company's digital switching equipment.

Write-downs relate to valuation adjustments of buildings and properties for which no further business use is planned or which are held for sale.

[7] Other operating expenses

	2006 millions of €	2005 millions of €
Rental and leasing expenses	1,659	1,697
Marketing expenses	1,455	1,147
IT support	899	1,176
Maintenance and repair	705	703
Research and development	589	489
Foreign currency transaction losses	502	90
Legal and consulting fees	487	447
Losses on accounts receivable and provision for doubtful accounts	259	391
Other employee-related costs	255	216
Losses on the disposal of noncurrent assets	89	131
Travel expenses	70	71
Postal and freight charges	40	288
Insurances	36	37
Donations	19	54
Reimbursements	19	29
Incidental expenses of monetary transactions	8	39
Other expenses	709	770
	7,800	7,775

The rental and leasing expenses primarily result from the leaseback of buildings and land from Generalmietgesellschaft mbH, Münster (GMG).

Marketing expenses rose year-on-year primarily due to the merger of T-Online into Deutsche Telekom and as a result of higher sales commissions for DSL resale and the Max06 marketing campaign.

IT support expenses were mainly reduced by the spin-off of Billing & Collection and by cost savings for workstation systems.

Expenses related to foreign currency transaction losses resulted mainly from the granting of short-term loans and investments in U.S. dollars (EUR 342 million), the balance sheet date valuation of bank accounts (EUR 42 million), and expenses arising from the valuation of interest accruals (EUR 62 million.)

Losses on accounts receivable and provision for doubtful accounts include a discount for credit risks from the asset-backed securitization in the amount of EUR 84 million (prior year: EUR 104 million). The decrease correspond to a lower level of receivables as of the balance sheet date.

Losses on the disposal of noncurrent assets mainly relate to the disposal of property, plant and equipment (EUR 84 million).

The drop in postal and freight charges is primarily related to the spin-off of Billing & Collection to T-Systems Active Billing GmbH & Co. KG.

Of the other operating expenses, EUR 89 million (prior year: EUR 102 million) relates to other accounting periods. The entire amount relates to the disposal of noncurrent assets.

Other operating income also increased year-on-year as a result of the T-Online merger and the spin-off of MVBS and Billing & Collection.

[8] Financial income/expense, net

	2006 millions of €	2005 millions of €
Income related to subsidiaries, associated and related companies of which from subsidiaries: € 77 million; prior year: € 301 million	86	307
Income from profit transfer agreements of which from tax allocations: € 0 million; prior year: € 0 million	2,919	3,099
Expenses arising from loss transfers	(1,198)	(692)
Income related to subsidiaries, associated and related companies	**1,807**	**2,714**
Income from debt securities and long-term loan receivables of which from subsidiaries: € 32 million; prior year: € 37 million	35	53
Other interest and similar income of which from subsidiaries: € 155 million; prior year: € 116 million	273	249
Interest and similar expense of which to subsidiaries: € 1,772 million; prior year: € 2,139 million	(2,160)	(2,638)
Net interest expense	**(1,852)**	**(2,336)**
Write-downs on financial assets and marketable securities	**(592)**	**(130)**
	(637)	**248**

Income related to subsidiaries, associated and related companies mainly represents profit distributions of HT – Hrvatske telekomunikacije d.d., Zagreb (EUR 56 million), Deutsche Telekom International Finance B.V., Amsterdam (EUR 11 million), Deutsche Telekom Holding B.V, Amsterdam (EUR 10 million) and Sireo Real Estate GmbH, Heusenstamm (EUR 6 million).

Income from profit transfer agreements primarily relates to T-Mobile International Holding GmbH, Bonn (EUR 2.1 billion); DeTeAsia Holding GmbH, Bonn (EUR 200 million); MagyarCom Holding GmbH, Bonn (EUR 177 million); DeTeMedien, Deutsche Telekom Medien GmbH, Frankfurt/Main (EUR 134 million); and DFMG Holding GmbH, Bonn (EUR 134 million).

Expenses arising from loss transfers primarily relate to T-Systems Business Services GmbH, Bonn (EUR 763 million), Vivento Customer Services GmbH, Bonn (EUR 144 million), T-Systems Enterprise Services GmbH, Frankfurt/Main (EUR 86 million), Vivento Technical Services GmbH, Bonn (EUR 78 million) and Deutsche Telekom Immobilien und Service GmbH, Münster (EUR 72 million).

Income from debt securities and long-term loan receivables primarily consists of interest income on loans to subsidiaries.

The **net interest expense** was mainly caused by interest expense from the bonds issued by Deutsche Telekom International Finance B. V., Amsterdam.

Write-downs on financial assets relate mainly to write-downs on the carrying amount of the investment in MagyarCom Holding GmbH, Bonn, amounting to EUR 511 million.

The merger with T-Online and the spin-off of MVBS had a positive offsetting effect totaling EUR 34 million on net financial expense.

[9] Extraordinary loss

The merger of T-Online into Deutsche Telekom generates an accounting merger gain in the amount of EUR 1.8 billion that is reported as an extraordinary item.

[10] Taxes

	2006 millions of €	2005 millions of €
Income taxes		
Current income taxes	177	(241)
Tax allocations	1	(24)
	178	(265)
Other taxes	(27)	(28)
	151	**(293)**

No taxable income and no taxable trade income were generated in 2006, which is why no current taxes were incurred in Germany. Tax income relates to prior years.

Notes to the balance sheet.

[11] Intangible assets

	Dec. 31, 2006 millions of €	Dec. 31, 2005 millions of €
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	642	592
Advance payments	111	126
	753	718

The development of intangible assets is shown in the statement of noncurrent assets.

[12] Property, plant and equipment

	Dec. 31, 2006 millions of €	Dec. 31, 2005 millions of €
Land and equivalent rights and buildings including buildings on land owned by third parties	6,469	7,021
Technical equipment and machinery	14,995	16,161
Other equipment, plant and office equipment	234	192
Advance payments and construction in progress	708	546
	22,406	23,920

Despite a year-on-year increase in investments, property, plant and equipment decreased by a total of EUR 1.5 billion as a result of real estate sales and depreciation.

Expenditure on property, plant and equipment in 2006 totaled EUR 2.1 billion (prior year: EUR 1.6 billion). The primary focus of investment spending was on transmission equipment amounting to EUR 756 million (prior year: EUR 648 million), as well as the outside plant network to EUR 633 million (prior year: EUR 274 million). Both the increase in investments as well as higher advance payments and construction in progress are principally related to the construction of the VDSL-high speed network in connection with the T-Home Speed project.

The development of property, plant and equipment is shown in the statement of noncurrent assets.

[13] Financial assets

	Dec. 31, 2006 millions of €	Dec. 31, 2005 millions of €
Investments in subsidiaries	64,490	66,595
Loans to subsidiaries	787	596
Investments in associated companies	169	13
Other investments in related companies	3	3
Other long-term loans	11	12
	65,460	67,219

Structural changes at Deutsche Telekom, among other factors, led to significant changes in financial assets in the reporting year. The most important structural changes include:

- the merger of T-Online into Deutsche Telekom,
- the spin-off of the Billing & Collection area from Deutsche Telekom and its incorporation into Active Billing GmbH & Co. KG (AB KG), as well as
- the spin-off of the MVBS area to T-Systems Business Services GmbH.

These events resulted in the following changes in the value of **investments in subsidiaries** compared to the prior year: a reduction by EUR 2.9 billion due to the derecognition of the carrying amount of the investment in T-Online, an increase of EUR 1.5 billion due to the addition of the former subsidiaries of T-Online, an increase of EUR 56 million resulting from the spin-off of MVBS and an increase of EUR 12 million due to the incorporation of Billing & Collection in AB KG.

Investments in subsidiaries were further reduced by the write-down of the carrying amount of MagyarCom Holding GmbH by EUR 511 million.

Loans to subsidiaries primarily comprise loans to the following entities: T-Systems Enterprise Services GmbH, Frankfurt/Main (EUR 500 million); T-Online Telecommunications Spain S.A.U., Madrid (EUR 71 million); T-Mobile Netherlands B.V., The Hague (EUR 60 million); Scout24 Service GmbH, Darmstadt (EUR 44 million); and T-Systems North America, Inc., New York (EUR 37 million). This balance sheet item rose by EUR 135 million year-on-year as a result of the aforementioned merger.

Investments in associated companies increased as a result of the merger by EUR 48 million compared to the prior-year figure. This position was also affected by a write-up of EUR 108 million in the carrying amount of the investment in Toll Collect GmbH, Berlin.

The development of financial assets is shown in the statement of noncurrent assets. The full list of investment holdings is filed electronically with the electronic commercial register in Bonn.

[14] Inventories, materials and supplies

	Dec. 31, 2006 millions of €	Dec. 31, 2005 millions of €
Raw materials and supplies	20	22
Work in process	18	6
Merchandise	89	70
	127	**98**

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

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

The increase in merchandise is largely explained by inventories of new products such as Speedports and T-SINUS family phones for the Max06 marketing campaign (3x3 complete bundles).

[15] Receivables

	Dec. 31, 2006 millions of €	Dec. 31, 2005 millions of €
Trade accounts receivable (of which with a remaining maturity of more than one year: € 0 million; prior year: € 0 million)	943	1,185
Receivables from subsidiaries (of which with a remaining maturity of more than one year: € 0 million; prior year: € 0 million)	3,425	4,025
Receivables from associated and related companies (of which with a remaining maturity of more than one year: € 0 million; prior year: € 0 million)	20	5
	4,388	**5,215**

Since December 2001, Deutsche Telekom has sold certain trade accounts receivable to a special-purpose entity as part of an asset-backed securitization program by way of global assignment. The contract explicitly rules out the re-transfer of the receivables sold. The credit risks assumed by the purchaser and the remaining moral hazard are compensated by a corresponding discount. The contract provides for a bonus for the discounts if the risks covered by the discounts are ultimately not realized to the detriment of the purchaser. The receivables sold are still collected by Deutsche Telekom on behalf of the purchaser.

The decrease in trade accounts receivable is explained in part by the decline in net revenue. Due to the offsetting effects of the merger of T-Online into Deutsche Telekom and the spin-off of MVBS and Billing & Collection, trade accounts receivable from third parties are down on balance by approximately EUR 124 million year-on-year.

The item “Receivables from subsidiaries” includes EUR 2.7 billion for receivables from financing activities within the Group (prior year: EUR 3.9 billion) and, as a minor component, EUR 537 million of trade accounts receivable (prior year: EUR 170 million).

The decrease in receivables from subsidiaries largely results from the EUR 2.2 billion year-on-year decrease in receivables from T-Mobile Holding GmbH, Bonn. This decline was caused by the capital reduction at T-Mobile International AG & Co. KG, Bonn, in the reporting year amounting to EUR 3.7 billion. The amount thus generated was invested at Deutsche Telekom as part of the cash pooling system. The Company therefore now shows a liability to T-Mobile Holding GmbH.

This was partially offset by the year-on-year increase in receivables from T-Mobile International AG & Co. KG, Bonn (EUR 853 million), T-Mobile USA, Inc., Bellevue (EUR 319 million) and DeTeAsia Holding GmbH, Bonn (EUR 200 million).

[16] Other assets

	Dec. 31, 2006 millions of €	Dec. 31, 2005 millions of €
Tax receivables		
Income tax receivables		
Corporate income tax	335	316
Trade taxes	205	68
Solidarity surcharge	18	17
Other income taxes	0	28
	558	**429**
Other tax receivables	24	33
	582	**462**
Accrued interest	306	381
Receivables from asset-backed securitization	60	76
Receivables from collateral	52	102
Receivables from reimbursements	52	53
Receivables from employees	19	23
Receivables from advance payments on current assets	4	5
Receivables from loans receivable	2	3
Miscellaneous other assets	55	70
	550	**713**
	1,132	**1,175**

Of the receivables reported under other assets, EUR 5 million (prior year: EUR 3 million) have a remaining maturity of more than one year.

Of income tax receivables, EUR 415 million relates to the current financial year (prior year: EUR 254 million) and EUR 143 million to previous years (prior year: EUR 175 million). The receivables arise primarily from advance payments exceeding the relevant tax liabilities for the years 2005 and 2006 as well as allowable taxes for the years 2002 through 2006.

The majority of other tax receivables in the amount of EUR 23 million relate to input tax receivables from services that have been recognized on the balance sheet but could not yet be claimed from the tax authorities in the absence of invoices.

Collateral is used to hedge credit risk from financial instruments. In this case, Deutsche Telekom transfers collateral in the form of cash to its contracting parties if the fair values of the derivatives exceed a certain limit, the so-called allowance. The EUR 50 million decrease in receivables from collateral is attributable to the positive development of the fair value of the entire portfolio held with banks.

[17] Marketable securities

	Dec. 31, 2006 millions of €	Dec. 31, 2005 millions of €
Treasury shares	5	5
Other marketable securities	279	232
	284	237

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

	Number
1999 Employee Stock Purchase Plan	5,185,278
Decrease as a result of the 2000 Employee Stock Purchase Plan	(2,988,980)
Decrease as a result of the 2005 Employee Stock Purchase Plan	(314,920)
Returns from the 2005 Employee Stock Purchase Plan	130
Shares acquired from KFW, not yet issued	14,630
Decrease following 2006 sale	(14,630)
	1,881,508

Treasury shares are recorded in the balance sheet at acquisition costs. The 14,630 shares acquired by KfW in 2000 – in the absence of employee purchases – were sold by Deutsche Telekom in February 2006. The amount of the capital stock attributable to these shares is EUR 37,452.80, which corresponds to 0.0003 percent of the capital stock. The issue price was EUR 13.26 per share.

The portfolio of other marketable securities comprised securities that had been transferred to a trustee as security for entitlements from partial retirement obligations under what is known as the contractual trust agreement (CTA). The amount of EUR 279 million equals Deutsche Telekom's outstanding settlement amounts to employees on partial retirement arrangements at December 31, 2006.

[18] Liquid assets

	Dec. 31, 2006 millions of €	Dec. 31, 2005 millions of €
Cash in hand, cash in banks, checks	1,325	3,457

The total time to maturity of the liquid assets is less than three months. The changes in liquid assets are shown in the statement of cash flows.

[19] Prepaid expenses and deferred charges

Prepaid expenses and deferred charges of EUR 286 million (prior year: EUR 274 million) are composed in particular of discounts on loans amounting to EUR 128 million (prior year: EUR 129 million) and prepaid personnel costs amounting to EUR 114 million (prior year: EUR 125 million). Discounts on loans are amortized on a straight-line basis over the terms of the related liabilities.

[20] Shareholders' equity

The statement of shareholders' equity has been prepared based on German Accounting Standard (GAS) No. 7, Cash Flow Statements, as approved by the German Standardization Council.

The development of shareholders' equity in 2004, 2005 and 2006 is detailed in the statement of shareholders' equity, which precedes the notes to the financial statements.

[21] Capital stock

	Authorized and issued capital		Authorized capital (not issued)		Contingent capital (not issued)	
	thousands of shares	thousands of €	thousands of shares	thousands of €	thousands of shares	thousands of €
As of Jan. 1, 2005	4,197,854	10,746,507	1,000,000	2,560,000	209,235	535,640
2001 Stock Option Plan	224	572	-	-	(224)	(572)
Approved capital increase	-	-	-	-	234,375	600,000
As of Dec. 31, 2005	4,198,078	10,747,079	1,000,000	2,560,000	443,386	1,135,068
T-Online merger	62,730	160,589	(62,730)	(160,589)	-	-
Share buy-back and retirement	(62,730)	(160,589)	-	-	-	-
2001 Stock Option Plan	53	137	-	-	(53)	(137)
Conversion of mandatory convertible bond	162,988	417,249	-		(162,988)	(417,249)
Approved capital increase	-	-	15,000	38,400	-	-
As of Dec. 31, 2006	4,361,119	11,164,465	952,270	2,437,811	280,345	717,682

Deutsche Telekom AG's capital stock totaled EUR 11,164 million as of December 31, 2006, The capital stock is divided into 4,361,119,250 no par value registered shares. Each share entitles the holder to one vote.

The Federal Republic's direct shareholding in Deutsche Telekom AG, represented by the Federal Agency, was 14.83 percent at December 31, 2006 (prior year: 15.40 percent), while KfW's shareholding at December 31, 2006 was 16.87 percent (prior year: 22.09 percent) and the private investment company Blackstone Group's 4.39 percent (prior year: 0.00 percent). This means that 646,575,126 no par value shares (EUR 1,655 million) of the capital stock were held by the Federal Republic at December 31, 2006, 735,667,390 (EUR 1,883 million) by KfW and 191,700,000 (EUR 491 million) by the Blackstone Group. The remaining shares are in free float.

In the course of the acquisition of T-Mobile USA Inc., Bellevue (United States)/Powertel Inc., Bellevue (United States), Deutsche Telekom granted options on shares of Deutsche Telekom AG in exchange for the outstanding warrants between Deutsche Telekom and T-Mobile USA/Powertel at the time of the acquisition. As of December 31, 2006, the number of Deutsche Telekom shares lodged as collateral for the outstanding preemptive rights granted to T-Mobile USA/Powertel employees amounted to 10,235,269.

Authorized capital

Deutsche Telekom had the following components of authorized capital as of December 31, 2006:

2004 Authorized capital.

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

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

When the merger took effect, existing shares in T-Online were exchanged at the ratio agreed in the merger agreement of 25 T-Online shares to 13 Deutsche Telekom shares. This resulted in an increase of EUR 161 million in capital stock. To prevent the merger from increasing the number of shares of Deutsche Telekom permanently, the Board of Management of Deutsche Telekom resolved on August 10, 2006 in accordance with the authorizing resolution of the shareholders' meeting on May 3, 2006 to buy back and retire 62,730,182 shares of the Company (corresponding to the number of new shares issued as a result of the merger of T-Online into Deutsche Telekom). The Supervisory Board approved the share retirement. Between August 14 and August 25, 2006, a total of 62,730,182 shares with a proportionate amount of the capital stock of EUR 160,589,265.92, i.e., approximately 1.4 percent of the capital stock at that time, were repurchased by the Company at an average price of EUR 11.29 for a total consideration of EUR 708,482,743.99.

2006 Authorized capital.

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

Contingent capital

Deutsche Telekom had the following components of contingent capital as of December 31, 2006:

Contingent capital I.

The capital stock has been contingently increased by up to EUR 82,733,936.64, composed of up to 32,317,944 shares. The contingent capital increase will be implemented only to the extent that

a) the holders or creditors of conversion rights or warrants attached to the convertible bonds or bonds with warrants issued by May 28, 2006 by Deutsche Telekom AG or a company in which it has a direct or indirect majority holding on the basis of the authorization granted by resolution of the shareholders' meeting of May 29, 2001, exercise their conversion or option rights or

b) the holders and creditors of convertible bonds to be issued before May 28, 2006 by Deutsche Telekom AG or its direct or indirect majority shareholdings on the basis of the authorizing resolution adopted by the shareholders' meeting on May 29, 2001, who are obligated to convert the convertible bonds, fulfill their conversion obligation. The new shares carry dividend rights from the beginning of the financial year in which they arise through exercise of conversion rights or options, or the fulfillment of conversion obligations.

The mandatory convertible bond issued in February 2003 on the basis of the Board of Management's authority to issue convertible bonds and/or bonds with warrants as resolved by the shareholders' meeting on May 29, 2001 was converted into shares of Deutsche Telekom AG on June 1, 2006. As a result, the contingent capital amounting to EUR 499,982,504.96 decreased by EUR 417,248,568.32 to EUR 82,733,936.64. The capital stock rose accordingly in the 2006 financial year. The convertible bonds were issued by Deutsche Telekom's financing company in the Netherlands – Deutsche Telekom International Finance B.V. – and are guaranteed by Deutsche Telekom AG. The securities were issued at par value with a coupon of 6.5 percent. As of June 1, 2006, the bonds were converted into shares of Deutsche Telekom AG at the ratio of 3,810.97561 shares per bond (par value: EUR 50,000).

Contingent capital II.

The capital stock has been contingently increased by up to EUR 32,326,991.36, composed of up to 12,627,731 new no par value registered shares. The contingent capital increase is exclusively for the purpose of meeting preemptive rights to shares from stock options granted in the period until December 31, 2003 to members of the Board of Management of the Company, to members of second-tier management, and to other executives, managers, and specialists of the Company and to members of the boards of management, members of management, and other executives, managers, and specialists at lower-tier Group companies in Germany and other countries, on the basis of the authorization for a 2001 Stock Option Plan granted by resolution of the shareholders' meeting on May 29, 2001. It will be implemented only to the extent that the holders of stock options exercise these options. The new shares carry dividend rights from the beginning of the financial year in which they are issued. If new shares are issued after the end of a financial year but before the Company's shareholders' meeting that resolves the appropriation of net income for the preceding financial year, the new shares carry dividend rights from the beginning of the preceding financial year.

53,625 stock options granted under the 2001 Stock Option Plan were exercised in the 2006 financial year. As a result, contingent capital II amounting to EUR 32,464,271.36 decreased by EUR 137,280.00 (53,625 no par value shares) to EUR 32,326,991.36. The capital stock rose accordingly in the 2006 financial year.

Contingent capital III.

The capital stock has been contingently increased by up to EUR 2,621,237.76, composed of up to 1,023,921 shares. The contingent capital increase serves exclusively to grant subscription rights to members of the board of management and executives of the Company, as well as board of management members, managing board members and other executives of second- and lower-tier subsidiaries as part of a stock option plan established on the basis of a resolution by the shareholders' meeting of May 25, 2000. It shall be implemented only to such extent as use is made of those subscription rights. The new shares carry dividend rights from the beginning of the financial year in which they are issued. If new shares are issued after the end of a financial year but before the Company's shareholders' meeting that resolves the appropriation of net income for the preceding financial year, the new shares carry dividend rights from the beginning of the preceding financial year. No stock options granted under the 2000 Stock Option Plan had been exercised by the time the plan ended on July 20, 2005.

Contingent capital IV.

The capital stock has been contingently increased by EUR 600,000,000, composed of 234,375,000 no par value shares. The contingent capital increase will be implemented only to the extent that

a) the holders and creditors of convertible bonds or warrants attached to bonds with warrants to be issued or guaranteed on or before April 25, 2010 by Deutsche Telekom AG or its direct or indirect majority shareholdings on the basis of the authorizing resolution adopted by the shareholders' meeting in April 2005, exercise their conversion or option rights or

b) those obligated under the convertible bonds or bonds with warrants issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority shareholdings on or before April 25, 2010 on the basis of the authorizing resolution adopted by the shareholders' meeting in April 2005, fulfill their conversion or option obligation

c) and the contingent capital is needed to fulfill the bond terms.

The new shares carry dividend rights from the beginning of the financial year in which they arise through exercise of conversion rights or options, or the fulfillment of conversion or option obligations. The Board of Management is authorized, with the approval of the Supervisory Board, to determine the remaining details of the implementation of the contingent capital increase.

Treasury shares

Through a resolution by the shareholders' meeting on May 3, 2006, the Board of Management of Deutsche Telekom AG was authorized to acquire up to 419,807,790 treasury shares – i.e., up to almost 10 percent of the capital stock – until November 2, 2007. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. The treasury shares acquired on the basis of this authorization may be resold on the stock exchange, used, with the approval of the Supervisory Board, to list the Company's shares on foreign stock exchanges, granted, with the approval of the Supervisory Board, to third parties in the course of business combinations or for the acquisition of companies, parts of companies, or equity interests in companies, including increasing an existing investment, retired with the approval of the Supervisory Board, tendered to shareholders on the basis of a subscription offer extended to all shareholders, or, with the approval of the Supervisory Board, disposed of in a manner other than on the stock exchange or tender to all shareholders, used, with the approval of the Supervisory Board, for the fulfillment of conversion or option rights/obligations arising from convertible bonds or bonds with warrants issued by the Company based on the authority resolved by the shareholders' meeting on April 26, 2005 under item 9 of the agenda or used, with the approval of the Supervisory Board, to service stock options to which holders of T-Online stock options are entitled on the basis of the 2001 Stock Option Plan and which are to be granted to them as a result of the merger of T-Online into Deutsche Telekom, in accordance with the merger agreement dated March 8, 2005. The authorizations described above may be exercised once or repeatedly, individually or in combination, in full or in relation to partial quantities of the shares purchased. The authorization granted to the Board of Management by the shareholders' meeting on April 26, 2005 to acquire treasury shares ended when this new authorization took effect on May 3, 2006; the authorizations granted by the shareholders' meeting resolution of April 26, 2005 on the use of acquired treasury shares remain unaffected. The change in treasury shares is discussed in the notes to marketable securities (see Note [17]).

[22] Additional paid-in capital

Additional paid-in capital rose by EUR 2.25 billion in 2006, with the increase primarily resulting from the conversion of the mandatory convertible bond (EUR 1.72 billion) and the effect of the merger of T-Online into Deutsche Telekom (EUR 360 million). Furthermore, EUR 161 million were allocated to additional paid-in capital in connection with the share buy-back and the subsequent retirement of the shares, which resulted in a decrease in retained earnings.

[23] Retained earnings

In addition to the transfers from income after taxes from prior years to other retained earnings, retained earnings also include the reserve for treasury shares in the amount reported under marketable securities that must be recognized in accordance with § 272 (4) HGB. In the reporting period, the Company bought back the shares issued in connection with the merger of T-Online International AG into Deutsche Telekom on the market and subsequently retired them (see Note [21]). The retirement decreased retained earnings by EUR 708 million.

In addition, EUR 1.2 billion was transferred from retained earnings and to unappropriated net income in the reporting year.

[24] Stock-based compensation

In view of the merger of T-Online into Deutsche Telekom that came into effect in the reporting year, the Stock Option Plans issued by T-Online International AG prior to the merger are also listed in the following.

Deutsche Telekom stock option plan

Deutsche Telekom 2001 Stock Option Plan

	2006		2005		2004	
	Stock options (in thousands)	Weighted average exercise price €	Stock options (in thousands)	Weighted average exercise price €	Stock options (in thousands)	Weighted average exercise price €
Outstanding at beginning of reporting period	11,096	24.59	11,444	24.36	11,768	24.25
Granted	0	-	0	-	0	-
Exercised	(53)	12.36	(217)	12.36	(101)	12.39
Forfeited	(253)	25.98	(131)	24.11	(223)	25.18
Outstanding at end of reporting period	**10,790**	**24.62**	**11,096**	**24.59**	**11,444**	**24.36**
Exercisable at end of reporting period	**10,790**	**24.62**	**11,096**	**24.59**	**9,564**	**26.71**

Supplemental disclosures.

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

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

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

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

Deutsche Telekom reserved the right, at its election, to settle the options through the payment of a cash amount (SARs) instead of issuing new shares. The exercise of an SAR cancels the related option, and the exercise of an option cancels the related SAR. As of December 31, 2006, no resolution on conversion had been passed to this effect.

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

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

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

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

In 2001 and 2002, Deutsche Telekom also granted 167,920 SARs to employees in countries in which it was not legally possible to issue stock options. 2,145 SARs were forfeited in the reporting year and 148,640 SARs were still outstanding at December 31, 2006.

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

During the 2006 exercise period, the average share price of Deutsche Telekom shares was EUR 13.01.

T-Online stock option plan

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

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

T-Online 2001 Stock Option Plan

	2006		2005		2004	
	Stock options in thousands	Weighted average exercise price €	Stock options in thousands	Weighted average exercise price €	Stock options in thousands	Weighted average exercise price €
Outstanding at beginning of reporting period	3,551	10.30	3,868	10.31	4,185	10.31
Granted	0	-	0	-	0	-
Exercised	0	-	0	-	(6)	10.35
Forfeited	(159)	10.31	(317)	10.31	(311)	10.32
Outstanding at end of reporting period	3,392	10.30	3,551	10.30	3,868	10.31
Exercisable at end of reporting period	3,374	10.30	3,518	10.31	2,893	10.32

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

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

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

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

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

Mid-Term Incentive Plan 2004/2005/2006.

Deutsche Telekom Mid-Term Incentive Plan (MTIP)

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

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

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

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

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

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

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

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

The MTIP 2004 came into effect in 2004; the MTIP 2005 came into effect in 2005. The plans each have a term of three years. The plans have maximum budgets of EUR 80 million and EUR 83 million, respectively. The proportionate amount to be expensed and recognized as an accrual at each balance sheet date is calculated based on a Monte Carlo simulation.

The starting price for the absolute performance target of the MTIP 2004 is EUR 14.08 per Deutsche Telekom share. Consequently, the absolute performance target is achieved if an average share price of at least EUR 18.30 is reached during the defined period before the end of the plan. For the MTIP 2005, the relevant starting price is EUR 16.43, and the absolute performance target EUR 21.36. The starting value of the index for the relative performance target is 317.95 points for the MTIP 2004 and 358.99 points for the MTIP 2005. The starting value of the total return of Deutsche Telekom shares corresponds to the share price prior to the beginning of the plan (EUR 14.08 for the MTIP 2004, and EUR 16.43 for the MTIP 2005).

The MTIP 2004 expired on the balance sheet date. The performance target was not met, meaning no payments will be made in connection with this plan.

The MTIP 2006 became effective on January 1, 2006. The plan has a term of three years. The plan has a maximum budget of EUR 85.5 million.

The starting price for the absolute performance target of the MTIP 2006 is EUR 14.00 per Deutsche Telekom share. Consequently, the absolute performance target is achieved if an average share price of at least EUR 18.20 is reached during the defined period before the end of the plan.

The starting value of the index for the relative performance target of the MTIP 2006 is 452.02 points and the starting value of the total return of the Deutsche Telekom share is EUR 14.00.

T-Online Mid-Term Incentive Plan (MTIP)

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

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

[25] Accruals for pensions and similar obligations

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

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

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

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

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

Pension accruals are made in the balance sheet for financial reporting purposes for the pension obligations in accordance with § 6a EStG. The level of these accruals is substantiated by an actuarial report.

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

The year-on-year increase in the accruals is principally the result of an increased use of partial retirement. The collective agreement governing partial retirement at Deutsche Telekom AG provides that for every signed agreement a one-time payment must be made to the company pension plan for employees.

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

	Dec. 31, 2006 millions of €	Dec. 31, 2005 millions of €
Direct pension obligations of which parallel obligation: € 1,570 million; prior year: € 1,636 million	3,388	3,350
Indirect pension obligations	118	78
	3,506	**3,428**
Obligations in accordance with Article 131 GG	4	6
	3,510	**3,434**

[26] Tax accruals

	Dec. 31, 2006 millions of €	Dec. 31, 2005 millions of €
Trade tax	36	33
Corporate income tax	241	418
Other taxes	114	146
	391	**597**

[27] Other accruals

	Dec. 31, 2006 millions of €	Dec. 31, 2005 millions of €
Employee benefits		
Early retirement (BPS-PT)	1,569	0
Partial retirement arrangement	657	486
Civil Service Health Insurance Fund	270	301
Staff reduction	89	682
Other obligations	355	529
Other obligations		
Loss contingencies from interest rate derivatives	542	547
Outstanding invoices	431	462
Litigation risks	230	272
Order book risks	69	58
Loss contingencies from foreign currency forward contracts	29	17
Deferred maintenance	19	19
Restoration commitments	17	65
Investment risks	0	311
Miscellaneous other accruals	281	521
	4,558	**4,270**

The Second Act to Amend the Act for the Improvement of the Staff Structure at the Residual Special Asset of the Federal Railways and the Successor Companies of the Former Deutsche Bundespost (Zweites Gesetz zur Änderung des Gesetzes zur Verbesserung der personellen Struktur beim Bundeseisenbahnvermögen und in den Unternehmen der Deutschen Bundespost) was passed during the reporting year. Under this legislation, civil servants can apply for early retirement upon reaching the age of 55, provided that they meet all the criteria stipulated in the act.

Deutsche Telekom partially compensates for the resulting lower contributions by the civil servants as well as for the cost of early retirement by making payments to BPS-PT. In the reporting year, accruals totaling EUR 1.6 billion were raised for such offsetting payments.

The increase in the accruals for partial retirement is principally due to the increased use of partial retirement arrangements.

The decrease in the accruals for staff reduction measures is the result of the planned use of these measures.

The reduction in other obligations is related in particular to payments made to BPS-PT in connection with a year-end settlement and an arbitrational settlement concluded in the reporting year.

In 2006, a settlement was reached with Deutsche Post AG in the “Housing Benefit” arbitration proceedings that had been ongoing since 1998. As a result, accruals for litigation risks decreased by EUR 116 million. This was partially offset by allocations for various individual risks.

The elimination of the accrual for investment risks relates to the payment of the loss absorption obligations for Toll Collect GbR, Berlin.

The decrease in miscellaneous other accruals is a result especially of the reversal of the accrual for possible cash compensation related to convertible bonds. Other significant payments made are related to accruals in connection with DSL Resale.

[28] Liabilities

	2006				2005			
	Total	of which due			Total	of which due		
	millions of €	within year	in 1 to 5 years	after 5 years	millions of €	within year	in 1 to 5 years	after 5 years
Debt								
Bonds and debentures	1,189	105	337	747	1,597	459	442	696
Liabilities to banks	1,658	445	533	680	1,237	23	672	542
	2,847	**550**	**870**	**1,427**	**2,834**	**482**	**1,114**	**1,238**
Other liabilities								
Advances received	3	3			4	4		
Trade accounts payable	1,254	1,254			1,159	1,159		
Payables to subsidiaries	30,967	9,236	12,118	9,613	38,678	18,985	10,193	9,500
Payables to associated and related companies	21	21			6	6		
Other liabilities	2,374	1,298	318	758	1,499	808	1	690
(of which: from taxes)	(276)	(276)			(227)	(227)		
(of which: from social security)								
	34,619	**11,812**	**12,436**	**10,371**	**41,346**	**20,962**	**10,194**	**10,190**
Total liabilities	**37,466**	**12,362**	**13,306**	**11,798**	**44,180**	**21,444**	**11,308**	**11,428**

Bonds and debentures relate primarily to treasury notes of Deutsche Post AG, Bonn, (EUR 746 million) and medium-term notes (EUR 337 million).

Bonds and debentures are composed of the following items:

Due by December 31	up to 6% millions of €	up to 7% millions of €	up to 8% millions of €	9% - 10%[1] millions of €	Total millions of €
2007	0	0	0	105	105
2008	121	0	0	0	121
2009	0	205	0	0	205
2010	12	0	0	0	12
2011	0	0	0	0	0
2012 to 2020	0	0	746	0	746
Total	**133**	**205**	**746**	**105**	**1,189**

[1] Bonds amounting to EUR 105 million relate to medium-term notes (currency: PLN) that bear variable interest rates as a result of corresponding hedging activities.

The largest item under payables to subsidiaries is the liability to Deutsche Telekom International Finance B.V., Amsterdam, which amounts to EUR 23.1 billion (prior year: EUR 25.1 billion). This liability relates primarily to bonds issued by DT Finance. This decrease is attributable to the repayment of liabilities. The main bonds issued by DT Finance and passed on to Deutsche Telekom are structured as follows:

2000 tranche	Nominal amount in currency	Interest rate in %	Maturity
EUR	520,000,000	6.715	2010

2001 tranche	Nominal amount in currency	Interest rate in %	Maturity
EUR	1,782,581,659	6.715	2011

2002 tranche	Nominal amount in currency	Interest rate in %	Maturity
EUR	846,311,636	7.560	2007
EUR	1,841,269,841	8.195	2012
GBP	250,000,000	7.195	2012
USD	500,000,000	9.330	2032

2003 tranche	Nominal amount in currency	Interest rate in %	Maturity
EUR	284,885,928	6.185	2007
EUR	1,000,000,000	5.830	2008
USD	400,000,000	3.956	2008
EUR	365,000,000	3.746	2010
USD	1,250,000,000	5.335	2013

2004 tranche	Nominal amount in currency	Interest rate in %	Maturity
EUR	500,000,000	3.604	2009
EUR	500,000,000	3.653	2009

2005 tranche	Nominal amount in currency	Interest rate in %	Maturity
EUR	550,000,000	3.598	2008
EUR	500,000,000	3.638	2009
EUR	500,000,000	3.075	2009
EUR	1,250,000,000	3.325	2010
GBP	250,000,000	4.950	2014
EUR	1,750,000,000	4.075	2015

2006 tranche	Nominal amount in currency	Interest rate in %	Maturity
EUR	500,000,000	3.714	2008
EUR	500,000,000	3.075	2009
EUR	202,458,944	3.595	2009
USD	1,000,000,000	5.366	2009
USD	500,000,000	5.450	2011
EUR	750,000,000	4.075	2011
EUR	500,000,000	3.625	2012
GBP	250,000,000	5.700	2013
EUR	1,500,000,000	4.575	2013
USD	1,000,000,000	5.825	2016
EUR	500,000,000	4.825	2016

In addition, liabilities to the companies of the T-Mobile group have changed in particular. While liabilities to T-Mobile International AG & Co. KG, Bonn, were reduced by EUR 5.0 billion to EUR 291 million, liabilities to T-Mobile International Holding GmbH, Bonn, rose by EUR 1.7 billion and those to T-Mobile Global Holding GmbH, Bonn, by EUR 481 million.

Due to the merger of T-Online into Deutsche Telekom, liabilities to subsidiaries also decreased year-on-year by EUR 4.0 billion.

The following table shows the composition of other liabilities:

	Dec. 31, 2006 millions of €	Dec. 31, 2005 millions of €
Liabilities from loan notes	750	690
Liabilities to employees	574	16
Liabilities from the early retirement arrangements for civil servants	414	-
Liabilities from interest	204	368
Tax liabilities	276	227
Liabilities from customer credit balances	-	117
Liabilities from asset-backed securitization	-	30
Other liabilities	156	51
	2,374	**1,499**

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

Liabilities to employees relate in particular to severance agreements concluded in connection with the staff adjustment program.

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

Interest liabilities relate to deferred interest on bonds and debentures, and other liabilities as of December 31, 2006.

Tax liabilities mainly comprise value-added tax liabilities amounting to EUR 211 million and wage tax liabilities amounting to EUR 58 million. The increase in value-added tax liabilities of EUR 47 million year-on-year arises from the creation of additional partial payment periods in connection with the increase in the tax rate. The remaining tax liabilities are mainly related to trade tax assessments that were not yet settled as of the balance sheet date.

Notes to the statement of cash flows.

The statement of cash flows has been prepared based on German Accounting Standard (GAS) No. 2, Cash Flow Statements, as approved by the German Standardization Council and precedes the notes to the financial statements.

Specifically, cash was provided and used as follows:

[29] Net cash provided by operating activities

In the 2006 financial year, net cash provided by operating activities declined by EUR 1.8 billion year-on-year. In particular, this was due to a decrease of EUR 1.8 billion in income after taxes and higher noncash income. The increase in noncash income is mainly attributable to the profit from the T-Online merger. The reduction in short-term receivables and the increase in accruals had a positive effect on cash flow. The increase in accruals by EUR 1.0 billion is the result in particular of the addition to the accrual for early retirement arrangements amounting to EUR 1.6 billion and a reduction of EUR 0.7 billion in accruals for voluntary redundancy payments. This reduction was in turn due to the reclassification to liabilities and cash outflows.

The decrease in cash inflows from profit transfers received and from dividends of EUR 655 million year-on-year was accounted for mainly by T-Mobile International Holding GmbH, Bonn (EUR 191 million), T-Systems Enterprise Services GmbH, Frankfurt/Main (EUR 154 million), DFMG Holding GmbH, Bonn (EUR 125 million), HT-Hrvatske telekomunikacije d.d., Zagreb (EUR 68 million), and Slovak Telekom a.s., Bratislava (EUR 56 million). By contrast, profit transfers received from DeTeAsia Holding GmbH, Bonn, increased by EUR 200 million year-on-year. The increase of EUR 664 million in expenses arising from loss transfers from subsidiaries also reduced cash flow. The loss transfer from T-Systems Business Services GmbH, Bonn, amounting to EUR 763 million in particular contributed to the increase in expenses.

[30] Net cash used for investing activities

Net cash used for investing activities amouted to EUR 1.8 billion, a year-on-year decrease of EUR 986 million.

Cash outflows for investments decreased by EUR 694 million, with cash outflows for investments in property, plant and equipment rising EUR 911 million while cash outflows for investments in financial assets decreased by EUR 1.7 billion. The latter item is explained in particular by the fact that the investment amount of the prior year includes EUR 1.8 billion that was spent on shares in T-Online. The rise in cash outflows for investments in property, plant and equipment is primarily a result of the roll-out of the VDSL high-speed network.

In the 2006 financial year, cash inflows from the disposal of noncurrent assets were EUR 350 million lower than in the prior year. While cash inflows from the disposal of property, plant and equipment (primarily from the disposal of real estate) increased by EUR 569 million year-on-year, cash inflows from the disposal of financial assets decreased by EUR 938 million. The decline in cash inflows from disposals of financial assets is mainly attributable to EUR 779 million lower loan repayments than in the prior year.

The reduction in financial receivables and the transfer of T-Online's cash generated inflows of EUR 322 million. This was partially offset by outflows relating to the appropriation of the contractual trust arrangement assets amounting to EUR 46 million.

[31] Net cash used for financing activities

Net cash used for financing activities decreased by EUR 1.5 billion year-on-year to EUR 3.6 billion, reflecting in particular Deutsche Telekom's dividend payments.

The change in financial liabilities is attributable in part to the net change (balance of borrowings and redemptions) in short-term borrowings, combined with a cash outflow of EUR 4.7 billion. This was partially offset by the net change in medium- and long-term borrowings which generated a cash inflow of EUR 4.8 billion.

Cash outflows arising from the change in shareholders' equity were impacted mainly by the share buy-back associated with the merger of T-Online into Deutsche Telekom (EUR 708 million).

Other disclosures.

[32] Guarantees and commitments, and other financial obligations

Guarantees and commitments.

	2006 millions of €	2005 millions of €
Liabilities from guarantees	156	121
Liabilities arising from warranty agreements (of which to subsidiaries: € 0 million; prior year: € 0 million)	18,522	16,878
	18,678	**16,999**

Guarantees include litigation and security deposit guarantees, and warranties.

Liabilities arising from collateral granted and from warranty agreements include guarantees and comfort letters, and relate predominantly to Deutsche Telekom International Finance B.V., Amsterdam (Netherlands) (EUR 13.9 billion), T-Mobile Deutschland GmbH, Bonn (EUR 4.0 billion) and T-Systems Enterprise Services GmbH, Frankfurt/Main (EUR 278 million).

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

The liability obligation of the parties of the consortium means they may be obligated to inject additional capital in the event of negative developments within the Toll Collect project. The operating agreement includes contract penalties after the approved start of operations if the performance of the system is not adequate or in case of significant breaches of contract. The Federal Republic is asserting claims for damages against the consortium in the amount of EUR 3.5 billion plus interest for lost toll revenues for the period September 1, 2003 to December 31, 2004 on the grounds of delayed implementation of the toll system. In addition, the Federal Republic of Germany is asserting claims, inter alia, for contractual penalties in the amount of approximately EUR 1.7 billion plus interest for the period up to and including June 30, 2005. To assert its alleged claims, the Federal Republic of Germany has filed a request for arbitration as part of the contractual arbitration process. The consortium members Deutsche Telekom and DaimlerChrysler Services AG, as well as Toll Collect GbR consider the claims of the Federal Republic of Germany to be unfounded. They filed their statement of defense on June 30, 2006.

The maximum future obligations arising from the Toll Collect project cannot be quantified with adequate certainty; it is therefore not possible to express this in figures under guarantees and commitments.

The Federal Republic is refusing issuance of the final operating permit for the toll system on the grounds that alleged further obligations under the operating agreement, specifically the assignment of certain industrial property rights to Toll Collect GmbH, have not been fulfilled. Deutsche Telekom AG, on the other hand, is of the opinion that the obligations under the operating agreement have been satisfied.

As a consequence of the refusal to grant the final operating permit, the Federal Republic of Germany considers itself entitled, effective December 21, 2006, to initiate proceedings for the termination of the operating agreement by serving notice of termination. The operating agreement provides for such a right of termination on the part of the Federal Republic if the final operating permit is not granted within 12 months from the granting of the interim operating permit. The right of termination on the part of the Federal Republic assumes that Toll Collect GmbH does not alleviate the grounds for termination within a certain period from receipt of the termination notice. The right of termination of the Federal Republic is limited to a period of 6 months after the Federal Republic becomes aware of the grounds for termination. There are presently no indications that the Federal Republic will issue a termination notice. Deutsche Telekom has therefore decided not to recognize any potential financial obligations that may arise in this connection on its books and records.

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

Other financial obligations.

	2006			2005		
	Total	of which due		Total	of which due	
		in the following financial year	from the second financial year after the balance sheet date		in the following financial year	from the second financial year after the balance sheet date
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Present value of payments to BPS-PT	8,300	850	7,450	7,900	842	7,058
Obligations under rental and lease agreements (of which to subsidiaries: € 9,400 million; prior year: € 11,900 million)	9,838	1,808	8,030	12,406	1,999	10,407
Purchase commitments for capital projects in progress, including obligations arising from future expenditure (of which to subsidiaries: € 855 million; prior year: € 1,691 million)	1,646	1,405	241	3,360	3,315	45
Commitments arising from contributions not paid up, purchase commitments for interests in other companies, and commitments arising from transactions not yet settled (of which to subsidiaries: € 1,743 million; prior year: € 680 million)	2,234	980	1,254	1,171	551	620
Total other financial obligations	**22,018**	**5,043**	**16,975**	**24,837**	**6,707**	18,130

The present value of payments that Deutsche Telekom is required to make in accordance with Postreform II to the BPS-PT on the basis of the 2005 G tables published by Prof. Klaus Heubeck amounted to EUR 8.3 billion as of December 31, 2006. The increase is due to an adjustment of the interest rate.

Obligations under rental and lease agreements include obligations to subsidiaries in the amount of EUR 9.4 billion. These break down as follows: EUR 7.4 billion to GMG Generalmietgesellschaft mbH, Münster (GMG); EUR 577 million to DFMG Deutsche Funkturm GmbH, Münster (DFMG); EUR 937 billion to DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (DTI); EUR 283 million to DeTeFleetServices GmbH, Bonn; and EUR 159 million to T-Systems International Desktop Services GmbH, Frankfurt/Main. The decrease in obligations under rental and lease agreements is mainly due to the fact that agreements with GMG, DTI and DFMG are approaching the end of their terms. In addition, the obligations to GMG were adjusted downward by EUR 650 million after a after adjustment to the level of leasing in 2006.

Purchase commitments for capital projects in progress, including obligations arising from future expenditure are composed of commitments for non-capital (EUR 1.4 billion) and capital projects (EUR 229 million).

Uncalled contributions not yet paid up relate in particular to Vivento Customer Services GmbH, Bonn (EUR 96 million), T-Online Venture Fund GmbH & Co. KG, Bonn (EUR 65 million), T-Com Venture Fund GmbH & Co. KG, Bonn (EUR 41 million) and Vivento Technical Services GmbH, Bonn (EUR 31 million). Commitments arising from transactions not yet settled relate in particular to commitments arising from transactions with T-Systems Business Services GmbH, Bonn (EUR 1.0 billion), Vivento Customer Services GmbH, Bonn (EUR 211 million), GMG Generalmietgesellschaft mbH, Münster (EUR 165 million) and Vivento Technical Services GmbH, Bonn (EUR 53 million).

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

Deutsche Telekom is a party to a number of lawsuits and other proceedings arising out of the general conduct of its business, including proceedings under laws and regulations related to environmental and other matters. Litigation accruals include the costs of litigation and the forecast cost of the negative outcome of proceedings.

[33] Derivative financial instruments

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

	Notional amounts				Fair values			
	Remaining term			Total	Remaining term			Total
	Less than 1 year millions of €	1 - 5 years millions of €	More than 5 years millions of €	**millions of €**	Less than 1 year millions of €	1 - 5 years millions of €	More than 5 years millions of €	**millions of €**
Interest-related instruments								
Interest rate swaps	40,263	15,323	18,863	6,077	(664)	(108)	(131)	(425)
Cross-currency interest rate swaps	11,939	3,848	4,698	3,393	(115)	38	(19)	(134)
Subtotal	**52,202**	**19,171**	**23,561**	**9,470**	**(779)**	**(70)**	**(150)**	**(559)**
Currency instruments								
Future exchange transactions short	492	472	20	0	8	5	3	0
Future exchange transactions long	2,245	1,460	785	0	(65)	(62)	(3)	0
Subtotal	**2,737**	**1,932**	**805**	**0**	**(57)**	**(57)**	**0**	**0**
Total	**54,939**	**21,103**	**24,366**	**9,470**	**(836)**	**(127)**	**(150)**	**(559)**

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

	Interest receivables millions of €	Liabilities from interest millions of €	Other accruals millions of €
Interest rate swaps	323	(348)	(541)
Cross-currency interest rate swaps	109	(61)	(1)
Foreign currency forward contracts	-	-	(29)
Total	**432**	**(409)**	**(571)**

The Company uses derivatives for the purpose of hedging interest rate and currency exposures that arise from its ongoing business operations. The top priority in all cases in which derivatives are used is to limit the risk of the underlyings. Derivative financial instruments may therefore only be used to eliminate risk exposures, and may never be used to create new risks for speculative reasons. Derivatives are designed to offset changes in the fair values and interest payments of the financial assets and liabilities to which they are allocated. Such derivatives are reviewed regularly for their effectiveness as hedge instruments. Derivative financial instruments are subject to internal controls.

Derivatives are reported with the financial assets and liabilities to which they are allocated by qualifying for hedge accounting.

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

Gains and losses from changes in their fair value are netted out within existing portfolios and net aggregate losses are recognized in income. The net balance of payments made and received in relation to the interest rate swaps, and gains and losses from interest rate swaps closed out before maturity, are recognized in income.

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

Foreign currency forward contracts hedging other payments and receipts are assigned to foreign currency portfolios categorized by foreign currency type and marked to market as of the balance sheet date. The fair value of traded derivative financial instruments corresponds to their market value. Non-traded interest rate swaps are recognized at the present value of future payments; foreign currency forward contracts are valued at the forward exchange rate on the balance sheet date. Measurement gains and losses are netted portfolio for portfolio. An accrual for loss contingencies is established for each portfolio for the amount of the excess loss. Net gains are not recognized.

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

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

[34] Compensation of the Board of Management and the Supervisory Board

Compensation of the Board of Management

The following information concerning the compensation of the Board of Management comprises notes required by law under the German Commercial Code (see § 285 HGB) as well as information specified in the guidelines set out in the German Corporate Governance Code.

The Board of Management of Deutsche Telekom AG is currently comprised of five members. René Obermann was appointed Chairman of the Board of Management on November 13, 2006. On December 5, 2006, Hamid Akhavan and Timotheus Höttges were appointed new members of the Board of Management. Three members of the Board of Management left during the course of the financial year: Kai-Uwe Ricke on expiration of November 12, 2006, Walter Raizner on expiration of December 4, 2006, and Dr. Heinz Klinkhammer on expiration of December 31, 2006.

Board of Management compensation system and review.

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

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

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

Fixed remuneration is determined for all Board of Management members based on market conditions in accordance with the requirements of stock corporation law (for individual figures, please refer to the table “Total remuneration and expense in 2006”).

The annual variable remuneration of Board of Management members is based on the achievement of targets set by the General Committee of the Supervisory Board of Deutsche Telekom for each member of the Board of Management prior to commencement of the financial year. The level of target achievement is set by the General Committee of the Supervisory Board for the respective financial year (for detailed information, please refer to the table “Total remuneration and expense in 2006”).

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

According to market-oriented and corporate standards, the Company grants all members of the Board of Management additional benefits under the terms of their service contracts, some of which are viewed as non-cash benefits and taxed accordingly. This mainly includes being furnished with a company car and accident and liability insurance and being reimbursed in connection with business trips and maintaining a second household (for specific details regarding individual components of compensation, please refer to the column “Other compensation” in the table “Total remuneration and expense in 2006”).

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

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

1. Linking of appointment as a Board of Management member and the Board of Management service agreement/severance arrangement.

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

2. Post-contractual prohibition of competition.

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

3. Company pension entitlement.

The members of the Board of Management are entitled to a company pension conforming to market standards. The amount is based on the final salary, which means that Board of Management members receive a company pension based on a fixed percentage of their last fixed annual salary for each year of service rendered prior to their date of retirement. The key features of the pension plan for Board of Management members active in 2006 are described below.

a) Board of Management members are entitled to pension payments in the form of a life-long retirement pension upon reaching the age of 62, a disability pension or in the form of an early retirement pension upon reaching the age of 60 (subject to the usual actuarial deductions). The vested rights of Messrs. Obermann, Raizner, Pauly and Höttges are generally based on the statutory regulations provided in § 1b (1) of the German Act for the Improvement of Company Pension Plans (Gesetz zur Verbesserung der betrieblichen Altersversorgung – BetrAVG); the rights of the other members of the Board of Management are already vested. The amount of the company pension is calculated on the basis of the eligible period of service rendered as a Board of Management member until the date of departure.

b) The annual retirement pension is comprised of a base percentage (5 percent for Messrs. Pauly and Höttges, or 6 percent for the remaining Board of Management members) of the fixed annual salary upon termination of the service relationship multiplied by the eligible service period expressed in years. After 10 years of Board of Management membership, the maximum percentage of the pension level is achieved (50 percent or 60 percent, respectively). Pension payments are subject to a standard annual adjustment (1 percent for Messrs. Pauly and Höttges, or 3 percent for the remaining Board of Management members). In the event of a permanent inability to work (invalidity), the respective period of service through the scheduled end of the current period of appointment serves as the basis for the period of service eligible for calculating the pension. Since he joined the Company, Mr. Raizner had a vested right to an additional old-age pension in the form of a pension payment (one-time payment at the age of 62, or alternatively at an earlier age subject to discounting). This pension component corresponded to a pension level of approximately 60 percent within the meaning of the plan described above. Due to his U.S. citizenship, a "pension plan substitute" was agreed with Mr. Akhavan in lieu of such a pension commitment. For each full year of service rendered as a Board of Management member, he accordingly receives a compensation payment corresponding to the pension contribution for one year. The pro rata amount payable for the 2006 financial year as a result of this agreement is also individually recorded in the table "Total remuneration and expense in 2006."

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

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

Components with mid- and long-term incentives.

1. Mid-Term Incentive Plan.

Members of the Board of Management participate in the Deutsche Telekom AG Mid-Term Incentive Plan (MTIP) introduced in the 2004 financial year (please refer to the explanations regarding the MTIP under Note 42). Messrs. Akhavan and Höttges participate in the 2005 and 2006 MTIPs based on their prior activities as members of the Board of Management of T-Mobile International AG.

The targets for the 2004 MITP were not achieved according to the results determined by the General Committee of the Supervisory Board on February 6, 2007. Therefore, no incentive was awarded to the Board of Management from this tranche of the plan.

Compensation from the Mid-Term-Incentive Plans[1]

	2005 MTIP Maximum award amount €	2005 MTIP Fair value as of December 31, 2005 €	2006 MTIP Maximum award amount €	2006 MTIP Fair value as of December 31, 2006 €
Kai-Uwe Ricke[2]	0	0	0	0
René Obermann	450,000.00	3,925.97	504,000.00	20,969.11
Dr. Karl-Gerhard Eick	562,500.00	4,907.46	596,250.00	24,807.20
Hamid Akhavan	240,000.00	2,093.85	300,000.00	12,481.61
Timotheus Höttges	195,000.00	1,701.25	240,000.00	9,985.29
Dr. Heinz Klinkhammer[2]	300,000.00	2,617.31	0	0
Lothar Pauly	337,500.00	2,944.48	450,000.00	18,722.41
Walter Raizner	562,500.00	4,907.46	390,625.00	16,252.10
Computed total value	**2,647,500.00**	**23,097.78**	**2,480,875.00**	**103,217.72**

[1] Fair value calculated using the so-called Monte Carlo model.
[2] There are no MTIP entitlements for Mr. Ricke for 2005 and 2006 and for Dr. Klinkhammer for 2006.

2. 2001 Stock Option Plan.

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

Dr. Eick, Dr. Klinkhammer and Mr. Ricke participated in the 2001 tranche. Mr. Akhavan, Mr. Höttges and Mr. Obermann continue to participate in the 2002 tranche of the 2001 Stock Option Plan based on their prior activities for T-Mobile. In addition, Mr. Obermann also participates in the 2001 tranche.

The stock options that have been granted can be exercised under the terms of the stock option plans. However, no options have yet been exercised.

Incentive-based compensation from stock option plans

	Number of options 2001 SOP tranche 2001	Value of options on issue (2001) in €	Number of options 2001 SOP tranche 2002	Value of options on issue (2002) in €
Kai-Uwe Ricke[1]	0	0	0	0
René Obermann	48,195	4.87	28,830	3.79
Dr. Karl-Gerhard Eick	163,891	4.87	0	0
Hamid Akhavan	0	0	19,840	3.79
Timotheus Höttges	0	0	17,050	3.79
Dr. Heinz Klinkhammer	163,891	4.87	0	0
Lothar Pauly	0	0	0	0
Walter Raizner	0	0	0	0
Total	**375,977**	**4.87**	**65,720**	**3.79**

[1] Mr. Ricke no longer has any entitlement.

Please also refer to the explanations of the stock option plans above under Note 24 "Stock-based compensation."

Board of Management compensation for the 2006 financial year.

In reliance on legal requirements and other guidelines, a total of EUR 15,328,555.72 is reported in the following table as compensation for the 2006 financial year for the current and former members who left the Board of Management in 2006. This amount comprises the fixed annual salary, other benefits, non-cash benefits, remuneration in kind, variable remuneration for the 2006 financial year, the fair value of the 2006 Mid-Term Incentive Plan as of the balance sheet date of December 31, 2006 and the 2006 pension expense. The addition to company pensions is recorded under personnel cost (referred to as "service costs" – SCOs).

	Total remuneration and expens in 2006					
	Fixed annual salary in 2006 €	Other compensation in 2006 €	Variable 2006 remuneration €	Total €	2006 MITP (fair value as of Dec. 31, 2006) €	2006 pension expense (SCOs) €
Kai-Uwe Ricke (until Nov. 12, 2006)	1,083,333.37	41,589.71	1,298,630.14	2,423,553.22	0	662,447.00
René Obermann	894,666.66	28,730.71	805,537.00	1,728,934.37	20,969.11	378,979.00
Dr. Karl-Gerhard Eick	993,750.00	88,962.04	894,375.00	1,977,087.04	24,807.20	747,257.00
Hamid Akhavan (from Dec. 5, 2006)	58,064.52	27,566.84	53,260.27	138,891.63	12,481.61	15,671.23[1]
Timotheus Höttges (from Dec. 5, 2006)	54,435.48	949.44	49,931.51	105,316.43	9,985.29	28,315.00[2]
Dr. Heinz Klinkhammer	840,000.00	67,350.47	840,000.00	1,747,350.47	0	908,955.00
Lothar Pauly	750,000.00	77,131.26	600,000.00	1,427,131.26	18,722.41	283,286.00
Walter Raizner (until Dec. 4, 2006)	869,455.65	135,670.02	868,150.68	1,873,276.35	16,252.10	778,887.00
Total	**5,543,705.68**	**467,950.49**	**5,409,884.60**	**11,421,540.77**	**103,217.72**	**3,803,797.23**

[1] The amount indicated for Mr. Akhavan is based on a pro-rata calculation from December 5, 2006 for the aforementioned lump-sum annual compensation payment (pension substitute).
[2] Due to his brief membership of the Board of Management, no service costs are reported for Mr. Höttges. For informational purposes, the PBO/DBO expense is stated for the period from December 5, 2006.

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

Former members of the Board of Management.

A total of EUR 11,852,133.15 was recorded for payments to and additions to accruals for former members of the Board of Management and their surviving dependents. Due to the departure of members of the Board of Management, there were also one-time special effects related to the calculation of pension accruals in the amount of EUR 3,580,038.00 (minimum accrual according to § 6a EStG).

The accruals set up for ongoing pensions and vested rights to pensions for this group of persons and their surviving dependents amounted to EUR 71,532,477.00 depending on the respectively applicable accounting principles and regulations (minimum accrual according to § 6a EstG).

Several former Board of Management members are entitled to a civil servant pension from the Civil Service Pension Fund (BPS-PT). In the 2006 financial year, there was no expense incurred in this regard. The present value of the estimated pensions of these Board of Management members amounts to EUR 3,275,322.00 (minimum accrual according to § 6a EStG) as of December 31, 2006 (indirect pension obligation).

Other.

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

Compensation of the the Supervisory Board

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

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

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

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

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

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

Members of the Supervisory Board receive an attendance fee amounting to EUR 200 for each meeting of the Supervisory Board or its committees that they have attended. The Company reimburses value-added tax payable on remuneration and expenses.

The total remuneration of the members of the Supervisory Board in 2006 amounted to EUR 952,387.10 (plus VAT). In addition, members became entitled to long-term remuneration of EUR 121,176.00 in the 2004 financial year which will be paid out after the 2007 shareholders' meeting.

The long-term remuneration earmarked in the 2004 financial year will be paid out after the 2007 shareholders' meeting. An accrual of EUR 645,624.00 had been recognized for this purpose (see 2004 Annual Report). Provided performance targets are met, a total amount of EUR 121,176.00 (plus VAT) will be paid out.

The compensation of the individual members of the Supervisory Board for 2006 is as follows:

Member of the Supervisory Board	Fixed remuneration plus attendance fee €	Short-term variable €	Total (net) €	Imputed long-term remuneration entitlement[1] €
Brandl, Monika	21,000.00	6,900.00	27,900.00	0.00
Dr. Döpfner, Mathias[2]	10,000.00	3,450.00	13,450.00	0.00
Falbisoner, Josef	21,000.00	6,900.00	27,900.00	0.00
Dr. von Grünberg, Hubertus	41,400.00	13,248.00	54,648.00	0.00
Guffey, Lawrence H.[3]	19,516.67	6,319.25	25,835.92	0.00
Halsch, Volker[4]	4,166.68	1,437.50	5,604.18	0.00
Hocker, Ulrich[5]	5,400.00	1,725.00	7,125.00	0.00
Holzwarth, Lothar[6]	20,800.00	6,900.00	27,700.00	0.00
Dr. Hundt, Dieter[7]	12,900.00	4,312.50	17,212.50	0.00
Litzenberger, Waltraud	21,000.00	6,900.00	27,900.00	0.00
Löffler, Michael	21,000.00	6,900.00	27,900.00	0.00
Matthäus-Maier, Ingrid[8]	13,733.33	4,600.00	18,333.33	0.00
Dr. Mirow, Thomas[9]	33,200.00	10,074.00	43,274.00	0.00
Reich, Hans W.[10]	8,733.33	2,875.00	11,608.33	0.00
Prof. Dr. Reitzle, Wolfgang	20,800.00	6,900.00	27,700.00	0.00
Prof. Dr. von Schimmelmann, Wulf[11]	13,933.33	4,600.00	18,533.33	0.00
Dr. Schinzler, Hans-Jürgen[12]	8,733.33	2,875.00	11,608.33	0.00
Dr. Schlede, Klaus G.	63,200.00	20,700.00	83,900.00	0.00
Schmitt, Wolfgang	43,200.00	13,800.00	57,000.00	0.00
Schröder, Lothar[13]	44,433.35	14,087.50	58,520.85	0.00
Sommer, Michael	20,800.00	6,900.00	27,700.00	0.00
Steinke, Ursula	21,000.00	6,900.00	27,900.00	0.00
Prof. Dr. Stolte, Dieter[14]	8,733.33	2,875.00	11,608.33	0.00
Treml, Franz[15]	37,200.00	12,075.00	49,275.00	0.00
Walter, Bernhard	43,400.00	13,800.00	57,200.00	0.00
Wegner, Wilhelm	65,600.00	20,700.00	86,300.00	0.00
Dr. Zumwinkel, Klaus	74,600.00	24,150.00	98,750.00	0.00
				0.00
Total	**719,483.35**	**232,903.75**	**952,387.10**	**0.00**

1 In determining the amount to be recognized as an accrual it was assumed that net income per no par value share in 2008 would equal that in 2006. Based on this assumption, members were not entitled to long-term variable remuneration for the period 2005 to 2008, so the accrual was set at EUR 0.00.
2 Member from June 3, 2006 through October 13, 2006
3 Member since June 1, 2006
4 Member until January 16, 2006
5 Member since October 14, 2006
6 Mr. Holzwarth received compensation of EUR 3,466.67 from T-Systems Business Services, Bonn, a wholly-owned subsidiary of Deutsche Telekom AG, for the 2006 financial year for a mandate as member of the supervisory board of this company.
7 Member until May 3, 2006
8 Member since May 3, 2006
9 Member since January 17, 2006
10 Member until May 3, 2006
11 Member since May 3, 2006
12 Member until May 31, 2006
13 Member since June 22, 2006. Mr. Schröder received compensation of EUR 17,000 from T-Mobile Deutschland GmbH, Bonn, and EUR 10,600 from T-Mobile International AG, Bonn, both wholly-owned subsidiaries of Deutsche Telekom AG, for the 2006 financial year for a mandate as member of the supervisory boards of both these companies.
14 Member until May 3, 2006
15 Member until June 21, 2006. Mr. Treml received compensation of EUR 3,068 from DeTeImmobilien, Deutsche Telekom Immobilien und Service GmbH, a wholly-owned subsidiary of Deutsche Telekom AG, for the 2006 financial year for a mandate as a member of the supervisory board of this company.

[35] Proposal for appropriation of net income

The Supervisory Board and the Board of Management of Deutsche Telekom propose, subject to the approval of the shareholders' meeting, to pay shareholders a dividend of EUR 0.72 per individual no par value share carrying dividend rights and to carry forward the remaining balance as part of unappropriated net income of EUR 3,160,382,630.24.

[36] Auditors' fees and services

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

PwC	2006 millions of €	2005 millions of €
Professional fees for audits	11	3
Professional fees for other accounting services	6	14
Other professional fees	4	3
	21	**20**

Ernst & Young	2006 millions of €	2005 millions of €
Professional fees for audits	8	4
Professional fees for other accounting services	6	13
Other professional fees	0	0
	14	17

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

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

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

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

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

Bonn, February 13, 2007

Deutsche Telekom AG
Board of Management

René Obermann

Dr. Karl-Gerhard Eick

Hamid Akhavan

Timotheus Höttges

Lothar Pauly

Auditors' report.

We have audited the annual financial statements, consisting of the statement of income, the balance sheet, the statement of cash flows, the shareholders`equity and the notes to financial statements and the management report of Deutsche Telekom AG, Bonn, together with the bookkeeping system for the financial year from January 1 to December 31, 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the prospects and risks of future development.

Stuttgart/Frankfurt (Main), February 13, 2007

Ernst & Young
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Stuttgart

(Prof. Dr. Pfitzer)	(Hollweg)
Wirtschaftsprüfer	Wirtschaftsprüfer

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