Deutsche Telekom AG

Annual financial statements as of December 31, 2004

Contents

A combined management report has been produced for the Deutsche Telekom Group and Deutsche Telekom AG and is published in our 2004 Annual Report.

Deutsche Telekom AG's single-entity financial statements and management report, which has been combined with the Group management report, for the 2004 financial year are published in the Federal Gazette (Bundesanzeiger) and filed under HRB 6794 with the Commercial Registry of the Bonn District Court.

Members of the Supervisory Board of Deutsche Telekom AG in 2004 including seats on the supervisory 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, Bonn

Member of the Supervisory Boards of:
- Deutsche Lufthansa AG, Cologne (since 6/1998)
- Deutsche Postbank AG, Bonn, 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 (U.S.), Board of Directors (since 1/2004)

Franz Treml
Member of the Supervisory Board since July 8, 2003
Deputy Chairman of the Supervisory Board since August 21, 2003
Deputy Chairman of ver.di trade union, Berlin

Member of the Supervisory Boards of:
- DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster, Deputy Chairman (since 3/2000)
- DBV-Winterthur – Leben, Wiesbaden (since 4/2000)

Monika Brandl
Member of the Supervisory Board since November 6, 2002
Member of the Central Works Council at Deutsche Telekom AG, Bonn

– no other seats –

* Supervisory board seats in companies that are members of the same group, as defined in § 100 (2), Sentence 2 AktG (German Stock Corporation Act)

Josef Falbisoner
Member of the Supervisory Board since October 2, 1997
Head of ver.di District of Bavaria, Munich

Member of the Supervisory Boards of:
- PSD Bank eG, Munich, Augsburg office (since 6/1994)

Dr. Hubertus von Grünberg
Member of the Supervisory Board since May 25, 2000
Member of the Supervisory Board at Continental AG, Hanover, et al

Member of the Supervisory Boards of:
- Allianz Versicherungs-AG, Munich (since 5/1998)
- Continental AG, Hanover, Chairman of the Supervisory Board (since 6/1999)
- 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)

Volker Halsch
Member of the Supervisory Board since October 1, 2004
State Secretary, Federal Ministry of Finance, Berlin

Member of the Supervisory Boards of:
- Deutsche Bahn AG, Berlin (since 2/2003)

Lothar Holzwarth
Member of the Supervisory Board since November 6, 2002
Chairman of the Works Council at Deutsche Telekom AG, Business Customer Branch Office, Southwestern District, Stuttgart

Member of the Supervisory Boards of:
- PSD Bank RheinNeckarSaar eG, (since 1/1996), Chairman of the Supervisory Board (from 7/2000 to 6/2004), Deputy Chairman of the Supervisory Board (since 7/2004)

Dr. Dieter Hundt
Member of the Supervisory Board since January 1, 1995
Managing Shareholder of Allgaier Werke GmbH, Uhingen, and President of the Confederation of German Employers' Associations (BDA), Berlin

Member of the Supervisory Boards of:
- EvoBus GmbH, Stuttgart (since 5/1995)
- Stauferkreis Beteiligungs-AG, Göppingen, Chairman of the Supervisory Board (since 1/1999)
- Stuttgarter Hofbräu AG, Stuttgart (since 4/1993), renamed SHB Stuttgarter Finanz- und Beteiligungs Aktiengesellschaft, Stuttgart in 7/2004
- Stuttgarter Hofbräu Verwaltungs-AG, Stuttgart (since 5/1999), Deputy Chairman of the Supervisory Board (from 9/2003 to 10/2004), Chairman of the Supervisory Board (since 11/2004)
- Landesbank Baden-Württemberg, Stuttgart, Administrative Board (since 1/1999)

Waltraud Litzenberger
Member of the Supervisory Board since June 1, 1999
Member of the Works Council at Deutsche Telekom AG, Technical Customer Service Branch Office, Central District, Mainz

Member of the Supervisory Boards of:
- PSD Bank 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 –

Dr. Manfred Overhaus
Member of the Supervisory Board from November 28, 2002 to September 30, 2004, Former State Secretary, Federal Ministry of Finance, Berlin

Member of the Supervisory Boards of:
- Deutsche Post AG, Bonn (from 1/1995 to 9/2004)
- GEBB mbH, Cologne (from 8/2000 to 6/2004)

Hans-W. Reich
Member of the Supervisory Board since May 27,1999
Chairman of the Board of Managing Directors, KfW Bankengruppe, Frankfurt/Main

Member of the Supervisory Boards of:
- Aareal Bank AG, Wiesbaden (since 6/2002), Chairman of the Supervisory Board (since 6/2004)
- Deutsche Post AG, Bonn (since 9/2004)
- 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 (since 9/1999)
- RAG AG, Essen (since 11/2000)
- Thyssen Krupp Steel AG, Duisburg (since 7/2000)

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

Dr.-Ing. Wolfgang Reitzle
Member of the Supervisory Board since February 10, 2005
Chairman of the Executive Board of Linde AG, Wiesbaden

Member of the Supervisory Boards of:
- Allianz Lebensversicherungs-AG, Stuttgart (since 12/2002)
- STILL GmbH, Hamburg, Chairman of the Supervisory Board* (since 1/2004)

Dr. jur. Hans-Jürgen Schinzler
Member of the Supervisory Board since May 20, 2003
Chairman of the Supervisory Board of Münchener Rückversicherungs-Gesellschaft AG, Munich

Member of the Supervisory Boards of:
- Bayerische Hypo- und Vereinsbank AG, Munich (since 3/2003), Deputy Chairman of the Supervisory Board (since 1/2004)
- Metro AG, Düsseldorf (since 5/2002)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Aventis S.A., Schiltigheim (France) (from 12/1999 to 8/2004)

Dr. Klaus G. Schlede
Member of the Supervisory Board since May 20, 2003
Member of the Supervisory Board of Deutsche Lufthansa AG, Cologne

Member of the Supervisory Boards of:
- Deutsche Postbank AG, Bonn (since 4/2000)
- Deutsche Lufthansa AG, Cologne (since 6/1998)

Wolfgang Schmitt
Member of the Supervisory Board since October 2, 1997
Head of Liaison Office, T-Com Headquarters, Deutsche Telekom AG, Bonn

Member of the Supervisory Boards of:
- 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 Trade Union Federation (DGB), Berlin

Member of the Supervisory Boards of:
- Deutsche Postbank AG, Bonn, Deputy Chairman of the Supervisory Board (since 11/1997)

Ursula Steinke
Member of the Supervisory Board since January 1, 1995
Chairwoman of the Works Council at T-Systems CDS GmbH, Northern District Branch Office, Kiel

– no other seats –

Prof. Dr. h.c. Dieter Stolte
Member of the Supervisory Board since January 1, 1995
Publisher of the "Welt" and "Berliner Morgenpost" newspapers, Berlin

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

Bernhard Walter
Member of the Supervisory Board since May 27,1999
Former Chairman of the Board of Managing Directors of Dresdner Bank AG, Frankfurt/Main

Member of the Supervisory Boards of:
- Bilfinger Berger AG, Mannheim (since 7/1998)
- DaimlerChrysler AG, Stuttgart (since 5/1998)
- Henkel KGaA, Düsseldorf (since 5/1998)
- mg technologies ag, Frankfurt/Main (since 3/1993)
- Staatliche Porzellan-Manufaktur Meißen GmbH, Meißen (since 1/2001)
- Thyssen Krupp AG, Düsseldorf (from 3/1997 to 1/2005)
- Wintershall AG, Kassel, Deputy Chairman of the Supervisory Board (since 2/2001)

* Supervisory board seats in companies that are members of the same group, as defined in § 100 (2), Sentence 2 AktG (German Stock Corporation Act)

Wilhelm Wegner
Member of the Supervisory Board since July 1, 1996
Chairman of the Central Works Council at Deutsche Telekom AG, Bonn

Member of the Supervisory Boards of:
- VPV Allgemeine Versicherungs-AG, Cologne (since 8/1995)
- VPV Holding AG, Stuttgart (since 1/2002)
- Vereinigte Postversicherung VVaG, Stuttgart (since 7/1998)

Dr. Wendelin Wiedeking
Member of the Supervisory Board from May 20, 2003 to February 9, 2005
Chairman of the Board of Management of Dr. Ing. h.c. F. Porsche AG, Stuttgart

– no other seats –

Member of comparable supervisory bodies of companies in Germany or abroad:
- Novartis AG, Basle (Switzerland)
- Eagle-Picher Industries Inc., Phoenix, Arizona (U.S.)
- Porsche Business Services Inc., Wilmington, Delaware (U.S.)*
- Porsche Cars Great Britain Ltd., Reading, England (UK)*
- Porsche Cars North America Inc., Wilmington, Delaware (U.S.)*
- Porsche Deutschland GmbH, Bietigheim-Bissingen*
- Porsche Engineering Group GmbH, Weissach*
- Porsche Enterprises Inc., Wilmington, Delaware (U.S.)*
- Porsche Financial Services GmbH, Bietigheim-Bissingen*
- Porsche Financial Services Inc., Wilmington, Delaware (U.S.)*
- Porsche Iberica S.A., Madrid (Spain)*
- Porsche Italia S.p.A., Padua (Italy)*
- Porsche Japan K.K., Tokyo (Japan)*
- Porsche Lizenz- und Handelsgesellschaft mbH, Bietigheim-Bissingen*

* Supervisory board seats in companies that are members of the same group, as defined in § 100 (2), Sentence 2 AktG (German Stock Corporation Act)

Members of the Board of Management of Deutsche Telekom AG in 2004 including seats on the supervisory boards of other companies

Kai-Uwe Ricke
Chairman of the Board of Management of Deutsche Telekom AG

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- T-Online International AG, Darmstadt (since 10/2001), Chairman of the Supervisory Board (since 9/2002)
- T-Mobile International AG, Bonn (since 11/2002), Chairman of the Supervisory Board (since 12/2002)
- T-Mobile USA Inc., Bellevue (U.S.), Board of Directors (since 5/2001), Chairman of the Board of Directors (since 8/2004)
- T-Systems International GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 1/2003)
- T-Punkt Vertriebsgesellschaft mbH, Bonn, Chairman of the Supervisory Board (from 4/2004 to 2/2005)

Dr. Karl-Gerhard Eick
Board member responsible for Finance, Deputy Chairman of the Board of Management of Deutsche Telekom AG

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- GMG Generalmietgesellschaft mbH, Münster (since 1/2000), Chairman of the Supervisory Board (since 5/2002)
- Sireo Real Estate Asset Management GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 5/2001)
- DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (since 2/2002)
- DFMG, Deutsche Funkturm GmbH, Münster, Deputy Chairman of the Supervisory Board (from since 1/2002 to 3/2004)
- T-Mobile International AG, Bonn (since 3/2000)
- T-Mobile USA Inc., Bellevue (U.S.), Board of Directors (from 5/2001 to 8/2004)
- T-Online International AG, Darmstadt (since 2/2000)
- T-Systems International GmbH, Frankfurt/Main (since 6/2002)

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)
- Dresdner Bank Luxembourg S.A., Luxembourg, Board of Directors (from 1/2001 to 4/2004)

Dr. Heinz Klinkhammer
Board member responsible for Human Resources

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), Chairman of the Supervisory Board (since 4/2002)
- GMG Generalmietgesellschaft mbH, Münster (since 6/1996)
- Sireo Real Estate Asset Management GmbH, Frankfurt/Main (since 5/2001)
- T-Mobile International AG, Bonn (since 5/2003)
- T-Online International AG, Darmstadt (since 2/2003)
- T-Systems International GmbH, Frankfurt/Main (since 11/2000)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Federal Posts and Telecommunications Agency, Bonn, Administrative Board (since 2000)

René Obermann
Board member responsible for T-Mobile

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- T-Mobile Deutschland GmbH, Bonn, Chairman of the Supervisory Board (since 6/2002)
- T-Mobile UK Ltd., Borehamwood (UK) (from 9/2001 to 1/2004)

Walter Raizner
Board member responsible for T-Com since November 1, 2004

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- T-Punkt Vertriebsgesellschaft mbH, Bonn, Chairman of the Supervisory Board (since 2/2005)

Konrad F. Reiss
Board member responsible for T-Systems

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- DETECON International GmbH, Bonn (since 2/2003), Chairman of the Supervisory Board (since 3/2003)
- Deutsche Telekom Network Projects & Services GmbH, Bonn, Chairman of the Supervisory Board (since 5/2003)

Board members who left during 2004:

Josef Brauner
Board member responsible for T-Com from October 1, 1998 to April 30, 2004

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- T-Mobile International AG, Bonn (from 5/2003 to 4/2004)
- T-Systems International GmbH, Frankfurt/Main (from 11/2000 to 4/2004)
- Deutsche Telekom Network Projects & Services GmbH, Bonn (from 5/2003 to 4/2004)
- CAP Customer Advantage Program GmbH, Cologne, Chairman of the Supervisory Board (from 4/2002 to 4/2004)

Member of comparable supervisory bodies of companies in Germany or abroad:
- FC Bayern München AG, Munich (from 4/2003 to 8/2004)
- Karstadt Warenhaus AG, Essen (since 4/2003)

Thomas Holtrop
Board member responsible for T-Online from December 1, 2002 to September 30, 2004

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- T-Online France S.A.S., Paris (France) (from 4/2001 to 9/2004), Chairman of the Conseil d'administration (from 7/2003 to 9/2004)
- Ya.com Internet Factory, S.A.U., Madrid (Spain), Presidente del Consejo de Administración (Chairman of the Board of Directors) (from 5/2001 to 9/2004)

Statement of income for the period from January 1 to December 31, 2004

	Note	**2004** **millions of €**	2003 millions of €	2002 millions of €
Net revenue	**(1)**	**23,957**	**25,203**	**25,792**
Cost of sales	(2)	(13,894)	(15,089)	(15,994)
Gross profit		**10,063**	**10,114**	**9,798**
Selling costs	(3)	(4,358)	(5,135)	(5,699)
General and administrative costs	(4)	(2,817)	(3,122)	(3,784)
Other operating income	(5)	2,930	3,279	5,159
Other operating expenses	(6)	(2,630)	(2,636)	(2,888)
Operating results		**3,188**	**2,500**	**2,586**
Financial income (expense), net	(7)	(4)	1,468	(6,435)
Results from ordinary business activities [1]		**3,184**	**3,968**	**(3,849)**
Income taxes	(8)	(303)	101	847
Income (loss) after taxes		**2,881**	**4,069**	**(3,002)**
Unappropriated net income carried forward from previous year		2,035	0	1,894
Transfer from retained earnings		0	0	2,978
Transfer to retained earnings		2,035	(2,034)	(1,870)
Unappropriated net income		**2,881**	**2,035**	**0**

[1] Including other taxes in accordance with the classification of the statement of income by the cost-of-sales method.

Balance sheet as of December 31, 2004

	Note	2004 millions of €	2003 millions of €
ASSETS			
Noncurrent assets			
Intangible assets	(13)	651	660
Property, plant, and equipment	(14)	26,011	28,803
Financial assets	(15)	67,278	67,613
		93,940	**97,076**
Current assets			
Inventories, materials, and supplies	(16)	203	186
Receivables	(17)	4,398	20,610
Other assets	(18)	1,188	1,910
Marketable securities	(19)	7	71
Liquid assets	(20)	6,273	7,380
		12,069	**30,157**
Prepaid expenses and deferred charges	(21)	**276**	**325**
		106,285	**127,558**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	(22)		
Capital stock	(23)	10,747	10,746
– Contingent capital of EUR 536 million			
Additional paid-in capital	(24)	24,354	24,333
Retained earnings	(25)	11,116	9,081
Unappropriated net income		2,881	2,035
		49,098	**46,195**
Accruals			
Pensions and similar obligations	(27)	3,679	3,688
Taxes	(28)	982	1,027
Other accruals	(29)	4,321	4,043
		8,982	**8,758**
Liabilities	(30)		
Debt		2,376	13,032
Other		45,763	59,517
		48,139	**72,549**
Deferred income		**66**	**56**
		106,285	**127,558**

Statement of noncurrent assets

	Acquisition costs				
	Jan.1, 2004	Additions	Disposals	Reclassifications	Dec. 31, 2004
millions of €					
Intangible assets					
Concessions, industrial and similar rights, and assets, licenses in such rights and assets	1,170	136	(315)	97	1,088
Advance payments	85	159	(4)	(83)	157
	1,255	**295**	**(319)**	**14**	**1,245**
Property, plant, and equipment					
Land and equivalent rights and buildings, including buildings on land owned by third parties	14,941	23	(597)	1	14,368
Technical equipment and machinery	57,103	1,058	(748)	235	57,648
Other equipment, plant, and office equipment	1,762	123	(164)	13	1,734
Advance payments and construction in progress	371	258	(16)	(263)	350
	74,177	**1,462**	**(1,525)**	**(14)**	**74,100**
Financial assets					
Investments in subsidiaries	65,721	215	(38)	–	65,898
Loans to subsidiaries	1,905	647	(1,138)	–	1,414
Investments in associated and related companies	288	–	(30)	–	258
Long-term loans to associated and related companies	20	–	(20)	–	–
Other investments in noncurrent securities	2	–	(2)	–	–
Other long-term loans	21	2	(10)	–	13
	67,957	**864**	**(1,238)**	**–**	**67,583**
Total noncurrent assets	**143,389**	**2,621**	**(3,082)**	**–**	**142,928**

Depreciation and amortization							Net carrying amount	
Jan.1, 2004	Additions	Disposals	Reclassifications	Transferred from other Group companies	Write-ups	Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2003
595	303	(305)	1	–	–	594	494	575
–	–	–	–	–	–	–	157	85
595	**303**	**(305)**	**1**	**–**	**–**	**594**	**651**	**660**
6,534	540	(286)	(1)	–	(14)	6,773	7,595	8,407
37,472	3,186	(693)	(1)	–	–	39,964	17,684	19,631
1,368	123	(141)	1	1	–	1,352	382	394
–	–	–	–	–	–	–	350	371
45,374	**3,849**	**(1,120)**	**(1)**	**1**	**(14)**	**48,089**	**26,011**	**28,803**
120	–	–	–	–	–	120	65,778	65,601
44	–	(15)	–	–	–	29	1,385	1,861
180	6	(30)	–	–		156	102	108
–	–	–	–	–	–	–	–	20
–	–	–	–	–	–	–	–	2
–	–	–	–	–	–	–	13	21
344	**6**	**(45)**	**–**	**–**	**–**	**305**	**67,278**	**67,613**
46,313	**4,158**	**(1,470)**	**–**	**1**	**(14)**	**48,988**	**93,940**	**97,076**

Statement of cash flows

	Note	2004 millions of €	2003 millions of €	2002 millions of €
Net income (loss)		2,881	4,069	(3,002)
Amortization and depreciation		4,151	4,591	5,381
Income tax expense		303	(101)	(847)
Net interest expense		2,464	3,350	2,934
Net (gains) losses from the disposal of intangible assets, property, plant, and equipment, and financial assets		(46)	(252)	(654)
(Increase) decrease in inventories, receivables, other assets, prepaid expenses, and deferred charges		15,827	(16,896)	2,264
Changes in accruals		626	1,424	(448)
Other noncash (income) expenses		(2,561)	(5,077)	3,952
(Increase) decrease in payables and deferred income		(12,091)	11,767	(1,581)
Income taxes paid		(80)	457	843
Dividends received		2,424	5,563	710
Cash generated from operations		**13,898**	**8,895**	**9,552**
Interest paid		(4,257)	(4,280)	(4,816)
Interest received		1,503	790	1,899
Net cash provided by operating activities	(31)	**11,144**	**5,405**	**6,635**
Cash outflows for investments in intangible assets		(295)	(235)	(329)
Cash outflows for investments in property, plant, and equipment		(1,462)	(1,635)	(2,527)
Cash outflows for investments in financial assets		(1,048)	(1,547)	(8,500)
Cash inflows from the disposal of intangible assets		1	0	80
Cash inflows from the disposal of property, plant, and equipment		410	827	1,194
Cash inflows from the disposal of financial assets		1,164	9,099	11,552
Net change in short-term investments		1100	303	289
Other cash inflows (outflows)		0	(396)	0
Cash flow provided by (used for) investing activities	(32)	**(130)**	**6,416**	**1,759**
Issuance of short-term debt		3,169	12,144	76,026
Repayment of short-term debt		(16,740)	(19,981)	(86,137)
Issuance of medium and long-term debt		2,211	9,279	20,531
Repayment of medium and long-term debt		(782)	(6,035)	(18,466)
Dividends paid		0	0	(1,539)
Proceeds from share offerings		21	14	15
Cash flow used for financing activities	(33)	**(12,121)**	**(4,579)**	**(9,570)**
Changes in value of cash and cash equivalents due to exchange rate fluctuations		0	0	0
Net increase (decrease) in cash and cash equivalents		**(1,107)**	**7,242**	**(1,176)**
Cash and cash equivalents, at beginning of year		**7,380**	**138**	**1,314**
Cash and cash equivalents, at end of year		**6,273**	**7,380**	**138**
Change in cash and cash equivalents		(1,107)	7,242	(1,176)

Statement of shareholders' equity

	Capital stock		Additional paid-in capital	Retained earnings		Unappro-priated net income	**Total**
	Shares issued and outstanding (in thousands)	millions of €	millions of €	Treasury stock millions of €	Other retained earnings millions of €	millions of €	**millions of €**
Balance at Jan. 1, 2002	**4,197,752**	**10,746**	**24,304**	**7**	**8,148**	**3,433**	**46,638**
Dividends for 2001						(1,539)	(1,539)
Proceeds from stock options granted	–		15				15
Transfer from retained earnings					(2,978)	2,978	–
Loss after taxes						(3,002)	(3,002)
Transfer to retained earnings					1,870	(1,870)	–
Balance at Dec. 31, 2002	**4,197,752**	**10,746**	**24,319**	**7**	**7,040**	**–**	**42,112**
Dividends for 2002							–
Proceeds from stock options granted			14				14
Transfer from retained earnings							–
Income after taxes						4,069	4,069
Transfer to retained earnings					2,034	(2,034)	–
Balance at Dec. 31, 2003	**4,197,752**	**10,746**	**24,333**	**7**	**9,074**	**2,035**	**46,195**
Dividends for 2003							–
Proceeds from stock options granted	102	1	21				22
Transfer from retained earnings							–
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**

Exchange rates used

in €	Annual average rate 2004	2003	2002	Rate at balance sheet date Dec. 31, 2004	Dec. 31, 2003
100 Swiss francs (CHF)	64.7855	65.7665	68.1599	64.7880	64.1520
100 Czech korunas (CZK)	3.1363	3.1410	3.2485	3.2905	3.0887
1 pound sterling (GBP)	1.4731	1.4459	1.5910	1.4162	1.4166
100 Hungarian forints (HUF)	0.3977	0.3944	0.4117	0.4069	0.3794
100 Indonesian rupiahs (IDR)	0.0090	0.0103	0.0117	0.0079	0.0094
100 Japanese yen (JPY)	0.7439	0.7641	0.8478	0.7157	0.7422
100 Malaysian ringgits (MYR)	21.1503	23.2819	27.9362	19.2946	20.8950
100 Philippine pesos (PHP)	1.4337	1.6322	2.0845	1.3060	1.4406
100 Polish zlotys (PLN)	22.1001	22.7359	25.9930	24.5255	21.2750
100 Russian rubles (RUB)	2.7915	2.8866	3.3846	2.6450	2.7150
100 Singapore dollars (SGD)	47.5618	50.7026	59.2270	44.8853	46.7250
100 Slovak korunas (SKK)	2.4984	2.4100	2.3428	2.5816	2.4300
1 U.S. dollar (USD)	0.8039	0.8849	1.0616	0.7332	0.7934

Summary of accounting policies

Description of business and relationship with the Federal Republic of Germany

Deutsche Telekom AG (hereinafter also referred to as Deutsche Telekom) 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 legal entity Deutsche Telekom comprises the T-Com division and the Group Headquarters and Shared Services (GHS) division.

T-Com is responsible in particular for the Deutsche Telekom Group's fixed-network business, and is one of Europe's largest operators in this segment. In the upstream market, T-Com provides network-related services to all divisions of the Deutsche Telekom Group, as well as around 200 network-related telecommunications companies. In Germany, T-Com serves residential and business customers with a broad range of products and services. Small and medium-sized enterprises (SMEs) benefit from T-Com's end-to-end, integrated IT and telecom solutions. Shareholdings in Magyar Távközlési Részvénytársaság (MATÁV) (Hungary), HT-Hrvatske telekommunikacije d.d. (Croatia), and Slovak Telecom (Slovakia) have given T-Com a foothold in Central and Eastern European markets.

GHS 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 segments' core business activities are now the responsibility of Shared Services. In particular, these include shared services at Deutsche Telekom AG and subsidiaries, such as real estate management, billing services, fleet management, and Vivento, the service provider for personnel and business, (formerly PSA).

Deutsche Telekom was registered with the Commercial Registry of the Bonn District Court (Amtsgericht – HRB 6794) under the name Deutsche Telekom AG on January 2, 1995.

The Federal Republic of Germany's direct and indirect shareholding in Deutsche Telekom as of December 31, 2004 amounted to 38.03 %. In accordance with the letter dated January 4, 2005, the direct shareholding amounts to 22.74 % (954,372,849 shares); a further 15.29 % (641,717,667 shares) is held by a federal corporation, KfW, Frankfurt/Main, in accordance with the letter dated January 6, 2005. 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 Regulatory Authority for Telecommunications and Posts (the Regulatory Authority) commenced its activities on January 1, 1998. The Regulatory Authority, which is under the authority of the Federal Ministry of Economics and Labor (BMWA), has thus taken the place of the dissolved Federal Ministry of Posts and Telecommunications in supervising the telecommunications sector in Germany, and in this capacity regulates the business activities of Deutsche Telekom.

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 for the 2004 financial year is presented using the cost-of-sales method (in accordance with § 275 (3) HGB). Net revenue is set against the expenses incurred to generate these revenues, classified into cost of sales, selling, and general and administrative functions. The classification of the statement of income using the cost-of-sales method is designed to enhance the international comparability of financial reporting.

Certain items have been combined for presentation purposes in the statement of income and the balance sheet in order to make the financial statements more informative and understandable. These items are disclosed separately in the notes. In the case of changes in presentation, prior-year amounts are reclassified to conform with the current-year presentation. 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 single-entity financial statements of Deutsche Telekom as well as the consolidated financial statements of the Deutsche Telekom Group are published in the Federal Gazette (Bundesanzeiger) and filed under HRB 6794 with the Commercial Registry of the Bonn District Court. This annual report and the Annual Report on Form 20-F, filed with the SEC due to Deutsche Telekom's listing on the NYSE, are available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

Accounting policies

Net revenues contain all revenues from the ordinary business activities of Deutsche Telekom. For example, these include revenues from the rendering of services and the sale of goods and products that are typical for Deutsche Telekom. Net revenues are recorded net of value-added tax (VAT) and sales-related reductions. They are recognized in the accounting period concerned in accordance with the realization principle. The T-Com division, which accounts for the major proportion of Deutsche Telekom AG's sales, recognizes its revenues as follows:

T-Com provides customers with narrow and broadband access to its fixed-line network. It also sells, leases, and services telecommunications equipment for its customers and provides other ancillary telecommunications services. T-Com recognizes service revenues when the services are provided in accordance with contract terms. The revenue and related expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Revenue from rentals and lease payments is recognized monthly as the fees accrue.

Research and development costs are expensed in full as incurred.

Pension costs are computed and presented using the standard international projected unit credit method, which is consistent with SFAS No. 87. This method is based on the total present value of the benefit obligations accumulated during the year under review and takes expected increases in wages and salaries and in retirement benefits into consideration. Total pension costs for the current year include expenditures for benefit obligations acquired in the financial year (service cost), interest cost, and amortization of actuarial gains and losses, less the return on plan assets to cover pension obligations.

If a higher carrying amount is recorded in accordance with § 6a of the German Income Tax Act (Einkommensteuergesetz - EStG) than in accordance with SFAS 87, it is this higher amount that is recognized. The minimum accrual method in accordance with § 6a EStG, is designed to recognize the expense over the employees' entire working lives and does not take expected increases in wages and salaries and retirement benefits into account.

In accordance with U.S. GAAP, if the measurement of pension obligations under SFAS 87 results in the need to disclose an additional minimum liability (AML), this special item is charged directly to other comprehensive income (OCI). In the financial statements in accordance with German GAAP, the additional minimum liability is expensed directly due to the lack of a corresponding equity item.

Marketing expenses are expensed as incurred.

Income tax expense includes current income taxes payable as well as deferred taxes. Deferred income taxes are recognized for the expected future tax effects attributable to temporary differences between the carrying amounts in the tax accounts and in the financial statements, except for the effects of those differences that are not expected to reverse in the foreseeable future. Deutsche Telekom has not exercised its option to recognize deferred tax assets in accordance with § 274 (2) HGB. Deferred taxes have not been included for the period before Deutsche Telekom became fully subject to taxation on January 1, 1996.

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. The following specific useful lives are applied to straight-line 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. Until December 31, 2003, the full-year rate of depreciation was charged in the year of acquisition for movable items of property, plant, and equipment acquired in the first half of a year and, for those assets acquired in the second half of the year, half the full-year rate of depreciation was charged.

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.

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 in order to reflect such lower amount. Write-downs are charged only if the impairment of financial assets is assumed to be permanent. Loss absorption obligations are accrued and 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, social amenities expenses as well as voluntary benefits to personnel including pensions 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 buying rate applicable at the balance sheet date, as are foreign currency fixed-term deposits included under liquid assets.

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

Stock options refer to 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. The Mid-Term Incentive Plan (MTIP 2004), by contrast, as a cash-settled plan, is recognized ratably from the time of its implementation.

Accruals for pensions and similar obligations are based on obligations to non-civil servants. Reflecting Group accounting practices, they are carried using the projected unit credit method based on U.S. GAAP, in accordance with SFAS 87.

Deutsche Telekom is obliged to make annual contributions to a special pension fund which makes pension payments to its active and former civil servant employees. The amounts of these contributions are set out by Postreform II, which came into force in 1995, and are therefore not subject to a separate actuarial calculation. The contributions are expensed in the period in which they are incurred.

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 assessing these provisions and accruals.

Cost accruals are only 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, with the exception of pensions and similar obligations as well as civil service health insurance fund accruals for future shortfalls, accruals for partial retirement, accruals for jubilee payments, and accruals for bridging allowances.

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 selling rate applicable at the balance sheet date.

In line with the imparity principle, unrealized losses relating to **derivative financial instruments** that do not qualify for hedge accounting are recognized when incurred, 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, and 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

	2004 millions of €	2003 millions of €	2002 millions of €
T-Com	23,820	25,071	24,360
T-Systems	0	0	1,230
Other	137	132	202
	23,957	**25,203**	**25,792**

T-Systems' share of Deutsche Telekom's net revenues only includes revenue up to the date the business area was spun off in August 2002.

Revenue by geographic area

	2004 millions of €	2003 millions of €	2002 millions of €
Domestic	23,957	25,193	25,465
International	0	10	327
	23,957	**25,203**	**25,792**

The decline in international net revenue is due to the spin-off of the T-Systems business area in August 2002.

T-Com revenue by product

	2004 millions of €	2003 millions of €	2002 millions of €
T-Com			
Fixed network, network communications	14,777	15,114	14,944
Wholesale services	4,214	4,716	3,487
Fixed network, data communications	2,317	2,321	2,854
Fixed network, value-added services	1,326	1,408	1,431
Fixed-network, terminal equipment	664	799	923
Fixed network, other	249	206	257
Multimedia, broadcasting	74	71	60
Other revenues	199	436	404
	23,820	**25,071**	**24,360**

(2) Cost of sales

The cost of sales fell by EUR 1.2 billion or 7.9 % year-on-year and, in the year under review, and were primarily composed of goods and services purchased (EUR 5.1 billion), depreciation and amortization (EUR 3.2 billion) and personnel costs (EUR 2.7 billion). Cost of sales relates mainly to the T-Com division.

The decrease in cost of sales is the result of a reduction in goods and services purchased and personnel costs as well as depreciation and amortization. The reduction in goods and services purchased in 2004 is primarily a result of a downward trend in telecommunications services in Germany and abroad as well a decrease in expenditures for merchandise. The decrease in personnel costs is attributable to the reduction of staff levels as a result of measures to improve efficiency. The year-on-year reduction in depreciation and amortization is due on the one hand to the lower level of investment and, on the other, to the fact that individual assets have reached the end of their useful lives for accounting purposes.

(3) Selling costs

Selling costs decreased by EUR 777 million or 15.1 % year-on-year. As a result, the ratio of selling costs to net revenues decreased by 2.2 % to 18.2 %.

Selling costs essentially include personnel costs (EUR 1.7 billion), losses on accounts receivable and provision for doubtful accounts (EUR 0.2 billion), and other expenses (EUR 1.8 billion). Selling costs relate mainly to the T-Com division.

The decrease in selling costs is mainly attributable to the drop in personnel costs at T-Com (down EUR 659 million). The drop in staff levels is primarily a result of the outsourcing of T-Punkt sales outlets to T-Punkt Vertriebsgesellschaft mbH and by the transfer of staff to vivento customer services GmbH und Co. KG. This also led to a drop in personnel-related operating costs (down EUR 102 million).

Costs were reduced further by lower losses on receivables as a result of more efficient receivables management. Losses on receivables decreased by EUR 212 million year-on-year to EUR 262 million.

Other expenses increased by EUR 0.2 billion to EUR 1.8 billion. This was a consequence in particular of the additional sales commissions paid to T-Punkt Vertriebsgesellschaft mbH.

(4) General and administrative costs

General and administrative costs amounted to EUR 2.8 billion in the year under review, a year-on-year decrease of EUR 0.3 billion.

A considerable proportion (EUR 1.1 billion) of the general and administrative costs is personnel costs; this is roughly the same level as in the previous year. Goods and services purchased as well as depreciation and amortization also remained largely stable at the 2003 levels.

Other expenses decreased to EUR 1.7 billion. Administrative costs at T-Com remained largely unchanged year-on-year, however. At GHS there were no expenses for additional payments to the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse - PBeaKK), in contrast to the previous year when expenses of EUR 271 million were recorded. Furthermore, other expenses decreased particularly as a result of the reductions of EUR 45 million in litigation costs, EUR 21 million in media costs, and EUR 15 million in backdated trade capital tax payments.

(5) Other operating income

	2004 millions of €	2003 millions of €	2002 millions of €
Income from rental and lease agreements	1,091	1,194	1,473
Cost reimbursements	566	326	414
Reversal of accruals	443	229	493
Bonuses from asset-backed securitization	197	287	233
Income from the disposal of noncurrent assets	162	449	975
Income from foreign currency transaction gains	70	153	639
Ancillary services	53	27	36
Income from reversal of valuation adjustments	50	179	224
Income from insurance compensation	37	45	60
Refund of value-added tax (§ 15a Value-Added Tax Act – UStG)	30	55	68
Income from write-ups of financial assets	15	7	74
Other income	216	328	470
	2,930	**3,279**	**5,159**

Income from rental and lease agreements relates mainly to real estate and is paid by GMG Generalmietgesellschaft mbH, Münster (GMG) to Deutsche Telekom as part of its activities as a subletting company.

EUR 159 million of the income from the disposal of noncurrent assets relates to the disposal of property, plant, and equipment (2003: EUR 297 million), and EUR 3 million to income from the disposal of financial assets (2003: EUR 152 million).

Of the total amount of other operating income, EUR 707 million is attributable to other accounting periods (2003: EUR 890 million). The income from other accounting periods relates in particular to the disposal of noncurrent assets (EUR 162 million), the reversal of accruals (EUR 443 million), and the reversal of adjusted accounts receivable (EUR 50 million).

(6) Other operating expenses

	2004 millions of €	2003 millions of €	2002 millions of €
Personnel costs[1]	1,137	858	123
Depreciation and amortization[1]	624	646	980
Expenses from transfers to accruals	195	292	175
Expenses from asset-backed securitization	163	139	362
Losses on the disposal of noncurrent assets	116	197	321
Expenses from foreign currency transaction losses	93	133	617
Maintenance and repair expenses	77	94	6
Legal and consulting fees	43	41	1
Rental and leasing expenses incl. leasing	42	47	30
Other taxes	29	30	26
Incidental expenses of monetary transactions	0	28	42
Other expenses	111	131	205
	2,630	**2,636**	**2,888**

[1] If not attributable to cost of sales, selling costs, or general and administrative costs.

The increase in personnel costs is primarily a result of the higher average number of employees at Vivento in the year under review. Other causes include the granting of higher voluntary redundancy payments and the recognition of accruals for compensation claims from civil servants for reinstatement of their year-end bonus.

Losses on the disposal of noncurrent assets primarily relate to the disposal of property, plant, and equipment.

Of the total amount of other operating expenses, EUR 116 million is attributable to other accounting periods (2003: EUR 197 million). The entire amount relates to the disposal of noncurrent assets.

(7) Financial income/expense, net

	2004 millions of €	2003 millions of €	2002 millions of €
Income related to subsidiaries, associated and related companies			
of which from subsidiaries: € 456 million			
(2003: € 268 million, 2002: € 80 million)	463	275	102
Income from profit transfer agreements			
of which from tax allocations: € 1 million			
(2003: € 15 million, 2002: € 3 million)	2,201	5,313	608
Expenses arising from loss transfers	(198)	(642)	(3,016)
Income (loss) related to associated and related companies	**2,466**	**4,946**	**(2,306)**
Income from debt securities and long-term loan receivables			
of which from subsidiaries: € 84 million			
(2003: € 119 million, 2002: € 532 million)	86	122	565
Other interest and similar income			
of which from subsidiaries: € 119 million			
(2003: € 137 million, 2002: € 197 million)	266	423	1,779
Interest and similar expense			
of which to subsidiaries: € 2,084 million			
(2003: € 2,751 million, 2002: € 3,056 million)	(2,816)	(3,895)	(5,278)
Net interest expense	**(2,464)**	**(3,350)**	**(2,934)**
Write-downs on financial assets			
and marketable securities	**(6)**	**(128)**	**(1,195)**
	(4)	**1,468**	**(6,435)**

Income related to subsidiaries, associated, and related companies mainly refers to dividends from HT-Hrvatske telekomunikacije, d.d., Zagreb (EUR 250 million) and MagyarCom Holding GmbH, Bonn (EUR 171 million). Income from profit transfer agreements relates primarily to T-Mobile International Holding GmbH, Bonn (EUR 1.1 billion); T-Systems International GmbH, Bonn (EUR 525 million); and DFMG Deutsche Funkturm Holding GmbH, Frankfurt am Main (EUR 243 million).

The decrease in income from profit transfer agreements follows one-time profit transfers in the prior year. Income in 2003 was above all the result of profit transfers relating to T-Mobile International GmbH, Bonn, (EUR 3.0 billion) and Deutsche Telekom BK-Holding GmbH, Bonn (EUR 1.1 billion).

The loss transfers mainly relate to Toll Collect GmbH, Berlin (EUR 148 million) and DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (EUR 36 million). The loss absorption obligations assumed for Toll Collect GbR, Berlin, have been accrued.

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 incurred by Deutsche Telekom from the bonds issued by Deutsche Telekom International Finance B. V., Amsterdam.

EUR 5.9 million of write-downs on financial assets and marketable securities relates to write-downs of the net carrying amount of the investment in VocalTec Communications Ltd., Herzliya.

(8) Income taxes

	2004 millions of €	2003 millions of €	2002 millions of €
Current income taxes	351	(125)	(968)
Tax allocations	(48)	24	121
	303	**(101)**	**(847)**

The Reductions of Tax Concessions Act introduced a limitation on the use of loss carryforwards for corporate income tax and trade tax purposes with effect from 2004. Deutsche Telekom therefore incurred corporate income tax and trade tax in the year under review, despite the existence of net operating loss carryforwards. Refunds relating to the prior year are primarily the result of a tax audit completed in the second quarter of 2003 for corporate income tax, including the solidarity surcharge, and trade tax for the assessment period from 1993 to 1996. Income from tax allocations relates primarily to settlements for prior years between the trade tax fiscal unity and T-Mobile Deutschland GmbH.

(9) Goods and services purchased

	2004 millions of €	2003 millions of €	2002 millions of €
Goods purchased			
Raw materials and supplies	175	237	304
Goods purchased	429	646	718
	604	**883**	**1,022**
Services purchased			
Domestic network access charges	2,447	3,665	3,442
International network access charges	489	687	855
Other services	1,868	876	917
	4,804	**5,228**	**5,214**
	5,408	**6,111**	**6,236**

The decrease in expenses for raw materials and supplies is mainly due to the year-on-year reduction in losses resulting from valuation adjustments. This is attributable to the reduction in stock levels, which in turn is mainly a result of a more precise method of measuring inventories.

Expenses for goods purchased decreased as a result of the outsourcing of T-Mobile product sales. Previously, the sale of T-Mobile merchandise in T-Punkt outlets resulted in expenses for goods purchased for which there were also the corresponding revenues. Since the outsourcing, however, the new sales company settles accounts directly with T-Mobile Deutschland GmbH, Bonn.

Domestic network access charges decreased primarily as a result of direct interconnection between T-Mobile Deutschland GmbH, Bonn, and competitors offering services without use of the fixed network. Termination services performed for third parties also decreased in the year under review as a result of the decline in call minutes. Finally, expenses for fixed-to-mobile calls also decreased, particularly in the area of Carrier Service Billing (CSB).

International network access charges declined as a result of marked price effects and economies of scale.

The increase in other services is mainly attributable to the reassignment of upstream services from internal leased lines to other services. In addition, energy costs increased by EUR 101 million to EUR 237 million, mainly due to a bill settling ancillary costs for facilities from 2003 and 2004. Installation expenses increased by EUR 172 million to EUR 282 million, primarily as a consequence of changed settlement procedures.

(10) Personnel costs/Average number of employees

	2004 millions of €	2003 millions of €	2002 millions of €
Wages and salaries	**4,727**	5,208	4,977
Social security contributions and expenses for pension plans and benefits			
Payments to Bundes-Pensions-Service für Post und Telekommunikation e.V., Bonn	911	809	838
Social security contributions	519	544	503
Expenses for pension plans for non-civil servants	273	620	498
Health care expenses	149	156	153
	1,852	2,129	1,992
	6,579	7,337	6,969

Expenses for pension plans and benefits in 2004 amounted to EUR 1.2 billion (2003: EUR 1.4 billion, 2002: EUR 1.3 billion).

The reduction in personnel costs is mainly attributable to a decrease in wages and salaries due to the cut in weekly working hours pursuant to the collective agreement on the employment alliance and the reduction of staff levels. Further reductions in costs relate to the abolition of year-end bonuses and vacation pay for civil servants in line with the provisions of the Act Concerning the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz - PostPersRG).

The average number of employees developed as follows:

	2004 Number	2003 Number	2002 Number
Civil servants	48,536	49,998	52,961
Non-civil servants	66,612	70,020	70,650
	115,148	**120,018**	**123,611**
Trainees and student interns	9,928	9,628	8,883

In the 2004 financial year, the average number of employees decreased by 4.1 % as a result of personnel restructuring measures and spin-offs.

(11) Depreciation and amortization

	2004 millions of €	2003 millions of €	2002 millions of €
Depreciation and amortization			
Amortization	303	313	324
Depreciation	3,704	4,054	4,580
	4,007	4,367	4,904
Write-downs in accordance with § 253 (2) sentence 3 HGB	145	224	477
	4,152	**4,591**	**5,381**

Depreciation of property, plant, and equipment declined in the year under review by EUR 350 million. This was due to the decrease in investment levels, as well as to intragroup transfers and real estate disposals.

A write-down in the form of a general valuation adjustment for buildings and land was charged for buildings for which no further business use is planned.

(12) Other taxes

	2004 millions of €	2003 millions of €	2002 millions of €
Other taxes	**57**	**30**	**233**

Other taxes relate mainly to real estate tax (EUR 29 million) and backdated value-added tax payments (EUR 21 million).

Notes to the balance sheet

(13) Intangible assets

	Dec. 31, 2004 millions of €	Dec. 31, 2003 millions of €
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	494	575
Advance payments	157	85
	651	**660**

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

(14) Property, plant, and equipment

	Dec. 31, 2004 millions of €	Dec. 31, 2003 millions of €
Land and equivalent rights and buildings, including buildings on land owned by third parties	7,595	8,407
Technical equipment and machinery	17,684	19,631
Other equipment, plant, and office equipment	382	394
Advance payments and construction in progress	350	371
	26,011	**28,803**

Property, plant, and equipment decreased by EUR 2.8 billion year-on-year as a result of intra-group transfers of property, plant and equipment, real estate disposals, write-downs and a reduction in capital expenditure.

Expenditure on property, plant, and equipment in the 2004 financial year amounted to EUR 1.5 billion (2003: EUR 1.6 billion). Capital expenditure relates primarily to switching and transmission equipment (EUR 693 million), and to the outside plant network (EUR 257 million).

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

(15) Financial assets

	Dec. 31, 2004 millions of €	Dec. 31, 2003 millions of €
Investments in subsidiaries	65,778	65,601
Loans to subsidiaries	1,385	1,861
Investments in associated companies	39	39
Other investments in related companies	63	69
Long-term loans to associated and related companies	0	20
Other investments in noncurrent securities	0	2
Other long-term loans	13	21
	67,278	**67,613**

Investments in subsidiaries increased, primarily as a result of the establishment of vivento customer services GmbH & Co. KG, Bonn (EUR 95 million), T-Punkt Vertriebsgesellschaft mbH, Bonn (EUR 44 million), and Vivento Technical Services GmbH & Co. KG, Bonn (EUR 36 million).

Loans to subsidiaries primarily include loans to T-Systems International GmbH, Frankfurt am Main, (EUR 1.0 billion) and T-Mobile USA, Inc., Bellevue, United States (EUR 211 million). The decrease relates in particular to T-Mobile USA Inc., Bellevue, United States (EUR 436 million), and T-Venture Holding GmbH, Bonn (EUR 56 million).

Long-term loans to associated and related companies relate entirely to DeASatT S.A., Luxembourg and were repaid in the year under review.

The decrease in **other investments in noncurrent securities** is a result of the maturity of mortgage bonds (EUR 2.0 million) of Nord LB and West LB.

The development of financial assets is shown in the statement of noncurrent assets. The full list of investment holdings is filed with the Commercial Registry in Bonn.

(16) Inventories, materials, and supplies

	Dec. 31, 2004 millions of €	Dec. 31, 2003 millions of €
Raw materials and supplies	144	107
Work in process	9	15
Merchandise	50	64
	203	**186**

Raw materials and supplies mostly include modules for data communications equipment and telecommunications cables, spare parts, and components for telecommunications equipment. Merchandise relates to fixed-network telecommunications business.

The change in this item is largely due to the increase in inventories of optical fiber cable as a result of purchase commitments, the increase in inventories of T-DSL components to cover current demand, and a decrease in valuation adjustments on inventories.

(17) Receivables

	Dec. 31, 2004 millions of €	Dec. 31, 2003 millions of €
Trade accounts receivable (of which with a remaining maturity of more than one year: € 0 million; 2003: € 0 million)	912	1,222
Receivables from subsidiaries (of which with a remaining maturity of more than one year: € 0 million; 2003: € 60 million)	3,475	19,319
Receivables from associated and related companies (of which with a remaining maturity of more than one year: € 0 million; 2003: € 0 million)	11	69
	4,398	**20,610**

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 retransfer 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 sharp year-on-year decrease in receivables from subsidiaries is due in particular to the offsetting of receivables from and liabilities to subsidiaries. The more detailed presentation of the Group's internal transfer accounts since the 2003 financial year makes it possible for these items to be settled quickly to avoid delays in closing the balance sheet.

(18) Other assets

	Dec. 31, 2004 millions of €	Dec. 31, 2003 millions of €
Tax receivables		
Income tax receivables		
Corporate income tax	126	126
Solidarity surcharge	7	7
Trade taxes	5	291
	138	**424**
Other tax receivables	308	361
	446	**785**
Accrued interest	264	402
Receivables from asset-backed securitization	90	287
Receivables from reimbursements	76	64
Receivables from advance payments on current assets	27	29
Receivables from employees	25	14
Receivables from option premiums	0	7
Receivables from loans receivable	3	3
Miscellaneous other assets	257	319
	1,188	**1,910**

Of income tax receivables, EUR 1 million relates to the current financial year (2003: EUR 58 million) and EUR 137 million to previous years (2003: EUR 366 million). The receivables are mainly the result of excessive advance payments in the year under review and imputable taxes from 2002 and 2003.

Other tax receivables decreased mainly because T-Mobile Deutschland GmbH is no longer included in the value-added tax fiscal unity.

Except for EUR 5 million (2003: EUR 4 million), the other assets are due in full within one year. They include interest receivables legally accruing after the balance sheet date and claims for non-allowable input tax at the balance sheet date totaling EUR 267 million (2003: EUR 352 million).

(19) Marketable securities

	Dec. 31, 2004 millions of €	Dec. 31, 2003 millions of €
Treasury shares	7	7
Other marketable securities	0	64
	7	**71**

Treasury shares account for a total of 0.06 % of the capital stock. At 2,670,828 shares, the portfolio of treasury shares at the balance sheet date was unchanged year-on-year, and is broken down as follows:

	Number
1996 Employee Stock Purchase Plan	459,900
1999 Employee Stock Purchase Plan	5,185,278
Decrease as a result of the 2000 Employee Stock Purchase Plan	(2,988,980)
Shares acquired from KfW and not issued	14,630
	2,670,828

Treasury shares are recorded in the balance sheet at acquisition costs. The shares acquired by KfW – because they were not purchased by employees – were shown at the time of acquisition (2000) in Deutsche Telekom's balance sheet at acquisition cost (EUR 0.9 million) and written down to the lower quoted price applicable at subsequent balance sheet dates.

There were no other marketable securities held at the balance sheet date. Other marketable securities reported in the previous year related to Deutsche Bundespost bonds held to maintain favorable trading conditions.

(20) Liquid assets

	Dec. 31, 2004 millions of €	Dec. 31, 2003 millions of €
Cash-in-hand and deposits at the Bundesbank	0	1
Cash in banks	3,273	7,379
	6,273	**7,380**

The total time to maturity of the liquid assets is less than three months.

(21) Prepaid expenses and deferred charges

Prepaid expenses and deferred charges of EUR 276 million (2003: EUR 325 million) are primarily composed of discounts on loans amounting to EUR 127 million (2003: EUR 175 million) and prepaid personnel costs amounting to EUR 131 million (2003: EUR 133 million). Discounts on loans are amortized on a straight-line basis over the terms of the related liabilities.

(22) Shareholders' equity

A detailed statement of shareholders' equity for 2002, 2003, and 2004 precedes the notes to the financial statements.

(23) Capital stock

Deutsche Telekom AG's capital stock totaled EUR 10,747 million as of December 31, 2004, and is composed of 4,198 million no-par value ordinary registered shares. Each share entitles the holder to one vote.

The Federal Republic's direct shareholding in Deutsche Telekom, represented by the Federal Agency, was 22.74 % at December 31, 2004, while KfW's shareholding was 15.29 % at the same date. This means that 954 million no-par value shares (EUR 2.4 billion) of the capital stock were held by the Federal Republic at December 31, 2004, and 642 million (EUR 1.6 billion) by KfW. 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 Deutsche Telekom shares in exchange for the outstanding warrants between Deutsche Telekom and T-Mobile USA/Powertel at the time of the acquisition. As of December 31, 2004, the number of Deutsche Telekom shares lodged as collateral for the outstanding preemptive rights granted to T-Mobile USA/Powertel employees amounted to 17,515,909.

Authorized capital

With the approval of the Supervisory Board, the Board of Management is authorized to increase the capital stock (share capital) by up to a nominal amount of EUR 2,560,000,000 by issuing up to 1,000,000,000 ordinary registered shares against noncash 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 disapply shareholders' preemptive rights. The Board of Management is also authorized, with the approval of the Supervisory Board, to determine the rights accruing to the shares in future and the conditions for issuing shares.

Contingent capital

The capital stock has been contingently increased by up to EUR 500,000,000.00, composed of up to 195,312,500 shares (contingent capital I). The contingent capital increase will be implemented only to the extent that

a. the holders and creditors of conversion rights or warrants attached to convertible bonds or bonds with warrants 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 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. Contingent capital I was used in 2003 to issue convertible bonds amounting to approximately EUR 2.3 billion that will be converted into shares of Deutsche Telekom AG common stock at maturity (June 1, 2006). 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 with a coupon of 6.5 % Depending on share price performance, the conversion ratio may fluctuate between 3,417.1679 to 4,237.2881 shares per bond (EUR 50,000 par value). The securities were placed with non-U.S. institutional investors outside the United States.

On the basis of the authorizing resolution adopted by the shareholders' meeting on May 29, 2001 in conjunction with the amending resolution adopted by the shareholders' meeting on May 18, 2004, the capital stock was contingently increased by up to EUR 33,280,000, composed of up to 13,000,000 new no-par value registered shares (contingent capital II). This contingent capital increase is exclusively for the purpose of granting stock options to members of the Board of Management of Deutsche Telekom AG, to members of Deutsche Telekom's second-tier management, and to other executives, managers, and specialists of Deutsche Telekom AG, and to members of the boards of management, members of management, and other executives, managers, and specialists of lower-tier Group companies in Germany and other countries as part of the Deutsche Telekom 2001 Stock Option Plan. 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. 101,724 stock options granted under the 2001 Stock Option Plan had been exercised as of December 31, 2004, which led to a corresponding decrease in contingent capital II.

On the basis of the authorizing resolution adopted by the shareholders' meeting on May 25, 2000 in conjunction with the amending resolution adopted by the shareholders' meeting on May 29, 2001, the capital stock was contingently increased by up to EUR 2,621,237.76, composed of up to 1,023,921 new no-par value registered shares (contingent capital III). This contingent capital increase is exclusively for the purpose of granting stock options to members of the Board of Management of Deutsche Telekom AG and executives of the Company, and to members of the boards of management, members of management, and other executives of lower-tier subsidiaries as part of the Deutsche Telekom 2000 Stock Option Plan established on the basis of a resolution by the shareholders' meeting on May 25, 2000. It will only be implemented if these beneficiaries exercise their stock 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. No stock options granted under the 2000 Stock Option Plan had been exercised as of December 31, 2004.

Treasury shares
The shareholders' meeting on May 18, 2004 rescinded the authorization of the Board of Management to acquire treasury shares resolved by the shareholders' meeting on May 20, 2003 with effect from the end of the shareholders' meeting on May 18, 2004. At the same time, the Board of Management of Deutsche Telekom AG was authorized to acquire up to 419,775,242 treasury shares, i.e., up to almost 10 % of the capital stock, before November 17, 2005. The treasury shares acquired on the basis of this authorization may be resold on the stock exchange, used to list the Company's shares on foreign stock exchanges, offered to third parties in the course of business combinations or for the acquisition of companies, parts of companies, or interests in companies, withdrawn, offered to shareholders on the basis of a subscription offer made to all shareholders, or sold other than on the stock exchange or by way of an offer to all shareholders. The authorizations to acquire and utilize treasury shares may be exercised in full or in parts.

(24) Additional paid-in capital

The additional paid-in capital increased in 2004 by EUR 21 million primarily as a result of the T-Mobile USA/Powertel stock options exercised. This figure corresponds to the amount generated via the employee stock purchase plan in excess of par.

(25) Retained earnings

In addition to the transfers from net income from prior years, retained earnings include a reserve for treasury shares in the amount reported under marketable securities, in accordance with § 272 (4) HGB.

(26) Stock-based compensation

2000 Stock Option Plan
In the 2000 financial year, Deutsche Telekom granted stock options to members of the Board of Management and senior managers of Deutsche Telekom AG and Group companies within and outside Germany for the first time. On July 19, 2000, Deutsche Telekom granted 1,023,920.54 options for the purchase of 1,023,920.54 shares at an exercise price of EUR 62.69 to the beneficiaries of the 2000 Stock Option Plan on the basis of the resolution adopted by the shareholders' meeting in May 2000. The closing price of Deutsche Telekom's common stock quoted in Frankfurt in Xetra trading on the grant date was EUR 60.40 per share. The term of the options runs until July 20, 2005.

The options were not exercisable before the end of the lock-up period on July 19, 2002. The options may only be exercised if and when the absolute and relative performance targets have both been exceeded at least once in the period from July 20, 2002 to July 19, 2005.

The absolute performance is achieved when the moving thirty-day average closing price of the T-Share in Deutsche Börse AG's Xetra trading in Frankfurt am Main exceeds the exercise price of EUR 62.69 by more than 20 % at the end of the lock-up period.

The relative performance target is linked to share price performance relative to the performance of the Dow Jones EuroSTOXX 50© Total Return Index. The options may only be exercised if, after the end of the two-year lock-up period, the share price performance adjusted for dividends, preemptive rights, and other special rights (total shareholder return) exceeds the performance of the EuroSTOXX 50® Total Return Index measured on a moving thirty-day average basis.

Neither the absolute target nor the relative target had been exceeded at December 31, 2004.

Deutsche Telekom reserved the right, at its election, to settle the options through the payment of a cash amount (stock appreciation rights – 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, 2004, no resolution on conversion had been passed to this effect.

As of December 31, 2004, the weighted average remaining contractual life of the outstanding options from the 2000 Stock Option Plan was around six months.

The shareholders' meeting in May 2001 resolved that no further stock options would be granted on the basis of the 2000 Stock Option Plan. The contingent capital was reduced by the appropriate amount.

The activities relating to the stock options granted by Deutsche Telekom AG to beneficiaries of the 2000 Stock Option Plan are as follows:

	2000 Stock Option Plan					
	2004		2003		2002	
	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 the year under review	987	62.69	994	62.69	1,001	62.69
Granted	0	–	0	–	0	–
Exercised	0	–	0	–	0	–
Forfeited	(132)	62.69	(7)	62.69	(7)	62.69
Outstanding at end of year under review	**855**	**62.69**	987	62.69	994	62.69
Exercisable at end of year under review	**0**	**–**	0	–	0	–

2001 Stock Option Plan

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 307,200,000.00 by issuing up to 120,000,000 new no-par value registered shares. This contingent capital increase is 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 lower-tier affiliated companies as part of the Deutsche Telekom 2001 Stock Option Plan. In accordance with the resolution passed by the shareholders' meeting, the allocation of the total number of options to beneficiaries is as follows:

- a maximum of 15 % to members of the Board of Management of Deutsche Telekom,
- a maximum of 20 % to members of Deutsche Telekom's second-tier management,
- a maximum of 15 % to other executives, managers and specialists of Deutsche Telekom,
- a maximum of 15 % to members of the boards of management of Group companies outside Germany,
- a maximum of 35 % to other executives, managers, and specialists of Group companies within and outside Germany.

The following conditions apply under the terms of the 2001 Stock Option Plan:

50 % 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 % of the options granted to each beneficiary may be exercised at the earliest following the end of a lock-up period of three years, starting from the day on which the options are granted.

The exercise price is payable upon exercise of the options. The exercise price per share is 120 % of the reference price. The reference price corresponds to the non-weighted average closing prices of Deutsche Telekom shares in Deutsche Börse AG's Xetra trading in Frankfurt (or a successor system to the Xetra system) over the last 30 trading days before the grant of the options. If the average closing price calculated by this method is lower than the closing price of Deutsche Telekom shares in Deutsche Börse AG's Xetra trading in Frankfurt am Main (or in a successor system) on the grant date of the options, this closing price shall be taken as the reference price. The exercise price may not be lower than the notional value of one share in the capital stock (share capital). The exercise price is also the performance target.

The options may not legally be sold, transferred, pledged, or otherwise disposed of. In the event of death, the options fall to the heirs.

Deutsche Telekom reserves the right, at its own discretion, to settle the options through the payment of a cash amount (stock appreciation rights – 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, 2004, 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 to the beneficiaries of the Stock Option Plan on the basis of the resolution adopted by the shareholders' meeting in May 2001. The closing price of Deutsche Telekom's common stock in Xetra trading in Frankfurt am 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 the resolution adopted by the shareholders' meeting in May 2001. The closing price of Deutsche Telekom's common stock in Xetra trading in Frankfurt am Main on the grant date was EUR 10.30 per share. The term of the options runs until July 14, 2012.

As of December 31, 2004, the weighted average remaining contractual life of all outstanding options from the 2001 Stock Option Plan was around 7.1 years.

The activities relating to the stock options granted by Deutsche Telekom to beneficiaries of the 2001 Stock Option Plan are as follows:

	2001 Stock Option Plan					
	2004		**2003**		**2002**	
	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 the year under review	11,768	24.25	11,964	24.22	8,219	30
Granted	0	–	0	–	3,928	12.36
Exercised	(101)	12.39	0	–	–	–
Forfeited	(223)	25.18	(196)	25.89	(183)	29.16
Outstanding at end of year	**11,444**	**24.36**	**11,768**	**24.25**	**11,964**	**24.22**
Exercisable at end of year under review	**9,564**	**26.71**	3,964	30	0	–

In 2002, Deutsche Telekom AG also granted 2,580 stock appreciation rights to employees in countries in which it was not legally possible to issue stock options. As of December 31, 2004, all the stock appreciation rights granted were still outstanding.

Mid-Term Incentive Plan (MTIP)

In the 2004 financial year, Deutsche Telekom AG introduced its first MTIP to ensure competitive total compensation for members of the Board of Management, senior executives of the Deutsche Telekom Group, and other beneficiaries mainly in the United States and the United Kingdom. The MTIP is a global, Group-wide compensation instrument for Deutsche Telekom AG 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 2004 came into effect in 2004. The plan has a term of three years. The intention is to launch the plan annually on a revolving basis for five years. 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 MTIP is a cash-based plan. A certain amount is earmarked as an award to the beneficiaries by the respective employer, and this amount is paid out to the beneficiaries at the end of the plan, dependent on the achievement of the two performance targets determined in advance.

The MTIP 2004 is tied to two equally weighted, stock-based performance parameters – one absolute and one relative. If both performance targets are achieved, then the total amount of the award is paid out; if only one performance target is achieved, 50 % of the amount is paid out; and if neither performance target is achieved, no payment is made.

- 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 % compared with its share price at the beginning of the plan. The benchmark for the assessment is the non-weighted average closing prices of Deutsche Telekom shares in Deutsche Börse AG's Xetra trading during the last 20 trading days prior to the beginning and end of the plan. The 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.

- The relative performance target is achieved if the total return of Deutsche Telekom shares has outperformed the Dow Jones EuroSTOXX Total Return Index on a percentage basis over the same period during the term of the individual plan. The benchmark is the non-weighted averages 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 EuroSTOXX Total Return Index during the last 20 trading days prior to the beginning and end of the plan. The index's starting value is 317.95 points. The starting value of the total return of Deutsche Telekom shares corresponds to their share price at the beginning of the plan (EUR 14.08).

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.

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 the findings of the Supervisory Board General Committee, the Board of Management will establish whether the target has been achieved for Deutsche Telekom AG 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.

(27) Accruals for pensions and similar obligations

As part of the **civil servants pension plan**, Deutsche Telekom maintained a special pension fund for its active and former civil servants up until the 2000 financial year. By way of a notarized agreement dated December 7, 2000, this fund was merged with the special pension funds of Deutsche Post AG and Deutsche Postbank AG to form the joint pension fund Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT). On January 11, 2001, the fund was entered in the Register of Associations with retroactive effect from July 1, 2000. The registered office of BPS-PT is Bonn. BPS-PT works for the funds of all three companies and also handles the financial administration 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 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 its special pension fund is stipulated in § 16 PostPersRG.

Since 2000, Deutsche Telekom has been legally obliged to make an annual contribution to the special pension fund amounting to 33 % 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 911 million in the year under review (2003: EUR 809 million).

In accordance with the PTNeuOG, the Federal Republic provides suitable compensation for any differences between the ongoing payment obligations of the special pension fund and the ongoing amounts received from Deutsche Telekom or returns on assets, and guarantees that the special pension fund 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 into the special pension fund in accordance with this provision.

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

Deutsche Telekom's direct pension commitments comprise direct commitments, VAP parallel obligations, and the obligations arising from Article 131 of the German Basic Law (Grundgesetz - GG). 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, their benefit obligations are paid directly from Deutsche Telekom. The remaining obligations are settled by DTBS.

In accordance with commercial law, accruals for pensions have been set up as stipulated by SFAS 87 (in previous years, the direct pension obligations from direct commitments were recorded at the higher value at the time in accordance with § 6a EStG). The level of these accruals is substantiated by actuarial opinions.

With the exception of the VAP parallel obligations, the actuarial computations for the pension commitments are based on the new life expectancy tables (1998) published by Prof. Dr. Klaus Heubeck. The mean average of the old (1983) and new (1998) life expectancy tables is used in calculating the amounts due to VAP parallel obligation benefit recipients, as the basis for the forecasts in the new life expectancy tables does not apply in full to this closed group of pension recipients.

In addition, the assumptions detailed in the following table are used for calculations in accordance with SFAS 87:

	2004 %	2003 %
Discount rate	5.25	5.25
Projected salary increase	2.75	2.75
Return on plan assets	5.00	6.00
Projected pension increase	1.50	1.50

As of December 31, 2004, the calculation of pension obligations in accordance with SFAS 87 required the recognition of an additional minimum liability amounting to EUR 726 million (2003: EUR 767 million). In these financial statements, the year-on-year change in the additional minimum liability of EUR 41 million is recognized as income.

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

	Dec. 31, 2004 millions of €	Dec. 31, 2003 millions of €
Direct pension obligations	2,374	2,472
– of which parallel obligation:		
EUR 1,790 million		
(2003: EUR 1,939 million)		
Indirect pension obligations	1,299	1,209
	3,673	**3,681**
Obligations in accordance with		
Article 131 GG	6	7
	3,679	**3,688**

The corresponding carrying amount for direct and indirect pension obligations in accordance with § 6a EStG, based on the new life expectancy tables, was EUR 3.8 billion (2003: EUR 3.4 billion).

Coverage of the pension obligations in line with SFAS 87 is as follows:

	Dec. 31, 2004 millions of €	Dec. 31, 2003 millions of €
Actuarial present value of benefits:		
Vested benefit obligation	3,844	3,809
Nonvested benefit obligation	263	255
Accumulated benefit obligation	**4,107**	**4,064**
Effect of projected future salary increases	49	56
Projected benefit obligation	**4,156**	**4,120**
Plan assets at fair value	(422)	(415)
Projected benefit obligation in excess of plan assets	**3,734**	**3,705**
Prior service cost	94	0
Unrecognized net losses	(869)	(791)
Unfunded accrued pension cost	**2,959**	**2,914**
Additional minimum liability	726	767

Pension cost in accordance with SFAS 87 can be broken down as follows:

	2004 millions of €	2003 millions of €	2002 millions of €
Service cost	87	74	77
Interest cost	210	212	205
Return on plan assets	(23)	(23)	(20)
Amortization of actuarial losses	31	10	6
Amortisation of prior service cost	(7)	0	0
Remeasurement	0	0	3
Net periodic pension cost	**298**	**273**	**271**

(28) Tax accruals

	Dec. 31, 2004 millions of €	Dec. 31, 2003 millions of €
Trade tax	38	1
Corporate income tax	483	585
Other taxes	461	441
	982	**1,027**

(29) Other accruals

	Dec. 31, 2004 millions of €	Dec. 31, 2003 millions of €
Employee benefits		
Civil Service Health Insurance Fund	1,322	1,358
Personnel restructuring	378	390
Other obligations	610	358
Outstanding invoices	459	423
Loss contingencies from interest rate derivatives	369	337
Litigation risks	341	250
Investment risks	297	335
Risks related to real estate	191	220
Restoration commitments	83	75
Order book risks	71	96
Loss contingencies from foreign currency forward contracts	19	14
Deferred maintenance	17	15
Other accruals	164	172
	4,321	**4,043**

The decrease in accruals for risk settlement payments to the Civil Service Health Insurance Fund is attributable to the effects of the health reform in Germany. Accruals for other obligations increased particularly as a result of the obligation to make backdated payments to the Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT).

The change in litigation risks includes accruals for lawsuits filed by third-party network operators and for prospectus liability actions brought against Deutsche Telekom in the United States.

(30) Liabilities

	2004 millions of €				2003 millions of €			
	Total	of which due within 1 year	of which due in 1 to 5 years	of which due after 5 years	Total	of which due within 1 year	of which due in 1 to 5 years	of which due after 5 years
Debt								
Bonds and debentures	**1,547**		886	661	**11,938**	10,437	679	822
Liabilities to banks	**829**	180	107	542	**1,094**	350	209	535
	2,376	**180**	**933**	**1,203**	**13,032**	**10,787**	**888**	**1,357**
Other								
Advances received	**4**	4			**4**	4		
Trade accounts payable	**943**	943			**1,077**	1,076	1	
Payables to subsidiaries	**42,849**	19,419	15,193	8,237	**55,935**	27,952	18,839	9,144
Payables to associated and related companies	**30**	30			**87**	87		
Other liabilities	**1,937**	1,240	1	696	**2,414**	1,682	8	724
(of which: from taxes)	**(550)**	(550)			**(633)**	(633)		
(of which: from social security)					**(2)**	(2)		
	45,763	**21,636**	**15,194**	**8,933**	**59,517**	**30,801**	**18,848**	**9,868**
Total liabilities	**48,139**	**21,816**	**16,187**	**10,136**	**72,549**	**41,588**	**19,736**	**11,225**

Bonds and debentures relate primarily to treasury notes of Deutsche Bundespost AG, Bonn (EUR 650 million).

Bonds and debentures are composed of the following items:

Due by December 31	millions of € up to 6 %	millions of € up to 7 %	millions of € up to 8 %	millions of € 9 %–10 %[1]	**millions of € Total**
2005	0	0	0	0	**0**
2006	456	0	0	0	**456**
2007	0	0	0	88	**88**
2008	137	0	0	0	**137**
2009	0	205	0	0	**205**
2010 to 2024	11	0	650	0	**661**
Total	**604**	**205**	**650**	**88**	**1,547**

[1] Bonds amounting to EUR 88 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., which amounts to EUR 27.8 billion (2003: EUR 29.0 billion). This liability relates primarily to bonds issued by DT Finance.

The bonds issued by DT Finance and passed on to Deutsche Telekom are structured as follows:

2000 tranche	**Nominal amount in currency**	**Interest rate**	**Maturity**
EUR	2,250,000,000	6.715 %	2005
USD	785,000,000	8.340 %	2005
JPY	90,000,000,000	2.090 %	2005
EUR	750,000,000	7.215 %	2010
USD	1,685,000,000	8.840 %	2030

2001 tranche	**Nominal amount in currency**	**Interest rate**	**Maturity**
EUR	4,500,000,000	6.465 %	2006
EUR	1,782,581,659	7.215 %	2011

2002 tranche	**Nominal amount in currency**	**Interest rate**	**Maturity**
EUR	2,500,000,000	7.560 %	2007
EUR	2,000,000,000	8.195 %	2012
USD	500,000,000	9.330 %	2032

2003 tranche	**Nominal amount in currency**	**Interest rate**	**Maturity**
EUR	500,000,000	5.560 %	2005
EUR	2,288,500,000	6.575 %	2006
EUR	1,000,000,000	5.830 %	2008
USD	750,000,000	3.956 %	2008
EUR	365,000,000	2.214 %	2010
USD	1,250,000,000	5.335 %	2013

2004 tranche	**Nominal amount in currency**	**Interest rate**	**Maturity**
EUR	500,000,000	2.176 %	2009
EUR	500,000,000	2.170 %	2009

In addition, liabilities exist in particular to T-Mobile Deutschland GmbH, Bonn (EUR 146 million, 2003: EUR 5.8 billion); T-Mobile International AG & Co. KG, Bonn (EUR 1.0 billion, 2003: EUR 5.6 billion); T-Online International AG, Darmstadt (EUR 4.1 billion, 2003: EUR 4.7 billion); T-Systems International GmbH, Frankfurt (EUR 505 million, 2003: EUR 2.3 billion); and Deutsche Telekom BK-Holding GmbH (formerly Kabel Deutschland GmbH), Bonn (EUR 260 million, 2003: EUR 1.4 billion).

The following table shows the composition of **other liabilities:**

	2004 millions of €	2003 millions of €
Liabilities from loan notes	690	799
Tax liabilities	550	633
Liabilities from interest	314	635
Liabilities from asset-backed securitization	153	0
Liabilities to employees	16	65
Social security costs	0	2
Other liabilities	214	280
	1,937	2,414

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

Interest liabilities primarily relate to deferred interest on bonds and debentures, and other liabilities as of December 31, 2004.

Tax liabilities comprise VAT liabilities in the amount of EUR 492 million (2003: EUR 497 million), wage tax liabilities in the amount of EUR 53 million (2003: EUR 69 million), and trade capital tax receivables in the amount of EUR 0.3 million (2003: EUR 67 million).

Notes to the statement of cash flows

The statement of cash flows has been prepared in conformity with German Accounting Standard No. 2, Cash Flow Statements, as approved by the German Standardization Council. International Accounting Standard (IAS) No. 7, Cash Flow Statements, is also complied with.
Specifically, cash was provided and used as follows:

(31) Net cash provided by operating activities

Net cash provided by operating activities in the year under review amounted to EUR 11.1 billion, a year-on-year increase of EUR 5.7 billion, despite a EUR 1.2 decrease in net income.

This increase is primarily attributable to the reduction in current receivables from subsidiaries, which was only partly offset by the reduction in liabilities to subsidiaries. The decrease in both balance sheet items resulted in a net cash inflow of EUR 2.8 billion.

The change in receivables and liabilities is the result of the settlement of certain intragroup receivables from and liabilities to subsidiaries in the year under review.

(32) Net cash provided by/used for investing activities

Following positive net cash provided by investing activities in the prior year, a decrease of EUR 6.5 billion was recorded in 2004, resulting in net cash used for investing activities of EUR 130 million.

The decrease of EUR 612 million in cash outflows for investments is mainly attributable to lower investments in property, plant, and equipment and financial assets than in the prior year as a result of the restrained investment policy. This was combined with lower cash inflows from disposals of property, plant, and equipment and financial assets totaling EUR 8.4 billion. In addition, liquid assets with maturities longer than three months generated a cash inflow of EUR 1.1 billion.

(33) Net cash used for financing activities

Net cash used for financing activities increased by EUR 7.5 billion year-on-year to EUR 12.1 billion, reflecting the reduction in liabilities.

The change in liabilities is attributable primarily to the net change (balance of borrowings and redemptions) in short-term borrowings, combined with a cash outflow of EUR 13.6 billion. This was partially offset by the net change in medium- and long-term borrowings, with a cash inflow of EUR 1.4 billion. The Company therefore resorted to the capital market far less than in the previous year, both in terms of short-term and medium- and long-term borrowings.

(34) Guarantees and commitments, and other financial obligations

Guarantees and commitments

	2004 millions of €	2003 millions of €
Guarantees	144	162
Legal liability arising from collateral granted for third parties	4,114	3,915
(of which to subsidiaries: EUR 4,114 million; 2003: EUR 3,915 million)		
Liabilities arising from warranty agreements	13,293	13,650
(of which to subsidiaries: EUR 12,715 million; 2003: EUR 13,645 million)		
	17,551	17,727

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 11.8 billion); T-Mobile Deutschland GmbH, Bonn (EUR 4.0 billion); and T-Mobile UK Ltd, Borehamwood (United Kingdom) (EUR 781 million).

Deutsche Telekom AG (45 %), DaimlerChrysler Services AG (45 %), and Compagnie Financière et Industrielle des Autoroutes S.A. (Cofiroute; 10 %) – collectively the consortium or Toll Collect GbR – entered into an agreement with the Federal Republic of Germany, represented by the German Federal Ministry of Transport, Building and Housing (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), dated September 2002 and last amended in April 2004 by an implementation 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 % of the total assets (calculated on the basis of the German GAAP single-entity financial statements of the limited liability company) until August 31, 2004, and 15 % 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 are obliged to inject additional capital in the event of negative developments within the Toll Collect project. As Deutsche Telekom AG recognized that a future injection of additional capital would be necessary during the project, accruals were recognized for anticipated losses relating to the project (see Note 29). The operating agreement includes provisions for further contractual penalties after the approved start of operations (issuance of the special preliminary operating permit) if the performance of the system is not adequate. The Federal Republic is asserting claims for damages from the parties of the consortium of EUR 3.56 billion plus interest for the period September 1, 2003 to December 31, 2004 for lost toll revenues. In addition, the Federal Republic of Germany is asserting a claim for contractual penalties in the amount of approximately EUR 1.03 billion plus interest. This amount also includes contractual penalties of approximately EUR 790 million relating to the allegation that the agreement of the Federal Republic of Germany was not sought before certain subcontractor agreements were entered into. The amount of the contractual penalties may rise as the Federal Republic is also claiming time-related contractual penalties. Deutsche Telekom AG believes the claims of the Federal Republic are unfounded. The Federal Republic has resorted to arbitrational proceedings for clarification of the legal position, as provided for by the terms of the agreement. 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.

In addition, Deutsche Telekom AG has given a guarantee for bank loans to Toll Collect GbR amounting to EUR 575 million; these are included in the table above.

Other financial obligations

	2004 millions of €			2003 millions of €		
	Total	of which due in the following financial year	of which due from the second financial year after the balance sheet date	Total	of which due in the following financial year	of which due from the second financial year after the balance sheet date
Present value of payments to BPS-PT	**8,200**	900	7,300	**9,000**	950	8,050
Obligations under rental and lease agreements	**11,737**	1,982	9,755	**11,514**	2,301	9,213
(of which to subsidiaries: € 11,139 million; 2003: € 10,848 million)						
Purchase commitments for capital projects in progress, including obligations arising from future expenditure	**2,484**	2,459	25	**1,476**	1,303	173
(of which to subsidiaries: € 1,093 million; 2003: € 458 million)						
Commitments arising from contributions not paid up, purchase commitments for interests in other companies, and commitments arising from transactions not yet settled	**976**	356	620	**796**	174	622
(of which to subsidiaries: € 486 million; 2003: € 301 million)						
Total other financial obligations	**23,397**	**5,697**	**17,700**	22,786	**4,728**	**18,058**

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 1998 life expectancy tables prepared by Prof. Klaus Heubeck, amounted to EUR 8.2 billion at December 31, 2004.

Obligations under rental and lease agreements include obligations to subsidiaries in the amount of EUR 11.1 billion. These consist of EUR 9.0 billion to GMG Generalmietgesellschaft mbH, Münster, EUR 1.1 billion to DFMG Deutsche Funkturm GmbH, Münster, and EUR 1.1 billion to DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster.

Purchase commitments for capital projects in progress, including obligations arising from future expenditure are composed of commitments for non-capital (EUR 1.9 billion) and capital projects (EUR 597 million).

Of the increase in commitments arising from contributions not paid up, purchase commitments for interests in other companies, and commitments arising from transactions not yet settled, primarily relates to commitments arising from transactions not yet settled with the subsidiaries GMG Generalmietgesellschaft mbH, Münster and DeTeImmo, Deutsche Telekom Immobilien und Service GmbH, Münster (EUR 287 million). Uncalled contributions not yet paid up relate in particular to vivento customer services GmbH & Co. KG, Bonn (EUR 105 million), T-Com Venture Fund GmbH & Co. KG, Bonn (EUR 47 million), and Vivento Technical Services GmbH & Co. KG, Bonn (EUR 21 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 (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. Deutsche Telekom does not believe that any additional costs will have a material adverse effect on the net worth, financial position, and results of the Company.

(35) Derivative financial instruments

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

	Notional amounts					Fair values			
	Remaining term					Remaining term			
millions of €	Less than 1 year	1-5 years	More than 5 years	Total	Hedged	Less than 1 year	1-5 years	More than 5 years	Total
Interest-related instruments									
Interest rate swaps	6,636	16,679	2,359	25,674	12,565	(11)	(101)	(89)	(201)
Cross-currency interest rate swaps	1,466	6,636	1,690	9,791	6,771	(250)	(1,348)	(135)	(1,733)
Subtotal	**8,102**	**23,315**	**4,049**	**35,466**	**19,336**	**(261)**	**(1,449)**	**(224)**	**(1,934)**
Currency instruments									
Future exchange transactions short	396	151	0	547	146	27	24	0	51
Future exchange transactions long	2,367	593	0	2,960	2,493	(79)	(115)	0	(194)
Subtotal	**2 ,763**	**744**	**0**	**3,507**	**2,639**	**(52)**	**(91)**	**0**	**(143)**
Total	**10,865**	**24,059**	**4,049**	**38,973**	**21,975**	**(313)**	**(1,540)**	**(224)**	**(2,077)**

Under the following items, parts of the fair values of the derivative financial instruments are recorded with the reported net carrying amounts:

millions of €	Interest receivables	Liabilities from interest	Other
Interest rate swaps	228	(219)	(336)
Cross-currency interest rate swaps	73	(55)	(33)
Foreign currency forward contracts	0	0	(19)
Total	**301**	**(274)**	**(388)**

The Company uses derivative financial instruments 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. Derivative financial instruments are subject to internal controls.

Derivative financial instruments classified as hedging instruments are those entered into for the purpose of matching or eliminating risk from potential movements in interest rates and foreign exchange rate inherent in the Company's assets and liabilities. A derivative is designated as a hedge where there is an offset between the effects of potential movements in the derivative and designated underlying asset, liability, or position being hedged. Such derivatives are reviewed regularly for their effectiveness as hedge instruments. Derivative instruments designated as hedges are accounted for on the same basis as the hedged item.

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 or losses related to changes in the fair value of interest rate swaps relating to balance sheet items are not recognized in income. Interest rate swaps not related to balance sheet items (especially hedging of expected future transactions) are assigned to currency-specific portfolios; gains and losses from changes in their fair value are netted out and net aggregate losses are recognized in income. 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 and foreign currency options purchased as well as cross-currency interest rate swaps to reduce fluctuations in foreign currency cash flows related to capital expenditures and financial liabilities. Foreign currency forward contracts hedging firm commitments to invest in or sell a foreign entity are not recognized at the balance sheet date. Such firm commitments are recognized using the foreign exchange rate fixed by the foreign currency forward contract. Where the Company uses call options to hedge firm commitments to invest in or sell a foreign entity, the option is carried in other assets and is not measured until exercise or expiration. The option premium is included in the purchase cost of the investment when its addition is recorded. The option premium is reversed to the income statement on receipt of the selling price.

Foreign currency forward contracts hedging other payments and receipts are assigned to foreign currency portfolios categorized by foreign currency type with the related financial instruments. These portfolios are marked to market at the balance sheet date and resulting negative portfolio values are accrued under other liabilities. 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 pay EUR/receive CHF, HUF, GBP, and CZK 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 amounts. They do not reflect the risk exposure of the financial derivatives. The amounts exchanged are calculated by reference to the notional amounts and by the other terms of the derivatives, in particular interest rates or exchange rates.

(36) Compensation of the Supervisory Board and the Board of Management

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation as approved in its current version by the 2004 shareholders' meeting. The members of the Supervisory Board receive fixed annual remuneration of EUR 20,000.00. Depending on the development of net income per share, the members of the Supervisory Board may receive variable, performance-related remuneration with short-term and long-term components.

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 % 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.

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

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 in 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 hold a seat.

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

The total remuneration of the members of the Supervisory Board in 2004 amounted to EUR 1,373,224.00. Of this amount, EUR 727,600.00 will be paid out after the 2005 shareholders' meeting. The remaining amount of EUR 645,624.00 will be retained as an accrual for the long-term variable remuneration for the 2004 financial year; it will be paid out after the 2007 shareholders' meeting subject to achievement of the relevant performance targets.

The compensation of the individual members of the Supervisory Board for 2004 is as follows:

Member of the Supervisory Board **Amounts (€)**	**Fixed remuneration**	**Short-term variable**[1]	**Total (net)**	**Imputed longterm remuneration entitlement**[2]
Brandl, Monika	21,000.00	0.00	21,000.00	18,900.00
Falbisoner, Josef	20,800.00	0.00	20,800.00	18,900.00
Dr. von Grünberg, Hubertus	29,000.00	0.00	29,000.00	25,137.00
Halsch, Volker[3]	13,500.00	0.00	13,500.00	11,812.50
Holzwarth, Lothar	21,000.00	0.00	21,000.00	18,900.00
Dr. Hundt, Dieter	31,200.00	0.00	31,200.00	28,350.00
Litzenberger, Waltraud	21,000.00	0.00	21,000.00	18,900.00
Löffler, Michael	21,000.00	0.00	21,000.00	18,900.00
Dr. Overhaus, Manfred[4]	40,700.00	0.00	40,700.00	35,437.50
Reich, Hans W.	21,000.00	0.00	21,000.00	18,900.00
Dr. Schinzler, Hans-Jürgen	21,000.00	0.00	21,000.00	18,900.00
Dr. Schlede, Klaus G.	63,800.00	0.00	63,800.00	56,700.00
Schmitt, Wolfgang	50,200.00	0.00	50,200.00	44,037.00
Sommer, Michael	21,000.00	0.00	21,000.00	18,900.00
Steinke, Ursula	21,000.00	0.00	21,000.00	18,900.00
Prof. Dr. Stolte, Dieter	21,000.00	0.00	21,000.00	18,900.00
Treml, Franz[5]	75,600.00	0.00	75,600.00	66,150.00
Walter, Bernhard	42,400.00	0.00	42,400.00	37,800.00
Wegner, Wilhelm	66,200.00	0.00	66,200.00	56,700.00
Dr. Wiedeking, Wendelin	20,600.00	0.00	20,600.00	18,900.00
Dr. Zumwinkel, Klaus	84,600.00	0.00	84,600.00	75,600.00
Total	**727,600.00**	**0.00**	**727,600.00**	**645,624.00**

[1] The members of the Supervisory Board have waived their short-term variable remuneration for 2004.

[2] Represents the accrual recognized. Long-term variable remuneration will be paid out for the first time after the 2007 shareholders' meeting for the period 2003 to 2006 provided the relevant performance targets have been achieved.

[3] Member since October 1, 2004.

[4] Member until September 30, 2004.

[5] Mr. Treml received Supervisory Board compensation of EUR 12,271.00 from DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, a wholly-owned subsidiary of Deutsche Telekom AG, for the 2004 financial year for a mandate as a member of the Supervisory Board of this company.

Under the terms of their service contracts, the members of the Board of Management are entitled to fixed and annual variable remuneration, as well as long-term variable remuneration components (Mid-Term Incentive Plan). Total remuneration is generally 2/3 variable and 1/3 fixed. The annual variable remuneration is calculated based on the level of achievement of the targets assigned to each member of the Board of Management by the General Committee of the Supervisory Board before the beginning of the financial year.

In observance of the requirements of German commercial and accounting legislation, a total of EUR 10,862,931.37 is reported as remuneration for the members of the Board of Management for the past financial year. This amount includes the fixed annual salary, the variable remuneration, the expenditure for the 2004 Mid-Term Incentive Plan, and noncash compensation amounting to EUR 415,256.76 which is treated as noncash benefits.

Each member of the Board of Management active at the beginning of the year 2004 waived his gross monthly salary for the month of May. This was a personal contribution to Deutsche Telekom AG's employment pact concluded in the 2004 financial year.

As a result of the dual mandate of Thomas Holtrop as a member of the Board of Management of Deutsche Telekom AG and T-Online International AG, compensation components amounting to approximately EUR 1,043,968 (basic salary of EUR 462,000.00, variable remuneration of EUR 470,962.50 and additional noncash and pension benefits) have been settled between the two companies. Mr. Holtrop left both companies in the 2004 financial year.

The members of the Board of Management took part in Deutsche Telekom AG's Mid-Term Incentive Plan (MTIP) as part of their total compensation for the first time in the 2004 financial year. The MTIP is a Group-wide long-term compensation instrument for senior executives, including the Board of Management. The plan has a term of three years and will be issued annually on a rolling basis. It consists of two stock-based, additive and equally weighted success parameters. For the 2004 financial year, one absolute and one relative plan hurdle were set as the success parameters: The absolute plan hurdle is for the value of the T-Share to increase by at least 30 % by the end of the plan (December 31, 2006). The relative plan hurdle requires the total return index of the T-Share to outperform the Dow Jones EuroSTOXX Total Return Index. From the 2004 tranche, each member of the Board of Management can reach an incentive volume of 15 % (if one plan hurdle is met) or up to 30 % (if both plan hurdles are met) of their own contractually agreed target salary (basic compensation plus variable compensation in the case of 100 % target achievement). If no plan hurdles are met, no incentive is paid. For further details, please refer to the disclosures on MTIP 2004 under note (26).

Subject to the condition that the financial statements of Deutsche Telekom AG are approved in their current form, the members of the Board of Management received the following total compensation for the 2004 financial year (fixed annual salary, variable compensation, and the fair value expenditure for MTIP 2004):

Name **Amounts (€)**		**Fixed annual salary in 2004**		**Variable remuneration for 2004**	**Amount accrued for both MTIP 2004 plat targets (fair value expenditure for the 2004 financial year)**
Kai-Uwe Ricke		1,145,833		1,415,625	94,607.00
Dr. Karl-Gerhard Eick		859,375		1,061,719	70,955.25
Dr. Heinz Klinkhammer		687,500		821,250	56,764.20
René Obermann		687,500		798,750	56,764.20
Walter Raizner (from Nov. 1)		156,250		187,500	19,630.76
Konrad F. Reiss		687,500		811,875	56,764.20
Josef Brauner (until April 30)		250,000		279,475	left during financial year[1]
Thomas Holtrop (until Sept. 30)	500,000		675,000		
Reimbursement by T-Online International AG	−462,000	38,000	−470,963	204,037	left during financial year[1]
Total		**4,511,958**		**5,580,231**	**355,485.61**

[1] Accrual is included in the total for members of the Board of Management who left during the financial year.

The Company's 2001 Stock Option Plan was terminated as of the 2003 financial year pursuant to a resolution by the shareholders' meeting of May 18, 2004. The stock options granted to the Group Board of Management for the first and last time for the 2001 financial year (and those options from the previous 2000 Stock Option Plan for the year 2000) shall remain exercisable provided the hurdles are met as required.

Compensation for former members of the Board of Management and their surviving dependents and accruals recognized for this purpose totaled EUR 10,364,804.73. T-Online International AG has contributed a total of EUR 1,757,561 to the costs of Mr. Holtrop's departure (including pension benefits).

The accruals set up for ongoing pensions and pension entitlements for former members of the Board of Management and their surviving dependents amounted to EUR 53,951,622 (PBO according to SFAS 87).

Indirect pension obligations for former members of the Board of Management resulting from pensions for civil servants via the Deutsche Telekom special pension fund in accordance with § 15 (1) PostPersRG amounted to EUR 3,349,813. No accruals were recognized for these obligations (cf. § 285 No. 9b HGB). They are actuarially computed in accordance with § 6a EStG.

Deutsche Telekom has not granted any loans to current or former members of the Board of Management.

(37) Proposal for appropriation of net income

The income statement of Deutsche Telekom AG reflects income after taxes of EUR 2,881,090,240.54. Income after taxes corresponds to unappropriated net income. Under the Stock Corporation Act (Aktiengesetz – AktG), the amount payable to shareholders as a dividend is based on the unappropriated net income disclosed by Deutsche Telekom AG in its German GAAP annual financial statements.

The Supervisory Board and the Board of Management propose, subject to the approval of the shareholders' meeting, to pay shareholders a dividend of EUR 0.62 per individual no par value share carrying dividend rights and to carry forward the remaining balance as part of unappropriated net income.

(38) 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 on December 16, 2004 and made it available to shareholders on Deutsche Telekom's website.

Bonn, February 22, 2005

Deutsche Telekom AG
Board of Management

Kai-Uwe Ricke
Dr. Karl-Gerhard Eick
Dr. Heinz Klinkhammer

René Obermann
Walter Raizner
Konrad F. Reiss

Auditors' report.

We have audited the annual financial statements, consisting of the statement of income, the balance sheet, the statement of cash flows, the statement of shareholders' equity, and the notes to the financial statements, together with the bookkeeping system, and the combined management report of Deutsche Telekom AG and the Deutsche Telekom Group for the financial year from January 1 to December 31, 2004. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law and the additional rules as laid down in the Company's Articles of Incorporation 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 combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). 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 conformity with German principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements, and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the annual financial statements and the combined 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 combined management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Stuttgart/Frankfurt am Main, February 22, 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Stuttgart

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

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftprüfungsgesellschaft
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