


## Consolidated financial statements

<b>104</b>	Income statement
<b>105</b>	Balance sheet
<b>106</b>	Cash flow statement
<b>108</b>	Statement of changes in shareholders' equity
<b>110</b>	Notes to the consolidated financial statements
<b>200</b>	Auditors' report

4:00 p.m.  
Arrival at the airport.




Clear home advantage.



5:10 p.m.  
Buy a scarf in  
your team's colors.

Be there. Let your mobile phone be your guide, so you  
Orientation Expert offers navigation from your doorstep

A large, energetic crowd of soccer fans is shown celebrating. Many are holding up German national flags (black, red, and gold horizontal stripes). In the foreground, a woman with blonde hair, wearing a brown jacket and a pink t-shirt with a soccer ball graphic, is cheering with her arms raised. To her right, a man in a white and blue soccer jersey is also cheering. In the background, a man is holding up a silver trophy. The scene is filled with excitement and movement.

9:18 p.m.  
We're leading  
3:0.

don't miss a single second. The Communication and right to your seat in the stadium – for passionate fans.



## Consolidated income statement.

millions of €	Note	2005	2004	2003
<b>Net revenue</b>	<b>1</b>	<b>59,604</b>	<b>57,353</b>	<b>55,596</b>
Cost of sales	<b>2</b>	(31,862)	(31,544)	(29,493)
<b>Gross profit</b>		<b>27,742</b>	<b>25,809</b>	<b>26,103</b>
Selling expenses	<b>3</b>	(14,683)	(12,870)	(12,752)
General and administrative expenses	<b>4</b>	(4,210)	(4,476)	(4,596)
Other operating income	<b>5</b>	2,408	1,718	2,359
Other operating expenses	<b>6</b>	(3,635)	(3,916)	(2,765)
<b>Profit from operations</b>		<b>7,622</b>	<b>6,265</b>	<b>8,349</b>
Finance costs	<b>7</b>	(2,401)	(3,280)	(3,589)
Interest income		398	377	200
Interest expense		(2,799)	(3,657)	(3,789)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	<b>8</b>	214	945	356
Other financial income (expense)	<b>9</b>	777	(361)	(890)
<b>Loss from financial activities</b>		<b>(1,410)</b>	<b>(2,696)</b>	<b>(4,123)</b>
<b>Profit before income taxes</b>		<b>6,212</b>	<b>3,569</b>	<b>4,226</b>
Income taxes	<b>10</b>	(196)	(1,552)	(1,709)
<b>Profit after income taxes</b>		<b>6,016</b>	<b>2,017</b>	<b>2,517</b>
Profit (loss) attributable to minority interests	<b>11</b>	432	424	454
Net profit (profit (loss) attributable to equity holders of the parent)		5,584	1,593	2,063
<b>Earnings per share</b>	<b>12</b>			
Basic		1.31	0.39	0.50
Diluted		1.31	0.39	0.50

# Consolidated balance sheet.

millions of €	Note	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
<b>Assets</b>				
<b>Current assets</b>		<b>16,668</b>	<b>18,864</b>	<b>21,435</b>
Cash and cash equivalents	17	4,975	8,005	8,684
Trade and other receivables	18	7,512	6,731	7,567
Current recoverable income taxes	10	613	317	1,025
Other financial assets	23	1,362	1,237	1,940
Inventories	19	1,097	1,154	972
Other assets		1,109	1,420	1,247
<b>Non-current assets</b>		<b>111,212</b>	<b>106,426</b>	<b>114,623</b>
Intangible assets	20	52,675	50,745	55,460
Property, plant and equipment	21	47,806	46,294	49,249
Investments accounted for using the equity method	22	1,825	2,667	2,382
Other financial assets	23	779	1,636	1,368
Deferred tax assets	10	7,552	4,724	5,855
Other assets		575	360	309
<b>Total assets</b>		<b>127,880</b>	<b>125,290</b>	<b>136,058</b>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities</b>		<b>24,958</b>	<b>26,272</b>	<b>30,208</b>
Financial liabilities	24	10,374	12,592	17,256
Trade and other payables	25	6,902	6,116	6,354
Income tax liabilities	10	1,358	1,049	466
Provisions	29	3,621	3,546	3,070
Other liabilities	27	2,703	2,969	3,062
<b>Non-current liabilities</b>		<b>53,340</b>	<b>53,215</b>	<b>62,112</b>
Financial liabilities	24	36,347	38,498	46,776
Provisions for pensions and other employee benefits	28	4,596	4,209	4,175
Other provisions	29	2,036	2,883	2,601
Deferred tax liabilities	10	8,331	5,948	7,024
Other liabilities	27	2,030	1,677	1,536
<b>Liabilities</b>		<b>78,298</b>	<b>79,487</b>	<b>92,320</b>
<b>Shareholders' equity</b>	30	<b>49,582</b>	<b>45,803</b>	<b>43,738</b>
Issued capital	31	10,747	10,747	10,746
Capital reserves	32	49,561	49,528	49,500
Retained earnings including carryforwards	33	(18,760)	(17,766)	(19,829)
Other comprehensive income	34	(1,055)	(2,678)	(2,954)
Net profit (loss)		5,584	1,593	2,063
Treasury shares	35	(6)	(8)	(8)
Equity attributable to equity holders of the parent		46,071	41,416	39,518
Minority interests	36	3,511	4,387	4,220
<b>Total liabilities and shareholders' equity</b>		<b>127,880</b>	<b>125,290</b>	<b>136,058</b>

## Consolidated cash flow statement.

millions of €	Note
	37
<b>Profit after income taxes</b>	
Depreciation, amortization and impairment losses	
Income tax expense (refund)	
Interest income and interest expenses	
(Gain) loss from the disposal of non-current assets	
Share of (profit) loss of associates and joint ventures accounted for using the equity method	
Other non-cash transactions	
Change in assets carried as working capital	
Change in provisions	
Change in other liabilities carried as working capital	
Income taxes received (paid)	
Dividends received	
<b>Cash generated from operations</b>	
Interest paid	
Interest received	
<b>Net cash from operating activities</b>	
Cash outflows for investments in	
– Intangible assets	
– Property, plant and equipment	
– Non-current financial assets	
– Investments in fully consolidated subsidiaries	
Proceeds from disposal of	
– Intangible assets	
– Property, plant and equipment	
– Non-current financial assets	
– Investments in fully consolidated companies and business units	
Net change in short-term investments and marketable securities	
Other	
<b>Net cash used in investing activities</b>	
Proceeds from the issue of current financial liabilities	
Repayment of current financial liabilities	
Proceeds from the issue of non-current financial liabilities	
Repayment of non-current financial liabilities	
Dividend payments	
Proceeds from the exercise of stock options	
Repayment of lease liabilities	
Change in minority interests	
<b>Net cash used in financing activities</b>	
Effect of exchange rate changes on cash and cash equivalents	
<b>Net increase (decrease) in cash and cash equivalents</b>	
<b>Cash and cash equivalents, at the beginning of the year</b>	
<b>Cash and cash equivalents, at the end of the year</b>	



	2005	2004	2003
	<b>6,016</b>	<b>2,017</b>	<b>2,517</b>
	12,497	13,127	10,305
	196	1,552	1,709
	2,401	3,280	3,589
	(1,058)	(1,306)	(865)
	(152)	27	192
	(111)	845	1,207
	(360)	523	(643)
	(230)	604	651
	(130)	(337)	223
	(1,200)	48	121
	60	82	38
	<b>17,929</b>	<b>20,462</b>	<b>19,044</b>
	(4,017)	(4,986)	(4,766)
	1,086	1,244	775
	<b>14,998</b>	<b>16,720</b>	<b>15,053</b>
	(1,868)	(1,044)	(1,141)
	(7,401)	(5,366)	(5,221)
	(604)	(870)	(391)
	(2,051)	(483)	(275)
	33	7	19
	333	550	1,016
	1,648	2,140	1,989
	0	1	1,511
	(148)	564	(222)
	0	0	466
	<b>(10,058)</b>	<b>(4,501)</b>	<b>(2,249)</b>
	5,304	703	12,094
	(14,747)	(13,798)	(21,381)
	4,944	1,322	6,940
	(443)	(481)	(3,211)
	(2,931)	(404)	(96)
	34	21	16
	(200)	(244)	(150)
	0	0	(7)
	<b>(8,039)</b>	<b>(12,881)</b>	<b>(5,795)</b>
	69	(17)	(36)
	<b>(3,030)</b>	<b>(679)</b>	<b>6,973</b>
	<b>8,005</b>	<b>8,684</b>	<b>1,711</b>
	<b>4,975</b>	<b>8,005</b>	<b>8,684</b>

# Consolidated statement of changes in shareholders' equity.

	Equity attributable to equity holders of the parent										
	Equity contributed			Consolidated shareholders' equity generated				Other comprehensive income			
	Number of shares in thousands	Issued capital	Capital reserves	Retained earnings	Carry-forwards	Net profit (loss)	Total	Fair value measurement of available-for-sale financial assets	Fair value measurement of hedging instruments	Revaluation due to business combinations	Deferred taxes
<b>At Jan. 1, 2003</b>	<b>4,197,752</b>	<b>10,746</b>	<b>49,551</b>	<b>(19,827)</b>	<b>0</b>	<b>0</b>	<b>(19,827)</b>	<b>316</b>	<b>267</b>	<b>0</b>	<b>(110)</b>
Changes in the composition of the Group				(2)			(2)				
Profit after income taxes						2,063	2,063				
Dividends							0				
Proceeds from the exercise of stock options			20				0				
Shareholders' equity effect from mandatory convertible bond including tax effect			(71)				0				
Change in other comprehensive income (not recognized in income statement)							0	(9)	857		(326)
Recognition of other comprehensive income in income statement							0	(45)			
<b>At Dec. 31, 2003</b>	<b>4,197,752</b>	<b>10,746</b>	<b>49,500</b>	<b>(19,829)</b>	<b>0</b>	<b>2,063</b>	<b>(17,766)</b>	<b>262</b>	<b>1,124</b>	<b>0</b>	<b>(436)</b>
Changes in the composition of the Group							0				
Profit after income taxes						1,593	1,593				
Unappropriated net profit (loss) carried forward from previous year					2,063	(2,063)	0				
Dividends							0				
Proceeds from the exercise of option and conversion rights	102	1	28				0				
Change in other comprehensive income (not recognized in income statement)							0	855	304	63	(120)
Recognition of other comprehensive income in income statement							0	(257)	1		
<b>At Dec. 31, 2004</b>	<b>4,197,854</b>	<b>10,747</b>	<b>49,528</b>	<b>(19,829)</b>	<b>2,063</b>	<b>1,593</b>	<b>(16,173)</b>	<b>860</b>	<b>1,429</b>	<b>63</b>	<b>(556)</b>
Changes in the composition of the Group				(6)			(6)				
Profit after income taxes						5,584	5,584				
Unappropriated net profit (loss) carried forward from previous year					1,593	(1,593)	0				
Dividends				(2,586)			(2,586)				
Proceeds from the exercise of stock options	224		33				0				
Change in other comprehensive income (not recognized in income statement)				5			5	126	(537)	(5)	211
Recognition of other comprehensive income in income statement							0	(984)	(28)		10
Sale of 2005 anniversary shares							0				
<b>At Dec. 31, 2005</b>	<b>4,198,078</b>	<b>10,747</b>	<b>49,561</b>	<b>(22,416)</b>	<b>3,656</b>	<b>5,584</b>	<b>(13,176)</b>	<b>2</b>	<b>864</b>	<b>58</b>	<b>(335)</b>

Other comprehensive income			Treasury shares	Total (equity attributable to equity holders of the parent)	Minority interest capital	Minority interests						Total (minority interest in equity)	Total consolidated shareholders' equity	
Difference from currency translation	Other	Total				Fair value measurement of available-for-sale financial assets	Fair value measurement of hedging instruments	Revaluation due to business combinations	Deferred taxes	Difference from currency translation	Other	Total		
(33)	0	440	(8)	40,902	4,093	0	0	0	0	(31)	0	(31)	4,062	44,964
		0		(2)	(134)							0	(134)	(136)
		0		2,063	454							0	454	2,517
		0		0	(97)							0	(97)	(97)
		0		20								0	0	20
		0		(71)								0	0	(71)
(3,871)	(3,349)	(3,349)								(66)	1	(65)	(65)	(3,414)
		(45)		(45)								0	0	(45)
(3,904)	0	(2,954)	(8)	39,518	4,316	0	0	0	0	(97)	1	(96)	4,220	43,738
		0		0	(14)							0	(14)	(14)
		0		1,593	424							0	424	2,017
		0		0								0	0	0
		0		0	(394)							0	(394)	(394)
		0		29								0	0	29
(623)	479	479		479				61		90		151	151	630
53	(203)	(203)		(203)								0	0	(203)
(4,474)	0	(2,678)	(8)	41,416	4,332	0	0	61	0	(7)	1	55	4,387	45,803
		0		(6)	(1,009)			6		(2)		4	(1,005)	(1,011)
		0		5,584	432							0	432	6,016
		0		0								0	0	0
		0		(2,586)	(351)							0	(351)	(2,937)
		0		33								0	0	33
2,794	2,589	2,594		2,594	4			(4)		48		44	48	2,642
36	(966)	(966)		(966)								0	0	(966)
		0	2	2								0	0	2
(1,644)	0	(1,055)	(6)	46,071	3,408	0	0	63	0	39	1	103	3,511	49,582

# Notes to the consolidated financial statements.

## Summary of accounting policies.

### General information.

The Deutsche Telekom Group (hereinafter referred to as Deutsche Telekom) is one of the world's leading service providers in the telecommunications and information technology sector. With its strategic business areas Broadband/Fixed Network, Mobile Communications and Business Customers, Deutsche Telekom covers the full range of state-of-the-art telecommunications and information technology services.

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

The Company's registered office is in Bonn, Germany. Its address is Deutsche Telekom AG, Friedrich-Ebert-Allee 140, 53113 Bonn.

The Declaration of Conformity with the German Corporate Governance Code required pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG) was released and made available to shareholders.

In addition to Frankfurt/Main, other German stock exchanges, and Tokyo, Deutsche Telekom shares are also traded on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs). Deutsche Telekom therefore also prepares financial information in accordance with U.S. GAAP (Generally Accepted Accounting Principles) applicable at the balance sheet date. Differences between accounting and measurement principles applied in Deutsche Telekom's consolidated financial statements under IFRS and those under U.S. GAAP are explained in the Annual Report on Form 20-F filed with the SEC.

The annual financial statements of Deutsche Telekom AG as well as the consolidated financial statements of Deutsche Telekom AG, which have an unqualified audit opinion from Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Stuttgart, and PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, are published in the Federal Gazette (Bundesanzeiger) and filed with the Commercial Register of the Bonn District Court under No. HRB 6794. This annual report and the Annual Report on Form 20-F, filed with the SEC due to Deutsche Telekom's listing on the NYSE, are available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on the Internet at [www.deutschetelekom.com](http://www.deutschetelekom.com).

The consolidated financial statements of Deutsche Telekom for the 2005 financial year were released for publication by the Board of Management on February 13, 2006.

### Basis of preparation.

The consolidated financial statements of Deutsche Telekom have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the regulations under commercial law as set forth in § 315a (1) HGB (Handelsgesetzbuch – German Commercial Code). All IFRSs issued by the International Accounting Standards Board (IASB), effective at the time of preparing these consolidated financial statements and applied by Deutsche Telekom, have been adopted for use in the EU by the European Commission. The consolidated financial statements of Deutsche Telekom therefore also comply with IFRS. In accordance with IFRS 1, assets and liabilities are recognized and measured in accordance with the IFRSs required to be applied as of December 31, 2005. The resulting differences between the IFRS carrying amounts and the carrying amounts of the assets and liabilities in the consolidated balance sheet under German GAAP (Handelsgesetzbuch – HGB) as of January 1, 2003 are recognized directly in equity at the date of transition to IFRS.

In August 2005, the IASB issued IFRS 7 "Financial Instruments: Disclosures," which contains new regulations concerning the disclosure of financial instruments. IFRS 7 replaces the disclosure regulations of International Accounting Standard (IAS) 32 and must be applied to reporting periods that commence on or after January 1, 2007. Deutsche Telekom has decided to apply IFRS 7 voluntarily to its 2005 consolidated financial statements and makes use of the option in IFRS 1 to prepare comparable data for the 2004 and 2003 financial years under IAS 32.

The financial year corresponds to the calendar year. The consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in shareholders' equity include two comparative years.

Presentation in the balance sheet differentiates between current and non-current assets and liabilities, some of which are broken down further by their respective maturities in the notes to the financial statements. The income statement is presented using the cost-of-sales method. Under this format, net revenues are compared against the expenses incurred to generate these revenues, classified into cost of sales, selling, and general and administrative functions. The consolidated financial statements are prepared in euros.

The financial statements of Deutsche Telekom AG and its subsidiaries included in the consolidated financial statements were prepared using uniform group accounting policies.

### Standards, interpretations and amendments issued, but not yet adopted.

In December 2004, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 5, "Rights to Interests arising from Decommissioning, Restoration and Environmental Funds." IFRIC 5 explains how to treat expected reimbursements from funds set up to meet the costs of decommissioning assets or in undertaking environmental restoration or rehabilitation. The provisions are effective for financial years beginning on or after January 1, 2006. The adoption of IFRIC 5 is not expected to have a material impact on Deutsche Telekom's results of operations, financial position or cash flows.

In December 2004, the IASB issued an amendment to IAS 19, "Employee Benefits." The IASB has decided to allow the option of recognizing actuarial gains and losses in full in the period in which they occur, outside profit or loss, directly in equity. This optional method may be used for financial years beginning on or after December 16, 2004. Deutsche Telekom decided not to apply this option. The amendment also specifies how Group entities should account for defined benefit group plans in their separate or individual financial statements and requires entities to give additional disclosures. This provision is effective for financial years beginning on or after January 1, 2006 and is not expected to have a material impact on Deutsche Telekom's results of operations, financial position or cash flows.

In April 2005, the IASB issued an amendment to IAS 39, "Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions." Under this amendment, it is possible to recognize the foreign currency risks of a highly probable forecast intragroup transaction as a hedge in the consolidated financial statements. This requires the transaction to be denominated in a currency other than the functional currency of the entity entering into that transaction and the resulting currency risk to be recognized in net profit/loss in accordance with IFRS. The adoption of this amendment to IAS 39 is not expected to have a material impact on Deutsche Telekom's results of operations, financial position or cash flows.

In June 2005, the IASB issued an amendment to IAS 39, "Financial Instruments: Recognition and Measurement – The Fair Value Option," to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit or loss (the fair value option). The provisions of this amendment are effective for reporting periods beginning on or after January 1, 2006. As Deutsche Telekom decided not to apply the fair value option, this amendment is not applicable.

In August 2005, the IASB issued an amendment to IAS 1, "Presentation of Financial Instruments – Capital Disclosures." The amendment requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after January 1, 2007. As the amendment to IAS 1 only affects disclosure requirements, it will not have an impact on Deutsche Telekom's results of operations, financial position or cash flows.

In August 2005, the IASB issued an amendment to IAS 39, "Financial Instruments: Recognition and Measurement" and IFRS 4, "Insurance Contracts," "Financial Guarantee Contracts." These amendments clarify whether IFRS 4 or IAS 39 is to be applied when accounting for financial guarantee contracts in the issuer's financial statements. Regardless of whether they fulfill the characteristics of an insurance contract, financial guarantees are included in the scope of IAS 39 and are measured at fair value upon initial recognition. Subsequently, financial guarantees are measured at the higher of (1) the amount determined in accordance with IAS 37 and (2) the amount initially recognized (less, when appropriate, cumulative amortization recognized in accordance with IAS 18). If the issuer has asserted prior to the amendment to the standard that it regards a financial guarantee contract as an insurance contract within the meaning of IFRS 4, the issuer may elect to continue to apply IFRS 4 or to adopt IAS 39. The amendments to IAS 39 and IFRS 4 are not expected to have a material impact on Deutsche Telekom's results of operations, financial position or cash flows.

In November 2005, the IFRIC issued IFRIC 7, "Applying the Restatement Approach under IAS 29 Reporting in Hyperinflationary Economies." IFRIC 7 clarifies that in the period in which the economy of an entity's functional currency becomes hyperinflationary, the entity shall apply the requirements of IAS 29 as though the economy had always been hyperinflationary. The effect of this requirement is that non-monetary items carried at cost shall be restated from the dates at which those items were first recognized; for other non-monetary items the restatements are made from the dates at which revised carrying amounts for those items were established. Deferred tax amounts in the opening balance sheet are determined in two stages: (a) Deferred tax items are remeasured in accordance with IAS 12, "Income Taxes," after restating the nominal carrying amounts of the non-monetary items in the opening balance sheet by applying the measuring unit at that date; (b) the deferred tax items remeasured in this way are restated for the change in the measuring unit from the date of the opening balance sheet to the date of the closing balance sheet. The provisions are effective for reporting periods beginning on or after March 1, 2006. The adoption of IFRIC 7 is not expected to have a material impact on Deutsche Telekom's results of operations, financial position or cash flows.

In December 2005, the IASB issued an amendment to IAS 21, "The Effects of Changes in Foreign Exchange Rates." The amendment to IAS 21 provides that if an exchange difference arises on a monetary item that forms part of a reporting entity's net investment in a foreign operation, that exchange difference should be reclassified to the separate component of equity in the financial statements in which the foreign operation is consolidated, proportionately consolidated, or accounted for using the equity method. This requirement applies regardless of the currency in which the monetary item is denominated and of which Group entity transacts with the foreign operation. The provisions of this amendment are effective for reporting periods beginning on or after January 1, 2006. The adoption of this amendment to IAS 21 is not expected to have a material impact on Deutsche Telekom's results of operations, financial position or cash flows.

In January 2006, the IFRIC issued IFRIC 8, "Scope of IFRS 2." The interpretation clarifies that IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less than the fair value of the equity instruments granted, under IFRIC 8 this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. IFRIC 8 becomes effective for financial years beginning on or after May 1, 2006. The adoption of this interpretation is not expected to have a material impact on Deutsche Telekom's results of operations, financial position or cash flows.

#### **Consolidated group.**

All subsidiaries, joint ventures and associates are included in the consolidated financial statements. Subsidiaries are companies that are directly or indirectly controlled by Deutsche Telekom and are fully consolidated. Joint ventures are companies jointly controlled by Deutsche Telekom and other companies. Associates are companies on which Deutsche Telekom has a significant influence, and that are neither subsidiaries nor joint ventures. As with joint ventures, associates are accounted for using the equity method.

The changes in the composition of the Deutsche Telekom Group in 2005 are presented in the following table:

	Domestic	International	Total
<b>Consolidated subsidiaries (including special-purpose entities)</b>			
Jan. 1, 2005	73	272	345
Additions	0	20	20
Disposals	(4)	(11)	(15)
Dec. 31, 2005	69	281	350
<b>Associates accounted for using the equity method</b>			
Jan. 1, 2005	12	16	28
Additions	1	0	1
Disposals	(2)	(5)	(7)
Dec. 31, 2005	11	11	22
<b>Joint ventures accounted for using the equity method</b>			
Jan. 1, 2005	2	2	4
Additions	0	0	0
Disposals	0	(2)	(2)
Dec. 31, 2005	2	0	2
<b>Total</b>			
Jan. 1, 2005	87	290	377
Additions	1	20	21
Disposals	(6)	(18)	(24)
<b>Dec. 31, 2005</b>	<b>82</b>	<b>292</b>	<b>374</b>

### Business combinations.

#### 2004:

On February 18, 2004, Deutsche Telekom AG acquired all shares in the **Scout24 group**, Baar/Switzerland via its subsidiary T-Online International AG. The purchase price of EUR 0.2 billion was paid in cash and included the assumption of a shareholder loan amounting to EUR 37 million. The Scout24 group is primarily active in the market for internet marketplaces such as AutoScout24 and ImmobilienScout24. Goodwill of EUR 96 million resulted from a company valuation and subsequent purchase price allocation.

Pursuant to a purchase agreement dated December 23, 2004, Slovak Telecom – a 51 percent subsidiary of Deutsche Telekom – acquired the remaining 49 percent of the shares in the Slovak mobile communications operator **EuroTel Bratislava (renamed T-Mobile Slovensko in May 2005)** for a cash price of EUR 0.3 billion. The company valuation and subsequent purchase price allocation resulted in a goodwill of EUR 59 million.

The fair values at the time of the aforementioned business combination and the carrying amounts immediately prior to the business combination are shown in the table below:

millions of €	Scout24 group		T-Mobile Slovensko	
	Amounts recognized (fair values) at the date of first-time consolidation	Carrying amounts immediately prior to the business combination	Amounts recognized (fair values) at the date of first-time consolidation	Carrying amounts immediately prior to the business combination
<b>Assets</b>	<b>129</b>	<b>45</b>	<b>672</b>	<b>370</b>
<b>Current assets</b>	<b>16</b>	<b>16</b>	<b>74</b>	<b>74</b>
Cash and cash equivalents	4	4	22	22
Other assets	12	12	52	52
<b>Non-current assets</b>	<b>113</b>	<b>29</b>	<b>598</b>	<b>296</b>
Intangible assets	66	2	410	89
Property, plant and equipment	2	2	179	203
Investments accounted for using the equity method	21	1	0	0
Other assets	24	24	9	4
<b>Liabilities</b>	<b>86</b>	<b>63</b>	<b>251</b>	<b>187</b>
<b>Current liabilities</b>	<b>63</b>	<b>63</b>	<b>67</b>	<b>67</b>
Financial liabilities	36	36	2	2
Trade and other payables	5	5	36	36
Other liabilities	22	22	29	29
<b>Non-current liabilities</b>	<b>23</b>	<b>0</b>	<b>184</b>	<b>120</b>
Financial liabilities	0	0	100	97
Other liabilities	23	0	84	23

**2005:**

In February and March 2005, Deutsche Telekom purchased as part of a public tender offer approximately 16 percent of the outstanding shares in T-Online for a total price of EUR 1.8 billion. This share acquisition is part of the planned merger of T-Online into Deutsche Telekom AG. These transactions in February and March 2005 led to an increase in goodwill of EUR 0.8 billion.

Magyar Telekom, Deutsche Telekom's Hungarian subsidiary, acquired an equity interest of approximately 76.5 percent in the Telekom Montenegro group for around EUR 0.15 billion in March and May 2005. The purchase price was paid in cash. In addition to traditional fixed-network services, the **Telekom Montenegro group** not only offers mobile communications services, but also operates as an Internet service provider. The purchase price allocation resulted in a goodwill of EUR 25 million. Telekom Montenegro was included in the consolidated financial statements as of March 31, 2005 for the first time.

millions of €	Telekom Montenegro group	
	Amounts recognized (fair values) at the date of first-time consolidation	Carrying amounts immediately prior to the business combination
<b>Assets</b>	<b>201</b>	<b>181</b>
<b>Current assets</b>	<b>35</b>	<b>35</b>
Cash and cash equivalents	7	7
Other assets	28	28
<b>Non-current assets</b>	<b>166</b>	<b>146</b>
Intangible assets	40	19
Property, plant and equipment	114	122
Other assets	12	5
<b>Liabilities</b>	<b>41</b>	<b>44</b>
<b>Current liabilities</b>	<b>28</b>	<b>34</b>
Financial liabilities	10	15
Trade and other payables	6	6
Other liabilities	12	13
<b>Non-current liabilities</b>	<b>13</b>	<b>10</b>
Financial liabilities	3	3
Other liabilities	10	7

T-Online International AG fully acquired the cable network operator **Albura Telecomunicaciones** at June 30, 2005. The purchase price amounted to EUR 36 million; the purchase price allocation resulted in negative goodwill of EUR 4 million, which was recognized as income in profit or loss. The fair values of the assets acquired amounted to less than EUR 0.1 billion.



**Pro forma information.**

The following pro forma information shows the most important financial data of Deutsche Telekom, including its principal consolidated subsidiaries

acquired in 2003 through 2005, as if they had been consolidated at the beginning of the financial year in which the acquisition was made.

millions of €	2005	2004	2003
<b>Net revenue</b>			
Reported	59,604	57,353	55,596
Pro forma	59,627	57,671	55,596
<b>Net profit</b>			
Reported	5,584	1,593	2,063
Pro forma	5,584	1,639	2,063
<b>Earnings per share (€)</b>			
Reported	1.31	0.39	0.50
Pro forma	1.31	0.40	0.50

**Principal subsidiaries.**

The principal subsidiaries whose revenues, together with Deutsche Telekom AG, account for more than 90 percent of the Group's revenue are shown in the table below:

Name and registered office	Deutsche Telekom share in % Dec. 31, 2005	Net revenue millions of € 2005	Employees annual average 2005
<b>Consolidated subsidiaries</b>			
T-Mobile Deutschland GmbH, Bonn <sup>2</sup>	100.00	8,621	7,705
T-Mobile Holdings Ltd., Hatfield, United Kingdom <sup>1,3</sup>	100.00	4,153	5,434
T-Mobile Austria GmbH, Vienna, Austria <sup>1,4</sup>	100.00	885	1,585
T-Mobile USA, Inc., Bellevue, Washington, USA <sup>1,2</sup>	100.00	11,887	24,943
T-Mobile Czech Republic a.s., Prague, Czech Republic <sup>5</sup>	60.77	938	2,455
T-Mobile Netherlands Holding B.V., The Hague, Netherlands <sup>1,3</sup>	100.00	1,064	1,455
T-Online International AG, Darmstadt <sup>1</sup>	90.14	1,755	1,791
T-Systems Enterprise Services GmbH, Frankfurt/Main	100.00	5,830	19,073
T-Systems GEI GmbH, Aachen <sup>6</sup>	100.00	528	3,614
GMG Generalmietgesellschaft mbH, Münster	100.00	1,750	0
DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster	100.00	904	6,422
T-Systems Business Services GmbH, Bonn <sup>1</sup>	100.00	3,711	8,214
Magyar Telekom Rt., Budapest, Hungary <sup>1,7</sup>	59.21	2,504	10,775
Slovak Telecom a.s., Bratislava, Slovakia <sup>1</sup>	51.00	759	5,857
HT-Hrvatske telekomunikacije d.d., Zagreb, Croatia <sup>1</sup>	51.00	1,149	6,811

<sup>1</sup> Consolidated subgroup financial statements.

<sup>2</sup> Indirect shareholding via T-Mobile International AG & Co. KG, Bonn (Deutsche Telekom AG's indirect share: 100%).

<sup>3</sup> Indirect shareholding via T-Mobile Global Holding GmbH, Bonn (Deutsche Telekom AG's indirect share: 100%).

<sup>4</sup> Indirect shareholding via T-Mobile Global Holding Nr. 2 GmbH, Bonn (Deutsche Telekom AG's indirect share: 100%).

<sup>5</sup> Indirect shareholding via CMobil B.V., Amsterdam (Deutsche Telekom AG's indirect share: 100%).

<sup>6</sup> Indirect shareholding via T-Systems International GmbH, Frankfurt/Main (Deutsche Telekom AG's share: 100%).

<sup>7</sup> Indirect shareholding via MagyarCom Holding GmbH, Bonn (Deutsche Telekom AG's share: 100%).

In accordance with § 313 HGB, the full list of investment holdings is filed with the Commercial Register of the Bonn District Court (HRB 6794). The list is available upon request from Deutsche Telekom AG, Bonn, Investor Relations. Furthermore, the list of investment holdings includes a full list of all subsidiaries that exercise disclosure simplification options in accordance with § 264 (3) HGB.

**Consolidation methods.**

The financial statements of the companies included in Deutsche Telekom's consolidated financial statements are prepared in accordance with uniform accounting policies.

Under IFRS, all business combinations must be accounted for using the purchase method. The acquirer allocates the cost of a business combination by recognizing the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair value at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of identifiable assets and of the liabilities and contingent liabilities taken over, regardless of the level of the investment held, is recognized as goodwill. Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities which exceeds the cost of a business combination is recognized immediately in profit or loss. In the periods following the business combination, any realized differences between the carrying amounts and fair values of assets and liabilities are adjusted, amortized or reversed, in accordance with the treatment of the corresponding assets and liabilities.

When acquiring additional equity interests in companies that are already consolidated subsidiaries, the difference between the purchase price consideration and the proportionate acquired equity is recognized as goodwill.

Intercompany income and expenses, receivables and liabilities, and profits or losses are eliminated.

A subsidiary is deconsolidated from the date it is no longer controlled by Deutsche Telekom.

Investments in joint ventures and associates accounted for using the equity method are carried at the acquirer's interest in the identifiable assets (including any attributable goodwill), liabilities and contingent liabilities are remeasured to fair value. Goodwill from application of the equity method is not amortized, but tested for impairment at least once a year. Unrealized gains and losses from transactions with these companies are eliminated in proportion to the acquirer's interest.

**Currency translation.**

Foreign currency transactions are translated into the functional currency at the exchange rate at the date of transaction. At balance sheet dates, monetary items are translated at the closing rate, and non-monetary items continue to be translated at the exchange rate at the date of transaction. Any resulting exchange rate differences are recognized in profit or loss.

The financial statements of Group entities whose functional currency is not the euro are translated using the modified closing rate method. In the consolidated financial statements, the assets and liabilities of foreign Group entities are translated into euros from the local currency at the middle rates at the balance sheet date. The income statements and corresponding profit or loss of foreign currency denominated Group entities are translated at average exchange rates for the period. Exchange rate differences are recognized as a separate component of equity.

The exchange rates of certain significant currencies changed as follows:

€	Annual average rate			Rate at balance sheet date		
	2005	2004	2003	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
100 Czech korunas (CZK)	3.35741	3.13631	3.14101	3.44983	3.29045	3.08873
1 Pound sterling (GBP)	1.46209	1.47305	1.44585	1.45541	1.41624	1.41663
100 Croatian kunas (HRK)	13.51280	13.33720	13.21220	13.56480	13.04550	13.11000
1,000 Hungarian forints (HUF)	4.03201	3.97687	3.94347	3.95594	4.06902	3.79407
100 Polish zlotys (PLN)	24.86080	22.10010	22.73590	25.90210	24.52550	21.27500
100 Macedonian denars (MKD)	1.65696	1.61304	1.64012	1.64052	1.57865	1.62514
100 Slovak korunas (SKK)	2.59153	2.49843	2.41004	2.63992	2.58158	2.43000
1 U.S. dollar (USD)	0.80325	0.80386	0.88492	0.84496	0.73320	0.79340

**Accounting policies.**

**Intangible assets (excluding goodwill)** with finite useful lives, including UMTS licenses, are measured at cost and amortized on a straight-line basis over their useful lives. Such assets are impaired if their recoverable amount, which is measured at the higher of fair value less costs to sell and value in use is lower than the carrying amount. Indefinite-lived intangible assets (U.S. mobile communications licenses (FCC licenses)) are carried at cost. They are not amortized, but tested for impairment annually or whenever there are indications of impairment and, if necessary, written down to the recoverable amount. Impairment losses are reversed if the reasons for recognizing the original impairment loss no longer apply. The useful lives and the amortization method of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8.

Amortization of mobile communications licenses begins as soon as the related network is ready for use. The useful lives of mobile communications licenses are determined based on several factors, including the term of the licenses granted by the respective regulatory body in each country, the availability and expected cost of renewing the licenses, as well as the development of future technologies. The useful lives of the Company's mobile communications licenses are as follows:

	Years
Mobile communications licenses:	
FCC licenses	Indefinite
UMTS licenses	15 to 22
GSM licenses	10 to 20

Development expenditures are capitalized if they meet the criteria for recognition as assets and are amortized over their useful lives. Research expenditures and borrowing costs are not capitalized and are expensed as incurred.

**Goodwill** is not amortized, but is tested for impairment based on the recoverable amount of the cash-generating unit to which the goodwill is allocated (impairment-only approach). For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment test must be performed annually, as well as whenever there are indications that the carrying amount of the cash-generating unit is impaired. If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit must be reduced in the amount of the difference. Impairment losses for goodwill may not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro rata

reduction of the carrying amounts of the assets allocated to the cash-generating unit. Deutsche Telekom determines the recoverable amount of a cash-generating unit based on its fair value less costs to sell. The fair value less costs to sell is usually determined based on discounted cash flow calculations. These discounted cash flow calculations use projections that are based on financial budgets approved by management covering a ten-year-period and are also used for internal purposes. Cash flows beyond the ten-year period are extrapolated using appropriate growth rates. Key assumptions on which management has based its determination of fair value less costs to sell include average revenue per user (ARPU), customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and discount rate. Cash flow calculations are supported by external sources of information.

**Property, plant and equipment** is carried at cost less straight-line depreciation and impairment losses. The depreciation period is based on the expected useful life. Items of property, plant and equipment are depreciated pro rata in the year of acquisition. The residual values, useful lives and the depreciation method of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8. In addition to directly attributable costs, the costs of internally developed assets include proportionate indirect material and labor costs, as well as administrative expenses relating to production or the provision of services. Costs also include the estimated costs for dismantling and removing the asset, and restoring the site on which it is located. If an item of property, plant and equipment consists of several components with different estimated useful lives, the individual significant components are depreciated over their individual useful lives. Maintenance and repair costs are allocated to the relevant assets and expensed as incurred. Borrowing costs are not capitalized. Investment grants received reduce the cost of the assets for which the grants were made.

**Impairment of intangible assets and items of property, plant and equipment** is identified by comparing the carrying amount with the recoverable amount. If no future cash flows generated independently of other assets can be allocated to the individual assets, recoverability is tested on the basis of the cash-generating unit to which the assets can be allocated. At each reporting date Deutsche Telekom assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or cash-generating unit must be determined. Impairment losses are reversed if the reasons for recognizing the original impairment loss no longer apply.

The recoverable amount of the cash-generating units is generally determined using discounted cash flow calculations. Cash flows are projected over the estimated useful life of the asset or cash-generating unit. The discount rate used reflects the risk specific to the asset or cash-generating unit. The cash flows used reflect management assumptions and are supported by external sources of information.

The useful lives of material asset categories are as follows:

	Years
Buildings	25 to 50
Telephone facilities and terminal equipment	3 to 10
Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment and technical equipment for broadband distribution networks	4 to 12
Broadband distribution networks, outside plant networks and cable conduit lines	15 to 35
Other equipment, operating and office equipment	2 to 23

Leasehold improvements are depreciated over the shorter of their useful lives or lease terms.

Beneficial ownership of **leased assets** is attributed to the contracting party in the lease to which substantially all risks and rewards incidental to ownership of the asset are transferred. If substantially all risks and rewards are attributable to the lessor (operating lease), the leased asset is recognized by the lessor. Measurement of the leased asset is then based on the accounting policies applicable to that asset. The lease payments are recognized in profit or loss. The lessee in an operating lease recognizes the lease payments made during the term of the lease in profit or loss.

If substantially all risks and rewards incidental to ownership of the leased asset are attributable to the lessee (finance lease), the lessee must recognize the leased asset. At the commencement of the lease term, the leased asset is measured at the lower of fair value or present value of the future minimum lease payments and is depreciated over the shorter of the estimated useful life or the lease term. Depreciation is recognized as expense. The lessee recognizes a lease liability equal to the carrying amount of the leased asset at the commencement of the lease term. In subsequent periods, the lease liability is reduced using the effective interest method and the carrying amount adjusted accordingly. The lessor in a finance lease recognizes a receivable in the amount of the net investment in the lease. Lease income is classified into repayments of the lease receivable and financial income. The lease receivable is reduced using the effective interest method and the carrying amount adjusted accordingly.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term.

**Investment property** consists of all property held to earn rentals or for capital appreciation and not used in production or for administrative purposes. Investment property is measured at cost less any accumulated depreciation and impairment losses.

**Non-current assets held for sale** are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of carrying amount and fair value less costs to sell and are classified as "non-current assets held for sale." Such assets are no longer depreciated. As a rule, impairment of such assets is only recognized if fair value less costs to sell is lower than the carrying amount. If fair value less costs to sell subsequently increases, the impairment loss previously recognized must be reversed. The reversal of impairment losses is restricted to the impairment losses previously recognized for the assets concerned.

**Inventories** are carried at cost. Borrowing costs are not capitalized. Items of inventory are written down at the balance sheet date if their net realizable value is lower than their carrying amount. Similar items of inventory are measured using the weighted average cost method.

**Pension obligations and other employee benefits** relate to obligations to non-civil servants. Liabilities for defined benefit plans are measured using the projected unit credit method, taking into account not only the pension obligations and vested pension rights known at the balance sheet date, but also expected future salary and benefit increases. For discounting the present value of benefits, taking into account future salary increases (defined benefit obligation), Deutsche Telekom used a rate of 4.1 percent as of December 31, 2005. Actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognized at the balance sheet date only to the extent that the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed the higher of 10 percent of the present value of the defined benefit obligation at this point in time (prior to the deduction of the plan assets) and 10 percent of the fair value of any plan assets at this point in time. In this case they are amortized prospectively to profit or loss over the expected average remaining working life of the employees participating in the plan. The interest component of the addition to provisions contained in pension expenses is classified as interest expense. The return on plan assets is also classified in interest income. Service costs are classified as operating expenses. The amounts payable under defined contribution plans are expensed when the contributions are due and classified as operating expenses. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available. Past service costs are recognized immediately to the extent that the benefits are vested, otherwise, they are recognized on a straight line basis over the average remaining vesting period.

For active civil servants and those who have taken leave from civil-servant status and have an employment contract, Deutsche Telekom is obliged to make annual contributions to a special pension fund which makes pension payments to this group of people. The amounts of these contributions are set out by Postreform II, the legislation by which the former Deutsche Bundespost Telekom was legally transformed into a stock corporation, 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 and classified as operating expenses.

Part-time working arrangements for employees approaching retirement are based on the block model of *Altersteilzeit* (partial retirement arrangement). Two types of obligations, both measured at their present value in accordance with actuarial principles, arise and are accounted for separately. The first type of obligation relates to the cumulative outstanding settlement amount, which is recorded on a pro rata basis during the term of the arrangement. The cumulative outstanding settlement amount is based on the difference between (a) the employee's remuneration before entering partial retirement (including the employer's social security contributions) and (b) the remuneration for the part-time service (including the employer's social security contributions, but excluding top-up payments). The second type of obligation relates to the employer's obligation to make top-up payments plus an additional contribution to the statutory pension scheme and is recognized in full when the obligation arises.

**Other provisions** are recognized where Deutsche Telekom has legal or constructive obligations to third parties on the basis of past transactions or events that will probably require an outflow of resources to settle, and this outflow can be reliably measured. These provisions are carried at their expected settlement amount, taking into account all identifiable risks, and may not be offset against reimbursements. The settlement amount is calculated on the basis of a best estimate. Provisions are discounted when the effect of the time value of money is material. Changes in estimates of the amount and timing of payments or changes in the discount rate applied in measuring provisions for decommissioning, restoration, and similar obligations are recognized in accordance with the change in the carrying amount of the related asset. Where the decrease in the amount of a provision exceeds the carrying amount of the related asset, the excess is recognized immediately in profit or loss. Provisions are recognized for external legal fees related to expected losses from executory contracts.

**Contingencies (contingent liabilities and assets)** are essentially potential liabilities or assets arising from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of Deutsche Telekom. Contingent liabilities are recognized at their fair value if they were assumed in the course of a business combination. Contingent assets may not be recognized. Information on contingent liabilities are disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of economic benefits is remote. The same applies to contingent assets where an inflow of economic benefits is probable.

A **financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade receivables and other originated loans and receivables, held-to-maturity investments, and derivative and non-derivative financial assets held for trading. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, promissory notes and derivative financial liabilities. Financial instruments are generally recognized as soon as Deutsche Telekom becomes a party to the contractual regulations of the financial instrument. However, in the case of regular way purchase or sale (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the market place concerned), the settlement date is relevant for the initial recognition and derecognition. This is the day on which the asset is delivered to or by Deutsche Telekom. In general, financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the entity currently has a right to set off the recognized amounts and intends to settle on a net basis.

The liability and equity components of **compound financial instruments** are reported separately in the issuer's financial statements. The liability component is recognized at the amount that would have been generated from the issue of the equivalent debt instrument without the equity component based on the market conditions at the issue date. Accordingly, the amount recognized in equity – including deferred taxes and transaction costs – is equal to the market value of the conversion rights or options at the issue date, and hence the difference to the proceeds of issue. The equity component is included in capital reserves at a constant amount.

**Financial assets** are measured at fair value on initial recognition. For all financial assets not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are taken into account. The fair values recognized in the balance sheet generally correspond to the market prices of the financial assets. If these are not immediately available, they must be calculated using standard valuation models on the basis of current market parameters. For this calculation, the cash flows already fixed or determined by way of forward rates using the current yield curve are discounted at the measurement date using the discount factors calculated from the yield curve applicable at the reporting date. Middle rates are used.

**Cash and cash equivalents**, which include cash accounts and short-term cash deposits at banks, have maturities of up to three months and are measured at amortized cost.

**Trade and other current receivables** are measured at cost less any impairment losses using the effective interest method, if necessary. Impairments, which take the form of allowances, make adequate provision for the expected credit risk; concrete cases of default lead to the derecognition of the respective receivables. For allowances, financial assets that may need to be written down are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment and written down if necessary. When the expected future cash flows of the portfolio are being calculated as required for this, previous cases of default are taken into consideration in addition to the cash flows envisaged in the contract. The cash flows are discounted on the basis of the weighted average of the original effective interest rates of the financial assets contained in the relevant portfolio.

Impairment losses on trade accounts receivable are recognized in some cases using allowance accounts. The decision to account for credit risks using an allowance account or by directly reducing the receivable will depend on the reliability of the risk assessment. As there is a wide variety of business areas and regional circumstances, this decision is the responsibility of the portfolio managers in question.

**Other non-current receivables** are measured at amortized cost using the effective interest method.

**Financial assets held for trading** are measured at fair value. These mainly include derivatives that are not part of an effective hedging relationship as set out in IAS 39 and therefore have to be classified as "held for trading." Any gains or losses arising from subsequent measurement are recognized in the income statement.

Certain types of investment are intended and expected to be **held to maturity** with reasonable economic certainty. These financial assets are measured at amortized cost using the effective interest method.

Other non-derivative financial assets are classified as "**available for sale**" and generally measured at fair value. The gains and losses arising from fair value measurement are recognized directly in equity, unless the impairment is prolonged, significant or the changes in the fair value of debt instruments resulting from currency fluctuations are recognized in profit or loss. The cumulative gains and losses arising from fair value measurement are only recognized in profit or loss on disposal of the related financial assets. If the fair value of unquoted equity instruments cannot be measured with sufficient reliability, these instruments are measured at cost (less any impairment losses, if applicable).

Deutsche Telekom has not yet made use of the option of designating financial assets upon initial recognition as **financial assets at fair value through profit or loss**.

The carrying amounts of the financial assets that are not designated as at fair value through profit or loss are tested at each reporting date to determine whether there is objective, material evidence of **impairment** (e.g., a debtor is facing serious financial difficulties, it is highly probable that insolvency proceedings will be initiated against the debtor, an active market for the financial asset disappears, there is a substantial change in the technological, economic or legal environment and the market environment of the issuer, or there is a continuous decline in the fair value of the financial asset to a level below amortized cost). Any impairment losses caused by the fair value being lower than the carrying amount are recognized in profit or loss. Where impairments of the fair values of available-for-sale financial assets were recognized directly in equity in the past, these must now be reclassified from equity in the amount of the impairment determined and reclassified to the income statement. If, in a subsequent period, the fair value of the financial asset increases and this increase can be related objectively to events occurring after the impairment was recognized, the impairment loss is reversed to income in the appropriate amount. Impairment losses on unquoted equity instruments that are classified as available for sale and carried at cost may not be reversed. Both the fair value of held-to-maturity securities to be determined by testing for impairment and the fair value of the loans and receivables measured at amortized cost, which are required for impairment testing, correspond to the present value of the estimated future cash flows discounted using the original effective interest rate. The fair value of unquoted equity instruments measured at cost is calculated as the present value of the expected future cash flows, discounted using the current interest rate that corresponds to the investment's special risk position.

**Financial liabilities** are measured at fair value on initial recognition. For all financial liabilities not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are also recognized.

**Trade payables and other non-derivative financial liabilities** are generally measured at amortized cost using the effective interest method.

The Group has not yet made use of the option to designate financial liabilities upon initial recognition as **financial liabilities at fair value through profit or loss**.

Derivatives that are not part of an effective hedging relationship as set out in IAS 39 must be classified as "held for trading" and reported at fair value through profit or loss. If the fair values are negative, the derivatives are recognized as financial liabilities.

Deutsche Telekom uses **derivatives** to hedge the interest rate and currency risks resulting from its operating, financing, and investing activities.

The Company does not hold or issue derivatives for speculative trading purposes.

Like all financial instruments, derivatives are carried at their fair value upon initial recognition. The fair values are also relevant for subsequent measurement. The fair value of traded derivatives is equal to their market value, which can be positive or negative. If there is no market value available, the fair value must be calculated using standard financial valuation models.

The fair value of derivatives is the value that Deutsche Telekom would receive or have to pay if the financial instrument were discontinued at the reporting date. This is calculated on the basis of the contracting parties' relevant exchange rates, interest rates, and credit ratings at the reporting date. Calculations are made using middle rates. In the case of interest-bearing derivatives, a distinction is made between the "clean price" and the "dirty price." In contrast to the clean price, the dirty price also includes the interest accrued. The fair values carried correspond to the full fair value or the dirty price.

For recording changes in the fair values, recognition in either the income statement or directly in equity, a determination is made whether or not the derivative is part of an effective hedging relationship as set out in IAS 39. If no hedge accounting is employed, the changes in the fair values of the derivatives must always be recognized in profit or loss. If, on the other hand, an effective hedging relationship as set out in IAS 39 exists, the hedge will be recognized as such.

Deutsche Telekom applies **hedge accounting** in accordance with IAS 39 to hedge balance sheet items and future cash flows, thus reducing income statement volatility. A distinction is made between fair value hedges, cash flow hedges, and hedges of a net investment in a foreign operation depending on the nature of the hedged item.

**Fair value hedges** are used to hedge the fair values of assets recognized in the balance sheet, liabilities recognized in the balance sheet, or firm commitments not yet recognized in the balance sheet. Any change in the fair value of the derivative designated as the hedging instrument is recognized in profit or loss; the carrying amount of the hedged item is adjusted by the profit or loss to the extent of the hedged risk (basis adjustment). The adjustments to the carrying amount are not amortized until the hedging relationship has been discontinued.

**Cash flow hedges** are used to hedge against fluctuations in future cash flows from assets and liabilities recognized in the balance sheet, from firm commitments (in the case of currency risks), or from highly probable forecast transactions. To hedge the currency risk of an unrecognized firm commitment, Deutsche Telekom makes use of the option to recognize this as a cash flow hedge rather than a fair value hedge. If a cash flow hedge is employed, the effective portion of the change in the fair value of the hedging instrument is recognized in equity (hedging reserve) until the gain or loss on the hedged item is realized; the ineffective portion of the hedging instrument is always recognized in profit or loss. In the case of currency risks, the change in the fair value resulting from spot rate changes is designated as the hedged risk. The interest component is separated from the hedge in accordance with IAS 39.74 (b). If a hedge of a forecast transaction subsequently results in the recognition of a financial or non-financial asset or liability, the associated cumulative gains and losses that were recognized directly in equity are reclassified into profit or loss in the same periods during which the financial asset acquired or the financial liability assumed affects profit or loss for the period. In doing so, Deutsche Telekom has decided not to make use of the basis adjustment option for hedging forecast transactions when non-financial balance sheet items arise.

If **hedges of a net investment in a foreign operation** are employed, all gains or losses on the effective portion of the hedging instrument, together with any gains or losses on the foreign currency translation of the hedged investment in accordance with IAS 21, are taken directly to equity. Any gains or losses on the ineffective portion are recognized immediately in profit or loss. The cumulative remeasurement gains and losses on the hedging instrument that had previously been recognized directly in equity and the gains and losses on the currency translation of the hedged item are recognized in profit or loss only on disposal of the investment.

IAS 39 sets out strict requirements on the use of hedge accounting. These are fulfilled at Deutsche Telekom by documenting, at the inception of a hedge, both the relationship between the financial instrument used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This involves concretely assigning the hedging instruments to the corresponding assets/liabilities or (firmly agreed) future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis; ineffective hedges are discontinued immediately.

Deutsche Telekom also employs hedges that do not satisfy the strict hedge accounting criteria of IAS 39 but which make an effective contribution to hedging the financial risk in accordance with the principles of risk management. Furthermore, Deutsche Telekom does not use hedge accounting in accordance with IAS 39 to hedge the foreign currency exposure of recognized monetary assets and liabilities, because the gains and losses on the hedged item from currency translation that are recognized in profit or loss in accordance with IAS 21 are shown in the income statement together with the gains and losses on the derivatives used as hedging instruments.

**Stock options** (equity-settled share-based payment transactions) are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period. Obligations arising from cash-settled share-based payment transactions are recognized as a liability and measured at fair value at the balance sheet date. The expenses are recognized over the vesting period. For both cash-settled and equity-settled share-based payment transactions, the fair value is determined using internationally accepted valuation techniques.

**Revenues** contain all revenues from the ordinary business activities of Deutsche Telekom. Revenues are recorded net of value-added tax. They are recognized in the accounting period in which they are earned in accordance with the realization principle. Up-front fees and related costs are deferred and amortized over the estimated average period of customer retention, unless they are part of a multiple-element arrangement, in which case they are a component of the arrangement consideration to be paid by the customer. Related costs of acquiring customers are also deferred, up to the amount of deferred up-front fees, and recognized over the average customer retention period. For multiple-element arrangements, revenue recognition for each of the elements identified must be determined separately. Deutsche Telekom has adopted the framework of the Emerging Issues Task Force Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" (EITF 00-21) in order to account for multiple-element revenue agreements entered into after January 1, 2003, as permitted by IAS 8.12. EITF 00-21 requires that arrangements involving the delivery of bundled products or services be separated into individual units of accounting, each with its own separate earnings process. Total arrangement consideration relating to the bundled contract is allocated among the different units based on their relative fair values (i.e., the relative fair value of each of the accounting units to the aggregated fair value of the bundled deliverables). If the fair value of the delivered elements can not be determined reliably but the fair value of the undelivered elements can be determined reliably, the residual value method is used to allocate the arrangement consideration.

Revenues from **construction contracts** are accounted for using the percentage-of-completion method. The stage of completion is determined on the basis of the costs incurred to date as a proportion of the estimated total costs. Receivables from construction contracts are classified in the balance sheet item "trade and other receivables." Receivables from construction contracts are calculated as the balance of the costs incurred and the profits recognized, less any discounts and recognized losses on the contract; if the balance for a contract is negative, this amount is reported in liabilities from construction contracts. If the total actual and estimated expenses exceed revenues for a particular contract, the loss is immediately recognized.

Revenue in Deutsche Telekom's strategic business areas is recognized as follows:

#### **Broadband/Fixed Network.**

The Broadband/Fixed Network strategic business area comprises the T-Com and T-Online business units. T-Com provides customers with narrow and broadband access to its fixed network. It also sells, leases, and services telecommunications equipment for its customers and provides additional telecommunications services. T-Com recognizes service revenues when the services are provided in accordance with contractual terms and conditions. Revenue and 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 operating leases is recognized monthly as the fees accrue. T-Online revenues consist primarily of revenues from subscriber fees and charges for advertising and e-commerce. Subscriber fees, consisting primarily of basic monthly charges for T-Online services and Internet access as well as use-related fees, are recognized as revenue in the period the service is provided. Advertising revenues are recognized in the period that the advertisements are exhibited. Transaction revenues are recognized upon notification from the customer that qualifying transactions have occurred and collection of the resulting receivable is reasonably assured.

#### **Mobile Communications.**

Mobile Communications revenues include revenues from the provision of mobile services, customer activation fees, and sales of mobile handsets and accessories. Mobile services revenues include monthly service charges, charges for special features, call charges, and roaming charges billed to T-Mobile customers, as well as other mobile operators. Mobile services revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts. The revenue and related expenses associated with the sale of mobile phones, wireless data devices, and accessories are recognized when the products are delivered and accepted by the customer.

#### **Business Customers.**

##### **Business Services.**

Telecommunication Services include Network Services, Hosting & ASP Services, and Broadcast Services. Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of approximately three years. Revenues for voice and data services are recognized under such contracts when used by the customer. Revenues from Hosting & ASP Services are recognized as the services are provided.



**Enterprise Services.**

The terms of contracts awarded by Enterprise Services generally range from less than one year up to ten years. Revenue from outsourcing contracts reflects the extent of actual services delivered in the period in accordance with the terms of the contract. Revenue from service contracts billed on the basis of time and material used is recognized as the services are provided. Revenue from systems integration contracts requiring the delivery of customized products and/or services is generally covered by one of the following types of contracts: fixed-price, milestone, or time and material-based. For fixed-price contracts, revenue is generally recognized in line with the percentage of completion. For milestone contracts, revenue is recognized at the time a milestone is achieved and accepted by the customer. In the case of contracts billed on the basis of time and material, revenue is recognized as the services are rendered. Revenue from maintenance services is recognized over the contractual period or as the services are provided. Revenue from hardware sales or sales-type leases is recognized when the product is shipped to the customer, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized. Revenue from rentals and leases is recognized monthly as the fees accrue. Revenue for telecommunication services rendered by Enterprise Services is realized in line with the methods described under Business Services.

**Income taxes** include current income taxes payable as well as deferred taxes. Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts in the consolidated balance sheet and the tax base, as well as for tax loss carryforwards. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided on temporary difference arising on the investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is not recognized if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Currently enacted tax laws and tax laws that have been substantively enacted as of the balance sheet date are used as the basis for measuring deferred taxes.

**Measurement uncertainties.**

The presentation of the results of operations, financial position or cash flows in the consolidated financial statements is dependent upon and sensitive to the accounting policies, assumptions and estimates that are used as the basis for the preparation of the consolidated financial statements. The following critical accounting estimates and related assumptions and uncertainties inherent in accounting policies applied are essential to understand the underlying financial reporting risks and the effects that these accounting estimates, assumptions and uncertainties have on the consolidated financial statements.

Accounting for **property, plant and equipment, and intangible assets** involves the use of estimates for determining the fair value at the acquisition date, in particular in the case of such assets acquired in a business combination. Furthermore, the expected useful lives of these assets must be estimated. The determination of the fair values of assets and liabilities, as well as of the useful lives of the assets is based on management's judgment.

The **determination of impairments of property, plant and equipment, and intangible assets** involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the mobile communications industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or groups of assets) requires management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Specifically, the estimation of cash flows underlying the fair values of Deutsche Telekom's mobile businesses considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for these products and services does not materialize as expected, this will result in less revenue, less cash flow and potential impairment to write-down these investments to their fair values, which could adversely affect future operating results.

The **determination of the recoverable amount of a cash-generating unit** involves the use of estimates by management. Methods used to determine the fair value less costs to sell include discounted cash flow-based methods and methods that use quoted stock market prices as a basis. Key assumptions on which management has based its determination of fair value less costs to sell include ARPU, subscriber acquisition and retention costs, churn rates, capital expenditure and market share. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any goodwill impairment.

**Financial assets** include equity investments in foreign telecommunications service providers that are principally engaged in the mobile, fixed-network, Internet and data communications businesses, some of which are publicly traded and have highly volatile share prices. As a rule, an investment impairment loss is recorded in accordance with IFRS when an investment's carrying amount exceeds the present value of its estimated future cash flows. The calculation of the present value of estimated future cash flows and the determination of whether an impairment is prolonged involves judgment and relies heavily on an assessment by management regarding the future development prospects of the investee. In measuring impairments, quoted market prices are used, if available, or other valuation methods, based on information available from the investee. To determine whether an impairment is prolonged, the Company considers the ability and intent to hold the investment for a reasonable period of time sufficient for a forecasted recovery of fair value up to (or beyond) the carrying amount, including an assessment of factors such as the length of time and magnitude of the excess of carrying value over market value, the forecasted results of the investee, the regional geographic economic environment and state of the industry. Future adverse changes in market conditions, particularly a downturn in the telecommunications industry, or poor operating results of investees, could result in losses or an inability to recover the carrying amount of the investments that may not be reflected in an investment's current carrying amount. This could result in impairment losses, which could adversely affect future operating results.

Management maintains an **allowance for doubtful accounts** to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

**Income taxes** must be estimated for each of the jurisdictions in which the Group operates, involving a specific calculation of the expected actual income tax exposure for each tax object and an assessment of temporary differences resulting from the different treatment of certain items for IFRS consolidated financial and tax reporting purposes. Any temporary differences will result in the recognition of deferred tax assets and liabilities in the consolidated financial statements. Management judgment is required for the calculation of actual and deferred taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction, taking into account any legal restrictions on the length of the loss-carryforward period. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, loss-carryforward periods, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets changes, the recognized deferred tax assets must be reduced and this reduction be recognized in profit or loss.

**Pension obligations for benefits to non-civil servants** are generally satisfied by plans which are classified and accounted for as defined benefit plans. Pension benefit costs for non-civil servants are determined in accordance with actuarial valuation, which rely on assumptions including discount rates, life expectancies and, to a limited extent, expected return on plan assets. Estimations of the expected return on plan assets have a limited impact on pension cost, because the amount of funded plan assets is small in relation to the outstanding pension obligations. Other key assumptions for pension costs are based in part on actuarial valuations, which rely on assumptions, including discount rates used to calculate the amount of the pension obligation. The assumptions concerning the expected return on plan assets are determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. In the event that further changes in assumptions are required with respect to discount rates and expected returns on invested assets, the future amounts of the pension benefit costs may be affected materially.

Deutsche Telekom is obligated, under the German Federal Posts and Telecommunications Agency Reorganization Act (Gesetz zur Reorganisation der Bundesanstalt für Post und Telekommunikation Deutsche Bundespost), to pay for its share of any operating cost shortfalls between the sources of regular income of the **Civil Service Health Insurance Fund** (Postbeamtenkrankenkasse) and benefits paid. The Civil Service Health Insurance Fund provides services mainly in cases of illness, birth, or death for its members, who are civil servants employed by or retired from Deutsche Telekom AG, Deutsche Post AG and Deutsche Postbank AG, and their relatives. When Postreform II came into effect, participation in the Civil Service Health Insurance Fund was closed to new members. The insurance premiums collected by the Civil Service Health Insurance Fund may not exceed the insurance premiums imposed by alternative private health insurance enterprises for comparable insurance benefits, and, therefore, do not reflect the changing composition of ages of the participants in the fund. In the past, Deutsche Telekom recognized provisions in the amount of the actuarially determined present value of Deutsche Telekom's share in the fund's future deficit, using a discount rate and making assumptions about life expectancies and projections for contributions and future increases in general health care costs in Germany. Since the calculation of these provisions involves long-term projections over periods of more than 50 years, the present value of the liability may be highly sensitive even to small variations in the underlying assumptions.

Deutsche Telekom exercises considerable judgment in measuring and recognizing **provisions** and the exposure to **contingent liabilities** related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are expected from executory contracts, a loss is considered probable and can be reasonably estimated. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. In addition, significant estimates are involved in the determination of provisions related to taxes, environmental liabilities and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates of these losses from executory contracts may significantly affect future operating results.

**Revenue recognition.****Customer activation fees.**

T-Com and T-Mobile receive installation and activation revenues from new customers. These revenues (and related costs) are deferred and amortized over the expected duration of the customer relationship. The estimation of the expected average duration of the relationship is based on historical customer turnover. If management's estimates are revised, material differences may result in the amount and timing of revenue for any period.

**Construction contracts.**

T-Systems conducts a portion of its business under long-term contracts with customers. Deutsche Telekom accounts for certain long-term service contracts using the percentage-of-completion method, recognizing revenue as performance of a contract progresses. Contract progress is estimated. Depending on the methodology used to determine contract progress, these estimates may include total contract costs, remaining costs to completion, total contract revenues, contract risks and other judgments. All estimates involved in such long-term contracts are subject to regular reviews and adjusted as necessary.

**Multiple-element arrangements.**

The framework of the Emerging Issues Task Force Issue No. 00-21 was adopted to account for multiple-element arrangements in accordance with IAS 8.12. EITF 00-21 requires that arrangements involving the delivery of bundled products or services be separated into individual units of accounting, each with its own separate earnings process. Total arrangement consideration relating to the bundled contract is allocated among the different units based on their relative fair values (i.e., the relative fair value of each of the accounting units to the aggregated fair value of the bundled deliverables). The determination of fair values is complex, because some of the elements are price sensitive and, thus, volatile in a competitive marketplace. Revisions to the estimates of these relative fair values may significantly affect the allocation of total arrangement consideration among the different accounting units, affecting future operating results.

## Explanation of transition to IFRS.

According to Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards (Official Journal EC L 243 p. 1), Deutsche Telekom is required to prepare consolidated financial statements in accordance with International Financial Reporting Standards for the first time for the 2005 financial year. The opening IFRS consolidated balance sheet was prepared as of January 1, 2003 (date of transition to IFRS in accordance with IFRS 1). Deutsche Telekom adopts IFRS as adopted by the European Commission for use in the European Union for the first time in its consolidated financial statements for the year ended December 31, 2005, which includes comparative financial statements for the years ended December 31, 2004 and 2003. IFRS 1 requires that an entity develops accounting policies based on the standards and related interpretations effective at the reporting date of its first annual IFRS consolidated financial statements. These accounting policies must be applied as of the date of transition to IFRS and throughout all periods presented in the first IFRS consolidated financial statements.

In accordance with IFRS 1, assets and liabilities are recognized and measured in accordance with those IFRSs required to be applied as of December 31, 2005. The resulting differences between the IFRS carrying amounts and the carrying amounts of the assets and liabilities in the consolidated balance sheet under German GAAP as of January 1, 2003 are recognized directly in equity at the date of transition to IFRS.

### Explanation of exemptions applied under IFRS 1.

In general, the carrying amounts of the assets and liabilities in the consolidated balance sheet under German GAAP for the period ended December 31, 2002 must be recognized and measured retrospectively in the opening IFRS consolidated balance sheet as of January 1, 2003 on the basis of those IFRSs in force at December 31, 2005. IFRS 1 nevertheless provides exemptions from this principle in specific cases. The main exemptions applied by Deutsche Telekom are explained below:

#### Business combinations.

IFRS 3, "Business Combinations," is not required to be applied retroactively to business combinations that took place before the date of transition to IFRS. Deutsche Telekom has applied this exemption. The classification and amounts recorded in a business combination under German GAAP must then be maintained. As a rule, all assets and liabilities that were acquired or assumed in business combinations must be carried in the opening IFRS consolidated balance sheet. All assets, except intangible assets, and liabilities that were recognized in the consolidated balance sheet under German GAAP but that do not meet the IFRS recognition criteria are not recognized in the opening IFRS consolidated balance sheet, and reduce or increase the amount of retained earnings. All assets, except intangible assets and liabilities that were not recognized in the consolidated balance sheet under German GAAP but that do meet the IFRS recognition criteria are recognized in the opening IFRS consolidated balance sheet and increase or reduce the amount of retained earnings. Changes in the carrying amount of assets and liabilities already recognized under German GAAP are also presented in retained earnings. The carrying amount of goodwill under German GAAP is recognized in the opening IFRS consolidated balance sheet, subject to any necessary adjustments.

At the date of transition to IFRS, goodwill was tested for impairment and was written down at the date of transition to IFRS if required. No other adjustments to the carrying amount were required.

Historical cost and accumulated goodwill amortization were netted for the purpose of preparing the opening IFRS consolidated balance sheet.

#### Revaluation as deemed cost.

Entities that have revalued their assets at fair values at one particular date prior to first-time adoption of IFRS because of a specific event may establish these fair values as deemed cost and account for them from the date of the revaluation in accordance with the IFRSs effective at the date of preparation of the first IFRS financial statements. Deutsche Telekom has applied this exemption and has used the fair values of assets recognized in its opening consolidated balance sheet at the date of privatization (January 1, 1995) as the deemed cost of the assets under IFRS at January 1, 1995. These figures were carried in accordance with regulations on subsequent measurement for the period January 1, 1995 to January 1, 2003 (date of preparation of the opening IFRS consolidated balance sheet).

#### Fair value measurement.

An entity may elect to measure certain items of non-current assets at the date of transition at fair value instead of subsequent historical cost under IFRS; this exemption may be applied individually to each asset. Deutsche Telekom has applied this exemption in specific cases.

#### Employee benefits.

If an entity elects to recognize actuarial gains and losses arising as a result of the measurement of defined benefit plans after the date of transition to IFRS using the corridor approach permitted by IAS 19 "Employee Benefits," it may still decide not to apply the corridor approach retrospectively and to recognize all cumulative actuarial gains and losses from defined benefit plans directly in equity at the date of transition to IFRS. Deutsche Telekom has applied this exemption.

#### Cumulative translation differences.

Under IAS 21 "The Effects of Changes in Foreign Exchange Rates," differences from the translation of financial statements prepared in a currency other than the presentation currency of the parent must be recognized as a separate component of equity. In line with the principle of retrospective application of IFRS, these differences would be required to be determined retrospectively. According to the exemption in IFRS 1, cumulative translation differences may be deemed to be zero at the date of transition. In the case of subsequent disposal of the entity concerned, only translation differences that arose after the date of transition to IFRS are recognized in profit or loss. Deutsche Telekom has applied this exemption.

**Share-based payment.**

Under IFRS 1, equity instruments from share-based options granted on or before November 7, 2002 and those granted after November 7, 2002 and vested before January 1, 2005 are not required to be recognized under IFRS 2 "Share-based Payment" by a first-time adopter. Deutsche Telekom has applied this exemption.

In contrast to the quarterly financial statements published in 2005 and aside from mere changes in presentation, the following main adjustments were

made as part of the final preparations for the first IFRS consolidated financial statements and apply to the opening balance sheet and those for subsequent periods: remeasurement of bonds due to ratings adjustments, and a correction to the accrual basis of accounting for revenues. Their impact on the financial position and results of operations in previous periods was immaterial.

Material effects on the financial position and results of operations as a consequence of the transition from German GAAP to IFRS are presented in the following reconciliation.

**Reconciliation of consolidated shareholders' equity**

millions of €	Explanatory notes	Dec. 31, 2004	Dec. 31, 2003	Jan. 1, 2003
<b>Shareholders' equity under German GAAP</b>		<b>37,941</b>	<b>33,811</b>	<b>35,416</b>
Goodwill	1	(3,070)	(3,508)	(5,953)
Mobile communications licenses	1	9,773	13,134	13,973
Software	2	583	608	623
Borrowing costs	3	(477)	(574)	(774)
Available-for-sale financial assets	4	856	270	283
Leases	5	(641)	(456)	(189)
Provisions	6	1,550	1,587	1,093
Pension provisions		381	279	(167)
Other provisions		1,169	1,308	1,260
Deferred revenue	7	(1,023)	(944)	(923)
Other IFRS adjustments	8	294	60	101
Deferred taxes	9	17	(250)	1,314
Deferred tax assets		2,854	4,008	7,008
Deferred tax liabilities		(2,837)	(4,258)	(5,694)
<b>Shareholders' equity under IFRS</b>		<b>45,803</b>	<b>43,738</b>	<b>44,964</b>

**Reconciliation of profit after income taxes**

millions of €	Explanatory notes	Financial year 2004	Financial year 2003
<b>Income after taxes under German GAAP</b>		<b>4,933</b>	<b>1,623</b>
Goodwill	1	115	1,584
Mobile communications licenses	1	(3,083)	1,113
Software	2	(24)	(6)
Borrowing costs	3	94	184
Available-for-sale financial assets	4	(13)	(7)
Leases	5	(191)	(271)
Provisions	6	30	500
Pension provisions		105	439
Other provisions		(75)	61
Deferred revenue	7	(83)	(24)
Other IFRS adjustments	8	72	(118)
Deferred taxes	9	167	(2,061)
<b>Profit after income taxes under IFRS</b>		<b>2,017</b>	<b>2,517</b>

### 1 Goodwill and mobile communications licenses.

FCC licenses have indefinite useful lives because of their independence from future technological developments and they are renewable indefinitely at little cost. Therefore, in contrast to German GAAP, under IFRS FCC licenses are not amortized but instead reviewed for impairment once a year (impairment-only approach). As a result, the amortization and non-scheduled write-downs of the FCC licenses charged in accordance with German GAAP as of January 1, 2003 were reversed. This reversal increased the carrying amount of the FCC licenses at January 1, 2003 by EUR 9.9 billion as compared to German GAAP.

In contrast to German GAAP, goodwill is not amortized under IFRS due to its indefinite useful life. Instead, goodwill is allocated to the Group's cash-generating units and tested for impairment once a year and, if a triggering event exists, during the year.

The impairment test performed in accordance with IFRS resulted in an impairment loss at T-Mobile USA of EUR 5.0 billion as of January 1, 2003 and of EUR 0.8 billion as of December 31, 2003, which was recognized through a reduction in the net carrying amount of goodwill. In 2004 as part of the winding up of the U.S. mobile communications joint venture with Cingular Wireless and the ensuing transfer of mobile communications licenses, the licenses were impaired by EUR 1.3 billion. In addition, the write-up of the previously recorded non-scheduled write-downs of FCC licenses under German GAAP in the amount of EUR 2.4 billion in 2004 was reversed.

The impairment test of the T-Mobile UK cash-generating unit, which is part of T-Mobile, resulted in an impairment under IFRS of EUR 0.6 billion as of January 1, 2003 and EUR 2.2 billion as of December 31, 2004, which reduced the net carrying amount of goodwill accordingly.

The causes of the 2004 impairment of T-Mobile UK were primarily the following:

- Expected increase in competition due to the entrance of new competitors;
- OFCOM (the independent regulator and competition authority for the UK communications industries) regulation effects on call termination charges.

The impairment test of the T-Mobile Netherlands cash-generating unit, which is part of T-Mobile, resulted in an impairment under IFRS as of January 1, 2003 which was recognized through a reduction of EUR 0.1 billion in the net carrying amount of goodwill.

The impairment test of the Magyar Telekom (formerly MATÁV) cash-generating unit, which is part of T-Com, resulted in an impairment under IFRS of EUR 0.3 billion as of January 1, 2003 and of EUR 0.2 billion as of December 31, 2003; the impairment test of the Slovak Telecom cash-generating unit, which is part of T-Com, resulted in impairment under IFRS of EUR 0.2 billion as of December 31, 2004. Both these impairments were recognized through a reduction in the goodwill carrying amount.

UMTS licenses must be amortized under IFRS due to their finite useful lives. Under IFRS, however, they may only be amortized from the time the UMTS network is put into operation, rather than from the time of their acquisition. In Austria the UMTS network was put into operation in December 2003, in Germany in the second quarter of 2004 and in the United Kingdom in the third quarter of 2004. The UMTS networks have not yet been put into operation in the Netherlands and the Czech Republic. The amortization and non-scheduled write-downs under German GAAP as of January 1, 2003 have therefore been reversed. This reversal resulted in an increase of EUR 4.1 billion in the carrying amounts of the UMTS licenses as of January 1, 2003. The UMTS licenses in Germany and the United Kingdom were put into operation in 2004; as a result, the UMTS licenses were amortized under IFRS for the first time by EUR 0.5 billion in the 2004 financial year.

### 2 Software.

Software and other development costs were expensed as incurred under German GAAP. However, in certain cases IFRS requires the capitalization of software development costs and their amortization over the software's useful life. Under IFRS, recognizing the cost of internally developed software increases shareholders' equity in all of the periods presented. In the periods following the recognition, profit after income taxes under IFRS in the periods presented remains largely unaffected.

### 3 Borrowing costs.

Borrowing (finance) costs incurred during construction periods were capitalized under German GAAP, whereas under IFRS capitalization is optional for qualifying assets. Deutsche Telekom has elected to expense all finance costs incurred in connection with qualifying assets. Expensing borrowing costs reduces shareholders' equity under IFRS in all periods. The lower depreciation than under German GAAP increases profit after income taxes.

### 4 Available-for-sale financial assets.

Investments in companies not fully consolidated and not accounted for in the consolidated financial statements using the equity method must be measured at fair value according to IFRS. As a rule, the resulting unrealized gains and losses are recognized directly in equity. If an impairment is prolonged, it must be recognized in the income statement. According to German GAAP, these assets are measured at amortized cost or, if appropriate, at the lower fair value. As a result of the different accounting policies used under IFRS and German GAAP, the IFRS shareholders' equity increases in all of the periods presented. The main effect at December 31, 2004 relates to the remeasurement of Mobile TeleSystems OJSC (MTS). The carrying amount of the investment in MTS under IFRS at December 31, 2004 is EUR 1.0 billion; the effect of EUR 0.8 billion resulting from the remeasurement has no effect on the income statement and is recognized directly as an increase in equity. Profit after income taxes remains largely unchanged in the periods presented.

## 5 Leases.

Under German GAAP, the lease accounting classification generally follows its tax treatment. Under IFRS, the classifications of leased assets are based on the substance of the arrangement. A larger number of leases tend to be classified as finance leases under IFRS than under German GAAP. In an operating lease the lessor recognizes the asset while in a finance lease, the lessee recognizes the asset. Deutsche Telekom has entered into sale and leaseback transactions in connection with its real estate portfolio. Under German GAAP, these transactions usually involved the sale of the real estate that was subsequently leased back under operating leases, whereas under IFRS the buildings are classified as finance leases and the land as operating leases. Under IFRS, this results in the recognition of interest expense and a depreciation charge for the buildings and the recognition of rental expense for the land; the disposal gains as well as disposal losses not attributable to the impairment of the asset are recognized over the term of the lease. Under German GAAP, gains or losses from the sale of real estate are recorded, as is rental expense.

This reduces shareholders' equity and the profit after income taxes under IFRS in all of the periods presented.

## 6 Provisions.

Provisions must be recognized for pension obligations under both German GAAP and IFRS. Under German commercial law, Deutsche Telekom's pension obligations were calculated in accordance with the provisions of SFAS 87. Differences between the carrying amounts under IFRS and SFAS 87 arise from the different treatment of actuarial gains and losses in the opening IFRS balance sheet as of January 1, 2003 and the fact that the additional minimum liability is not recognized under IFRS. This reduces shareholders' equity in the opening IFRS consolidated balance sheet and increases it at the other reporting dates presented. Profit after income taxes increases for the periods presented.

In the other provisions, it is primarily the restructuring provisions that increase shareholders' equity in all of the periods presented because the recognition of restructuring provisions under IFRS is subject to more detailed and stricter criteria than under German GAAP. Furthermore, provisions for future internal expenses that may be recognized under German GAAP are not carried under IFRS. Profit after income taxes remains largely unchanged in the periods presented.

## 7 Deferred revenue.

The main difference between German GAAP and IFRS is the manner in which up-front fees are recognized. Under German GAAP, the up-front fees are recognized as revenue on the date on which the line is activated. Under IFRS, the up-front fees and the incremental costs are initially deferred and then recognized over the estimated average period of the customer retention. In addition, differences in the revenue recognition of construction contracts, leases and multiple-element arrangements have an impact on revenue. Overall, this reduces shareholders' equity under IFRS in all of the periods presented. Profit after income taxes remains largely unchanged.

## 8 Other IFRS adjustments.

Other IFRS adjustments primarily relate to the different accounting for asset-backed securitization (ABS) transactions, derivatives, and the measurement of property, plant and equipment. All in all, this increased shareholders' equity in all of the periods presented. Profit after income taxes increased for the 2004 financial year and decreased for the 2003 financial year.

## 9 Deferred taxes.

Deutsche Telekom did not apply GAS 10 in its consolidated financial statements under German GAAP up to December 31, 2004. The differences in the definition of deferred taxes under IFRS and German GAAP relate in particular to Deutsche Telekom AG's goodwill from the privatization, tax loss carryforwards, and general recognition and measurement differences between IFRS and German GAAP.

As a result of the privatization of Deutsche Telekom AG, goodwill was recognized in the tax accounts, yet under IFRS no goodwill is capitalized in Deutsche Telekom AG's consolidated balance sheet. In contrast to German GAAP, Deutsche Telekom recognizes deferred taxes on this temporary difference in accordance with IAS 12 that will be reversed on a pro rata basis through goodwill amortization.

Furthermore, under IFRS, in contrast to German GAAP, deferred tax assets are recognized on future expected tax reductions from the utilization of tax loss carryforwards. The deferred tax assets have been recognized to the extent it is probable that the recognized deferred tax assets from loss carryforwards will be realized, taking into account the expected developments of future earnings.

The recognition of deferred taxes assets of EUR 7.0 billion as of January 1, 2003 resulted in an increase in shareholders' equity under IFRS; the item income tax in the income statement increases as a result of the reversal of deferred tax assets in all of the periods presented.

Deferred taxes recognized on accounting differences consist primarily of deferred tax liabilities on temporary differences resulting from measurement differences under IFRS and German GAAP in connection with the realization of hidden reserves for U.S. mobile communications licenses. The recognition of these deferred tax liabilities reduces shareholders' equity under IFRS. Since these licenses are not amortized, the deferred tax liabilities are initially not released. The impairment recognized under IFRS in the second quarter of 2004 and the reversal of the write-up of these licenses under German GAAP resulted in the corresponding release of the deferred tax liabilities and, consequently, in an increase in profit after income taxes under IFRS.

## Explanatory notes on material adjustments to the cash flow statement.

Net cash from operating activities			
millions of €	Explanatory notes	Financial year 2004	Financial year 2003
<b>German GAAP</b>		<b>16,307</b>	<b>14,316</b>
Internally developed software	10	254	242
ABS	11	(339)	378
Leases	12	207	150
Borrowing costs	13	(58)	(41)
Other		349	8
<b>IFRS</b>		<b>16,720</b>	<b>15,053</b>
Net cash used in investing activities			
millions of €	Explanatory notes	Financial year 2004	Financial year 2003
<b>German GAAP</b>		<b>(4,318)</b>	<b>(2,073)</b>
Internally developed software	10	(254)	(242)
ABS	11	41	46
Leases	12	37	0
Borrowing costs	13	58	41
Other		(65)	(21)
<b>IFRS</b>		<b>(4,501)</b>	<b>(2,249)</b>
Net cash used in financing activities			
millions of €	Explanatory notes	Financial year 2004	Financial year 2003
<b>German GAAP</b>		<b>(12,652)</b>	<b>(5,226)</b>
Internally developed software	10	0	0
ABS	11	298	(424)
Leases	12	(244)	(150)
Borrowing costs	13	0	0
Other		(283)	5
<b>IFRS</b>		<b>(12,881)</b>	<b>(5,795)</b>



**10 Internally developed software.**

Under German GAAP, expenses for internally developed software are recognized as operating expenses. As such, the payments are shown under net cash from operating activities. Under IFRS, these expenses are recognized as internally generated intangible assets. These payments lead to an addition to assets and are shown under net cash used in investing activities.

**11 ABS.**

As part of ABS transactions, certain financial assets are sold to a special-purpose entity (SPE). The SPE refinances itself on the capital market. Under IFRS, SPEs are generally consolidated by the economic beneficiary. In total, there are three SPEs arising from ABS transactions that are consolidated by Deutsche Telekom. Therefore, under IFRS, both financial liabilities (December 31, 2004: EUR 1,563 million; thereof EUR 256 million with a maturity of less than one year) and trade receivables increase. Changes under this item are shown accordingly under net cash used in financing activities or working capital and therefore net cash from operating activities. The effects of retained discounts are no longer shown under net cash from operating activities as in German GAAP, but under financial liabilities or financial receivables and shown under net cash used in investing or used in financing activities under IFRS.

**12 Leases.**

Agreements that are classified as finance leases under IFRS but as operating lease for German GAAP lead to the IFRS recognition of the leased property by the lessee under lease liabilities. For the lessee, the lease payments represent interest payments and repayments. These repayments are shown under net cash used in financing activities. In the case of an operating lease under German GAAP, these payments for operating leases were classified as net cash from operating activities. In cases where Deutsche Telekom is the lessor of a finance lease under IFRS, the payments received (from the lessee) represent repayments of financial receivables and as such are shown under net cash used in investing activities.

**13 Borrowing costs.**

Under German GAAP, certain borrowing costs are capitalized and shown under cash outflows for investments in property. Under IFRS, the option to capitalize borrowing costs was not applied and the payments are included in interest paid under net cash from operating activities.

# Notes to the consolidated income statement.

## 1 Net revenue.

Net revenue breaks down into the following revenue categories:

millions of €	2005	2004	2003
Revenue from the rendering of services	55,942	53,451	51,697
Revenue from the sale of goods and merchandise	3,345	3,535	3,458
Revenue from the use of entity assets by others	317	367	441
<b>Net revenue</b>	<b>59,604</b>	<b>57,353</b>	<b>55,596</b>

The Mobile Communications business area, which increased revenues in the financial year by 12.1 percent, remains the major driver of revenues. The Broadband/Fixed Network business area, on the other hand, recorded a drop in revenues of about 3.0 percent, while the decline of revenues in the Business Customers business area was less pronounced at 2.0 percent.

Changes to the composition of the group had a favorable impact on revenues of approximately EUR 0.4 billion, as did currency translation effects of EUR 0.1 billion.

## 2 Cost of sales.

The cost of sales rose by approximately EUR 0.4 billion in 2005 to EUR 31.9 billion (2004: EUR 31.5 billion; 2003: EUR 29.5 billion). Compared to the growth in revenue, this is a less than proportional increase.

In addition to the sales-driven increase in costs, 2005 was impacted especially by higher amortization expense for UMTS licenses, along with increased depreciation expenses in connection with the acquisition of networks in California, Nevada and New York. This contrasts with EUR 1.3 billion in impairment losses on mobile communications licenses in the United States in 2004.

## 3 Selling expenses.

The increase in selling expenses by EUR 1.8 billion to EUR 14.7 billion (2004: EUR 12.9 billion; 2003: EUR 12.8 billion) results in particular from higher expenses at T-Mobile USA due to the growth in the number of T-Mobile stores, as well as higher customer acquisition costs. Higher marketing and selling expenses were also incurred in the Broadband/Fixed Network business area in connection with the broadband initiative.

## 4 General and administrative expenses.

In 2005, general and administrative expenses decreased year-on-year by EUR 0.3 billion to EUR 4.2 billion (2004: EUR 4.5 billion; 2003: EUR 4.6 billion). The decline at Group Headquarters & Shared Services (due in part to the non-recurrence of risks for other taxes) and in the Business Customers business area was offset by higher expenses in the Broadband/Fixed Network business area, in particular at T-Com.

## 5 Other operating income.

millions of €	2005	2004	2003
Income from reversal of provisions	978	144	73
Income from transfers of costs	260	372	381
Income from disposal of non-current assets	141	182	307
Income from insurance compensation	84	52	63
Gains on disposal	1	0	503
Miscellaneous other operating income	944	968	1,032
	<b>2,408</b>	<b>1,718</b>	<b>2,359</b>

The EUR 0.7 billion increase in other operating income in the 2005 financial year to EUR 2.4 billion is mainly due to noticeably higher income from a reversal of provisions. The new arrangements for the financing of the Civil Service Health Insurance Fund resulted in such income totaling around EUR 0.8 billion. For further information about the reversal of provisions see Note (29) "Other provisions."

Miscellaneous other operating income encompasses a variety of income items for which the individually recognized amounts are largely not material.

**6 Other operating expenses.**

millions of €	2005	2004	2003
Goodwill impairment losses	1,920	2,434	983
Loss on disposal of non-current assets	143	127	265
Additions to provisions	77	123	73
Losses on disposal	3	9	62
Miscellaneous other operating expenses	1,492	1,223	1,382
	<b>3,635</b>	<b>3,916</b>	<b>2,765</b>

The reduction in other operating expenses is marked by offsetting effects: the reduction in expenses recognized for goodwill impairment losses to EUR 1.9 billion (T-Mobile UK) in 2005 contrasts with a EUR 0.3 billion increase in miscellaneous expenses related to personnel adjustment and restructuring measures. In the prior year, goodwill impairment losses recognized as ex-

penses totaled EUR 2.4 billion. Of this amount, EUR 2.2 billion was attributable to T-Mobile UK, and EUR 0.2 billion to Slovak Telecom.

Miscellaneous other operating expenses encompass a variety of expense items for which the individually recognized amounts are largely not material.

**7 Finance costs.**

millions of €	2005	2004	2003
Interest income	398	377	200
Interest expense	(2,799)	(3,657)	(3,789)
	<b>(2,401)</b>	<b>(3,280)</b>	<b>(3,589)</b>
Of which: from financial instruments in the measurement categories in accordance with IAS 39:			
Loans and receivables	220	178	114
Held-to-maturity investments	3	13	18
Available-for-sale financial assets	36	57	171
Financial liabilities carried at amortized cost <sup>1</sup>	(2,510)	(3,402)	(3,768)

<sup>1</sup> Interest expense calculated using the effective interest method and adjusted for accrued interest from derivatives that were used as hedging instruments against interest-rate-based changes in the fair values of financial liabilities carried at amortized cost in the reporting period for hedge accounting in accordance with IAS 39.

The favorable trend for interest expense and finance costs is due in particular to the reduction in financial liabilities in the 2005 financial year and improved debt ratings for Deutsche Telekom.

Accrued interest payments from derivatives (interest rate swaps) that were designated as hedging instruments in a fair value hedge in accordance with IAS 39 are netted per swap contract and recognized as interest income or

interest expense depending on the net amount. Finance costs are assigned to the measurement categories on the basis of the hedged item; only financial liabilities were hedged in the reporting period.

No interest income was generated on impaired financial assets in the reporting period.

### 8 Share of profit/loss of associates and joint ventures accounted for using the equity method.

millions of €	2005	2004	2003
Share of loss of joint ventures	(1)	(370)	(453)
Share of profit of associates	215	1,315	809
	<b>214</b>	<b>945</b>	<b>356</b>

The share of profit of associates in 2005 includes EUR 0.1 billion in gains on the disposal of shares in comdirect bank. In the prior year, this item included EUR 1.0 billion from the sale of MTS shares, which was offset by losses incurred by Toll Collect reported under the share of loss of joint ventures.

### 9 Other financial income/expense.

millions of €	2005	2004	2003
Income from investments	32	10	19
Net gain (loss) from financial instruments	1,090	(87)	(362)
Interest component from measurement of provisions and liabilities	(345)	(284)	(547)
	<b>777</b>	<b>(361)</b>	<b>(890)</b>

All income components including interest income and expense from financial instruments held for trading are reported under other financial income/expense.

Other financial income for 2005 is mainly affected by gains – reported under net gain/loss from financial instruments – on the disposal of the last tranche of MTS shares in the amount of around EUR 1.0 billion. In the period under review, income from financial instruments included a translation gain of EUR 0.1 billion (2004: EUR –0.1 billion) as well as income from the subsequent measurement of financial instruments held for trading in the amount of EUR 0.02 billion (2004: EUR –0.2 billion).

### 10 Income taxes.

#### Income taxes in the consolidated income statement.

Income taxes are broken down into current income taxes paid or payable in the individual countries, as well as deferred taxes.

The following table provides a breakdown of profit/loss before income taxes:

millions of €	2005	2004	2003
Germany	5,146	4,943	4,117
International	1,066	(1,374)	109
	<b>6,212</b>	<b>3,569</b>	<b>4,226</b>

The following table provides a breakdown of income taxes for Germany and International:

millions of €	2005	2004	2003
<b>Current taxes</b>	<b>1,203</b>	<b>1,257</b>	<b>(56)</b>
Germany	916	1,069	(241)
International	287	188	185
<b>Deferred taxes</b>	<b>(1,007)</b>	<b>295</b>	<b>1,765</b>
Germany	1,025	708	1,881
International	(2,032)	(413)	(116)
	<b>196</b>	<b>1,552</b>	<b>1,709</b>

Deutsche Telekom's combined income tax rate for 2005 amounts to 39.0 percent, comprising corporate income tax at a rate of 25.0 percent, the solidarity surcharge of 5.5 percent on corporate income tax, and trade income tax at the average national rate of 41.4 percent. While the combined income tax rate was also 39.0 percent in 2004, it was 40.4 percent in 2003. The German Flood Victim Solidarity Act (Flutopfersolidaritätsgesetz) resulted in a one-time increase of 1.5 percentage points in the corporate income tax rate in 2003 from 25.0 percent to 26.5 percent.

**Reconciliation of the effective tax rate.**

The overall income tax expense of EUR 196 million in the reporting year (2004: EUR 1,552 million; 2003: EUR 1,709 million) is derived as follows from the expected income tax expense that would have arisen had the statutory income tax rate of the parent company (combined income tax rate) been applied to profit before income taxes:

millions of €	2005	2004	2003
<b>Profit before income taxes</b>	<b>6,212</b>	<b>3,569</b>	<b>4,226</b>
Expected income tax expense (applicable income tax rate of Deutsche Telekom AG: 2005: 39.0%; 2004: 39.0%; 2003: 40.4%)	2,423	1,392	1,707
<b>Adjustments to expected tax expense</b>			
Effect of changes in statutory tax rates	(5)	6	(12)
Tax effects from prior years	148	(15)	(193)
Non-deductible foreign withholding taxes	4	29	(2)
Non-taxable income	(503)	(130)	(331)
Tax effects from equity investments	(49)	(369)	(148)
Non-deductible expenses	100	91	88
Permanent differences	(18)	(283)	76
Impairment of goodwill or negative excess from capital consolidation	749	949	377
Tax effects from allowances on loss carryforwards	(2,585)	(274)	392
Tax effects from additions to and reductions of trade tax	103	262	(109)
Amount of taxes after adjustment to different foreign tax rates	(212)	(151)	(127)
Other tax rate effects	41	45	(9)
<b>Income tax expense according to the consolidated income statement</b>	<b>196</b>	<b>1,552</b>	<b>1,709</b>
Effective income tax rate (%)	3	43	40

**Current income taxes in the consolidated income statement.**

The following table provides a breakdown of current income taxes:

millions of €	2005	2004	2003
<b>Current income taxes</b>	<b>1,203</b>	<b>1,257</b>	<b>(56)</b>
Of which:			
Current tax expense	1,111	1,165	322
Prior-period tax expense (income)	92	92	(378)

A credit in the amount of EUR 12 million exists for future dividend payments. This is due to prior-year retained earnings being taxed at a higher corporate income tax rate.

**Deferred taxes in the consolidated income statement.**

The following table shows the development of deferred taxes:

millions of €	2005	2004	2003
<b>Deferred tax expense (income)</b>	<b>(1,007)</b>	<b>295</b>	<b>1,765</b>
Of which on:			
Temporary differences	1,105	317	1,333
Loss carryforwards	(2,090)	(22)	432

A positive tax effect in the amount of EUR 306 million was recorded in 2005, attributable to the utilization of loss carryforwards on which deferred tax assets had not yet been recognized (2004: EUR 5 million; 2003: EUR 3 million).

Impairments, reversals of prior impairments and the first-time recognition of deferred tax assets resulted in a positive tax effect in the amount of EUR 2,304 million in 2005 (2004: EUR 4 million; 2003: EUR 161 million).

Based on an assessment of all available evidence, Deutsche Telekom determined that it had become probable that EUR 2,176 million of the previously unrecognized deferred tax assets at T-Mobile USA was realizable in the near term. A remaining deferred tax asset amounting to EUR 1,705 million was not recognized. Although T-Mobile USA became profitable in 2005 and expects to remain so in the future, the recognition of the deferred tax asset was limited to the amount realizable in the near term, taking into account a significant loss history, uncertainties regarding the demand for future products and services, and uncertainties surrounding the developments within the industry and competitive environment. Deutsche Telekom will re-assess the need to recognize deferred tax assets in future periods and review forecasts in relation to actual results and expected trends on an ongoing basis. The achievement of business plan targets in the future may change Deutsche Telekom's assessment regarding the recoverability of the deferred tax asset and may result in the recognition of further deferred tax assets in the period in which the realization of the remaining deferred tax asset becomes probable.

#### Current income taxes in the consolidated balance sheet:

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Recoverable taxes	613	317	1,025
Tax liabilities	1,358	1,049	466

#### Deferred taxes in the consolidated balance sheet:

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Deferred tax assets	7,552	4,724	5,855
Deferred tax liabilities	(8,331)	(5,948)	(7,024)
	<b>(779)</b>	<b>(1,224)</b>	<b>(1,169)</b>
Of which:			
Recognized in equity	(339)	(560)	(440)

Deferred taxes relate to the following key balance sheet items, loss carryforwards, and tax credits:

millions of €	Dec. 31, 2005		Dec. 31, 2004		Dec. 31, 2003	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
<b>Current assets</b>	<b>612</b>	<b>(1,273)</b>	<b>594</b>	<b>(1,627)</b>	<b>558</b>	<b>(1,730)</b>
Trade and other receivables	211	(544)	107	(610)	91	(738)
Other financial assets	360	(565)	330	(803)	331	(788)
Inventories	15	(32)	106	(26)	136	(31)
Other assets	26	(132)	51	(188)	0	(173)
<b>Non-current assets</b>	<b>2,354</b>	<b>(9,410)</b>	<b>2,601</b>	<b>(8,270)</b>	<b>3,542</b>	<b>(8,957)</b>
Intangible assets	1,408	(7,317)	1,723	(6,462)	2,024	(7,243)
Property, plant and equipment	509	(1,564)	502	(1,240)	768	(1,152)
Investments accounted for using the equity method	0	(56)	2	(54)	0	(42)
Other financial assets	340	(308)	316	(362)	624	(373)
Other assets	97	(165)	58	(152)	126	(147)
<b>Current liabilities</b>	<b>1,387</b>	<b>(712)</b>	<b>2,157</b>	<b>(1,379)</b>	<b>2,168</b>	<b>(1,166)</b>
Financial liabilities	124	(107)	261	(339)	245	(285)
Trade and other payables	705	(357)	1,472	(902)	1,298	(842)
Provisions	471	(97)	265	(60)	297	(39)
Other liabilities	87	(151)	159	(78)	328	0
<b>Non-current liabilities</b>	<b>2,799</b>	<b>(489)</b>	<b>3,426</b>	<b>(476)</b>	<b>3,376</b>	<b>(626)</b>
Financial liabilities	1,441	(398)	1,391	(277)	1,612	(374)
Provisions for pensions and other employee benefits	211	(49)	545	(46)	598	(22)
Other provisions	388	(33)	603	(25)	395	0
Other liabilities	759	(9)	887	(128)	771	(230)
Tax credits	62	0	27	0	0	0
Loss carryforwards	6,461	0	6,400	0	6,895	0
<b>Total</b>	<b>13,675</b>	<b>(11,884)</b>	<b>15,205</b>	<b>(11,752)</b>	<b>16,539</b>	<b>(12,479)</b>
Of which: non-current	10,895	(8,642)	11,920	(8,606)	13,402	(9,583)
Netting	(3,553)	3,553	(5,804)	5,804	(5,455)	5,455
Valuation allowance	(2,570)	0	(4,677)	0	(5,229)	0
<b>Recognition</b>	<b>7,552</b>	<b>(8,331)</b>	<b>4,724</b>	<b>(5,948)</b>	<b>5,855</b>	<b>(7,024)</b>

**Loss carryforwards and temporary differences for which no deferred taxes were recorded amount to:**

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
<b>Loss carryforwards for corporate income tax purposes</b>			
Expiry within			
1 year	-	-	-
2 years	5	-	-
3 years	9	-	-
4 years	4	9	-
5 years	2	4	16
After 5 years	4,264	9,284	9,810
Unlimited carryforward period	2,920	3,064	3,384
<b>Temporary differences in corporate income tax</b>	<b>68</b>	<b>77</b>	<b>231</b>

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 132 million (December 31, 2004: EUR 222 million; December 31, 2003: EUR 107 million) and on temporary differences for trade tax purposes in the amount of EUR 15 million (December 31, 2004: EUR 89 million; December 31, 2003: EUR 4 million).

No deferred tax assets were recognized on the aforementioned tax loss carryforwards and temporary differences as it is not probable that taxable profit will be available in the near future against which these tax loss carryforwards can be utilized.

Despite losses in the current and prior year, deferred tax assets in the amount of EUR 2,425 million were recognized on loss carryforwards and temporary differences for 2005 (December 31, 2004: EUR 305 million; December 31, 2003: EUR 5,748 million), as the Company expects to generate future taxable profits.

No deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting to EUR 515 million (December 31, 2004: EUR 1,171 million; December 31, 2003: EUR 1,425 million) as it is unlikely that these differences will be reversed in the near future.

**11 Profit/loss attributable to minority interests.**

Profit/loss attributable to minority interests includes EUR 655 million (2004: EUR 961 million; 2003: EUR 583 million) in gains and EUR 223 million (2004: EUR 537 million; 2003: EUR 129 million) in losses.

These amounts are mainly attributable to HT-Hrvatske telekomunikacije, Magyar Telekom, T-Online International AG, MobiMak and T-Mobile Czech Republic.

**12 Earnings per share.**

Basic earnings per share	2005	2004	2003
Net profit (millions of €)	5,584	1,593	2,063
Adjustment for the financing costs of the mandatory convertible bond (after taxes) (millions of €)	98	95	81
<b>Adjusted net profit (basic) (millions of €)</b>	<b>5,682</b>	<b>1,688</b>	<b>2,144</b>
Number of ordinary shares issued (millions)	4,198	4,198	4,198
Treasury shares (millions)	(2)	(3)	(3)
Shares reserved for outstanding options granted to T-Mobile USA and Powertel (millions)	(24)	(28)	(31)
Effect from the potential conversion of the mandatory convertible bond (millions)	163	156	138
<b>Adjusted weighted average number of ordinary shares outstanding (basic) (millions)</b>	<b>4,335</b>	<b>4,323</b>	<b>4,302</b>
<b>Basic earnings per share/ADS (€)</b>	<b>1.31</b>	<b>0.39</b>	<b>0.50</b>



Net profit/loss is calculated as the profit/loss after income taxes less profit/loss attributable to minority interests. The weighted average number of ordinary shares outstanding is determined by deducting the treasury shares held by Deutsche Telekom AG as well as the shares that, as part of the issue of new shares in the course of the acquisition of T-Mobile USA/Powertel, are held in a trust deposit account for later issue and later trading as registered shares and/or American depositary shares (ADS), each multiplied by the corresponding time weighting factor.

In addition, to calculate basic earnings per share, the number of ordinary shares outstanding is increased by the total number of potential shares if the mandatory convertible bond issued in February 2003 were converted at the present time. Likewise, net profit is adjusted for all costs (after taxes) for financing the mandatory convertible bond, interest expense for the current period and bank fees, as these cease to apply when the bond is converted, and therefore no longer have an effect on net profit.

<b>Diluted earnings per share</b>			
	<b>2005</b>	2004	2003
Adjusted net profit (basic) (millions of €)	5,682	1,688	2,144
Dilutive effects on profit (loss) from stock options (after taxes) (millions of €)	0	0	0
<b>Net profit (diluted) (millions of €)</b>	<b>5,682</b>	<b>1,688</b>	<b>2,144</b>
Adjusted weighted average number of ordinary shares outstanding (basic) (millions)	4,335	4,323	4,302
Dilutive potential ordinary shares from stock options (millions)	3	5	5
<b>Weighted average number of ordinary shares outstanding (diluted) (millions)</b>	<b>4,338</b>	<b>4,328</b>	<b>4,307</b>
<b>Diluted earnings per share/ADS (€)</b>	<b>1.31</b>	<b>0.39</b>	<b>0.50</b>

The calculation of diluted earnings per share generally corresponds to the method for calculating basic earnings per share. However, the calculation must be adjusted for all dilutive effects arising from potential ordinary shares. The equity instruments described below may dilute basic earnings per share in the future and – to the extent that a potential dilution already occurred in the reporting period – have been included in the calculation of diluted earnings per share.

#### **Stock options of Deutsche Telekom AG.**

In 2001, Deutsche Telekom created the 2001 Stock Option Plan that led to the issue of stock options in August 2001 (2001 tranche) and July 2002 (2002 tranche). Potential dilutive ordinary shares may be created on the basis of this stock option plan.

Options from the 2001 tranche of the 2001 Stock Option Plan have not yet had any dilutive effects. In other words, the 2001 tranche has had no effect on the determination of diluted earnings per share up to now.

The determination of diluted earnings per share for the 2005 and 2004 financial years is nevertheless impacted by potential dilutive ordinary shares from the 2002 tranche of the 2001 Stock Option Plan. For the 2003 financial year, the 2002 tranche had no dilutive effect and was hence not included in the calculation of the diluted earnings per share. The number of ordinary shares outstanding (undiluted) was increased by 1 million potential dilutive ordinary shares for 2005 (2004: 1 million).

#### **Stock options of T-Mobile USA.**

As a consequence of the acquisition of T-Mobile USA in 2001, all unvested, outstanding options owned by employees of T-Mobile USA have been converted from T-Mobile USA options into Deutsche Telekom options at a conversion rate of 3.7647 for each unvested, outstanding T-Mobile USA option. The dilutive effect arising from these options was taken into account in the determination of diluted earnings per share. The number of ordinary shares outstanding was therefore increased by 2 million potential dilutive ordinary shares for 2005 (2004: 3 million; 2003: 4 million).

#### **Stock options of Powertel.**

As a consequence of the acquisition of Powertel in 2001 all unvested, outstanding Powertel options have been converted into Deutsche Telekom options at a conversion rate of 2.6353. The dilutive effect arising from these options was taken into account in the determination of diluted earnings per share. Accordingly, the number of ordinary shares outstanding was increased by the potential dilutive ordinary shares. For the full year of 2005, the dilutive effect, rounded to millions of units, is less than 1 million (2004: 1 million; 2003: 1 million) units.

### 13 Dividend per share.

For the 2005 financial year, the Board of Management proposes a dividend of EUR 0.72 for each no par value share carrying dividend rights. On the basis of this proposed appropriation, total dividends in the amount of EUR 3,005 million will be appropriated to the no par value shares carrying dividend rights at December 31, 2005.

The final amount of the dividend depends on the number of no par value shares carrying dividend rights as of the date of the resolution on the appropriation of net income as adopted on the day of the shareholders' meeting.

### 14 Goods and services purchased.

This item breaks down as follows:

millions of €	2005	2004	2003
Goods purchased	6,190	5,867	5,503
Services purchased	10,157	10,345	10,751
	<b>16,347</b>	<b>16,212</b>	<b>16,254</b>

### 15 Personnel costs.

The following table provides a breakdown of the personnel costs included in the functional costs:

millions of €	2005	2004	2003
Wages and salaries	11,436	10,411	10,528
Social security contributions and expenses for pension plans and benefits:			
Social security costs	1,520	1,482	1,404
Expenses for pension plans	1,129	1,195	1,108
Expenses for benefits	169	254	193
	<b>14,254</b>	<b>13,342</b>	<b>13,233</b>

The year-on-year increase in 2005 is mainly due to expenditures for staff-related measures totaling approximately EUR 1.2 billion (2004: approximately EUR 0.2 billion).

#### Number of employees (average for the year)

Number	2005	2004	2003
Civil servants	46,525	48,536	49,998
Non-civil servants	197,501	199,023	201,265
<b>Deutsche Telekom Group</b>	<b>244,026</b>	<b>247,559</b>	<b>251,263</b>
Trainees and student interns	10,019	10,146	9,958

### 16 Depreciation, amortization and impairment losses.

The following table provides a breakdown of depreciation, amortization and impairment losses contained in the functional costs:

millions of €	2005	2004	2003
Amortization and impairment of intangible assets	4,427	5,461	2,233
Of which: goodwill impairment losses	1,920	2,434	983
Of which: amortization of mobile communications licenses	951	1,824	55
Depreciation and impairment of property, plant and equipment	8,070	7,666	8,072
	<b>12,497</b>	<b>13,127</b>	<b>10,305</b>

Amortization and impairment of intangible assets are mainly related to mobile communications and software licenses as well as goodwill. The decrease in amortization and impairment of intangible assets of approximately EUR 1.0 billion resulted primarily from the fact that, in the prior year, impairment losses on goodwill were recognized at T-Mobile UK (EUR 2.2 billion) and Slovak Telecom (EUR 0.2 billion), as well as on U.S. mobile communications licenses (approximately EUR 1.2 billion) in connection with the winding up of the network joint venture between T-Mobile USA and Cingular Wireless. In the 2005 financial year, by contrast, impairment losses were recognized on goodwill at T-Mobile UK (EUR 1.9 billion) and the amortization of UMTS licenses increased by around EUR 0.3 billion, since the UMTS licenses in Germany and the United Kingdom were not put into commercial operation until the second and third quarters of 2004 respectively, meaning that the respective amortization did not begin until the second and third quarters of 2004. In addition, amortization of other intangible assets recognized at T-Mobile USA increased in the reporting period by approximately EUR 0.2 billion. These increases are associated with the wholesale agreement on minutes of use between T-Mobile USA and Cingular Wireless.

The increase in depreciation of property, plant and equipment by approximately EUR 0.4 billion resulted primarily from an increase in depreciation due to the networks in California, Nevada and New York acquired in the first quarter of 2005.

Deutsche Telekom performs its annual impairment test as of September 30. At the time of publication of the interim financial statements for the third quarter 2005, Deutsche Telekom had not yet completed the impairment test for its mobile communications operations in the United Kingdom (T-Mobile UK). At the time, information from various sources was still being evaluated, including the offer announced by Telefónica on October 31, 2005, to acquire the UK group O<sub>2</sub> at a price of 200 pence per share (approximately GBP 17.7 billion). When determining the fair value less costs to sell, the purchase price paid in comparable transactions must generally be given preference over internal DCF calculations. We derived the fair value of the cash-generating unit T-Mobile UK from the Telefónica offer in accordance with a valuation model based on multipliers. These calculations resulted in an impairment expense equal to EUR 1.9 billion as of December 31, 2005.

The following table provides a breakdown of impairment losses:

millions of €	2005	2004	2003
<b>Intangible assets</b>	<b>1,958</b>	<b>3,710</b>	<b>1,017</b>
Of which: goodwill	1,920	2,434	983
Of which: U.S. mobile communications licenses	30	1,250	0
<b>Property, plant and equipment</b>	<b>248</b>	<b>158</b>	<b>132</b>
Of which: land and buildings	233	106	94
Of which: technical equipment and machinery	7	45	33
Of which: other equipment, operating and office equipment	5	5	5
Of which: advance payments and construction in progress	3	2	0
	<b>2,206</b>	<b>3,868</b>	<b>1,149</b>

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

## Notes to the consolidated balance sheet.

### 17 Cash and cash equivalents.

The assets reported under this category have an original maturity of less than three months and mainly comprise fixed-term bank deposits. They also include small amounts of cash-in-hand and checks.

In the reporting period, cash and cash equivalents decreased by EUR 3.0 billion to EUR 5.0 billion. The main reasons for this decrease included the acqui-

sition of additional interests in T-Online International AG prior to the merger process of the latter into Deutsche Telekom AG and the acquisition of networks in the United States, the dividend payment, and the repayment of bonds. The income from the sale of the remaining shares in MTS, in addition to the free cash flow, had an offsetting effect.

For the development of cash and cash equivalents, please see the consolidated cash flow statement.

### 18 Trade and other receivables.

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Trade receivables	7,328	6,625	7,309
Receivables from construction contracts	184	106	258
	<b>7,512</b>	<b>6,731</b>	<b>7,567</b>

Of the total amount of trade receivables and receivables from construction contracts, EUR 7,509 million (December 31, 2004: EUR 6,612 million; December 31, 2003: EUR 7,474 million) is due within one year.

	Net carrying amount as of Dec. 31, 2005	Of which: neither impaired nor past due on the reporting date	Of which: not impaired as of the reporting date and past due in the following periods					
			less than 30 days	between 30 and 60 days	between 60 and 90 days	between 90 and 180 days	between 180 and 360 days	more than 360 days
Trade receivables	7,328	4,022	705	107	57	69	182	311
Receivables from construction contracts	184	184						

With respect to the outstanding trade receivables or receivables from construction contracts that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Deutsche Telekom has sold trade receivables to special-purpose entities in asset-backed securitization (ABS) transactions. These entities finance the purchase of assets by issuing securities on the capital market. The asset-backed securities transactions do not reduce the Group's receivables because the special-purpose entities are part of the consolidated group. As of December 31, 2005, Deutsche Telekom had sold trade receivables with a nominal value of EUR 1,544 million (December 31, 2004: EUR 1,697 million) to the special-purpose entities. Depending on the program, the receivables are sold with different discounts for bad debts and dilutions. As of December 31, 2005, the cumulative discount for bad debts was EUR 63 million (December 31, 2004: EUR 68 million) and that for dilutions was EUR 89 million (December 31, 2004: EUR 103 million). Risks in these amounts still remain at Deutsche Telekom. All other risks in connection with the receivables sold have been transferred to the special-purpose entities.

In the 2005 financial year, trade receivables amounting to EUR 1,324 million (December 31, 2004: EUR 1,612 million) were pledged in connection with ABS transactions, and collateral in the form of cash deposits amounting to EUR 154 million (December 31, 2004: EUR 82 million) was pledged to third parties outside the Group. The latter were also reported under receivables on the balance sheet.

Receivables totaling EUR 102 million (December 31, 2004: EUR 220 million) were used in connection with collateral agreements as surety for the default risk from derivative transactions. Collateral agreements are used to stipulate that a contracting party must transfer collateral in the form of cash to the other contracting party if the fair values of the derivatives between the two parties exceed a certain limit, the "allowance." In these collateral agreements, allowances and, in some cases, also the calculation frequency depend on the counterparty's rating. If the rating of one of the counterparties deteriorates, its allowance decreases, which means that this counterparty may have to provide higher collateral if required. In addition, a lower rating of a counterparty shortens the calculation frequency, in some cases down to daily calculation. In connection with collateral agreements, Deutsche Telekom, as of December 31, 2005, had also accepted cash collateral in the amount of EUR 10 million.

In 2005, Deutsche Telekom accepted a total of EUR 6 million (2004: EUR 11 million) in cash collateral as securities for receivables arising from the marketing of mobile communications services. By the reporting date this cash collateral had neither been sold nor transferred as collateral.

The following table shows the development of allowances on receivables:

millions of €	2005	2004	2003
<b>Allowances as of January 1</b>	<b>1,045</b>	<b>1,038</b>	<b>1,229</b>
Currency translation adjustments	23	(1)	(35)
Additions (allowances recognized as expense)	541	464	409
Use	(396)	(402)	(332)
Reversal	(105)	(54)	(233)
<b>Allowances as of December 31</b>	<b>1,108</b>	<b>1,045</b>	<b>1,038</b>

The expense impact of derecognitions totals EUR 367 million (2004: EUR 382 million; 2003: EUR 508 million).

In the 2005 financial year, the total amount recognized as net impairment losses on loans and receivables was EUR 787 million (2004: EUR 764 million) (impairment losses: EUR 909 million; 2004: EUR 857 million; reversals of impairment losses: EUR 122 million; 2004: EUR 93 million). These are principally related to allowances on trade receivables as well as full derecognition of such items on grounds of uncollectibility.

## 19 Inventories.

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Raw materials and supplies	105	251	224
Work in process	93	125	104
Finished goods and merchandise	873	761	636
Advance payments	26	17	8
	<b>1,097</b>	<b>1,154</b>	<b>972</b>

Of the inventories reported as of December 31, 2005, EUR 139 million (December 31, 2004: EUR 88 million; December 31, 2003: EUR 25 million) were recognized at their net realizable value. Write-downs of EUR 150 million (2004: EUR 67 million; 2003: EUR 114 million) on the net realizable value were recognized in profit or loss.

Inventories are not subject to any restrictions on title.

## 20 Intangible assets.

millions of €	Internally developed intangible assets	Acquired intangible assets						Goodwill	Advance payments	Total
		Total	Acquired concessions, industrial and similar rights and assets	UMTS licenses	GSM licenses	FCC licenses (T-Mobile USA)	Other acquired intangible assets			
<b>Cost</b>										
<b>At January 1, 2003</b>	<b>728</b>	<b>40,753</b>	<b>1,038</b>	<b>15,378</b>	<b>825</b>	<b>20,272</b>	<b>3,240</b>	<b>29,426</b>	<b>228</b>	<b>71,135</b>
Currency translation	(8)	(4,054)	(25)	(483)	(12)	(3,394)	(140)	(2,447)	0	(6,509)
Changes in the composition of the Group	(6)	(145)	17	0	0	13	(175)	(51)	0	(202)
Additions	235	682	129	1	1	20	531	104	56	1,077
Disposals	65	637	84	0	0	18	535	24	10	736
Reclassifications	43	396	(270)	0	0	(16)	682	0	(179)	260
<b>At December 31, 2003</b>	<b>927</b>	<b>36,995</b>	<b>805</b>	<b>14,896</b>	<b>814</b>	<b>16,877</b>	<b>3,603</b>	<b>27,008</b>	<b>95</b>	<b>65,025</b>
Currency translation	(6)	(1,259)	20	8	15	(1,271)	(31)	(615)	0	(1,880)
Changes in the composition of the Group	0	589	379	38	17	0	155	31	4	624
Additions	234	781	78	87	0	13	603	227	83	1,325
Disposals	118	505	52	0	0	9	444	0	2	625
Reclassifications	19	258	(210)	0	0	(1)	469	0	(81)	196
<b>At December 31, 2004</b>	<b>1,056</b>	<b>36,859</b>	<b>1,020</b>	<b>15,029</b>	<b>846</b>	<b>15,609</b>	<b>4,355</b>	<b>26,651</b>	<b>99</b>	<b>64,665</b>
Currency translation	15	2,740	8	163	7	2,404	158	1,467	1	4,223
Changes in the composition of the Group	0	70	22	0	4	0	44	(15)	(1)	54
Additions	233	1,571	104	2	0	336	1,129	866	158	2,828
Disposals	133	655	22	0	0	6	627	14	8	810
Reclassifications	228	201	(401)	0	0	0	602	1	(109)	321
<b>At December 31, 2005</b>	<b>1,399</b>	<b>40,786</b>	<b>731</b>	<b>15,194</b>	<b>857</b>	<b>18,343</b>	<b>5,661</b>	<b>28,956</b>	<b>140</b>	<b>71,281</b>

millions of €	Internally developed intangible assets	Acquired intangible assets						Goodwill	Advance payments	Total
		Total	Acquired concessions, industrial and similar rights and assets	UMTS licenses	GSM licenses	FCC licenses (T-Mobile USA)	Other acquired intangible assets			
<b>Accumulated amortization</b>										
<b>At January 1, 2003</b>	<b>208</b>	<b>2,997</b>	<b>698</b>	<b>198</b>	<b>216</b>	<b>0</b>	<b>1,885</b>	<b>6,020</b>	<b>4</b>	<b>9,229</b>
Currency translation	(3)	(89)	(15)	0	(2)	0	(72)	(963)	0	(1,055)
Changes in the composition of the Group	(5)	(123)	12	0	0	0	(135)	(47)	0	(175)
Additions (amortization)	213	1,003	107	1	54	0	841	0	0	1,216
Additions (impairment)	0	34	3	0	0	0	31	983	0	1,017
Disposals	65	595	80	0	0	0	515	9	4	673
Reclassifications	0	6	(173)	0	0	0	179	0	0	6
<b>At December 31, 2003</b>	<b>348</b>	<b>3,233</b>	<b>552</b>	<b>199</b>	<b>268</b>	<b>0</b>	<b>2,214</b>	<b>5,984</b>	<b>0</b>	<b>9,565</b>
Currency translation	(3)	(160)	9	(4)	5	(142)	(28)	(472)	0	(635)
Changes in the composition of the Group	0	103	0	0	8	0	95	0	0	103
Additions (amortization)	273	1,478	84	519	55	0	820	0	0	1,751
Additions (impairment)	0	1,276	23	0	0	1,250	3	2,434	0	3,710
Disposals	107	481	51	0	0	0	430	0	0	588
Reclassifications	0	14	(135)	0	0	0	149	0	0	14
<b>At December 31, 2004</b>	<b>511</b>	<b>5,463</b>	<b>482</b>	<b>714</b>	<b>336</b>	<b>1,108</b>	<b>2,823</b>	<b>7,946</b>	<b>0</b>	<b>13,920</b>
Currency translation	8	253	0	3	2	158	90	743	0	1,004
Changes in the composition of the Group	0	26	0	0	1	0	25	(20)	0	6
Additions (amortization)	351	2,118	97	864	57	0	1,100	0	0	2,469
Additions (impairment)	0	38	0	0	0	30	8	1,920	0	1,958
Disposals	132	622	19	0	0	0	603	8	0	762
Reclassifications	(13)	24	(354)	0	0	0	378	0	0	11
<b>At December 31, 2005</b>	<b>725</b>	<b>7,300</b>	<b>206</b>	<b>1,581</b>	<b>396</b>	<b>1,296</b>	<b>3,821</b>	<b>10,581</b>	<b>0</b>	<b>18,606</b>
<b>Net carrying amounts</b>										
At December 31, 2003	579	33,762	253	14,697	546	16,877	1,389	21,024	95	55,460
At December 31, 2004	545	31,396	538	14,315	510	14,501	1,532	18,705	99	50,745
At December 31, 2005	674	33,486	525	13,613	461	17,047	1,840	18,375	140	52,675

The net carrying amount of the UMTS licenses of EUR 13,613 million mainly comprises EUR 7,687 million for the license of T-Mobile Deutschland (December 31, 2004: EUR 8,199 million; December 31, 2003: EUR 8,541 million) and EUR 5,328 million for the T-Mobile UK license (December 31, 2004: EUR 5,509 million; December 31, 2003: EUR 5,672 million).

The carrying amounts of the goodwill assets are allocated to the following cash-generating units:

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
T-Mobile USA	4,325	3,755	4,032
T-Systems International – Enterprise Services	4,196	4,188	4,349
T-Mobile UK	2,886	4,655	6,775
T-Mobile Netherlands	1,144	1,144	1,144
Other	5,824	4,963	4,724
<b>Total</b>	<b>18,375</b>	<b>18,705</b>	<b>21,024</b>

## 21 Property, plant and equipment.

millions of €	Land and equivalent rights, and buildings including buildings on land owned by third parties	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and construction in progress	Total
<b>Cost</b>					
<b>At January 1, 2003</b>	<b>17,246</b>	<b>83,114</b>	<b>6,473</b>	<b>2,413</b>	<b>109,246</b>
Currency translation	(143)	(1,458)	(176)	(223)	(2,000)
Changes in the composition of the Group	(1)	(3,960)	(260)	(9)	(4,230)
Additions	821	2,310	524	2,838	6,493
Disposals	988	1,885	461	58	3,392
Reclassifications	472	1,537	358	(2,601)	(234)
<b>At December 31, 2003</b>	<b>17,407</b>	<b>79,658</b>	<b>6,458</b>	<b>2,360</b>	<b>105,883</b>
Currency translation	8	(20)	(8)	(94)	(114)
Changes in the composition of the Group	0	297	18	17	332
Additions	340	2,061	601	2,252	5,254
Disposals	368	1,729	569	62	2,728
Reclassifications	13	1,999	276	(2,484)	(196)
<b>At December 31, 2004</b>	<b>17,400</b>	<b>82,266</b>	<b>6,776</b>	<b>1,989</b>	<b>108,431</b>
Currency translation	105	1,175	112	196	1,588
Changes in the composition of the Group	21	196	27	24	268
Additions	134	3,793	733	3,612	8,272
Disposals	801	1,661	596	46	3,104
Reclassifications	287	3,075	337	(3,110)	589
<b>At December 31, 2005</b>	<b>17,146</b>	<b>88,844</b>	<b>7,389</b>	<b>2,665</b>	<b>116,044</b>



millions of €	Land and equivalent rights, and buildings including buildings on land owned by third parties	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and construction in progress	Total
<b>Accumulated depreciation</b>					
<b>At January 1, 2003</b>	<b>4,623</b>	<b>45,476</b>	<b>4,223</b>	<b>1</b>	<b>54,323</b>
Currency translation	(29)	(484)	(100)	0	(613)
Changes in the composition of the Group	(1)	(2,584)	(226)	0	(2,811)
Additions (depreciation)	600	6,567	773	0	7,940
Additions (impairment)	94	33	5	0	132
Disposals	316	1,651	365	0	2,332
Reclassifications	42	(62)	16	0	(4)
Reversal of impairment losses	0	(1)	0	0	(1)
<b>At December 31, 2003</b>	<b>5,013</b>	<b>47,294</b>	<b>4,326</b>	<b>1</b>	<b>56,634</b>
Currency translation	(3)	35	(3)	0	29
Changes in the composition of the Group	0	151	14	0	165
Additions (depreciation)	723	6,052	730	3	7,508
Additions (impairment)	106	45	5	2	158
Disposals	128	1,719	496	0	2,343
Reclassifications	(70)	68	(11)	(1)	(14)
Reversal of impairment losses	0	0	0	0	0
<b>At December 31, 2004</b>	<b>5,641</b>	<b>51,926</b>	<b>4,565</b>	<b>5</b>	<b>62,137</b>
Currency translation	33	387	65	0	485
Changes in the composition of the Group	0	67	18	0	85
Additions (depreciation)	649	6,369	786	18	7,822
Additions (impairment)	233	7	5	3	248
Disposals	427	1,555	530	11	2,523
Reclassifications	11	(46)	12	20	(3)
Reversal of impairment losses	(12)	0	0	(1)	(13)
<b>At December 31, 2005</b>	<b>6,128</b>	<b>57,155</b>	<b>4,921</b>	<b>34</b>	<b>68,238</b>
<b>Net carrying amounts</b>					
At December 31, 2003	12,394	32,364	2,132	2,359	49,249
At December 31, 2004	11,759	30,340	2,211	1,984	46,294
At December 31, 2005	11,018	31,689	2,468	2,631	47,806

EUR 277 million were recognized on the balance sheet in connection with restoration obligations as of December 31, 2005 (December 31, 2004: EUR 233 million; December 31, 2003: EUR 183 million).

## 22 Investments accounted for using the equity method.

Significant investments in entities accounted for using the equity method and the related goodwill amounts break down as follows:

Name	Dec. 31, 2005			Dec. 31, 2004			Dec. 31, 2003		
	Deutsche Telekom share %	Net carrying amount millions of €	Goodwill millions of €	Deutsche Telekom share %	Net carrying amount millions of €	Goodwill millions of €	Deutsche Telekom share %	Net carrying amount millions of €	Goodwill millions of €
PTC	49.00	1,693	1,163	49.00	1,473	1,101	49.00	1,175	955
GSM Facilities <sup>1</sup>	n.a.	n.a.	n.a.	35.17	879	0	29.20	575	0
MTS <sup>2,3</sup>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25.15	332	6
Toll Collect	45.00	0	0	45.00	0	0	45.00	0	0
Other	-	132	58	-	315	59	-	300	39
		<b>1,825</b>	<b>1,221</b>		<b>2,667</b>	<b>1,160</b>		<b>2,382</b>	<b>1,000</b>

<sup>1</sup> Entity was dissolved in January 2005.

<sup>2</sup> Share was reduced to approximately 10 % in December 2004, complete sale in September 2005.

<sup>3</sup> Proportional market value as of December 31, 2003: EUR 1,647 million.

Aggregated key financial figures for the associates accounted for using the equity method are shown in the following overview. The data is not based on the portions attributable to the Deutsche Telekom Group, but represents the shareholdings on a 100-percent basis.

### Aggregated key financial figures for the associates accounted for using the equity method

billions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Total assets	2.5	5.4	8.8
Total liabilities	1.0	3.6	6.0
	<b>2005</b>	2004	2003
Net revenue	2.2	2.1	3.8
Profit	0.3	0.1	0.5

The following table is a summary presentation of aggregated key financial figures – pro-rated according to the relevant percentage of shares held – for the joint ventures of Deutsche Telekom accounted for using the equity method:

Aggregated key financial figures for the joint ventures accounted for using the equity method			
billions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
<b>Total assets</b>	<b>0.4</b>	<b>1.4</b>	<b>1.3</b>
Current	0.2	0.1	0.2
Non-current	0.2	1.3	1.1
<b>Total liabilities</b>	<b>0.8</b>	<b>0.8</b>	<b>0.9</b>
Current	0.2	0.6	0.6
Non-current	0.6	0.2	0.3
	<b>2005</b>	2004	2003
Net revenue	0.2	0.2	0.7
Loss	(0.1)	(0.4)	(0.4)

### 23 Other financial assets.

millions of €	Dec. 31, 2005		Dec. 31, 2004		Dec. 31, 2003	
	Total	Of which: current	Total	Of which: current	Total	Of which: current
Originated loans and receivables	1,284	831	1,106	738	1,759	1,338
Available-for-sale financial assets	317	129	1,348	88	1,024	106
Derivatives	445	315	396	396	475	455
Miscellaneous assets	95	87	23	15	50	41
	<b>2,141</b>	<b>1,362</b>	<b>2,873</b>	<b>1,237</b>	<b>3,308</b>	<b>1,940</b>

Other financial assets were significantly reduced in the 2005 financial year. The decrease is primarily attributable to the sale of the shares in MTS (EUR 1,018 million) in September 2005.

	Net carrying amount as of Dec. 31, 2005	Of which: neither impaired nor past due on the reporting date	Of which: not impaired as of the reporting date and past due in the following periods					
			less than 30 days	between 30 and 60 days	between 60 and 90 days	between 90 and 180 days	between 180 and 360 days	more than 360 days
			Originated loans and receivables					
due within one year	831	672	7	2	1	81	28	33
due after more than one year	453	453						

With respect to the originated loans and receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The available-for-sale financial assets include unquoted equity instruments whose fair values could not be reliably measured, and which were therefore

recognized at cost in the amount of EUR 163 million as of December 31, 2005 (December 31, 2004: EUR 211 million).

In the 2005 financial year, EUR 9 million (2004: EUR 10 million) in impairment losses on available-for-sale financial assets were recognized in profit or loss because the impairment was prolonged or material.

The principle investments not intended for sale up until the preparation of the financial statements are shown below:

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
T-Mobile Venture Fund GmbH & Co. KG	63	38	32
Beach Holding Co. (SBS International Puerto Rico, Inc.)	26	23	0
MMBG Multimedia Betriebs GmbH & Co. KG i.L.	10	10	10
Deutsche Telekom, Inc.	7	7	7
T-Corporate Venture Fund GmbH & Co. KG	6	6	0
T-Venture Telekom Funds Beteiligungs-GmbH	6	6	0
T-Com Venture Fund GmbH & Co. KG	6	2	0

A market price was not available for the aforementioned investments. It was also impossible to derive the fair value for the period using comparable transactions. The company did not measure the investments by discounting the expected cash flows because the cash flows could not be reliably determined.

Deutsche Telekom sold two investments carried at cost in the 2004 financial year. The carrying amounts of these investments amounted to EUR 7 million at the time of the sale. Gains on disposal totaled EUR 9 million.

The investment in Intelsat Ltd., which had been carried at cost, was sold in the 2005 financial year. The net carrying amount at the time of disposal was EUR 79 million. A gain of EUR 21 million was realized on disposal.

## 24 Financial liabilities.

millions of €	Dec. 31, 2005			
	Total	due within 1 year	due > 1 year < 5 years	due > 5 years
<b>Bonds and other securitized liabilities</b>				
- Convertible bonds	2,296	2,296	0	0
- Non-convertible bonds	27,099	4,682	9,724	12,693
- Commercial papers, medium-term notes, and similar liabilities	7,860	222	5,219	2,419
Liabilities to banks	2,227	284	1,394	549
	<b>39,482</b>	<b>7,484</b>	<b>16,337</b>	<b>15,661</b>
<b>Lease liabilities</b>				
Lease liabilities	2,373	200	455	1,718
Liabilities arising from ABS transactions	1,363	274	1,089	0
Promissory notes	645	0	0	645
Other interest-bearing liabilities	129	71	58	0
Other non-interest-bearing liabilities	2,051	1,690	352	9
Derivative financial liabilities	678	655	22	1
	<b>7,239</b>	<b>2,890</b>	<b>1,976</b>	<b>2,373</b>

millions of €	Dec. 31, 2004			
	Total	due within 1 year	due > 1 year < 5 years	due > 5 years
<b>Bonds and other securitized liabilities</b>				
- Convertible bonds	2,318	0	2,318	0
- Non-convertible bonds	29,447	5,983	9,876	13,588
- Commercial paper, medium-term notes, and similar liabilities	8,055	1,574	4,097	2,384
Liabilities to banks	3,082	1,383	855	844
	<b>42,902</b>	<b>8,940</b>	<b>17,146</b>	<b>16,816</b>
Lease liabilities	2,487	189	505	1,793
Liabilities arising from ABS transactions	1,563	256	1,307	0
Promissory notes	651	9	0	642
Other interest-bearing liabilities	131	129	2	0
Other non-interest-bearing liabilities	2,197	1,914	21	262
Derivative financial liabilities	1,159	1,155	4	0
	<b>8,188</b>	<b>3,652</b>	<b>1,839</b>	<b>2,697</b>

millions of €	Dec. 31, 2003			
	Total	due within 1 year	due > 1 year < 5 years	due > 5 years
<b>Bonds and other securitized liabilities</b>				
- Convertible bonds	2,337	0	2,337	0
- Non-convertible bonds	40,490	10,272	16,140	14,078
- Commercial paper, medium-term notes, and similar liabilities	8,786	1,774	3,929	3,083
Liabilities to banks	3,801	808	1,933	1,060
	<b>55,414</b>	<b>12,854</b>	<b>24,339</b>	<b>18,221</b>
Lease liabilities	2,443	241	506	1,696
Liabilities arising from ABS transactions	1,233	104	1,129	0
Promissory notes	756	77	0	679
Other interest-bearing liabilities	201	197	4	0
Other non-interest-bearing liabilities	2,651	2,467	20	164
Derivative financial liabilities	1,334	1,316	18	0
	<b>8,618</b>	<b>4,402</b>	<b>1,677</b>	<b>2,539</b>

The main items under convertible and non-convertible bonds are the bonds issued by Deutsche Telekom International Finance B.V., Amsterdam, at the following terms:

	Currency millions	Nominal interest rate (%)	Effective interest rate (%)	Due on
<b>1998/99 eurobond</b>				
	EUR 1,023	5.250	5.375	May 20, 2008
	EUR 977	5.250	4.369	May 20, 2008
<b>2000 global bond</b>				
	EUR 750	6.625	6.697	July 6, 2010
	GBP 300	7.125	7.418	June 15, 2030
	USD 3,000	8.000	8.284	June 15, 2010
	USD 3,500	8.250	8.511	June 15, 2030
<b>2001 eurobond</b>				
	EUR 4,500	5.875	5.934	July 11, 2006
	EUR 3,500	6.625	6.781	July 11, 2011
<b>2002 global bond</b>				
	EUR 2,000	8.125	8.289	May 29, 2012
	EUR 2,500	7.500	7.705	May 29, 2007
	USD 500	9.250	9.644	June 1, 2032
<b>2003 USD bond</b>				
	USD 750	3.875	4.048	July 22, 2008
	USD 1,250	5.250	5.482	July 22, 2013
<b>2003 mandatory convertible bond</b>				
	EUR 2,289	6.500	7.273	June 1, 2006
<b>2005 eurobond</b>				
	EUR 1,250	3.250	3.506	Jan. 19, 2010
	EUR 1,750	4.000	4.254	Jan. 19, 2015

On February 24, 2003 Deutsche Telekom AG issued a EUR 2.3 billion mandatory convertible bond through its financing company, Deutsche Telekom International Finance B.V. The maturity of the bond is June 1, 2006. At maturity the bond converts into shares of Deutsche Telekom AG. During the term of the bond, investors may already voluntarily convert the bond into shares of Deutsche Telekom AG. The bond offers standard anti-dilution protection and has a coupon of 6.50 percent.

Dec. 31, 2005		Dec. 31, 2004		Dec. 31, 2003	
Carrying amount millions of €	Fair value millions of €	Carrying amount millions of €	Fair value millions of €	Carrying amount millions of €	Fair value millions of €
1,019	1,069	1,018	1,089	1,017	1,071
996	1,022	1,004	1,041	1,010	1,023
748	848	764	878	747	864
429	564	441	536	442	528
2,524	2,825	2,236	2,616	2,425	2,927
2,930	3,751	2,677	3,376	2,898	3,714
4,497	4,568	4,525	4,740	4,492	4,828
3,474	4,027	3,560	4,141	3,466	4,063
1,983	2,496	1,981	2,536	1,979	2,472
2,492	2,649	2,487	2,760	2,483	2,805
415	597	360	523	390	558
632	618	547	549	592	595
1,046	1,051	907	940	980	1,005
2,296	2,399	2,318	2,641	2,337	2,457
1,239	1,244	-	-	-	-
1,720	1,758	-	-	-	-

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

The following table shows the carrying amounts, maturities, and effective interest rates of the main commercial papers, medium-term notes and similar liabilities as well as the liabilities to banks:

	Currency	Effective interest rate in %	Due on	Carrying amount Dec. 31, 2005 millions of €	Carrying amount Dec. 31, 2004 millions of €	Carrying amount Dec. 31, 2003 millions of €
<b>Commercial papers, medium-term notes and similar liabilities</b>						
	EUR	4.324	Mar. 30, 2006	128	128	128
	EUR	5.372	Jan. 22, 2007	499	499	498
	EUR	6.270	Dec. 4, 2007	499	498	497
	EUR	5.829	Feb. 12, 2008	998	998	997
	EUR	1.177	Mar. 5, 2009	500		
	EUR	3.120	Apr. 22, 2009	498		
	EUR	6.850	Apr. 27, 2009	102	102	102
	EUR	6.231	June 9, 2009	102	102	102
	EUR	6.685	Oct. 7, 2009	497	496	496
	EUR	1.848	Nov. 23, 2009	500	499	
	EUR	1.836	Dec. 8, 2009	500	499	
	GBP	6.257	Dec. 9, 2010	364	354	354
	GBP	7.619	Sep. 26, 2012	354	344	343
	GBP	7.231	Sep. 26, 2012	362	352	352
	GBP	4.915	Sep. 23, 2014	363		
	EUR	6.783	Mar. 29, 2018	493	493	493
	GBP	7.537	Dec. 4, 2019	359	349	349
	EUR	7.632	Jan. 24, 2033	492	492	492
<b>Liabilities to banks</b>						
	GBP	7.288	July 14, 2008	218	212	212
	USD	2.474	June 15, 2010	564		
	GBP	7.294	July 13, 2010	218	212	212
	EUR	6.690	Mar. 14, 2016	291	288	287
	EUR	6.185	May 30, 2016	250	251	248
	JPY	3.683	Oct. 31, 2032	216	215	223

To ensure liquidity and financial flexibility at all times, Deutsche Telekom maintains a liquidity reserve consisting of committed credit facilities and, if required, cash. For this purpose, the Company entered into standardized bilateral credit agreements with several banks amounting to a total of EUR 16.8 billion in 2005. After varying initial maturities, the bilateral credit agreements will have maturities of 36 months. Extension of the individual agreements can be requested after 12 months, resulting once again in a residual term of 36 months.



The following table shows Deutsche Telekom's contractually agreed (undiscounted) interest payments and repayments of the non-derivative financial liabilities and the derivatives with positive and negative fair values:

millions of €	Net carrying amount Dec. 31, 2005	Cash flows					
		2006			2007		
		Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
Non-derivative financial liabilities:							
Bonds, other securitized liabilities, liabilities to banks, promissory notes and similar liabilities	(40,127)	(2,342)	(86)	(5,129)	(1,924)	(75)	(3,766)
Finance lease liabilities	(1,856)	(151)		(207)	(172)		(186)
Liabilities arising from ABS transactions	(1,363)		(38)	(825)		(15)	
Other interest-bearing liabilities	(646)			(77)			(19)
Other non-interest-bearing liabilities	(2,051)			(1,741)			(298)
Derivative financial liabilities and assets							
Derivative financial liabilities							
- Currency derivatives without a hedging relationship	(14)			(10)			
- Currency derivatives in connection with cash flow hedges	(32)			(2)			(14)
- Interest rate derivatives without a hedging relationship	(619)	(214)	(32)	(56)	(116)	(38)	(19)
- Interest rate derivatives in connection with fair value hedges	(2)	41	(39)		18	(18)	
Derivative financial assets							
- Currency derivatives without a hedging relationship	18			11			3
- Interest rate derivatives without a hedging relationship	258	161	(74)		83	(42)	1
- Interest rate derivatives in connection with fair value hedges	151	319	(234)		225	(141)	

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

millions of €	Cash flows								
	2008-2010			2011-2015			2016 and thereafter		
	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
Non-derivative financial liabilities:									
Bonds, other securitized liabilities, liabilities to banks, promissory notes and similar liabilities	(4,546)	(157)	(12,608)	(3,643)		(9,678)	(5,913)		(7,943)
Finance lease liabilities	(324)		(221)	(408)		(465)	(405)		(777)
Liabilities arising from ABS transactions		(15)	(538)						
Other interest-bearing liabilities			(72)			(74)			(404)
Other non-interest-bearing liabilities			(4)			(1)			(7)
Derivative financial liabilities and assets									
Derivative financial liabilities									
– Currency derivatives without a hedging relationship									
– Currency derivatives in connection with cash flow hedges			(2)						
– Interest rate derivatives without a hedging relationship	(103)	(53)	(49)	91	(96)	(34)	134	(214)	(31)
– Interest rate derivatives in connection with fair value hedges	53	(54)		71	(72)				
Derivative financial assets									
– Currency derivatives without a hedging relationship									
– Interest rate derivatives without a hedging relationship	212	(119)	10	15	(17)				
– Interest rate derivatives in connection with fair value hedges	162	(89)							

All instruments held at December 31, 2005 and for which payments were already contractually agreed were included. Planning data for future, new liabilities is not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2005. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period.

In accordance with Postreform II (§ 2 (4) of the Stock Corporation Transformation Act – Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were outstanding at January 1, 1995. As of December 31, 2005, the nominal figure was EUR 2.0 billion.

## 25 Trade and other payables.

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Trade payables	6,889	6,090	6,259
Liabilities from construction contracts	13	26	95
	<b>6,902</b>	<b>6,116</b>	<b>6,354</b>

Of the total of trade and other payables, EUR 6,901 million (December 31, 2004: EUR 6,112 million; December 31, 2003: EUR 6,324 million) is due within one year.

**26 Additional disclosures on financial instruments.****Measurement of financial instruments by category.**

The following table shows, based on the relevant balance sheet items, the connections between the classification and the carrying amounts of the financial instruments:

millions of €	Net carrying amount Dec. 31, 2005	Carrying amount			
		Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
<b>Assets</b>					
Cash and cash equivalents (loans and receivables)	4,975	4,975			
Trade and other receivables (loans and receivables)	7,512	7,512			
Other receivables (loans and receivables)	1,284	1,284			
Other non-derivative financial assets					
- Held-to-maturity investments	86	86			
- Available-for-sale financial assets	317		163	154	
- Financial assets held for trading	9				9
Derivative financial assets					
- Derivatives without a hedging relationship (held for trading)	294				294
- Derivatives with a hedging relationship (hedge accounting)	151				151
<b>Liabilities and shareholders' equity</b>					
Trade and other payables (financial liabilities measured at amortized cost)	6,902	6,902			
Bonds and other securitized liabilities (financial liabilities measured at amortized cost)	37,255	37,255			
Liabilities to banks (financial liabilities measured at amortized cost)	2,227	2,227			
Finance lease liabilities (financial liabilities measured at amortized cost)	1,856	1,856			
Liabilities arising from ABS transactions (financial liabilities measured at amortized cost)	1,363	1,363			
Promissory notes (financial liabilities measured at amortized cost)	645	645			
Other interest-bearing liabilities (financial liabilities measured at amortized cost)	646	646			
Other non-interest-bearing liabilities (financial liabilities measured at amortized cost)	2,051	2,051			
Derivative financial liabilities					
- Derivatives without a hedging relationship (held for trading)	644				644
- Derivatives with a hedging relationship (hedge accounting)	34			32	2
Of which: aggregated by measurement category in accordance with IAS 39					
Loans and receivables	13,771	13,771			
Held-to-maturity investments	86	86			
Available-for-sale financial assets	317		163	154	
Financial assets held for trading	303				303
Financial liabilities measured at amortized cost	52,945	52,945			
Financial liabilities held for trading	644				644

millions of €	Net carrying amount Dec. 31, 2004	Carrying amount			
		Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
<b>Assets</b>					
Cash and cash equivalents (loans and receivables)	8,005	8,005			
Trade and other receivables (loans and receivables)	6,731	6,731			
Other receivables (loans and receivables)	1,106	1,106			
Other non-derivative financial assets					
– Held-to-maturity investments	6	6			
– Available-for-sale financial assets	1,348		211	1,137	
– Financial assets held for trading	17				17
Derivative financial assets					
– Derivatives without a hedging relationship (held for trading)	303				303
– Derivatives with a hedging relationship (hedge accounting)	93			1	92
<b>Liabilities and shareholders' equity</b>					
Trade and other payables (financial liabilities measured at amortized cost)	6,116	6,116			
Bonds and other securitized liabilities (financial liabilities measured at amortized cost)	39,820	39,820			
Liabilities to banks (financial liabilities measured at amortized cost)	3,082	3,082			
Finance lease liabilities (financial liabilities measured at amortized cost)	1,971	1,971			
Liabilities arising from ABS transactions (financial liabilities measured at amortized cost)	1,563	1,563			
Promissory notes (financial liabilities measured at amortized cost)	651	651			
Other interest-bearing liabilities (financial liabilities measured at amortized cost)	647	647			
Other non-interest-bearing liabilities (financial liabilities measured at amortized cost)	2,197	2,197			
Derivative financial liabilities					
– Derivatives without a hedging relationship (held for trading)	1,136				1,136
– Derivatives with a hedging relationship (hedge accounting)	23			22	1
Of which: aggregated by measurement category in accordance with IAS 39					
Loans and receivables	15,842	15,842			
Held-to-maturity investments	6	6			
Available-for-sale financial assets	1,348		211	1,137	
Financial assets held for trading	320				320
Financial liabilities measured at amortized cost	56,047	56,047			
Financial liabilities held for trading	1,136				1,136

millions of €	Net carrying amount Dec. 31, 2003	Carrying amount			
		Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
<b>Assets</b>					
Cash and cash equivalents (loans and receivables)	8,684	8,684			
Trade and other receivables (loans and receivables)	7,567	7,567			
Other receivables (loans and receivables)	1,759	1,759			
Other non-derivative financial assets					
– Held-to-maturity investments	49	49			
– Available-for-sale financial assets	1,024		254	770	
– Financial assets held for trading	1				1
Derivative financial assets					
– Derivatives without a hedging relationship (held for trading)	258				258
– Derivatives with a hedging relationship (hedge accounting)	217			23	194
<b>Liabilities and shareholders' equity</b>					
Trade and other payables (financial liabilities measured at amortized cost)	6,354	6,354			
Bonds and other securitized liabilities (financial liabilities measured at amortized cost)	51,613	51,613			
Liabilities to banks (financial liabilities measured at amortized cost)	3,801	3,801			
Finance lease liabilities (financial liabilities measured at amortized cost)	1,947	1,947			
Liabilities arising from ABS transactions (financial liabilities measured at amortized cost)	1,233	1,233			
Promissory notes (financial liabilities measured at amortized cost)	756	756			
Other interest-bearing liabilities (financial liabilities measured at amortized cost)	697	697			
Other non-interest-bearing liabilities (financial liabilities measured at amortized cost)	2,651	2,651			
Derivative financial liabilities					
– Derivatives without a hedging relationship (held for trading)	1,316				1,316
– Derivatives with a hedging relationship (hedge accounting)	18			15	3
Of which: aggregated by measurement category in accordance with IAS 39					
Loans and receivables	18,010	18,010			
Held-to-maturity investments	49	49			
Available-for-sale financial assets	1,024		254	770	
Financial assets held for trading	259				259
Financial liabilities measured at amortized cost	69,052	69,052			
Financial liabilities held for trading	1,316				1,316

Net gains of EUR 126 million (2004: EUR 855 million) from remeasurement were recognized in equity in 2005 as a result of the recognition of changes in the fair values of available-for-sale financial assets. The net gains recognized in equity in 2004 are mainly attributable to the increase in the fair value of the investment in the publicly listed company MTS, OJSC Mobile TeleSystems, Moscow.

In relation to available-for-sale financial assets, net gains of EUR 984 million (2004: EUR 257 million) recorded in shareholders' equity were reclassified to the income statement in the 2005 financial year. This was primarily the recognition in profit or loss of gains from the change in the fair value of the MTS stake sold in 2005, which had been recognized in equity in 2004.

**Fair values of financial instruments carried at amortized cost.**

The following table shows the fair values of the financial assets and liabilities carried at amortized cost. The fair values of the financial instruments not

carried at amortized cost are equal to the carrying amounts (with the exception of available-for-sale financial assets, which are measured at cost because the fair value cannot be reliably measured).

millions of €	Dec. 31, 2005	
	Fair value	Net carrying amount
<b>Assets</b>		
Cash and cash equivalents (loans and receivables)	4,975	4,975
Trade and other receivables (loans and receivables)	7,512	7,512
Other receivables (loans and receivables)	1,284	1,284
Other non-derivative financial assets		
– Held-to-maturity investments	86	86
<b>Liabilities and shareholders' equity</b>		
Trade and other payables (financial liabilities measured at amortized cost)	6,902	6,902
Bonds and other securitized liabilities (financial liabilities measured at amortized cost)	41,332	37,255
Liabilities to banks (financial liabilities measured at amortized cost)	2,429	2,227
Finance lease liabilities (financial liabilities measured at amortized cost)	2,384	1,856
Liabilities arising from ABS transactions (financial liabilities measured at amortized cost)	1,363	1,363
Promissory notes (financial liabilities measured at amortized cost)	765	645
Other interest-bearing liabilities (financial liabilities measured at amortized cost)	646	646
Other non-interest-bearing liabilities (financial liabilities measured at amortized cost)	2,051	2,051
Of which: aggregated by measurement category in accordance with IAS 39		
Loans and receivables	13,771	13,771
Held-to-maturity investments	86	86
Financial liabilities measured at amortized cost	57,872	52,945

millions of €	Dec. 31, 2004	
	Fair value	Net carrying amount
<b>Assets</b>		
Cash and cash equivalents (loans and receivables)	8,005	8,005
Trade and other receivables (loans and receivables)	6,731	6,731
Other receivables (loans and receivables)	1,106	1,106
Other non-derivative financial assets		
– Held-to-maturity investments	6	6
<b>Liabilities and shareholders' equity</b>		
Trade and other payables (financial liabilities measured at amortized cost)	6,116	6,116
Bonds and other securitized liabilities (financial liabilities measured at amortized cost)	44,433	39,820
Liabilities to banks (financial liabilities measured at amortized cost)	3,285	3,082
Finance lease liabilities (financial liabilities measured at amortized cost)	2,504	1,971
Liabilities arising from ABS transactions (financial liabilities measured at amortized cost)	1,563	1,563
Promissory notes (financial liabilities measured at amortized cost)	742	651
Other interest-bearing liabilities (financial liabilities measured at amortized cost)	647	647
Other non-interest-bearing liabilities (financial liabilities measured at amortized cost)	2,197	2,197
Of which: aggregated by measurement category in accordance with IAS 39		
Loans and receivables	15,842	15,842
Held-to-maturity investments	6	6
Financial liabilities measured at amortized cost	61,487	56,047

millions of €	Dec. 31, 2003	
	Fair value	Net carrying amount
<b>Assets</b>		
Cash and cash equivalents (loans and receivables)	8,684	8,684
Trade and other receivables (loans and receivables)	7,567	7,567
Other receivables (loans and receivables)	1,759	1,759
Other non-derivative financial assets		
- Held-to-maturity investments	49	49
<b>Liabilities and shareholders' equity</b>		
Trade and other payables (financial liabilities measured at amortized cost)	6,354	6,354
Bonds and other securitized liabilities (financial liabilities measured at amortized cost)	56,458	51,613
Liabilities to banks (financial liabilities measured at amortized cost)	3,937	3,801
Finance lease liabilities (financial liabilities measured at amortized cost)	2,322	1,947
Liabilities arising from ABS transactions (financial liabilities measured at amortized cost)	1,233	1,233
Promissory notes (financial liabilities measured at amortized cost)	870	756
Other interest-bearing liabilities (financial liabilities measured at amortized cost)	697	697
Other non-interest-bearing liabilities (financial liabilities measured at amortized cost)	2,651	2,651
Of which: aggregated by measurement category in accordance with IAS 39		
Loans and receivables	18,010	18,010
Held-to-maturity investments	49	49
Financial liabilities measured at amortized cost	74,522	69,052

Cash and cash equivalents and trade and other receivables mainly have short times to maturity. For this reason, their carrying amounts at the reporting date approximate the fair values.

The fair values of other non-current receivables and held-to-maturity financial investments due after more than one year correspond to the present values of the payments related to the assets, taking into account the current interest rate parameters that reflect market- and partner-based changes to terms and conditions and expectations.

Trade and other payables, as well as other liabilities, generally have short times to maturity; the values reported approximate the fair values.

The fair values of the quoted bonds and other securitized liabilities equal the nominal amounts multiplied by the price quotations at the reporting date.

The fair values of unquoted bonds, liabilities to banks, promissory notes, and other financial liabilities are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and Deutsche Telekom's credit spread curve for specific currencies.

## 27 Other liabilities.

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Deferred revenues	2,529	2,420	2,141
Other liabilities	2,204	2,226	2,457
<b>Total</b>	<b>4,733</b>	<b>4,646</b>	<b>4,598</b>

Among other items, other liabilities encompass liabilities from other taxes, liabilities to employees and social security liabilities.

## 28 Provisions for pensions and other employee benefits

In addition to the Group's pension obligations for non-civil servants based on indirect and direct pension commitments, there are further obligations under Article 131 of the Basic Law (Grundgesetz – GG). Deutsche Telekom's indirect pension commitments were made to its employees via the Versorgungsanstalt der Deutschen Bundespost (VAP) and the Deutsche Telekom Betriebsrenten-Service e.V. (DTBS).

The VAP provides pension services for pensioners who were employed by Deutsche Telekom. 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. Within the scope of negotiations on the realignment of the company pension plan, the employer and the trade unions agreed in 1997 on arrangements 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 converted into a pension. If these employees have not yet reached the age of 35 and had been insured for less than ten years, their benefit obligations are due directly from Deutsche Telekom. The DTBS was founded for processing the remaining obligations.

A new regulation of VAP benefits was made by collective agreement in the year 2000 without affecting obligations. Since November 2000, the pensioners covered by this collective agreement no longer receive their pension payments from the VAP as the indirect provider of pension services, but directly and with a legal claim from Deutsche Telekom. VAP's obligations are therefore suspended (parallel obligation). Those pensioners remaining in the VAP continue to receive their benefits directly from the VAP as the provider of pension services. Pursuant to the VAP's business plan, Deutsche Telekom will, to a certain extent, continue to be assigned additional obligations and the corresponding assets on a pro rata basis.

Pursuant to the change to the articles of association of the VAP in 2004, the future annual adjustments to pensions has been defined in percentage points, in accordance with the articles of association of the VAP.

As a result of the harmonization of the company pension plan in 2005 within the Deutsche Telekom Group, as of October 2005 obligations in the Group (primarily employment relationships existing at Deutsche Telekom AG as of October 1, 2005) that were previously processed through the DTBS have been handled directly by Deutsche Telekom AG and with a legal claim on the part of the employees.

Benefits relating to other direct pension plans are generally determined on the basis of salary levels and years of service; these benefit obligations are also usually determined by the amounts credited by Deutsche Telekom to its capital accounts.

Calculation of pension provisions:

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Present value of fund-financed obligations	1,410	2,073	1,813
Plan assets at fair value	(901)	(623)	(489)
<b>Projected benefit obligations in excess of plan assets</b>	<b>509</b>	<b>1,450</b>	<b>1,324</b>
Present value of non-fund-financed obligations	5,606	3,238	3,219
Unrecognized past service cost	0	0	0
Unrecognized net (losses) gains	(1,571)	(479)	(368)
<b>Net defined benefit liability</b>	<b>4,544</b>	<b>4,209</b>	<b>4,175</b>
Defined benefit asset	52	0	0
<b>Pension provisions according to the consolidated balance sheet</b>	<b>4,596</b>	<b>4,209</b>	<b>4,175</b>

The defined benefit asset is recognized under other assets.



The following table shows the composition of pension obligations:

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Pension obligations			
Direct	4,386	3,016	2,982
Indirect	153	1,187	1,186
Obligations in accordance with Article 131 GG	5	6	7
Net pension provisions	4,544	4,209	4,175

The carrying amount in accordance with § 6a EStG is EUR 4,278 million (2004: EUR 4,071 million; 2003: EUR 3,674 million).

The amount of the pension obligations was determined using actuarial principles that are consistent with IAS 19, and using the assumptions at the respective balance sheet dates as shown in the following table:

#### Assumptions for the measurement of defined benefit obligations as of Dec. 31

%	2005	2004	2003
Discount rate	4.1 / 3.25 <sup>2</sup> / 4.75 <sup>3</sup>	5.25 / 3.25 <sup>2</sup> / 5.30 <sup>3</sup>	5.25
Projected salary increase	2.75 / 3.50 <sup>1</sup> / 1.00 <sup>2</sup> / 3.90 <sup>3</sup>	2.75 / 3.50 <sup>1</sup> / 1.00 <sup>2</sup> / 3.80 <sup>3</sup>	2.75 / 3.50 <sup>1</sup>
Projected pension increase	1.00 / 1.50 / 1.00 <sup>2</sup> / 2.90 <sup>3</sup>	1.00 / 1.50 / 1.00 <sup>2</sup> / 2.80 <sup>3</sup>	1.50

<sup>1</sup> For non-civil servants not covered by collective agreements.

<sup>2</sup> Switzerland.

<sup>3</sup> UK.

For calculating the present value of pension obligations, taking into account future salary increases (defined benefit obligation), Deutsche Telekom used a rate of 4.1 percent as of December 31, 2005. This interest rate was determined based on a duration (weighted average term) of the obligation of approximately 15 years. As the obligations arise mainly in Germany and are

denominated in euros, the discount rate is based on the rate of return of zero-coupon bonds of the Federal Republic of Germany with the corresponding duration and adjusted with a risk premium for high-quality European corporate bonds with an AA rating.

#### Assumptions for determining the pension expense for years ending Dec. 31

%	2005	2004	2003
Discount rate	5.25 / 3.25 <sup>2</sup> / 5.30 <sup>3</sup>	5.25	5.75
Projected salary increase	2.75 / 3.50 <sup>1</sup> / 1.00 <sup>2</sup> / 3.80 <sup>3</sup>	2.75 / 3.50 <sup>1</sup>	2.75 / 3.50 <sup>1</sup>
Return on plan assets	5.00 / 4.50 <sup>2</sup> / 7.25 <sup>3</sup>	5.50	6.00
Projected pension increase	1.00 / 1.50 / 1.00 <sup>2</sup> / 2.80 <sup>3</sup>	1.50	1.50

<sup>1</sup> For non-civil servants not covered by collective agreements.

<sup>2</sup> Switzerland.

<sup>3</sup> UK.

Development of the projected benefit obligations in the reporting year:

millions of €	2005	2004
Present value of the defined benefit obligation as of January 1	5,311	5,032
Current service cost	223	171
Interest cost	289	255
Contributions by plan participants	12	0
Change in obligations	297	124
Actuarial gains	1,158	93
Total benefits actually paid	(274)	(260)
Plan amendments	0	(104)
Present value of the defined benefit obligation as of December 31	7,016	5,311

Information on pension plans with a defined benefit obligation that exceeds the plan assets:

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Defined benefit obligation	1,410	2,073	1,813
Plan assets	901	623	489

Taking the plan assets into consideration, the pension obligations were accounted for in full.

Development of plan assets at fair value in the respective reporting year:

millions of €	2005	2004
Plan assets at fair value, as of January 1	623	489
Expected return on plan assets	47	27
Actuarial gains	54	3
Contributions by employer	29	68
Contributions by plan participants	12	0
Benefits actually paid through pension funds	(69)	(64)
Change in obligations	205	100
Plan assets at fair value, as of December 31	901	623

Breakdown of plan assets at fair value by investment category:

%	Dec. 31, 2005	Dec. 31, 2004
Equity securities	37	27
Debt securities	50	48
Real estate	10	2
Other	3	23

The plan assets include shares amounting to EUR 336 million (December 31, 2004: EUR 168 million) and bonds amounting to EUR 452 million (December 31, 2004: EUR 299 million).

Determination of the expected return on plan assets:

As in previous years, the investment strategy is based on the principles of § 54 of the Insurance Supervision Act (Versicherungsaufsichtsgesetz – VAG) and is guided by a strategy of risk minimization. It is conservative and concentrates on safeguarding liquidity and on investments in the euro zone.

Most investments are made in deposits and fixed-rate notes. The target return for the plan assets is set at 4.0 percent in the economic plan of VAP and DTBS.

The following table provides a breakdown of net periodic pension cost:

millions of €	2005	2004	2003
Current service cost	223	171	140
Interest cost	289	255	251
Expected return on plan assets	(47)	(27)	(27)
Distribution amounts (payback)	10	(103)	0
<b>Pension expense</b>	<b>475</b>	<b>296</b>	<b>364</b>
Actual return on plan assets	101	30	(13)

Expected employer contributions for the subsequent year:

millions of €	2006	2005	2004
Expected contributions by employer	28	68	87

Expected values for subsequent years:

millions of €	Years starting after Dec. 31					
	2006	2007	2008	2009	2010	2011–2015
Expected pension payments	257	267	283	287	293	1,490

Amounts for the current year and two preceeding years of pension obligations, plan assets, assets in excess of benefit obligations, and experience-based adjustments:

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Defined benefit obligation	7,016	5,311	5,032
Plan assets	(901)	(623)	(489)
Projected benefit obligations in excess of plan assets (funded status)	6,115	4,688	4,543

Increase (%)	2005	2004
Experience-based adjustment of pension obligations	2.2	2.6
Experience-based adjustment of plan assets	6.5	0.6

### Civil-servant retirement arrangements.

Until the 2000 financial year, Deutsche Telekom AG maintained a special pension fund (Unterstützungskasse) for its active and former civil servants, which was merged with the special pension funds of Deutsche Post AG and Deutsche Postbank AG by notarized agreement on December 7, 2000 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 BPS-PT fund works on behalf of all three companies and also handles 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 defined under § 16 of the Act Concerning the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz – PostPersRG). Since 2000, Deutsche Telekom AG has been legally obliged to make an annual contribution to the special pension fund amounting to 33 per cent 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 an ongoing expense in the respective year, and amounted to EUR 862 million in 2005 (2004: EUR 911 million; 2003: EUR 809 million) (see also (39) "Contingencies and other financial obligations").

Under PTNeuOG, the Federal Republic compensates the special pension fund for differences between the ongoing payment obligations of the special pension fund, amounts received from Deutsche Telekom AG, and 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 require reimbursement from Deutsche Telekom AG for amounts paid by it to the special fund.

### 29 Other provisions.

millions of €	Personnel	Restoration obligations	Investment risks	Litigation risks	Reimbursements	Other	Total
<b>At January 1, 2003</b>	<b>2,497</b>	<b>336</b>	<b>146</b>	<b>113</b>	<b>161</b>	<b>1,399</b>	<b>4,652</b>
<b>Of which: current</b>	<b>1,069</b>	<b>26</b>	<b>146</b>	<b>78</b>	<b>155</b>	<b>1,044</b>	<b>2,518</b>
Changes in the composition of the Group	(21)	0	0	(2)	(1)	(17)	(41)
Currency translation adjustments	(22)	(7)	(8)	(2)	(8)	(46)	(93)
Addition	1,368	138	315	152	222	1,398	3,593
Use	(1,026)	(12)	(1)	(43)	(105)	(974)	(2,161)
Reversal	(64)	(94)	(53)	(61)	(35)	(203)	(510)
Interest effect	278	6	0	0	0	(6)	278
Other changes	(1)	51	0	3	2	(102)	(47)
<b>At December 31, 2003</b>	<b>3,009</b>	<b>418</b>	<b>399</b>	<b>160</b>	<b>236</b>	<b>1,449</b>	<b>5,671</b>
<b>Of which: current</b>	<b>1,281</b>	<b>30</b>	<b>399</b>	<b>101</b>	<b>235</b>	<b>1,024</b>	<b>3,070</b>
Changes in the composition of the Group	1	3	0	0	0	(5)	(1)
Currency translation adjustments	(6)	(1)	2	(1)	(4)	(11)	(21)
Addition	1,889	204	306	261	152	688	3,500
Use	(1,353)	(29)	(197)	(32)	(162)	(534)	(2,307)
Reversal	(165)	(76)	(56)	(17)	(43)	(212)	(569)
Interest effect	13	15	0	0	0	24	52
Other changes	5	9	0	10	(9)	89	104
<b>At December 31, 2004</b>	<b>3,393</b>	<b>543</b>	<b>454</b>	<b>381</b>	<b>170</b>	<b>1,488</b>	<b>6,429</b>
<b>Of which: current</b>	<b>1,633</b>	<b>9</b>	<b>454</b>	<b>228</b>	<b>169</b>	<b>1,053</b>	<b>3,546</b>
Changes in the composition of the Group	3	0	0	0	(3)	3	3
Currency translation adjustments	20	8	0	3	6	31	68
Addition	2,514	181	0	78	143	838	3,754
Use	(2,028)	(40)	(143)	(171)	(150)	(545)	(3,077)
Reversal	(871)	(10)	0	(46)	(12)	(403)	(1,342)
Interest effect	27	33	0	0	0	12	72
Other changes	(45)	(73)	0	(7)	(1)	(124)	(250)
<b>At December 31, 2005</b>	<b>3,013</b>	<b>642</b>	<b>311</b>	<b>238</b>	<b>153</b>	<b>1,300</b>	<b>5,657</b>
<b>Of which: current</b>	<b>2,097</b>	<b>6</b>	<b>311</b>	<b>88</b>	<b>152</b>	<b>967</b>	<b>3,621</b>

**Provisions for employee expenses** include a variety of individual issues such as provisions for anniversary gifts, deferred compensation and allowances. Moreover, the expenses associated with human resources measures are also included here. The expenses are allocated to functional costs or to other operating expenses based on actual cost generation.

In the reporting year, a comprehensive, need-oriented staff restructuring program was launched. Under this program, a total of 32,000 employees in Germany are expected to leave the Group between 2006 and 2008. This includes about 7,000 employees who will be outplaced from Vivento as part of the deconsolidation of the business lines. While the other 25,000 employees will leave the Group, around 6,000 new employees are to be recruited, in particular

young experts and junior staff to support the roll-out of new technologies and the alignment of the Company toward better service and higher quality. Staff restructuring will also be pushed ahead by the creation of new jobs in new business areas, such as the construction of a high-speed fiber-optic network. The net reduction in jobs over the next three years will therefore be 19,000. The downsizing will generally be carried out in a socially considerate way, i.e., on a voluntary basis. Deutsche Telekom AG will stick to the agreement reached with the trade unions in 2004 to avoid compulsory redundancies.

Taking into account the staff-related measures introduced in previous years, the overall trend is as follows:

millions of €	Jan. 1, 2005	Addition	Use	Reversal	Other changes	Dec. 31, 2005
	234	978	(117)	(21)	(20)	1,054

Around EUR 0.6 billion of the total provisions for staff-related measures is attributable to the Broadband/Fixed Network business area, while around EUR 0.2 billion each is attributable to Business Customers and Group Headquarters & Shared Services.

The financing of the Civil Service Health Insurance Fund (PBeaKK), which has been closed to new members since January 1, 1995, was changed by the amendment to the Federal Posts and Telecommunications Agency Act, effective from December 1, 2005. As part of this change, the successor companies of the former Deutsche Bundespost set up a top-up fund in the amount of EUR 525 million to cover the costs of the closure. Assuming the payments to be made by the Civil Service Health Insurance Fund will rise while there is a cap on the insurance premiums, Deutsche Telekom is faced with a liability risk. A provision in the amount of approximately EUR 0.3 billion – based on an actuarial report – was recognized in response to this risk. Excess provisions of around EUR 0.8 billion were reversed.

**Restoration obligations** include the estimated costs for dismantling and removing an asset, and restoring the site on which it is located. The estimated costs are included in the costs of the relevant asset.

The provision for **investment risks** is related to the Toll Collect project. Negative earnings trends within the Toll Collect project resulted in an obligation to inject additional capital on the part of the shareholders due to the liability arising from the operating agreement and the joint venture agreement. To the extent that Deutsche Telekom AG could foresee that a future injection of additional capital would be necessary during the project, provisions were recognized for anticipated losses relating to the project. As of December 31, 2005, the provisions for investment risks arising from the Toll Collect project amounted to EUR 311 million.

The provision for **litigation risks** includes pending lawsuits for damages in connection with reimbursement claims relating to the sale of subscriber data.

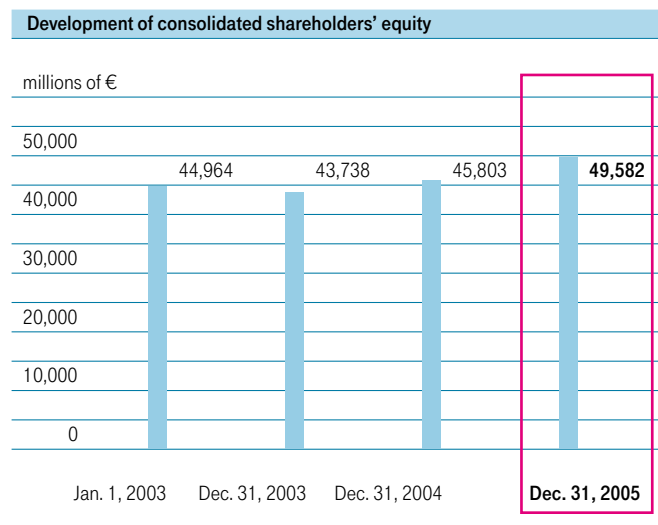
Provisions for **reimbursements** are established for discounts that are to be granted but had not yet been granted as of the reporting date.

**Other provisions** include provisions for environmental damage and risks, other taxes, warranties, advertising cost allowances, premiums and commissions as well as a variety of other items for which the individually recognized amounts are largely not material. The reversal of provisions in 2005 relate to environmental risks in the real estate area (EUR 0.1 billion) due to new real estate opinions based on more sophisticated procedures. Risks for other taxes of EUR 0.3 billion were also eliminated.

### 30 Shareholders' equity – Overview.

A detailed breakdown of the development of consolidated shareholders' equity for the years 2003, 2004, and 2005 is presented in a separate table before the notes to the consolidated financial statements.

The development of consolidated shareholders' equity from January 1, 2003 through December 31, 2005 is as follows:



1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

### 31 Issued capital.

As of December 31, 2005, the share capital of Deutsche Telekom AG totaled EUR 10,747 million and is composed of 4,198 million no par value registered ordinary shares. Each share entitles the holder to one vote. The capital stock figure stated does not include the capital increase of EUR 160,589,265.92 entered in the commercial register on September 12, 2005 for the purpose of the merger of T-Online International AG into Deutsche Telekom AG; this capital increase will not take effect until the merger takes effect.

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, 2005, the number of Deutsche Telekom shares reserved for the stock options granted to T-Mobile USA/Powertel employees and still outstanding was 13,848,284 units.

#### Authorized capital.

The Board of Management is authorized, with the approval of the Supervisory Board, to increase the share capital by up to a nominal amount of EUR 2,560,000,000 by issuing up to 1,000,000,000 no par value registered bearer shares against non-cash capital contributions in the period up to May 17, 2009. This authorization may be exercised in full or in one or several partial amounts. The Board of Management is also authorized, with the approval of the Supervisory Board, to exclude shareholders' preemptive rights and, with the approval of the Supervisory Board, to determine the rights accruing to the shares in future and the conditions for issuing shares. The Board of Management exercised this authority with the approval of the Supervisory Board in August 2005 and resolved to increase the capital stock in the amount of EUR 160,589,265.92 for the purpose of the merger of T-Online International AG into Deutsche Telekom AG. The implementation of this capital increase was entered in the commercial register on September 12, 2005; it will take effect together with the merger.

#### Contingent capital.

Following the authorizing resolution adopted by the shareholders' meeting on May 29, 2001, 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 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 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, to be converted into ordinary shares of Deutsche Telekom 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. The securities were issued at par with a coupon of 6.5 percent. Depending on share price performance, the conversion ratio may fluctuate between 3,417.1679 and 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. 6,834 conversion options granted with the convertible bond had been exercised as of December 31, 2005, which resulted in a corresponding decrease in contingent capital I.

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, and to members of the boards of management, members of management, and other executives, managers, and specialists of lower-tier Group entities 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. As of December 31, 2005, a total of 318,644 stock options granted as part of the 2001 Stock Option Plan had been exercised, reducing contingent capital II accordingly.

On the basis of the authorizing resolution adopted by the shareholders' meeting on May 25, 2000, in conjunction with the amending resolution by the shareholders' meeting on May 29, 2001, the share capital 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 the expiration date of July 20, 2005.

On the basis of the authorizing resolution of the shareholders' meeting on April 26, 2005, the share capital was contingently increased by an amount of EUR 600,000,000, composed of up to 234,375,000 no par value shares (**contingent capital IV**). The contingent capital increase will be implemented only to the extent that

- a) the holders and creditors of convertible bonds or warrants attached to bonds with warrants to be issued or guaranteed on or before April 25, 2010 by Deutsche Telekom or its direct or indirect majority shareholdings on the basis of the authorizing resolution adopted by the shareholders' meeting in April 2005, exercise their conversion or option rights; or
- b) those obligated under the convertible bonds or bonds with warrants issued or guaranteed by Deutsche Telekom or its direct or indirect majority shareholdings on or before April 25, 2010 on the basis of the authorizing resolution adopted by the shareholders' meeting in April 2005, fulfill their conversion or option obligation;
- c) and the contingent capital is needed to fulfill the bond terms.

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

### 32 Capital reserves.

The capital reserves of the Group primarily encompass the capital reserves of Deutsche Telekom AG. Differences result from the recognition at fair value of the Deutsche Telekom AG shares newly issued in the course of the acquisition of VoiceStream/Powertel instead of at their par value, which is permissible in the consolidated financial statements, and from the related treatment of the issuing costs. Furthermore, there were additional allocations to capital reserves in 2005 from the exercise of conversion rights by former shareholders of T-Mobile USA/Powertel.

### 33 Retained earnings including carryforwards.

Retained earnings were impacted especially by the appropriation of an amount of EUR 1.6 billion in net profit for the prior year, and by the payment of EUR 2.6 billion in dividends for the 2004 financial year.

### 34 Other comprehensive income.

Other comprehensive income improved year-on-year by around EUR 1.6 billion to EUR -1.1 billion. This reflects offsetting effects: positive exchange rate effects from the translation of foreign Group companies were offset by negative effects from changes in fair value associated with disposals – especially in connection with the sale of the remaining shares in MTS – that had previously been recognized directly in equity.

### 35 Treasury shares.

The authorization of the Board of Management to acquire treasury shares as adopted by the shareholders' meeting on May 18, 2004 was rescinded by resolution of the shareholders' meeting on April 26, 2005, effective as of the end of the shareholders' meeting on April 26, 2005. At the same time, the Board of Management of Deutsche Telekom was authorized to acquire up to 419,786,533 shares, i.e., up to almost 10 percent of the share capital – until October 25, 2006. The treasury shares acquired on the basis of this authorization may be resold on the stock exchange, used, with the approval of the Supervisory Board, to list the Company's shares on foreign stock exchanges, offered, with the approval of the Supervisory Board, to third parties in the course of business combinations or for the acquisition of companies, parts of companies, or equity interests in companies, cancelled with the approval of the Supervisory Board, tendered to shareholders on the basis of a subscription offer extended to all shareholders, or, with the approval of the Supervisory Board, disposed of in a manner other than on the stock exchange or tender to all shareholders, used, with the approval of the Supervisory Board, for the fulfillment of conversion or option rights/obligations arising from convertible bonds or bonds with warrants issued by Deutsche Telekom based on the authority resolved by the shareholders' meeting of April 26, 2005 or, with the approval of the Supervisory Board, used to service stock options to which holders of T-Online International AG stock options are entitled and which are to be granted to them as a result of the merger of T-Online International AG into Deutsche Telekom AG, in accordance with the merger agreement of March 8, 2005. The authorizations described above may be exercised once or repeatedly, individually or in combination, in full or in relation to lesser quantities of shares purchased.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

On the occasion of its 10th anniversary, Deutsche Telekom launched an Employee Stock Purchase Plan for the Group's employees. The shares required for this purpose were drawn from the holding of treasury shares. As a result, the number of treasury shares held decreased year-on-year by 774,820 to 1,896,008 shares. As of December 31, 2005, these holdings break down as follows:

1996 Employee Stock Purchase Plan	459,900
Decrease as a result of the 2005 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)
Decrease as a result of the 2005 Employee Stock Purchase Plan	(314,920)
Shares acquired from KfW Bankengruppe, not yet issued	14,630
	<b>1,896,008</b>

The shares are recorded on the balance sheet at acquisition costs.

Treasury shares account for a total of 0.05 percent of the capital stock. The treasury shares have an imputed value of around EUR 5 million.

All treasury shares are held by Deutsche Telekom AG.

### 36 Minority interests.

Minority interests declined year-on-year by about EUR 0.9 billion to EUR 3.5 billion. This was mainly attributable to the acquisition of additional shares of T-Online International AG prior to the process of merging the entity into Deutsche Telekom AG.



## Other disclosures.

### 37 Notes to the consolidated cash flow statement.

#### Net cash from operating activities.

In the reporting period, net cash from operating activities totaled EUR 15.0 billion, a decrease of EUR 1.7 billion compared with the prior year. Apart from the change in working capital, this is mainly attributable to tax payments, whereas tax refunds were recorded in the prior year. On the other hand, net interest payments decreased.

#### Net cash used in investing activities.

Net cash used in investing activities increased to EUR 10.1 billion as compared with EUR 4.5 billion in the prior-year period. The main contributing factors were the increase of EUR 2.9 billion in cash outflows for intangible assets and property, plant and equipment, as well as the increase of EUR 1.6 billion in cash outflows for investments in fully consolidated subsidiaries. This includes in particular investments of EUR 1.7 billion by T-Mobile USA in connection with the winding up of the U.S. mobile communications joint venture, as well as other investments in the Mobile Communications business area and the acquisition of additional shares in T-Online for EUR 1.8 billion. The sale of shares in the Russian mobile communications operator MTS for EUR 1.2 billion had a positive impact on net cash used in investing activities.

#### Net cash used in financing activities.

In the reporting period, cash flow used in financing activities decreased year-on-year by EUR 4.8 billion to EUR 8.0 billion. The main reason for this is an increase of EUR 8.2 billion in the issuance of current as well as non-current financial liabilities, partly offset by a EUR 0.9 billion rise in short-term debt repayments. Moreover, cash used in financing activities was negatively impacted by the EUR 2.5 billion rise in dividend payments (to shareholders of Deutsche Telekom and minority shareholders in the Eastern European telecommunications companies).

### 38 Segment reporting.

Deutsche Telekom reports on the Broadband/Fixed Network, Mobile Communications, Business Customers, and Group Headquarters & Shared Services in the primary reporting format. These segments for which reporting is required are strategic business areas which differ in their products and services, their production processes, the profile of their customers, their sales channels and their regulatory environment.

The **Broadband/Fixed Network** strategic business area consists of the business units T-Com and T-Online and provides consumers and very small business customers with traditional fixed-network services with modern infrastructures, broadband Internet access, and customer-oriented multimedia services on the basis of attractive Internet content. They also do business with resellers (wholesale, including resale, i.e., the sale of DSL products to other providers and local loop operators) and with national and international network operators (carrier services business) and provide upstream services for other strategic business areas of Deutsche Telekom.

The **Mobile Communications** strategic business area combines all activities of T-Mobile International AG & Co. KG. This business area now operates under the common brand T-Mobile in almost all the markets in which it is present. T-Mobile has branch offices in Germany, the United Kingdom, Austria, the Czech Republic, the Netherlands and the United States. It also has a minority interest in Poland. As a result of the strategic realignment, Deutsche Telekom's mobile communications subsidiaries in Hungary, Slovakia, Croatia, Macedonia, and Montenegro have been allocated to the Mobile Communications strategic business area since January 1, 2005. All companies offer digital mobile voice and data services to consumers and business customers. T-Mobile also sells hardware, such as mobile phones and other terminal devices, in connection with the services offered. These services and devices are sold to consumers, business customers, and resellers – and in some cases also to companies that buy network services and market them independently to third parties (so-called mobile virtual network operators, MVNOs).

The **Business Customers** strategic business area consists of two business units. T-Systems Enterprise Services (ES) serves some 60 multinational groups and large public institutions, and T-Systems Business Services (BS) serves some 160,000 large and medium-sized business customers. Since 2005, Business Customers has also been serving small and medium-sized enterprises (SMEs), which were previously allocated to T-Com. The planning, roll-out, and operation of the service platform for SMEs will also be managed by T-Systems Business Services in future.

Group units and subsidiaries that are not directly allocated to one of the strategic business areas are included in **Group Headquarters & Shared Services**. Group Headquarters is responsible for strategic management functions across the business areas. All other operating functions not directly related to the strategic business areas' core business are now the responsibility of Shared Services. These include the real estate business, DeTeFleetServices GmbH – a full-service fleet management and mobility services provider – and Vivento. The former Billing & Collection shared service has been managed within the Business Customers strategic business area under the T-Systems brand name since 2005.

The measurement methods used for Group segment reporting correspond to the accounting policies used in the consolidated financial statements under IFRS. Deutsche Telekom evaluates the segments' performance based on their profit/loss from operations (EBIT) and other factors. The share of profit/loss of associates and joint ventures accounted for using the equity method is reported separately. Depreciation and amortization are shown separately from impairment losses.

Revenues generated and goods and services exchanged between the segments are generally calculated on the basis of market prices.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

Segment assets and liabilities include all assets and liabilities that are attributable to operations and whose positive or negative results determine profit/loss from operations (EBIT). Segment assets include in particular intangible assets; property, plant and equipment; trade and other receivables; and inventories. Segment liabilities include in particular trade and other payables, and significant provisions. Segment investments include additions to intangible assets and property, plant and equipment.

Where entities accounted for using the equity method are directly allocable to a segment, their share of profit/loss after income taxes and their carrying amount are reported in this segment's accounts.

Segment assets, segment investments and net revenues are also shown by geographical region in the secondary reporting format. These are the main regions in which Deutsche Telekom is active: Germany, Europe (excluding Germany), North America and Other countries. The Europe segment (excluding Germany) covers the entire European Union and the other countries in Europe. The North America region comprises in particular the United States and Canada. The Other countries segment includes all countries that are not Germany or in Europe (excluding Germany) or North America. Assignment of the segment assets and segment investments to the regions is generally done based on the location of the relevant asset while net revenues are assigned based on the location of the relevant customers.

millions of €		Net revenue	Revenue between segments	Total revenue	Profit (loss) from operations (EBIT)	Finance costs	Share of (profit) loss of associates and joint ventures accounted for using the equity method
<b>Broadband/Fixed Network</b>	<b>2005</b>	<b>21,731</b>	<b>4,304</b>	<b>26,035</b>	<b>5,142</b>	<b>269</b>	<b>53</b>
	2004	22,397	4,615	27,012	5,551	227	25
	2003	23,161	5,098	28,259	5,587	(209)	45
<b>Mobile Communications</b>	<b>2005</b>	<b>28,531</b>	<b>921</b>	<b>29,452</b>	<b>3,005</b>	<b>(624)</b>	<b>133</b>
	2004	25,450	1,077	26,527	1,524	(1,042)	1,177
	2003	22,933	1,394	24,327	3,440	(1,054)	546
<b>Business Customers</b>	<b>2005</b>	<b>9,058</b>	<b>3,792</b>	<b>12,850</b>	<b>409</b>	<b>(62)</b>	<b>3</b>
	2004	9,246	3,716	12,962	554	(49)	(298)
	2003	9,267	3,670	12,937	459	(48)	(417)
<b>Group Headquarters &amp; Shared Services</b>	<b>2005</b>	<b>284</b>	<b>3,221</b>	<b>3,505</b>	<b>(840)</b>	<b>(1,940)</b>	<b>(1)</b>
	2004	260	3,266	3,526	(1,441)	(2,517)	27
	2003	235	3,036	3,271	(1,167)	(2,708)	181
<b>Reconciliation</b>	<b>2005</b>	<b>-</b>	<b>(12,238)</b>	<b>(12,238)</b>	<b>(94)</b>	<b>(44)</b>	<b>26</b>
	2004	-	(12,674)	(12,674)	77	101	14
	2003	-	(13,198)	(13,198)	30	430	1
<b>Group</b>	<b>2005</b>	<b>59,604</b>	<b>-</b>	<b>59,604</b>	<b>7,622</b>	<b>(2,401)</b>	<b>214</b>
	2004	57,353	-	57,353	6,265	(3,280)	945
	2003	55,596	-	55,596	8,349	(3,589)	356

	Segment assets	Segment liabilities	Segment investments	Investments accounted for using the equity method	Depreciation and amortization	Impairment losses	Employees <sup>1</sup>
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	
<b>Broadband/Fixed Network</b> 2005	27,757	6,683	3,430	110	(4,026)	(8)	112,872
2004	28,266	7,646	2,088	269	(4,199)	(200)	115,292
2003	31,177	7,129	2,065	229	(4,641)	(98)	128,065
<b>Mobile Communications</b> 2005	64,984	7,446	6,288	1,599	(4,745)	(1,951)	49,479
2004	59,359	6,451	3,014	2,260	(3,379)	(3,564)	47,417
2003	64,070	6,686	3,831	2,084	(2,806)	(962)	44,899
<b>Business Customers</b> 2005	8,720	3,764	966	18	(885)	(11)	51,744
2004	8,849	3,686	889	8	(953)	(2)	51,978
2003	9,028	3,673	938	2	(1,074)	0	54,390
<b>Group Headquarters &amp; Shared Services</b> 2005	11,125	5,494	600	3	(695)	(233)	29,931
2004	12,074	5,508	673	67	(784)	(101)	32,872
2003	13,236	5,059	862	18	(683)	(88)	23,909
<b>Reconciliation</b> 2005	(1,675)	(1,597)	(184)	95	60	(3)	-
2004	(1,757)	(2,154)	(85)	63	56	(1)	-
2003	(2,593)	(1,987)	(126)	49	48	(1)	-
<b>Group</b> 2005	110,911	21,790	11,100	1,825	(10,291)	(2,206)	244,026
2004	106,791	21,137	6,579	2,667	(9,259)	(3,868)	247,559
2003	114,918	20,560	7,570	2,382	(9,156)	(1,149)	251,263

<sup>1</sup> Annual average.

millions of €	Net cash from (used in) operating activities	Net cash from (used in) investing activities	Of which: cash outflows for investments in intangible assets and property, plant and equipment	Net cash from (used in) financing activities
<b>Broadband/Fixed Network</b> 2005	9,289	(2,025)	(3,274)	(5,903)
2004	11,600	(2,021)	(2,226)	(5,797)
2003	11,014	(1,183)	(2,225)	(1,819)
<b>Mobile Communications</b> 2005	8,117	(4,537)	(5,669)	(3,957)
2004	7,543	(2,227)	(3,197)	(2,998)
2003	6,372	(2,515)	(3,323)	(3,851)
<b>Business Customers</b> 2005	1,420	(951)	(786)	(824)
2004	1,400	(921)	(763)	(769)
2003	1,931	(752)	(736)	(2,386)
<b>Group Headquarters &amp; Shared Services</b> 2005	4,014	(1,414)	(456)	(6,589)
2004	3,652	1,135	(518)	(11,161)
2003	4,443	(2,187)	(462)	(2,041)
<b>Reconciliation</b> 2005	(7,842)	(1,131)	50	9,234
2004	(7,475)	(467)	67	7,844
2003	(8,707)	4,388	280	4,302
<b>Group</b> 2005	14,998	(10,058)	(10,135)	(8,039)
2004	16,720	(4,501)	(6,637)	(12,881)
2003	15,053	(2,249)	(6,466)	(5,795)

## Reconciliation of profit from operations:

millions of €	2005	2004	2003
<b>Profit from operations (EBIT)</b>	<b>7,622</b>	<b>6,265</b>	<b>8,349</b>
Loss from financial activities	(1,410)	(2,696)	(4,123)
Income taxes	(196)	(1,552)	(1,709)
<b>Profit after income taxes</b>	<b>6,016</b>	<b>2,017</b>	<b>2,517</b>

## Reconciliation of segment assets and segment liabilities:

millions of €	2005	2004	2003
<b>Segment assets</b>	<b>110,911</b>	<b>106,791</b>	<b>114,918</b>
Cash and cash equivalents	4,975	8,005	8,684
Current recoverable income taxes	613	317	1,025
Other current financial assets (excluding receivables from suppliers)	1,225	1,150	1,826
Investments accounted for using the equity method	1,825	2,667	2,382
Other non-current financial assets (excluding receivables from suppliers)	779	1,636	1,368
Deferred tax assets	7,552	4,724	5,855
<b>Assets in accordance with the consolidated balance sheet</b>	<b>127,880</b>	<b>125,290</b>	<b>136,058</b>
<b>Segment liabilities</b>	<b>21,790</b>	<b>21,137</b>	<b>20,560</b>
Current financial liabilities	10,139	12,385	17,095
Income tax liabilities	1,358	1,049	466
Non-current financial liabilities	36,347	38,498	46,776
Deferred tax liabilities	8,331	5,948	7,024
Other liabilities	333	470	399
<b>Liabilities in accordance with the consolidated balance sheet</b>	<b>78,298</b>	<b>79,487</b>	<b>92,320</b>

## Segments by geographic area

millions of €	Segment assets			Segment investments			Net revenue		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Germany	53,517	55,843	60,769	4,618	3,431	3,980	34,183	34,741	34,365
Europe (excluding Germany)	24,228	25,865	26,739	1,983	1,756	1,546	13,272	12,952	13,085
North America	33,116	25,035	27,275	4,488	1,373	2,028	11,858	9,301	7,687
Other	50	48	135	11	19	16	291	359	459
<b>Group</b>	<b>110,911</b>	<b>106,791</b>	<b>114,918</b>	<b>11,100</b>	<b>6,579</b>	<b>7,570</b>	<b>59,604</b>	<b>57,353</b>	<b>55,596</b>

**39 Contingencies and other financial obligations.**

<b>Contingencies</b>			
millions of €	<b>Dec. 31, 2005</b>	Dec. 31, 2004	Dec. 31, 2003
Contingent liabilities relating to warranty agreements	6	9	19
Contingent liabilities relating to guarantees and bills issued	36	49	31
Other contingent liabilities	6	10	54
	<b>48</b>	<b>68</b>	<b>104</b>

Deutsche Telekom is a party to a number of lawsuits and other proceedings arising from the general conduct of its business. Litigation provisions include the costs of legal counsel services and any probable losses. Deutsche Telekom

does not believe that any additional costs arising from legal counsel services or the results of proceedings will have a material adverse effect on the financial position and results of operations of the Group.

<b>Other financial obligations</b>			
millions of €	<b>Dec. 31, 2005</b>	Dec. 31, 2004	Dec. 31, 2003
Obligations arising from rental agreements and leases, including non-cancelable operating leases	20,335	15,157	14,964
Present value of payments to special pension fund	7,900	8,200	9,000
Purchase commitments and similar obligations	3,507	3,226	2,726
Purchase commitments for interests in other companies	1,802	206	273
Miscellaneous other obligations	144	1	5
	<b>33,688</b>	<b>26,790</b>	<b>26,968</b>

The increase in obligations arising from rental and lease agreements, including non-cancelable operating leases, over the previous year resulted primarily from additional leasing obligations undertaken by T-Mobile USA in connection with the winding up of the U.S. mobile communications joint venture and the associated takeover of network infrastructures in California, Nevada and New York. The increase is also attributable to the exchange rate trend of the U.S. dollar.

The present value of payments to be made by Deutsche Telekom to the special pension fund or its successors pursuant to the provisions of the PTNeuOG amounted to EUR 7.9 billion at December 31, 2005 (see also Note (28) "Provisions for pensions and similar obligations").

The increase in purchase commitments was largely the result of higher obligations for property, plant and equipment, and intangible assets on the part of Deutsche Telekom AG as well as obligations arising from agreements for structured purchasing of power at the newly founded PASM Power and Air Condition Solution Management GmbH & Co. KG and for UMTS equipment, expansion of the GSM network capacity and maintenance at T-Mobile Hrvatska. On the other hand, purchase commitments were down at T-Mobile USA due to the expiration of long-term agreements with mobile phone providers and the fact that orders are now only made at short notice.

The amount of contractual commitments to acquire intangible assets totaled EUR 0.2 billion at the end of 2005 (2004: EUR 0.1 billion; 2003: EUR 0.1 billion). Obligations to acquire property, plant and equipment amounted to EUR 0.8 billion at December 31, 2005 (December 31, 2004: EUR 0.7 billion; December 31, 2003: EUR 0.5 billion).

Purchase commitments for interests in other companies in 2005 relate in particular to the acquisition of tele.ring Telekom Service GmbH, Vienna, and gedas AG.

Under the agreement signed by T-Mobile Austria and Western Wireless International Austria Corporation, Little Rock, United States, on August 10, 2005, the T-Mobile group is obligated to acquire tele.ring Telekom Service GmbH, Vienna, for EUR 1.3 billion upon approval by the Austria telecommunications agency and the European mergers authority.

On December 15, 2005, T-Systems entered into an agreement with Volkswagen AG to buy its IT arm gedas AG, thus securing a master agreement with the VW Group for IT services valued at EUR 2.5 billion over seven years. The purchase price is around EUR 0.4 billion. The cartel office's approval of the takeover is still pending.

The EUR 0.1 billion change in miscellaneous other obligations is almost exclusively attributable to new full power contracts entered into by PASM. PASM is responsible for procuring, provisioning and delivering power, including the associated support services, within the Deutsche Telekom Group.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

#### 40 Disclosures on leases.

##### Deutsche Telekom as lessee.

##### Finance leases.

Beneficial ownership of leased assets is attributed to the lessee provided that this is the party to which all the substantial risks and rewards incidental to

ownership of the asset are transferred. The finance lease transactions of the Deutsche Telekom Group are mainly related to long-term rental and lease agreements for office buildings. In this context, the lease term is usually up to 25 years. The agreements include extension and purchase options. The following table shows the net carrying amounts of leased assets capitalized in connection with a finance lease as of the reporting date.

millions of €	Dec. 31, 2005	Of which: sale and leaseback	Dec. 31, 2004	Of which: sale and leaseback	Dec. 31, 2003	Of which: sale and leaseback
Intangible assets	4	-	6	-	-	-
Land and buildings	1,318	788	1,390	822	1,330	644
Technical equipment and machinery	246	-	314	1	342	12
Other equipment, operating and office equipment	36	29	43	38	51	46
<b>Net carrying amounts of leased assets capitalized</b>	<b>1,604</b>	<b>817</b>	<b>1,753</b>	<b>861</b>	<b>1,723</b>	<b>702</b>

Payment obligations arising from finance leases as of the reporting date are recognized as liabilities at the present value of future lease payments. In subsequent years, the minimum lease payments comprising the present value and interest component must be paid to the lessor.

The following table provides a breakdown of these amounts:

##### December 31, 2005

millions of €	Minimum lease payments		Interest component		Present values	
	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback
Maturity						
Within 1 year	338	105	144	74	194	31
In 1 to 3 years	576	231	298	141	278	90
In 3 to 5 years	352	203	209	130	143	73
After 5 years	2,054	1,270	813	551	1,241	719
<b>Total</b>	<b>3,320</b>	<b>1,809</b>	<b>1,464</b>	<b>896</b>	<b>1,856</b>	<b>913</b>

##### December 31, 2004

millions of €	Minimum lease payments		Interest component		Present values	
	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback
Maturity						
Within 1 year	334	101	158	74	176	27
In 1 to 3 years	575	214	232	141	343	73
In 3 to 5 years	355	210	209	132	146	78
After 5 years	2,215	1,353	909	607	1,306	746
<b>Total</b>	<b>3,479</b>	<b>1,878</b>	<b>1,508</b>	<b>954</b>	<b>1,971</b>	<b>924</b>

**December 31, 2003**

millions of €	Minimum lease payments		Interest component		Present values	
	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback
Within 1 year	394	92	155	62	239	30
In 1 to 3 years	558	161	241	123	317	38
In 3 to 5 years	333	185	176	116	157	69
After 5 years	2,222	1,239	988	609	1,234	630
<b>Total</b>	<b>3,507</b>	<b>1,677</b>	<b>1,560</b>	<b>910</b>	<b>1,947</b>	<b>767</b>

**Operating leases.**

Beneficial ownership of a lease is attributed to the lessor if this is the party to which all the substantial risks and rewards incidental to ownership of the asset are transferred. Deutsche Telekom's obligations arising from non-cancelable operating leases are mainly related to long-term rental or lease agreements for network infrastructure, radio towers and real estate. Some leases include extension options and provide for stepped rents which are accounted for on a straight-line basis. The operating lease expenses recognized in profit or loss amount to EUR 1.6 billion as of the end of 2005 (2004: EUR 1.4 billion; 2003: EUR 1.5 billion). The following table provides a breakdown of the amounts of future operating lease liabilities:

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Within 1 year	1,738	1,419	1,423
In 1 to 3 years	3,195	2,393	2,409
In 3 to 5 years	2,665	2,045	1,846
After 5 years	12,737	9,300	9,286
<b>Total</b>	<b>20,335</b>	<b>15,157</b>	<b>14,964</b>

The increase in leasing obligations in 2005 is primarily the result of obligations undertaken by T-Mobile USA, due to the winding up of the U.S. mobile communications joint venture, which resulted in an increase in obligations in connection with the network infrastructure in California, Nevada and New York.

**Deutsche Telekom as lessor.****Finance leases.**

Deutsche Telekom acts as lessor in connection with finance leases, which mainly relate to the rental of routers. The leased assets are recognized at the present value of future minimum lease payments. The present value of minimum lease payments from finance leases is determined as shown in the following table:

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Total gross investment	349	170	52
Unearned finance income	(36)	(16)	(7)
<b>Net investment in the lease</b>	<b>313</b>	<b>154</b>	<b>45</b>
Present value of the residual value	-	-	-
<b>Present value of the minimum lease payments</b>	<b>313</b>	<b>154</b>	<b>45</b>

Total gross investment in leases and present values of minimum lease payments receivable at the respective balance sheet dates are disclosed in the summary below:

millions of €	Dec. 31, 2005		Dec. 31, 2004		Dec. 31, 2003	
	Total gross investment	Present value of minimum lease payments	Total gross investment	Present value of minimum lease payments	Total gross investment	Present value of minimum lease payments
Maturity						
Within 1 year	162	143	94	85	47	41
In 1 to 3 years	156	141	69	62	-	-
In 3 to 5 years	29	27	7	7	5	4
After 5 years	2	2	-	-	-	-
<b>Total</b>	<b>349</b>	<b>313</b>	<b>170</b>	<b>154</b>	<b>52</b>	<b>45</b>

Accumulated allowance for uncollectible minimum lease payments receivable was not recorded.

#### Operating leases.

Deutsche Telekom acts as lessor in connection with operating leases, which mainly relate to the rental of building space and radio towers. The leases have an average term of 8 years. The following table provides a breakdown of minimum lease payments arising from non-cancelable operating leases. The figures for the year under review include payments from sub-letting arrangements amounting to approximately EUR 50 million.

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Maturity			
Within 1 year	147	130	117
In 1 to 3 years	167	131	119
In 3 to 5 years	108	84	58
After 5 years	257	189	136
<b>Total</b>	<b>679</b>	<b>534</b>	<b>430</b>



**41 Stock-based compensation plans.****Stock option plans.**

The following table provides an overview of all existing stock option plans:

Entity	Plan	Year of issuance	Stock options granted (in thousands)	Lock-up period (in years)	Contractual term (in years)	Weighted exercise price	Share price at grant date	Maximum price for SARs	Notes	Classification/ accounting treatment
<b>Deutsche Telekom AG</b>	SOP 2000	2000	1,024	2	5	€62.69	€60.40		Expired in 2005	Equity-settled
	SOP 2001	2001	8,221	2-3	10	€30.00	€19.10			Equity-settled
		2002	3,928	2-3	10	€12.36	€10.30			Equity-settled
	SARs	2001	165	2-3	10	€30.00	€19.10	€50.00		Cash-settled
2002		3	2-3	10	€12.36	€10.30	€20.60		Cash-settled	
<b>T-Online International AG</b>	SOP 2000	2000	214	2	5	€37.65	€32.87		Expired in 2005	Equity-settled
	SOP 2001	2001	2,369	2-3	10	€10.35	€8.28			Equity-settled
		2002	2,067	2-6	10	€10.26	€8.21			Equity-settled
	Ya.com	2000	1,864	-	-	-	-		Expired in 2003	Equity-settled
<b>T-Mobile USA</b>	Acquired SOPs	2001	24,278	up to 4	max. 10	\$ 15.36				Equity-settled
		2002	5,964	up to 4	max. 10	\$ 13.35				Equity-settled
		2003	865	up to 4	max. 10	\$ 12.86				Equity-settled
	Powertel	2001	5,323	up to 4	max. 10	\$ 20.04				Equity-settled
	T-Mobile USA/ Powertel	2004	230	up to 4	max. 10	\$ 19.64			Plans merged	Equity-settled
<b>Magyar Telekom</b>	SOP 2002	2002	3,964	1-3	5	HUF 933 or HUF 950	HUF 833			Equity-settled

No new stock option plans have been issued since 2003. So far no expenses have been incurred for stock option plans.

### Supplemental disclosures on the individual plans.

#### Deutsche Telekom AG.

##### 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 entities 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 Xetra closing price of Deutsche Telekom's common stock quoted at the Frankfurt Stock Exchange on the grant date was EUR 60.40 per share. The options expired on July 20, 2005. The fair value of the options was EUR 25.08 at the time they were granted.

The options would have been exercisable at the end of a two-year lock-up period if and when the absolute and relative performance targets had both been exceeded at least once in the period from July 20, 2002 to July 19, 2005.

Since neither of the performance targets was achieved during the term of the 2000 Stock Option Plan, the options granted were forfeited on July 20, 2005 without compensation.

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

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

50 percent of the options granted to each beneficiary may only be exercised following the end of a lock-up period of two years, starting from the day on which the options are granted. The remaining 50 percent 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 percent of the reference price. The reference price corresponds to the non-weighted average closing prices of Deutsche Telekom shares in Xetra trading at the Frankfurt Stock Exchange (Deutsche Börse AG; or a successor system to the Xetra system) over the last 30 trading days before the grant of the options. If the average closing price calculated by this method is lower than the closing price of Deutsche Telekom shares in Xetra trading at the Frankfurt Stock Exchange (Deutsche Börse AG; 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 except in the event of death, in which case the options are transferred to the beneficiary's heirs.

Deutsche Telekom AG reserved the right, at its election, to settle the options through the payment of a cash amount (stock appreciation rights – SAR) 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, 2005, 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 Xetra closing price of Deutsche Telekom's common stock quoted at the Frankfurt Stock Exchange on the grant date was EUR 19.10 per share. The reference price, based upon which the exercise price was calculated, was EUR 25.00. The term of the options runs until August 12, 2011. At the time they were granted, the options of the 2001 and 2002 tranches were worth EUR 4.87 and EUR 3.79 respectively.

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 Xetra closing price of Deutsche Telekom's common stock quoted at the Frankfurt Stock Exchange on the grant date, based upon which the exercise price was calculated, was EUR 10.30 per share. The term of the options runs until July 14, 2012.

As of December 31, 2005, the weighted average remaining contractual life of all outstanding options from the 2001 Stock Option Plan was around 5.9 years.

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

At Deutsche Telekom AG, 8,525 SARs were additionally forfeited in the year under review by employees in countries in which it was not legally possible to issue stock options. As of December 31, 2005, 150,785 of the SARs granted in those countries in 2001 and 2002 were still outstanding.

The table below shows the following changes in outstanding options issued by Deutsche Telekom AG:

<b>Deutsche Telekom AG</b>						
	<b>SOP 2000</b>		<b>SOP 2001</b>		<b>SARs</b>	
	Stock options (in thousands)	Weighted average exercise price (€)	Stock options (in thousands)	Weighted average exercise price (€)	SARs	Weighted average exercise price (€)
<b>Stock options outstanding at Jan. 1, 2003</b>	<b>994</b>	<b>62.69</b>	<b>11,964</b>	<b>24.22</b>	<b>167,920</b>	<b>29.73</b>
Granted	0	-	0	-	-	-
Forfeited	7	62.69	196	25.89	5,360	30.00
Exercised	0	-	0	-	-	-
<b>Stock options outstanding at Dec. 31, 2003</b>	<b>987</b>	<b>62.69</b>	<b>11,768</b>	<b>24.25</b>	<b>162,560</b>	<b>29.72</b>
Of which: exercisable	0	-	3,964	30.00	79,976	30.00
Granted	0	-	0	-	0	-
Forfeited	132	62.69	223	25.18	3,250	30.00
Exercised	0	-	101	12.39	0	-
<b>Stock options outstanding at Dec. 31, 2004</b>	<b>855</b>	<b>62.69</b>	<b>11,444</b>	<b>24.36</b>	<b>159,310</b>	<b>29.71</b>
Of which: exercisable	0	-	9,564	26.71	158,020	29.86
Granted	0	-	0	-	0	-
Forfeited	855	62.69	131	24.11	8,525	28.57
Exercised	0	-	217	12.36	0	-
<b>Stock options outstanding at Dec. 31, 2005</b>	<b>Expired</b>		<b>11,096</b>	<b>24.59</b>	<b>150,785</b>	<b>29.78</b>
Of which: exercisable			11,096	24.59	150,785	29.78
<b>Supplemental information for 2005</b>						
Remaining contractual life of options outstanding at end of period (years, weighted)	0		5.9		5.6	
Expected remaining life of options outstanding at end of period (years, weighted)	0		5.9		5.6	

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

The characteristics of the options outstanding and/or exercisable at the reporting date are as follows:

#### Deutsche Telekom AG at December 31, 2003

Range of exercise prices (€)	Options outstanding as of Dec. 31, 2003			Options exercisable as of Dec. 31, 2003	
	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (€)	Number (in thousands)	Weighted average exercise price (€)
10-20	3,839	8.5	12.36	-	-
21-40	7,929	7.6	30.00	3,964	30.00
<b>10-40</b>	<b>11,768</b>	<b>7.9</b>	<b>24.25</b>	<b>3,964</b>	<b>30.00</b>

#### Deutsche Telekom AG at December 31, 2004

Range of exercise prices (€)	Options outstanding as of Dec. 31, 2004			Options exercisable as of Dec. 31, 2004	
	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (€)	Number (in thousands)	Weighted average exercise price (€)
10-20	3,662	7.5	12.36	1,782	12.36
21-40	7,782	6.6	30.00	7,782	30.00
<b>10-40</b>	<b>11,444</b>	<b>6.9</b>	<b>24.36</b>	<b>9,564</b>	<b>26.71</b>

#### Deutsche Telekom AG at December 31, 2005

Range of exercise prices (€)	Options outstanding as of Dec. 31, 2005			Options exercisable as of Dec. 31, 2005	
	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (€)	Number (in thousands)	Weighted average exercise price (€)
10-20	3,401	6.5	12.36	3,401	12.36
21-40	7,695	5.6	30.00	7,695	30.00
<b>10-40</b>	<b>11,096</b>	<b>5.9</b>	<b>24.59</b>	<b>11,096</b>	<b>24.59</b>

#### T-Online International AG. 2000 Stock Option Plan.

In 2000, T-Online International granted stock options to certain employees of T-Online International AG for the first time. On July 6, 2000, T-Online used its authority under the shareholders' resolution adopted in March 2000 to grant 214,473 options for the purchase of 214,473 shares to participants at an exercise price of EUR 37.65. The Xetra closing price of T-Online International AG's common stock quoted at the Frankfurt Stock Exchange on the grant date was EUR 32.87 per share. The options expired on July 6, 2005.

The options would have been exercisable at the end of a two-year lock-up period if and when the absolute and relative performance targets had both been exceeded at least once in the period from July 7, 2002 to July 6, 2005.

Since neither of the performance targets was achieved during the term of the 2000 Stock Option Plan, the options granted were forfeited on July 6, 2005.

#### 2001 Stock Option Plan.

The shareholders' meeting on May 30, 2001 contingently increased the capital stock of T-Online International AG by EUR 51,000,000 for the 2001 Stock Option Plan and authorized the Supervisory Board to issue preemptive rights to the members of the Board of Management of T-Online International AG. It also authorized the Board of Management to issue preemptive rights to managers below the Board of Management. These include directors, senior managers, selected specialists at T-Online International AG, and members of the board of management, members of the management and other directors, senior managers, and selected specialists at Group entities within and outside Germany in which T-Online International AG directly or indirectly holds a majority shareholding.

The Stock Option Plan is structured as a premium-priced plan. The exercise price is payable upon exercise of the options. The exercise price per share is 125 percent of the reference price. The reference price corresponds to the non-weighted average closing price of T-Online shares in Xetra trading at the Frankfurt Stock Exchange (Deutsche Börse AG; or a successor system to the Xetra system) over the last 30 trading days before the day on which the options are granted. If the average price calculated using this method is lower than the closing price of T-Online shares in Xetra trading at the Frankfurt Stock Exchange (Deutsche Börse AG; or in a successor system) on the grant date of the options, this closing price shall be taken as the reference price.

Preemptive rights were issued in annual tranches for the years 2001 and 2002.

The exercise rules specify that 50 percent of the options granted at a given date may only be exercised after a two-year lock-up – calculated from the grant date of the options. The remaining 50 percent of options granted at a given date may only be exercised three years after the day the options are granted. The options have a life of ten years from the date on which they are granted, meaning that the options granted in the first tranche in 2001 and the options granted in the second tranche in 2002 are forfeited without replacement or compensation at the latest on August 12, 2011 and July 14, 2012, respectively. As of December 31, 2005, the weighted average remaining contractual life of the outstanding options from the 2001 Stock Option Plan was 6 years.

2,369,655 options were granted in the first tranche on August 13, 2001 on the basis of the resolution adopted by the shareholders' meeting in May 2001. A further 2,067,460 options were granted in the second tranche on July 15, 2002. The exercise price – i.e., the performance target – is EUR 10.35 for the first tranche (125 percent of the reference price of EUR 8.28) and EUR 10.26 for the second tranche (125 percent of the reference price of EUR 8.21).

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

#### **Ya.com Stock Option Plan.**

On the occasion of the acquisition of the shares in Ya.com Internet Factory S.A. Madrid in 2000, employees of Ya.com were granted 1,863,886 options for T-Online shares, for which the share capital of T-Online was increased by EUR 1,863,886 in accordance with a resolution adopted on September 22, 2000. In its function as conversion trustee, Dresdner Bank holds 430,000 forfeited options that may be sold at the instruction of T-Online International AG. As the clearance of the forfeited T-Online shares is regarded as a financial payment by Ya.com shareholders to T-Online International AG as a result of the issue of T-Online shares, the proceeds of the sale will be allocated upon sale as a premium to capital reserves.

The opportunity to exercise the options expired on December 31, 2003.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
**41**  
42  
43  
44  
45  
46  
47

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

<b>T-Online International AG</b>						
	<b>SOP 2000</b>		<b>SOP 2001</b>		<b>Ya.com SOP</b>	
	Stock options (in thousands)	Weighted average exercise price (€)	Stock options (in thousands)	Weighted average exercise price (€)	SARs (in thousands)	Weighted average exercise price (€)
<b>Stock options outstanding at Jan. 1, 2003</b>	<b>209</b>	<b>37.65</b>	<b>4,415</b>	<b>10.31</b>	<b>366</b>	<b>0.00</b>
Granted	0	-	0	-	0	-
Forfeited	88	37.65	204	10.33	3	0.00
Exercised	0	-	26	10.35	363	0.00
<b>Stock options outstanding at Dec. 31, 2003</b>	<b>121</b>	<b>37.65</b>	<b>4,185</b>	<b>10.31</b>	<b>0</b>	<b>-</b>
Of which: exercisable	0	-	1,062	10.35	0	-
Granted	0	-	0	-	Expired	
Forfeited	4	37.65	311	10.32		
Exercised	0	-	6	10.35		
<b>Stock options outstanding at Dec. 31, 2004</b>	<b>117</b>	<b>37.65</b>	<b>3,868</b>	<b>10.31</b>		
Of which: exercisable	0	-	2,893	10.32		
Granted	0	-	0	-		
Forfeited	117	37.65	317	10.31		
Exercised	0	-	0	-		
<b>Stock options outstanding at Dec. 31, 2005</b>	<b>Expired</b>		<b>3,551</b>	<b>10.30</b>		
Of which: exercisable			3,518	10.31		
<b>Supplemental information for 2005</b>						
Remaining contractual life of options outstanding at end of period (years, weighted)	0		6.0		0	
Expected remaining life of options outstanding at end of period (years, weighted)	0		6.0		0	

The characteristics of the options outstanding and/or exercisable at the reporting date are as follows:

<b>T-Online International AG at December 31, 2003</b>						
Range of exercise prices (€)	<b>Options outstanding as of Dec. 31, 2003</b>			<b>Options exercisable as of Dec. 31, 2003</b>		
	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (€)	Number (in thousands)	Weighted average exercise price (€)	
10-20	2,152	7.6	10.35	1,062	10.35	
10-20	2,033	8.5	10.26	-	-	
<b>10-20</b>	<b>4,185</b>	<b>8.0</b>	<b>10.31</b>	<b>1,062</b>	<b>10.35</b>	

**T-Online International AG at December 31, 2004**

Range of exercise prices (€)	Options outstanding as of Dec. 31, 2004			Options exercisable as of Dec. 31, 2004	
	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (€)	Number (in thousands)	Weighted average exercise price (€)
10-20	1,952	6.6	10.35	1,952	10.35
10-20	1,916	7.5	10.26	941	10.26
<b>10-20</b>	<b>3,868</b>	<b>7.0</b>	<b>10.31</b>	<b>2,893</b>	<b>10.32</b>

**T-Online International AG at December 31, 2005**

Range of exercise prices (€)	Options outstanding as of Dec. 31, 2005			Options exercisable as of Dec. 31, 2005	
	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (€)	Number (in thousands)	Weighted average exercise price (€)
10-20	1,769	5.6	10.35	1,769	10.35
10-20	1,782	6.5	10.26	1,749	10.26
<b>10-20</b>	<b>3,551</b>	<b>6.0</b>	<b>10.30</b>	<b>3,518</b>	<b>10.31</b>

**T-Mobile USA.****Plans issued by T-Mobile USA.**

Before its acquisition on May 31, 2001, T-Mobile USA (formerly VoiceStream) had granted stock options to its employees. On May 31, 2001, as a consequence of the acquisition, all unvested, outstanding options of T-Mobile USA employees were converted from T-Mobile USA options into Deutsche Telekom options at a conversion rate of 3.7647 per unvested, outstanding T-Mobile USA option. The Deutsche Telekom shares linked to these options are administered in a trust deposit account that has been established for the benefit of holders of T-Mobile USA stock options. The exercise price for each Deutsche Telekom ordinary share corresponds to the applicable exercise price per T-Mobile USA ordinary share divided by 3.7647. Furthermore, no more options will be granted under any other T-Mobile USA stock option plans.

At December 31, 2002, 25.0 million shares were available for outstanding options for the 1999 Management Incentive Stock Option Plan (MISOP), which was changed as a consequence of the acquisition on May 31, 2001. The MISOP provides for the issue of up to 8 million Deutsche Telekom ordinary shares, either as non-qualified stock options or as incentive stock options, plus the number of ordinary shares deliverable upon the exercise of the T-Mobile USA rollover options in accordance with the Agreement and Plan of Merger between Deutsche Telekom and T-Mobile USA. The vesting period and option terms relating to the option plan are determined by the MISOP administrator. The options typically vest for a period of four years and have a term of up to ten years.

The plan has now expired and no more options can be issued. A total of 13,848 thousand were still outstanding at December 31, 2005.

**Plans issued by Powertel.**

Before its acquisition on May 31, 2001, Powertel had granted stock options to its employees. On May 31, 2001, as a consequence of the acquisition, all unvested, outstanding Powertel options were converted into Deutsche Telekom options at a conversion rate of 2.6353. The Deutsche Telekom AG shares linked to these options are administered in a trust deposit account established for the benefit of holders of Powertel stock options. The exercise price for each Deutsche Telekom ordinary share corresponds to the applicable exercise price per Powertel ordinary share divided by 2.6353. Furthermore, no more options will be granted under any other Powertel stock option plans.

The Powertel "2000 Stock Plan" had 535,306 shares available at December 31, 2002. This plan was changed as a consequence of the acquisition. Under the terms of this plan, all employees, executives, directors, consultants, and advisors may be eligible for the allocation of options, conditional share allocations, or other allocations within the framework of the 2000 Stock Plan.

A total of 1,254,695 Deutsche Telekom shares were available for outstanding options at December 31, 2002 for the Powertel Employee Stock Option Plan in force since 1991 ("1991 Option Plan"). The Powertel Board of Directors decided not to grant any further options under the 1991 Option Plan.

At December 31, 2002, there were no shares available for outstanding options for the non-employee stock option plan. The Powertel Board of Directors decided not to grant any further options under the non-employee plan.

The plan was combined with the T-Mobile USA plan on January 1, 2004.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

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

<b>T-Mobile USA</b>				
	<b>T-Mobile USA</b>		<b>Powertel</b>	
	Stock options (in thousands)	Weighted average exercise price (USD)	Stock options (in thousands)	Weighted average exercise price (USD)
<b>Stock options outstanding at January 1, 2003</b>	<b>24,980</b>	<b>16.41</b>	<b>1,790</b>	<b>21.85</b>
Granted	1,715	12.86	0	-
Forfeited	1,865	21.34	201	28.65
Exercised	3,709	4.20	171	5.05
<b>Stock options outstanding at December 31, 2003</b>	<b>21,121</b>	<b>17.95</b>	<b>1,418</b>	<b>22.79</b>
Of which: exercisable	11,756	17.88	1,100	20.62
<b>Plans merged from Jan. 1, 2004</b>				
Outstanding	22,539	17.90		
Granted	230	19.64		
Forfeited	1,626	24.19		
Exercised	3,627	6.75		
Expired	0	-		
<b>Stock options outstanding at December 31, 2004</b>	<b>17,516</b>	<b>19.68</b>		
Of which: exercisable	13,048	20.93		
Granted	0	-		
Forfeited	1,771	24.51		
Exercised	1,897	8.94		
Expired	0	-		
<b>Stock options outstanding at December 31, 2005</b>	<b>13,848</b>	<b>20.36</b>		
Of which: exercisable	12,455	21.15		
<b>Supplemental information for 2005</b>				
Remaining contractual life of options outstanding at end of period (years, weighted)	8.8			
Expected remaining life of options outstanding at end of period (years, weighted)	4.1			

The characteristics of the options outstanding and/or exercisable at the reporting date are as follows:

<b>T-Mobile USA at December 31, 2003</b>						
Range of exercise prices (USD)	<b>Options outstanding as of Dec. 31, 2003</b>			<b>Options exercisable as of Dec. 31, 2003</b>		
	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (USD)	Number (in thousands)	Weighted average exercise price (USD)	
0.02- 7.60	3,600	4.2	2.79	2,840	2.79	
7.61-15.20	7,673	7.3	12.22	2,551	11.00	
15.21-22.80	58	5.8	17.50	58	17.50	
22.81-30.39	8,604	6.3	26.30	5,412	26.88	
30.40-38.00	1,186	6.1	30.97	895	30.97	
<b>0.02-38.00</b>	<b>21,121</b>	<b>6.4</b>	<b>17.95</b>	<b>11,756</b>	<b>17.88</b>	



**Powertel at December 31, 2003**

Range of exercise prices (USD)	Options outstanding as of Dec. 31, 2003			Options exercisable as of Dec. 31, 2003	
	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (USD)	Number (in thousands)	Weighted average exercise price (USD)
0.02- 7.60	394	4.1	5.60	394	5.60
7.61-15.20	98	4.3	9.72	99	9.72
15.21-22.80	19	6.1	19.97	16	19.86
22.81-30.39	418	6.9	26.92	226	26.91
30.40-38.00	489	6.2	35.87	365	35.95
<b>0.02-38.00</b>	<b>1,418</b>	<b>5.7</b>	<b>22.79</b>	<b>1,100</b>	<b>20.62</b>

**T-Mobile USA at December 31, 2004**

Range of exercise prices (USD)	Options outstanding as of Dec. 31, 2004			Options exercisable as of Dec. 31, 2004	
	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (USD)	Number (in thousands)	Weighted average exercise price (USD)
0.02- 3.79	1,061	3.5	2.33	1,061	2.33
3.80- 7.59	695	4.5	5.03	695	5.03
7.60-11.39	1,067	3.5	8.16	912	8.00
11.40-15.19	4,974	7.2	13.27	1,902	13.29
15.20-18.99	41	4.7	17.04	42	17.04
19.00-22.79	194	8.8	19.78	14	20.04
22.80-26.59	4,043	6.1	23.25	3,062	23.26
26.60-30.39	3,937	5.1	29.48	3,864	29.53
30.40-34.19	1,201	5.3	31.03	1,193	31.03
34.20-38.00	303	5.1	37.05	303	37.05
<b>0.02-38.00</b>	<b>17,516</b>	<b>5.4</b>	<b>19.68</b>	<b>13,048</b>	<b>20.93</b>

**T-Mobile USA at December 31, 2005**

Range of exercise prices (USD)	Options outstanding as of Dec. 31, 2005			Options exercisable as of Dec. 31, 2005	
	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (USD)	Number (in thousands)	Weighted average exercise price (USD)
0.02- 3.79	759	3.5	2.38	759	2.38
3.80- 7.59	407	3.5	5.00	407	5.00
7.60-11.39	787	2.5	8.20	745	8.06
11.40-15.19	3,677	6.2	13.28	2,363	13.31
15.20-18.99	38	3.7	17.14	38	17.14
19.00-22.79	92	7.6	19.55	55	19.77
22.80-26.59	3,455	5.2	23.25	3,455	23.25
26.60-30.39	3,332	4.3	29.50	3,332	29.50
30.40-34.19	1,074	4.4	31.01	1,074	31.01
34.20-38.00	227	4.1	37.03	227	37.03
<b>0.02-38.00</b>	<b>13,848</b>	<b>4.9</b>	<b>20.36</b>	<b>12,455</b>	<b>21.15</b>

**Magyar Telekom (formerly MATÁV) 2002 Stock Option Plan.**

On April 26, 2002, the shareholders' meeting of MATÁV approved the introduction of a new management stock option plan.

In order to satisfy the exercise of options granted, the annual shareholders' meeting of MATÁV authorized MATÁV's Board of Directors to purchase 17 million "A" series registered ordinary shares, each with a nominal value of HUF 100, as treasury shares.

On July 1, 2002, MATÁV used its authority under the shareholders' resolutions adopted in April 2002 to grant 3,964,600 options in respect of 3,964,600 shares of its stock to participants in its stock option plan at an exercise price of HUF 933 for the first tranche (exercisable in 2003) and HUF 950 for the second and third tranches (exercisable in 2004 and 2005, respectively). The closing price of MATÁV common stock quoted on BET (Budapest Stock Exchange) on the grant date was HUF 833 per share. The options have a life of five years from the grant date, meaning that the options are forfeited without replacement or compensation on June 30, 2007. The remaining contractual life as of December 31, 2005 was 1.5 years.

The options with respect to the maximum of one third of the shares that can be purchased under the relevant options (first tranche) may be exercised at any time from and including the first anniversary of the grant date of such options until the end of the term.

The options with respect to the maximum of a further one third of the shares that can be purchased under the options (second tranche) may be exercised at any time from and including the second anniversary of the grant date of such options until the end of the term.

The options with respect to the rest of the shares that can be purchased under the options (third tranche) may be exercised at any time from and including the third anniversary of the grant date of such options until the end of the term.

The options may not be sold, transferred, assigned, charged, pledged, or otherwise encumbered or disposed of to any third person.

No more stock options were issued from the MATÁV stock option plan after those granted in 2002. The plan was ended prematurely in 2003.

The table below shows options trends for Magyar Telekom:

	SOP 2002	
	Stock options (in thousands)	Weighted average exercise price (HUF)
<b>Stock options outstanding at January 1, 2003</b>	<b>3,965</b>	<b>944</b>
Granted	0	-
Forfeited	310	944
Exercised	0	-
<b>Stock options outstanding at December 31, 2003</b>	<b>3,655</b>	<b>944</b>
Of which: exercisable	1,218	944
Granted	0	-
Forfeited	448	944
Exercised	0	-
<b>Stock options outstanding at December 31, 2004</b>	<b>3,207</b>	<b>944</b>
Of which: exercisable	2,137	942
Granted	0	-
Forfeited	286	944
Exercised	992	944
<b>Stock options outstanding at December 31, 2005</b>	<b>1,929</b>	<b>944</b>
Of which: exercisable	1,929	944
<b>Supplemental information for 2005</b>		
Remaining contractual life of options outstanding at end of period (years, weighted)	1.5	
Expected remaining life of options outstanding at end of period (years, weighted)	1.5	

The characteristics of the options outstanding and/or exercisable at the reporting date are as follows:

#### Magyar Telekom at December 31, 2003

Range of exercise prices (HUF)	Options outstanding as of Dec. 31, 2003			Options exercisable as of Dec. 31, 2003	
	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (HUF)	Number (in thousands)	Weighted average exercise price (HUF)
933-950	3,655	3.5	944	1,218	944

#### Magyar Telekom at December 31, 2004

Range of exercise prices (HUF)	Options outstanding as of Dec. 31, 2004			Options exercisable as of Dec. 31, 2004	
	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (HUF)	Number (in thousands)	Weighted average exercise price (HUF)
933-950	3,207	2.5	944	2,137	942

#### Magyar Telekom at December 31, 2005

Range of exercise prices (HUF)	Options outstanding as of Dec. 31, 2005			Options exercisable as of Dec. 31, 2005	
	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (HUF)	Number (in thousands)	Weighted average exercise price (HUF)
933-950	1,929	1.5	944	1,929	944

#### Mid-Term Incentive Plan (MTIP)/Long-Term Incentive Plan (LTIP).

##### Deutsche Telekom AG.

##### Mid-Term Incentive Plan 2004/2005.

In the 2004 financial year, Deutsche Telekom AG introduced its first Mid-Term Incentive Plan (MTIP) to ensure competitive total compensation for members of the Board of Management, senior executives of the Deutsche Telekom Group, and other beneficiaries, mainly 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 entities 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 MTIP 2005 came into effect in 2005. The plans each have a term of three years. The intention is to launch the plan annually on a revolving basis for 5 years. A decision will be made each year on whether to re-launch the plan, as well as on the specific terms of the plan, in particular the performance targets. On account of its rolling issuance, implemented for the first time in 2005, the MTIP takes the form of a compensation component with long-term incentives. The plans have maximum budgets of EUR 80 million and EUR 83 million, respectively. The proportionate amount to be expensed and recognized as a provision at each balance sheet date is calculated based on a Monte Carlo simulation.

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, subject to the achievement of the two previously defined performance targets.

MTIP 2004 and MTIP 2005 are pegged to two equally weighted, share-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 one performance target is achieved, 50 percent of the amount is paid out, and if neither performance target is achieved, no payment is made.

The absolute performance target is achieved if, at the end of the individual plans, Deutsche Telekom's share price has risen by at least 30 percent compared with its share price at the beginning of the plan. The benchmark for the assessment is the non-weighted average closing price of Deutsche Telekom shares in Xetra trading at the Frankfurt Stock Exchange (Deutsche Börse AG) during the last 20 trading days prior to the beginning and end of the plan. The starting price for the MTIP 2004 is EUR 14.08 per Deutsche Telekom share. Consequently, the performance target is achieved if an average share price of at least EUR 18.30 is reached during the defined period prior to the end of the plan. For MTIP 2005, the relevant starting price is EUR 16.43, and the absolute performance target EUR 21.36.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

The relative performance target is achieved if the total return of the Deutsche Telekom share has outperformed the Dow Jones Euro STOXX Total Return Index on a percentage basis during the term of the individual plan. The benchmark is the non-weighted average of Deutsche Telekom shares (based on the Xetra closing prices of Deutsche Telekom shares) plus the value of dividends paid and reinvested in Deutsche Telekom shares, bonus shares etc., and the non-weighted average of the Dow Jones Euro STOXX Total Return Index during the last 20 trading days prior to the beginning and end of the plan. The starting value of the index for the MTIP 2004 is 317.95 points; for the MTIP 2005 358.99 points. The starting value of the total return of Deutsche Telekom shares corresponds to the share price prior to the beginning of the plan (EUR 14.08 for the MTIP 2004, and EUR 16.43 for the MTIP 2005).

The 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.

#### **T-Mobile USA.**

##### **Mid-Term Incentive Plan 2004/2005.**

T-Mobile USA's MTIP is based on the same terms and conditions as Deutsche Telekom AG's MTIP.

##### **Long-Term Incentive Plan 2004/2005.**

In addition to the aforementioned terms and conditions of Deutsche Telekom AG's MTIP, T-Mobile USA has issued a performance cash plan as a Long-Term Incentive Plan (LTIP) that is aimed at the top management, from the vice presidents upwards. Additional customer growth and profit targets have been agreed for this group of persons on the basis of the company's 2003 figures. The achievement of the performance targets is evaluated at the end of every year, starting from 2004; payments have been made from 2004.

#### **T-Mobile UK.**

##### **Mid-Term Incentive Plan 2004/2005.**

T-Mobile UK's MTIP is also based on the same terms and conditions as Deutsche Telekom AG's MTIP. In addition to the two performance targets in that plan, however, T-Mobile UK has introduced a third target for a defined group of participants which is based on the cash contribution (EBITDA before investments in intangible assets and property, plant and equipment). The third performance target can generally only be achieved after the two other performance targets have been achieved.

#### **T-Online International AG.**

##### **Mid-Term Incentive Plan 2004/2005.**

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

#### **Magyar Telekom (MATÁV).**

##### **Mid-Term Incentive Plan 2004/2005.**

Magyar Telekom's MTIP is also based on the same terms and conditions as Deutsche Telekom AG's MTIP, with the exception that performance is measured in terms of the development of Magyar Telekom's shares and the Euro STOXX Total Return Index.

The following table provides an overview of the effects on the balance sheet in the 2005 and 2004 financial years:

millions of €	2005	2004
Provisions (at end of period)	39	18
Personnel costs	30	24

## **42 Risk management and financial derivatives.**

### **Principles of risk management.**

Deutsche Telekom is exposed in particular to risks from movements in exchange rates, interest rates, and market prices that affect its assets, liabilities, and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments are used for this purpose, depending on the risk assessment. However, Deutsche Telekom only hedges the risks that affect the Group's cash flows. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the credit risk, hedging transactions are generally only concluded with leading financial institutions whose credit rating is at least BBB+/Baa1. In addition, the credit risk of financial instruments with a positive fair value is minimized by way of limit management, which sets individualized relative and absolute figures for risk exposure depending on the counterparty's rating.

The fundamentals of Deutsche Telekom's financial policy are established each year by the Board of Management and overseen by the Supervisory Board. Group Treasury is responsible for implementing the finance policy and for ongoing risk management. Certain transactions require the prior approval of the Board of Management, which is also regularly briefed on the extent and the amount of the current risk exposure.

Treasury regards effective management of the market risk as one of its main tasks. The department performs simulation calculations using different worst-case and market scenarios so that it can estimate the effects of different conditions on the market.

**Currency risks.**

Deutsche Telekom is exposed to currency risks, for example from its investing, financing, and operating activities. Risks from foreign currencies are hedged to the extent that they influence the Group's cash flows. Foreign currency risks that do not influence the Group's cash flows (i.e., the risks resulting from the translation of assets and liabilities of foreign operations into the Group's reporting currency) are generally not hedged, however. Deutsche Telekom may nevertheless also hedge this foreign currency risk under certain circumstances.

Foreign-currency risks in the area of investment result, for example, from the acquisition and disposal of investments in foreign companies. Deutsche Telekom hedges these risks. If the risk exceeds EUR 100 million, the Board of Management must make a special decision on how the risk shall be hedged. At the reporting date, Deutsche Telekom was not exposed to any significant risks from foreign-currency transactions in the field of investments.

Foreign-currency risks in the financing area are caused by financial liabilities in foreign currency. Treasury hedges these risks as far as possible. Cross-currency swaps and currency derivatives are used to convert financial obligations denominated in foreign currencies into the Group entities' functional currencies (euro, U.S. dollar and sterling).

At the reporting date, the foreign-currency liabilities for which currency risks were hedged mainly consisted of bonds and medium-term notes in Japanese yen, sterling, and Polish zlotys. Intragroup loans in foreign currencies are principally hedged by way of forward transactions. On account of these hedging activities, Deutsche Telekom was not exposed to any significant currency risks in the area of financing at the reporting date.

The individual Group entities predominantly execute their operating activities in their respective functional currencies. This is why the assessment of Deutsche Telekom's exchange-rate risk from ongoing operations is low. Some Group entities, however, are exposed to foreign-currency risks in connection with scheduled payments in currencies that are not their functional currency. These are mainly payments to international carriers for the provision of subscriber lines for the international calls of Deutsche Telekom's customers in Germany, for the procurement of handsets, and for international roaming. Deutsche Telekom uses currency derivatives or currency options to hedge these payments up to a maximum of one year in advance. On account of these hedging activities, Deutsche Telekom was not exposed to any significant currency risks from its operating activities at the reporting date.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. In addition to currency risks, Deutsche Telekom is exposed to interest rate risks and price risks in its investments. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the reporting date. It is assumed that the balance at the reporting date is representative for the year as a whole.

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; translation-related risks are not taken into consideration. Relevant risk variables are generally non-functional currencies in which Deutsche Telekom has financial instruments.

The currency sensitivity analysis is based on the following assumptions:

Major non-derivative monetary financial instruments (liquid assets, receivables, interest-bearing securities and/or debt instruments held, interest-bearing liabilities, finance lease liabilities, liabilities arising from ABS transactions, non-interest-bearing liabilities) are either directly denominated in the functional currency or are transferred to the functional currency through the use of derivatives. Exchange-rate fluctuations therefore have no effects on profit or loss, or shareholders' equity.

Non-interest-bearing securities or equity instruments held are of a non-monetary nature and therefore are not exposed to currency risk as defined by IFRS 7.

Interest income and interest expense from financial instruments are also either recorded directly in the functional currency or transferred to the functional currency by using derivatives. For this reason, there can be no effects on the variables considered in this connection.

In the case of fair value hedges designed for hedging currency risks, the changes in the fair values of the hedged item and the hedging instruments attributable to exchange rate movements balance out almost completely in the income statement in the same period. As a consequence, these financial instruments are not exposed to currency risks with an effect on profit or loss, or shareholders' equity either.

Cross-currency swaps are always assigned to non-derivative hedged items, so these instruments also do not have any currency effects.

Deutsche Telekom is therefore only exposed to currency risks from specific currency derivatives. Some of these are currency derivatives that are part of an effective cash flow hedge for hedging payment fluctuations resulting from exchange rate movements in accordance with IAS 39. Hypothetical exchange-rate fluctuations of the currencies on which these transactions are based affect the hedging reserve in shareholders' equity and the fair value of these hedging instruments. Others are currency derivatives that are neither part of one of the hedges defined in IAS 39 nor part of a natural hedge. These derivatives are used to hedge planned transactions. Exchange-rate fluctuations of the currencies, on which such financial instruments are based, affect other financial income or expense (net gain/loss from remeasurement of financial assets to fair value).

If the euro had been 10 percent stronger (weaker) against the U.S. dollar at December 31, 2005, the hedging reserve in shareholders' equity and in the fair value of the hedging transactions would have been EUR 68 million higher (lower).

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

If the euro had been 10 percent stronger (weaker) against all currencies at December 31, 2005, other financial income and the fair value of the hedging transactions would have been EUR 3 million lower (higher). The hypothetical effect on profit or loss of EUR -3 million results from the currency sensitivities EUR/USD: EUR +6 million; EUR /CZK: EUR -2 million; EUR/SKK: EUR -3 million; EUR/GBP EUR -4 million.

#### **Interest rate risks.**

Deutsche Telekom is exposed to interest rate risks, mainly in the euro zone, in the United Kingdom, and in the United States of America. To minimize the effects of interest rate fluctuations in these regions, Deutsche Telekom manages the interest rate risk for net debt denominated in euros, U.S. dollars and sterling separately. Once a year, the Board of Management stipulates the desired mix of fixed- and variable-interest net financial liabilities for a future period of three years. Taking account of the Group's existing and planned debt structure, Treasury uses interest rate derivatives to adjust the interest structure for the net financial liabilities of the composition specified by the Board of Management.

Due to the derivative hedges, an average of 67 percent (2004: 76 percent) of the net financial liabilities in 2005 denominated in euros, 80 percent (2004: 84 percent) of those denominated in sterling, and 85 percent (2004: 86 percent) of those denominated in U.S. dollars had a fixed rate of interest. The average value is representative for the year as a whole.

Interest rate risks are presented by way of sensitivity analyses in accordance with IFRS 7. These show the effects of changes in market interest rates on interest payments, interest income and expense, other income components and, if appropriate, shareholders' equity. The interest rate sensitivity analyses are based on the following assumptions:

Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are recognized at their fair value. As such, all financial instruments with fixed interest rates that are carried at amortized cost are not subject to interest rate risk as defined in IFRS 7.

In the case of fair value hedges designed for hedging interest rate risks, the changes in the fair values of the hedged item and the hedging instrument attributable to interest rate movements balance out almost completely in the income statement in the same period. As a consequence, these financial instruments are also not exposed to interest rate risk.

Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserve in shareholders' equity and are therefore taken into consideration in the equity-related sensitivity calculations.

Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of income-related sensitivities.

Changes in the market interest rate of interest rate derivatives (interest rate swaps, cross-currency swaps) that are not part of a hedging relationship as set out in IAS 39 affect other financial income or expense (net gain/loss from remeasurement of the financial assets to fair value) and are therefore taken into consideration in the income-related sensitivity calculations.

Currency derivatives are not exposed to interest rate risks and therefore do not affect the interest rate sensitivities.

If the market interest rates had been 100 basis points higher (lower) at December 31, 2005, profit or loss would have been EUR 158 million lower (higher). The hypothetical effect of EUR -158 million on income results from the potential effects of EUR -132 million from interest rate derivatives and EUR -26 million from non-derivative, variable-interest financial liabilities.

#### **Other price risks.**

As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. Important risk variables are stock exchange prices or indexes.

As of December 31, 2005, Deutsche Telekom did not hold any material investments to be classified as available for sale.

#### **Credit risks.**

Deutsche Telekom is exposed to a credit risk from its operating activities and certain financing activities. With regard to financing activities, transactions are only concluded with counterparties that have at least an investment-grade credit rating, in connection with an operational credit management system. At the level of operations, the outstanding debts are continuously monitored in each area, i.e., locally. Credit risks must be taken into account through allowances.

In the course of ABS transactions, receivables from the bulk business are managed separately. A security margin is provided as a cash reserve for the credit risk. The percentage of the provision for the credit risk has been statistically proven to be stable. A statement of the actual loan losses is prepared periodically and any excess payments to the cash reserve are refunded.

The solvency of the business with key accounts, especially international carriers, is monitored separately. In terms of the overall risk exposure from the credit risk, however, the receivables from these counterparties are not so extensive as to justify extraordinary concentrations of risk.

The maximum exposure to credit risk is represented by the going concern values of the originated loans and receivables that are carried in the balance sheet, including derivatives with positive market values.

At the reporting date there were no significant global offsetting agreements that reduce this risk, nor were there any significant financial guarantees for third-party obligations that increase this risk.

**Hedge accounting.****Fair value hedges.**

To hedge the fair value risk of fixed-interest liabilities, Deutsche Telekom used interest rate swaps and forward interest rate swaps (receive fixed, pay variable) denominated in EUR, GBP, and USD in the 2005 and 2004 financial years. Fixed-income bonds denominated in EUR, GBP, and USD were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the Euribor, USDLibor or GBPLibor swap rate are offset against the changes in the value of the interest rate swaps. The aim of this hedging is to transform the fixed-income bonds into variable-interest debt, thus hedging the fair value of the financial liabilities. Credit risks are not part of the hedging.

The effectiveness of the hedging relationship is prospectively tested using the critical terms match method set out in IAS 39.AG108. An effectiveness test is carried out retrospectively at each reporting date using the dollar-offset method. This method compares past changes in the fair value of the hedged item expressed in currency units with past changes in the fair values of the interest rate swaps expressed in currency units. The changes in the fair value of the two transactions are calculated on the basis of the outstanding cash flows at the beginning and end of the test period and are adjusted for accrued interest. All hedging relationships were effective within the range of the ratios of the two past changes in value (between 80 and 125 percent) as specified in IAS 39. When the effectiveness was being measured, the change in the credit spread was not taken into account for calculating the change in the fair value of the hedged item. For fair value hedges entered into from 2005, the effectiveness of the hedging relationship is tested by means of statistical methods using a regression analysis. This involves defining the performance of the hedged item as the independent variable and the performance of the hedging transaction as the dependent variable. A hedging relationship is classified as effective, when  $R^2 > 0.96$  and, depending on the actual realization of  $R^2$ , factor b has a value between  $-0.85$  and  $-1.17$ . All hedging relationships, with their effectiveness having been tested using statistical methods, were effective at the reporting date.

As the list of the fair values of derivatives on page 195 shows, Deutsche Telekom had designated interest rate derivatives in a net amount of EUR 149 million (2004: EUR 91 million) as fair value hedges at December 31, 2005. The re-measurement of the hedged items results in expenses of EUR 68 million being recorded in other financial income in the 2005 financial year; the changes in the fair values of the hedging transactions result in losses of EUR 67 million being recorded in other financial income.

**Cash flow hedges – USD.**

In 2005 and 2004, Deutsche Telekom designated some "forward purchase U.S. dollar/sell in EUR" currency derivatives as cash flow hedges to hedge the amount translated into EUR payable for contractually fixed payments denominated in U.S. dollars.

These are hedges of unrecognized firm commitments against foreign currency risks arising from spot rate changes. The hedged items designated in 2005 and 2004 were highly probable U.S. dollar payments for software licenses.

The following table shows the contractual maturities of the payments, i.e., when the hedged item will affect profit or loss:

Nominal amount millions of USD	Maturity
10	Jan. 15, 2006
8	Feb. 1, 2006
10	Jan. 15, 2007
8	Feb. 1, 2007
10	Jan. 15, 2008
8	Feb. 1, 2008
<b>54</b>	

Additionally, the Company in 2005 entered into hedges of future interest payments denominated in U.S. dollar resulting from recognized liabilities against foreign currency risks arising from spot rate changes. The hedged items designated were interest payments from bonds denominated in U.S. dollars.

The following table shows the contractual maturities of the payments, i.e., when the hedged item will affect profit or loss:

Nominal amount millions of USD	Maturity
165	June 15, 2006
159	Dec. 15, 2006
19	June 15, 2007
411	Dec. 17, 2007
<b>754</b>	

The objective of this hedging is to eliminate the risk from payment fluctuations as a result of exchange rate movements.

The effectiveness of the hedging relationship is calculated prospectively using the critical terms match method set out in IAS 39.AG108. An effectiveness test is carried out retrospectively using the cumulative dollar-offset method. For this, the changes in the fair values of the hedged item and the hedging instrument attributable to spot rate changes are calculated and a ratio is created. If this ratio is between 80 and 125 percent, the hedge is effective.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

In the 2005 financial year, gains totaling EUR 106 million (2004: losses of EUR 8 million) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve). These changes constitute the effective portion of the hedging relationship. Gains amounting to EUR 29 million and losses amounting to EUR 1 million recognized in shareholders' equity in 2004 were transferred to other financial income/expense in the 2005 financial year. Deutsche Telekom expects that, within the next 12 months, gains recognized in equity in the amount of EUR 28 million will be transferred to the income statement when payments are made. There was no material ineffectiveness of these hedges recorded as of the balance sheet date.

As the list of the fair values of derivatives on page 195 shows, Deutsche Telekom had designated currency forwards with a negative fair value of EUR 32 million (2004: EUR 17 million) as cash flow hedges at December 31, 2005.

#### **Cash flow hedges – GBP.**

To hedge future interest payments from syndicated loans of a notional GBP 500 million, Deutsche Telekom also designated some pay fixed, receive variable GBP interest rate swaps as cash flow hedges in 2005 and 2004. These are hedges of variable-interest payments from recognized liabilities against interest rate risks. The hedged items designated were variable interest payments (reference interest rate: GBP6MLibor) from the syndicated loans. The aim of the hedge accounting is to transform the variable-interest borrowing into fixed-interest borrowing; credit risks do not form part of the hedge.

In the 2005 financial year, gains of EUR 2 million (2004: EUR 0.6 million) resulting from the change in the fair values of interest rate derivatives were recognized in shareholders' equity (hedging reserve). These changes constitute the effective portion of the hedging relationship. Losses of EUR 10 million recognized in shareholders' equity were transferred to the income statement in the 2004 financial year. In 2005, the cash flow hedge was discontinued and losses amounting to EUR 3 million were transferred from equity to other financial income or expense since the hedged item had ceased to exist. There was no ineffectiveness of this hedge recorded at the balance sheet date.

As the list of the fair values of derivatives on page 195 shows, Deutsche Telekom had designated interest rate swaps with a negative fair value of EUR 5 million as cash flow hedges at December 31, 2004.

#### **Net investment hedge.**

Deutsche Telekom hedged repayable preferred stock of T-Mobile USA amounting to USD 5,000 million against foreign currency risks in 2005 and 2004 using fixed-income USD bonds and currency derivatives. The interests in T-Mobile USA (hedged item) constitute a net investment in a foreign operation. The aim of the hedging is to eliminate the risk from a potential repayment of the interests resulting from exchange rate fluctuations.

The effectiveness of the hedging relationship is tested using prospective and retrospective effectiveness tests. In a retrospective effectiveness test, the changes in the fair value of the USD bonds since the inception of the hedge resulting from spot rate changes are compared with the proportionate changes in the value of the interests due to changes in the spot rate. The prospective effectiveness test is performed using the critical terms match method set out in IAS 39.AG108. As both the nominal volumes and the currencies of the hedged item and the hedging transaction are identical, a highly effective hedging relationship is expected.

In 2005 losses from spot rate changes of the USD bonds of EUR 584 million (2004: gains of EUR 302 million) were taken directly to equity (hedging reserve). The USD bonds designated as hedging instruments for net investment hedges had a market value of EUR 4,945 million at the reporting date (2004: EUR 4,227 million).

Furthermore, loans amounting to a nominal volume of USD 4,030 million were designated as hedging instruments in the 2005 financial year as part of the hedging of the net investment in T-Mobile USA. The prospective and retrospective effectiveness was determined in line with the method described above. Losses of EUR 59 million (hedging reserve) were charged to equity in connection with this hedge; this amount will be transferred to other financial income or expense upon discontinuation of the hedged item. This hedge was de-designated as of April 30, 2005.



**Derivatives.**

The following table shows the fair values of the various derivatives carried. A distinction is made depending on whether these are part of a hedging relationship as set out in IAS 39 (fair value hedge, cash flow hedge, net

investment hedge) or not. Other derivatives can also be embedded (i.e., a component of a composite instrument that contains a non-derivative host contract).

millions of €	Net carrying amounts Dec. 31, 2005	Net carrying amounts Dec. 31, 2004	Net carrying amounts Dec. 31, 2003
<b>Assets</b>			
Interest rate swaps			
- Held for trading	205	275	212
- In connection with fair value hedges	151	92	194
- In connection with cash flow hedges			20
Currency forwards/currency swaps			
- Held for trading	18	12	27
- In connection with net investment hedges		1	3
Cross-currency swaps held for trading	53	14	18
Embedded derivatives	18	2	1
<b>Liabilities and shareholders' equity</b>			
Interest rate swaps			
- Held for trading	311	396	478
- In connection with fair value hedges	2	1	3
- In connection with cash flow hedges		5	15
Currency forwards/currency swaps			
- Held for trading	14	175	111
- In connection with cash flow hedges	32	17	
Cross-currency swaps held for trading	308	564	727
Other derivatives			
- Embedded	11		
- Held for trading		1	

**43 Related party disclosures.**

The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds 37.49 percent of the share capital of Deutsche Telekom AG. As the Federal Republic represents a solid majority at the shareholders' meeting despite its minority shareholding due to the average attendance of the shareholders' meeting, Deutsche Telekom is a dependent company of the Federal Republic. Therefore, the Federal Republic and the companies controlled by the Federal Republic are classified as related parties of Deutsche Telekom.

**Federal Republic of Germany.**

The Federal Posts and Telecommunications Agency has been assigned certain tasks by law that affect cross-company issues at Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The Federal Agency also carries on the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the recreation service (Erholungswerk), the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost – VAP), and the welfare service (Betreuungswerk) for Deutsche Telekom AG, Deutsche Post AG, Deutsche Postbank AG, and the Federal Agency. The coordination and administrative tasks are performed on the basis of agency agreements. For the 2005 financial year, Deutsche Telekom made payments in the amount of EUR 49 million (2004: EUR 55 million; 2003: EUR 63 million).

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

The Federal Republic of Germany is a customer of Deutsche Telekom who sources services from the Company. Charges for services provided to the Federal Republic and its departments and agencies are based on Deutsche Telekom's commercial pricing policies. Services provided to any one department or agency do not represent a significant component of Deutsche Telekom's net revenues.

The Company's Dutch financing subsidiary, Deutsche Telekom International Finance, has taken out two loans for GBP 150 million each with KfW Bankengruppe. The loans were extended at the normal market rate of interest which is based on Deutsche Telekom AG's current rating. The loans have remaining lives of two and four years, respectively.

#### **Deutsche Post World Net.**

In the 2005 financial year, Deutsche Telekom purchased goods and services amounting to EUR 0.7 billion (2004: EUR 0.7 billion; 2003: EUR 0.7 billion) from Deutsche Post World Net. These mainly relate to postage charges for letters and packages. In the same period, the Deutsche Post World Net group of companies purchased goods and services totaling EUR 0.4 billion (2004: EUR 0.4 billion; 2003: EUR 0.5 billion) from Deutsche Telekom. This amount primarily comprises IT products and services.

In addition, Deutsche Telekom AG and Deutsche Postbank have entered into a master credit agreement in the amount of EUR 0.6 billion. This line of credit was not utilized at the end of the year.

Furthermore, Deutsche Telekom AG made cash investments with Deutsche Postbank in 2005 at normal market rates of interests and maturities. On December 31, 2005, the cash investments totaled EUR 0.3 billion.

#### **Joint ventures and associates.**

Deutsche Telekom has business relationships with numerous associates and joint ventures.

In 2005, Deutsche Telekom generated revenues from its joint venture Toll Collect amounting to EUR 0.2 billion (2004: EUR 0.2 billion; 2003: EUR 0.1 billion).

At December 31, 2005, the total amount of trade receivables from related companies was EUR 0.2 billion (2004: EUR 0.3 billion; 2003: EUR 0.4 billion). At the same date, trade payables due to related companies amounted to EUR 0.1 billion (2004: EUR 0.1 billion; 2003: EUR 0.3 billion).

#### **Related individuals.**

No major transactions took place between Deutsche Telekom and persons in key management positions, including close members of their families.

#### **44 Compensation of the Board of Management and the Supervisory Board.**

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 11,747,163.15 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 Mid-Term Incentive Plan, and non-cash compensation amounting to EUR 302,636.41 which is treated as non-cash benefits.

The members of the Board of Management have taken part in Deutsche Telekom AG's Mid-Term Incentive Plan (MTIP) as part of their total compensation since the 2004 financial year. The MTIP is a Group-wide long-term compensation instrument for senior executives. 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. As in the 2004 financial year, one absolute and one relative plan target were again set as the success parameters in 2005: The absolute plan target is for the value of the Deutsche Telekom share to increase by at least 30 percent by the end of the plan (for the 2005 tranche at December 31, 2007). The relative plan target requires the total return of the Deutsche Telekom share to outperform the Dow Jones Euro STOXX Total Return Index. Each tranche allows each member of the Board of Management to reach an incentive volume of 15 percent (if one plan target is met) or 30 percent (if both plan targets are met) of their own contractually agreed target salary (basic compensation plus variable compensation in the case of 100-percent target achievement). If no plan targets are met, no incentive is paid. For further details, please refer to the disclosures on the 2004 and 2005 MTIP under Note (41) "Stock-based compensation plans."

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 shall receive the following total compensation for the 2005 financial year (fixed annual salary, variable compensation, and fair value of the 2004 and 2005 MTIPs).

#### Compensation of the Board of Management

€	Fixed annual salary in 2005	Variable remuneration for 2005	Total cash compensation 2005	Total amount accrued for the 2004 and 2005 MTIP (fair value expenditure for the 2005 financial year)
Kai-Uwe Ricke	1,250,000.00	1,343,750.00	2,593,750.00	302,779.75
Dr. Karl-Gerhard Eick	937,500.00	1,007,812.50	1,945,312.50	227,084.82
Dr. Heinz Klinkhammer	750,000.00	781,500.00	1,531,500.00	181,667.85
René Obermann	750,000.00	750,000.00	1,500,000.00	181,667.85
Walter Raizner	937,500.00	937,500.00	1,875,000.00	180,158.53
Konrad F. Reiss (deceased, April 6, 2005)	250,000.00	209,589.04	459,589.04	65,026.74
Lothar Pauly (from October 1, 2005)	187,500.00	199,218.75	386,718.75	14,270.91
<b>Total</b>	<b>5,062,500.00</b>	<b>5,229,370.29</b>	<b>10,291,870.29</b>	<b>1,152,656.45</b>

The Company's 2001 Stock Option Plan was terminated pursuant to a resolution by the shareholders' meeting of May 18, 2004. No stock options were issued for the members of the Group Board of Management as of the 2002 financial year. The stock options granted to the Group Board of Management for the first and last time for the 2001 financial year remain exercisable, provided the performance targets and the relevant requirements are met. The stock options granted for the 2000 financial year from the previous 2000 Stock Option Plan were forfeited as of July 20, 2005 without compensation due to expiry.

Compensation for former members of the Board of Management and their surviving dependents and accruals recognized for this purpose totaled EUR 3,456,527.80.

The provisions recognized for ongoing pensions and pension entitlements for former members of the Board of Management and their surviving dependents amounted to EUR 72,241,234.00 – DBO/PBO in accordance with IAS 19/FAS 87 – depending on the respective accounting principles to be used.

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 4,540,790.00 – DBO/PBO in accordance with IAS 19/FAS 87. No accruals were recognized for these obligations (see § 285 No. 9b HGB).

Deutsche Telekom has not granted any loans to current or former members of 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. 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 percent by which the net income per no par value share in the second financial year following the financial year in question (reference year) exceeds the net income per no par value share in the financial year preceding the financial year in question. The long-term performance-related remuneration is limited, however, to the amount of the long-term performance-related remuneration for the financial year preceding the financial year in question, insofar as the net revenue in the reference year does not exceed the net revenue in the financial year preceding the financial year in question.

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, the 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 held a seat.

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

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

The total remuneration of the members of the Supervisory Board in 2005 amounted to EUR 1,983,115.33. Of this amount, EUR 1,365,533.33 will be paid out after the 2006 shareholders' meeting. The remaining amount of EUR 617,582.00 will be retained as an accrual for the long-term variable remuneration for the 2005 financial year; it will be paid out after the 2008 shareholders' meeting subject to achievement of the relevant performance targets.

The compensation of the individual members of the Supervisory Board for 2005 is as follows:

Compensation of the Supervisory Board				
€	Fixed remuneration plus attendance free	Short-term variable	Total (net)	Imputed long-term remuneration entitlement <sup>1</sup>
Brandl, Monika	21,000.00	20,000.00	41,000.00	18,600.00
Falbisoner, Josef	21,000.00	20,000.00	41,000.00	18,600.00
Dr. von Grünberg, Hubertus	22,000.00	20,800.00	42,800.00	19,344.00
Halsch, Volker	54,400.00	50,000.00	104,400.00	46,500.00
Holzwarth, Lothar	21,000.00	20,000.00	41,000.00	18,600.00
Dr. Hundt, Dieter	31,400.00	30,000.00	61,400.00	27,900.00
Litzenberger, Waltraud	21,000.00	20,000.00	41,000.00	18,600.00
Löffler, Michael	21,000.00	20,000.00	41,000.00	18,600.00
Reich, Hans W.	20,800.00	20,000.00	40,800.00	18,600.00
Prof. Dr. Reitzle, Wolfgang <sup>2</sup>	19,333.33	18,333.33	37,666.67	17,050.00
Dr. Schinzler, Hans-Jürgen	21,000.00	20,000.00	41,000.00	18,600.00
Dr. Schlede, Klaus G.	62,600.00	60,000.00	122,600.00	55,800.00
Schmitt, Wolfgang	43,000.00	40,800.00	83,800.00	37,944.00
Sommer, Michael	20,800.00	20,000.00	40,800.00	18,600.00
Steinke, Ursula	21,000.00	20,000.00	41,000.00	18,600.00
Prof. Dr. Stolte, Dieter	21,000.00	20,000.00	41,000.00	18,600.00
Tremel, Franz <sup>3</sup>	74,400.00	70,000.00	144,400.00	65,100.00
Walter, Bernhard	42,400.00	40,000.00	82,400.00	37,200.00
Wegner, Wilhelm	64,600.00	60,000.00	124,600.00	55,800.00
Dr. Wiedeking, Wendelin <sup>4</sup>	3,333.33	3,333.33	6,666.67	3,100.00
Dr. Zumwinkel, Klaus	74,400.00	70,800.00	145,200.00	65,844.00
<b>Total</b>	<b>701,466.67</b>	<b>664,066.67</b>	<b>1,365,533.33</b>	<b>617,582.00</b>

<sup>1</sup> Represents the accrual recognized. The long-term variable remuneration will be paid out for the first time after the 2008 shareholders' meeting for the period 2004 to 2007 provided the relevant performance targets have been achieved.

<sup>2</sup> Member since February 10, 2005.

<sup>3</sup> Mr. Tremel 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 2005 financial year for a mandate as a member of the Supervisory Board of this company.

<sup>4</sup> Member until February 9, 2005.

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

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

In accordance with § 161 AktG, the Board of Management and the Supervisory Board of T-Online International AG, a listed company included in the consolidated financial statements of Deutsche Telekom AG, have submitted the mandatory declaration of conformity and made it available to shareholders on T-Online International AG's website.

**46 Events after the balance sheet date.****Successful launch of new OBU 2.0 software for truck toll system.**

The Toll Collect consortium, in which Deutsche Telekom AG holds a 45-percent stake, successfully launched the new OBU 2.0 software (on-board unit/OBU) in Germany on January 1, 2006. With the new OBU 2.0 software, the on-board unit continues to automatically register with the truck toll system. Two days before OBU 2.0 was launched, the new software was loaded onto more than 420,000 on-board units in service partner workshops. Thus, roughly 90 percent of on-board units are equipped with the update. The total number of OBUs has increased by more than 30 percent compared with the 321,000 fitted OBUs with which the truck toll system was successfully launched at the start of 2005.

**Judicial release proceedings for planned merger of T-Online into Deutsche Telekom not yet finalized and legally binding.**

The judicial release proceedings for the planned merger have not yet been closed. The Frankfurt/Main Higher Regional Court, as the court of second instance, reached a decision in February 2006 on the motion filed by T-Online for release for entry of the merger in the commercial registers – despite pending lawsuits filed by several T-Online shareholders against the legality of the decision to this effect taken by last year's shareholders' meeting of T-Online – and given the release as sought for entry of the merger in the commercial registers. This decision is not yet final and legally binding, however. Under the provisions of the merger agreement, the merger cannot be entered into the commercial register and thus become effective, once a legally binding release ruling has been issued, until after this year's shareholders' meetings of T-Online and Deutsche Telekom.

**Medium-term notes issued by Deutsche Telekom International Finance B.V.**

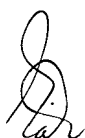
Deutsche Telekom issued two medium-term notes (MTN) of EUR 500 million each through its Dutch financing subsidiary Deutsche Telekom International Finance B.V. An MTN that will mature in three years was issued on January 25, 2006 with a fixed coupon of 3 percent. A variable-interest MTN that will mature in 3.5 years was issued on February 9, 2006; its coupon will be calculated each quarter based on the three-month Euribor rate. The proceeds of the two medium-term notes will help to maintain general liquidity.

Bonn, February 13, 2006

Deutsche Telekom AG  
Board of Management



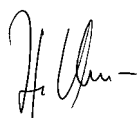
Kai-Uwe Ricke



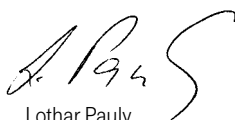
Dr. Karl-Gerhard Eick



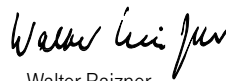
Dr. Heinz Klinkhammer



René Obermann



Lothar Pauly



Walter Raizner

**47 Auditors' fees and services.**

The following table provides a breakdown of auditing fees recognized as expenses in the 2005 financial year:

PricewaterhouseCoopers AG	
millions of €	2005
Professional fees for audits	5.1
Professional fees for other accounting services	19.7
Tax consulting fees	0.5
Other professional fees	4.5

Ernst & Young AG	
millions of €	2005
Professional fees for audits	6.1
Professional fees for other accounting services	17.8
Tax consulting fees	0.2
Other professional fees	0.1

Professional fees for audits include in particular fees for the statutory auditing of annual financial statements as well as fees for other auditing services provided in connection with the audit of the annual financial statements.

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

Tax consulting fees primarily include professional fees for tax consulting services performed as part of current or planned transactions.

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

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47

## Auditors' report.

We have audited the consolidated financial statements prepared by Deutsche Telekom AG, Bonn, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity, and the notes to the consolidated financial statements, together with the Group management report for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) are the responsibility of the parent company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to 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 consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart/Frankfurt (Main), February 13, 2006

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft  
Stuttgart

(Prof. Dr. Pfitzer)  
Wirtschaftsprüfer

(Hollweg)  
Wirtschaftsprüfer

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft  
Frankfurt (Main)

(Frings)  
Wirtschaftsprüfer

(Menke)  
Wirtschaftsprüfer