

Annual report

for the year ended December 31, 2006

Deutsche Telekom International Finance B.V.

Amsterdam

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Annual report of the directors

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1.1. Directors' report

The Board of Management is pleased to present the annual report and financial statements of Deutsche Telekom International Finance B.V. (the Company) for the financial year ended December 31, 2006.

1.1.1 Review of financial position and result

The state of affairs of the Company at the closing of the financial year is adequately presented in the balance sheet and the profit and loss account. The course of business of the Company went in line with expectations of the management.

1.1.2 Business activities

On January 19, 2006 the Company issued a USD bond for the amount of USD 2,500,000,000 under the USD 10,000,000,000 US Shelf Registration Statement. This bond has three tranches, maturing in 2009 (USD 1,000,000,000), in 2011 (USD 500,000,000) and 2016 (USD 1,000,000,000), respectively.

On October 25, 2006 the Company issued a Eurobond for the amount of EUR 1,500,000,000 under the EUR 20,000,000,000 Debt Issuance Programme (DIP). This bond is due for repayment on October 25, 2013.

During 2006, the Company issued eight Medium Term Notes under the DIP. Seven MTNs are denominated in EUR (5 MTNs of EUR 500,000,000 each, 1 MTN of EUR 20,800,000 and 1 MTN of EUR 750,000,000). The eighth MTN is denominated in GBP (GBP 250,000,000).

On January 31, 2006 the Company entered into a bank loan agreement with the European Investment Bank (EIB) for a total amount of HUF 47,431,600,000. This was used to provide a loan to Magyar Telekom, an affiliated mobile operator in Hungary.

During 2006 Deutsche Telekom AG has maintained the credit ratings A3 and A- from Moody's and Standard & Poor's respectively. Therefore no coupon steps have been triggered.

One Eurobond has been redeemed in 2006 representing an amount of EUR 4,500,000,000.

On June 1, 2006, the Mandatory Convertible Bond (EUR 2,288,400,000) expired and a conversion into shares of DTAG took place.

During 2006 the Company granted new loans to group companies for the amounts of EUR 514,000,000, CZK 300,000,000, GBP 120,000,000, HUF 47,431,600,000 and USD 2,035,000,000.

The Company granted new loans of EUR 5,072,300,252, USD 2,500,000,000 and GBP 250,000,000 to DTAG.

Compared to last year, the net result of the Company increased by 1.2% to EUR 10,823,602.

1.1.3 Post balance sheet events

On January 22, 2007, the Company repaid one MTN (EUR 500,000,000).

1.1.4 Future business developments and financing

The management does not anticipate any major changes during the current financial year and expects to continue with its financing activities.

Amsterdam, February 28, 2007

The Managing Directors,

Robin Sheridan

Stephan Wiemann

Financial statements

Balance sheet as at December 31, 2006

(Before proposed appropriation of result)

	Ref.	December 31, 2006		December 31, 2005	
		EUR'000	EUR'000	EUR'000	EUR'000
<i>Assets</i>					
Fixed assets					
Tangible fixed assets	5	14		21	
Financial fixed assets	6	32,753,609		29,480,214	
			32,753,623		29,480,235
Current assets					
Receivables and other current assets	7	4,663,499		8,387,447	
Cash at banks and in hand		0		0	
			4,663,499		8,387,447
			37,417,122		37,867,682

	Ref.	December 31, 2006		December 31, 2005	
		EUR'000	EUR'000	EUR'000	EUR'000
<i>Shareholder's equity and liabilities</i>					
Shareholder's equity					
Issued share capital and other reserves	8	2,000		2,000	
Result current year		10,824		10,696	
			12,824		12,696
Long-term liabilities	9		32,552,960		29,548,269
Current liabilities	10		4,851,338		8,306,717
			37,417,122		37,867,682

Profit and loss account 2006

For the year ended December 31,

		2006		2005	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Income from financing activities			2,728,850		2,796,740
Direct costs for financing activities			(2,712,707)		(2,780,602)
Added value			16,143		16,138
General and administrative expenses		(769)		(525)	
Total costs			(769)		(525)
Result on ordinary activities before taxation			15,374		15,613
Taxation on result on ordinary activities	14		(4,550)		(4,917)
Net result after taxation			10,824		10,696

Movement in cash and cash equivalents

Cash and cash equivalents as at January 1

0

22

Increase/(decrease) in cash and cash equivalents

498,124

(1,318,504)

Revaluation

(498,124)

1,318,482

Cash and cash equivalents as at December 31

0

0

Notes to the balance sheet and profit and loss account

1 General

1.1 Activities

The principal activity of the Company consists of external funding and intercompany lending.

1.2 Group Structure

Deutsche Telekom International Finance B. V. with its statutory seat at Strawinskylaan 1243, 1077 XX Amsterdam, is a 100% subsidiary of Deutsche Telekom AG. The Company's financial statements are included in the consolidated financial statements of Deutsche Telekom AG.

1.3 Accounting policies

The financial statements were prepared in accordance with the statutory provisions of Part 9, Book 2, of the Netherlands Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board.

1.4 Changes in accounting policies

In 2006 there were no changes in accounting policies which were effective for the Company.

With effect from 2005, statutory provisions have allowed financial instruments to be measured at fair value. Alternatively, the fair value of financial instruments has to be disclosed in the notes to the balance sheet and profit and loss account. The Board of Management has chosen not to apply recognition of financial instruments at fair value on the balance sheet.

1.5 Notes to the cash flow statement

The presentation of the cash flow has in comparison to last year changed insofar, as the corporate income tax payments and the currency revaluation are shown separately. The values for 2005 have been adapted accordingly.

The cash flow statement has been prepared applying the indirect method. The cash and cash equivalents in the cash flow statement comprise the balance sheet items cash at banks and in hand and the bank overdraft forming part of the current liabilities.

Cash flows in foreign currencies have been translated at the exchange rate of the respective transaction date. Receipts and payments of interest, dividends received and corporate income tax are included in the cash flow from operating activities. Dividends paid have been included in the cash flow from financing activities.

2 Principles of valuation of assets and liabilities

2.1 General

The assets and liabilities are stated at the amounts at which they were acquired or incurred if not specifically stated otherwise. The balance sheet and profit and loss account include references to the notes.

2.2 Comparison with prior year

The principles of valuation and determination of result remain unchanged compared to the prior year.

2.3 Foreign currencies

Transactions denominated in foreign currencies during the reporting period are recognised in the annual accounts at the exchange rate ruling at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the balance sheet date. Exchange results are included in the profit and loss account.

The following exchange rates have been used as at December 31, 2006:

- GBP 100 = EUR 148.966
- USD 100 = EUR 75.8507
- CHF 100 = EUR 62.2351
- CZK 100 = EUR 3.63768
- HUF 1000 = EUR 0.397329

2.4 Tangible fixed assets

Tangible fixed assets are valued at acquisition cost including directly attributable expenses, less straight-line depreciation over the estimated useful economic life, or market value if lower.

2.5 Financial fixed assets

The financial fixed assets consist entirely of loans to group companies and are stated at the nominal value of the amount owed, which normally consists of its face value net of any provisions considered necessary.

2.6 Impairment of fixed assets

On each balance sheet date, the Company tests whether there are any indications of asset being subject to impairment. If any such indications are present, the recoverable amount of the assets is determined.

2.7 *Receivables*

The receivables consist of receivables from affiliated companies with a maturity of less than one year as well as receivables from intercompany clearing accounts. They are stated at the nominal value of the amount owed, which normally consists of its face value net of any provisions considered necessary.

2.8 *Long-term liabilities*

Long-term liabilities are valued at amounts incurred.

2.9 *Disagio / Agio*

The (dis)agio as discount / premium on the proceeds from the nominal amount of the financial instrument received is disclosed separately on the balance sheet. Upon recognition, the (dis)agio is translated into euros, using the foreign currency exchange rate at the transaction date. Subsequently the (dis)agio is amortized over the lifetime of the related financial instrument.

Any (dis)agio included in the issuance of a financial instrument is also incorporated in the internal loan granted from the proceeds of this financial instrument.

2.10 *Financial instruments*

All on-balance sheet financial instruments are valued at cost, usually face value, unless stated otherwise.

Derivative financial instruments (especially forward exchange contracts and interest rate swaps) are initially not recognized nor valued in the balance sheet. The financial effects of these instruments are recognized after expiry of the contract, or upon settlement of the hedged position.

3 Principles for determination of result

3.1 *General*

The result represents the difference between the value of the consideration rendered and the costs and other charges for the year. The results on transactions are recognised in the year they are realised.

3.2 *Revenue recognition*

Revenues and expenses are accounted for in the period to which these items relate.

3.3 *Income from financing activities*

Income from financing activities is determined as interest income received from intercompany financing activities.

3.4 *Direct costs for financing activities*

Costs from financing activities, mainly interest costs, are recognised in and allocated to the reporting year to which they relate. The difference between book value and ultimate redemption value, including interest payable, is linear recognised in the profit and loss account during the term of the loan.

3.5 *General and administrative expenses*

General and administrative expenses include the remuneration of the Management Board and the administration costs.

3.6 *Personnel remuneration*

Salaries and social security costs are charged to the profit and loss account when due, and in accordance with employment contracts and obligations.

3.7 *Depreciation*

Tangible fixed assets are depreciated over their expected useful life as from the inception of their use. Future depreciation is adjusted if there is a change in estimated useful life.

3.8 *Taxation*

Profit tax is calculated on the profit/loss before taxation in the profit and loss account, taking into account any losses carried forward from previous financial years (insofar as these are not included in deferred tax assets), tax-exempt items and non-deductible expenses, and using current tax rates.

4 **Financial instruments**

4.1 *Market risk*

4.1.1 *Currency risk*

The Company's currency risk mainly relates to positions and future transactions in GBP, USD, CHF, CZK and HUF. The currency risk is either hedged directly by entering into a swap agreement or naturally swapped by means of raising the funds in the same currency as the financing provided to the borrowers.

4.1.2 *Price risk*

The Company is not exposed to risks relating to the valuation of securities taken up under financial fixed assets. The company aims, in principle, to fund the financing provided to the borrowers by means of loans with identical maturities. Thereby the company does not incur any exposure due to differences in maturity between funding and financing and thereby does not suffer from price differences.

4.2 Interest rate risk

The Company is exposed to interest rate risk on the interest-bearing receivables and interest-bearing long-term and current liabilities. However, the interest rates on the Company's funding do, in principle, match with the interest rates on the corresponding loans provided by the Company. Any interest rate exposure that does nevertheless arise at the level of the Company is hedged so there will effectively be no interest rate risk at the level of the Company.

4.3 Credit risk

The Company does not have any significant concentrations of credit risk. All funds obtained from the market by the Company are fully guaranteed towards the bank / investor involved by Deutsche Telekom AG, the Company's parent company. Loans are granted to intra-group companies only.

5 Tangible fixed assets

Movements in tangible fixed assets during the financial year were as follows:

	Other tangible fixed assets
	EUR'000
December 31, 2005 book value	21
Movements:	
- Addition	1
- Depreciation	(8)
	(7)
December 31, 2006 book value	14
Accumulated depreciation	(66)
Depreciation percentages	10.00 % to 33.33 %

6 Financial fixed assets

The financial fixed assets consist entirely of loans to affiliated companies. The loans are denominated in EUR, GBP, USD, CHF, CZK and HUF. The loans in foreign currencies are translated into EUR at the rates of exchange prevailing at the balance sheet date, except for the following loans:

- CHF 38,000,000
- CZK 300,000,000
- GBP 16,500,000
- GBP 19,000,000
- GBP 120,000,000
- GBP 150,000,000
- GBP 500,000,000
- HUF 5,000,000,000
- HUF 14,000,000,000
- HUF 20,000,000,000
- HUF 20,000,000,000
- HUF 20,000,000,000
- HUF 20,000,000,000
- HUF 20,000,000,000
- HUF 25,000,000,000
- HUF 28,000,000,000
- HUF 40,000,000,000
- USD 700,000,000
- USD 700,000,000

For these loans the Company has entered into currency swaps. Generally, these derivative contracts have the same maturity as the corresponding loans.

Movements in the financial fixed assets during the financial year were as follows:

	Financial fixed assets
	EUR'000
December 31, 2005 book value	29,480,214
Movements:	
- Additions	11,280,219
- Repayments	(7,612,195)
- Foreign exchange differences	(394,629)
	3,273,395
December 31, 2006 book value	32,753,609

The interest rates on the loans in 2006 vary from 2.37 % to 10.20 %. In 2005 they ranged from 2.32 % to 10.20 %.

7 Receivables and other current assets

The position receivables and other current assets includes receivables from affiliated companies with a maturity of less than one year, interest receivables from affiliated companies and prepaid expenses.

	Dec 31, 2006	Dec 31, 2005
	EUR'000	EUR'000
Receivables from affiliated companies	3,505,452	7,104,063
Interest receivables from affiliated companies	956,541	1,083,199
Prepaid expenses	201,506	200,185
	<u>4,663,499</u>	<u>8,387,447</u>

7.1 Receivables from affiliated companies

The position receivables from affiliated companies contains loans to group companies with a maturity of less than one year as well as receivables from intercompany clearing accounts. The loans to group companies split up as follows:

	Dec 31, 2006	Dec 31, 2005
	EUR'000	EUR'000
CHF	24,918	0
CZK	0	9,509
EUR	1,617,020	6,793,054
GBP	992,666	0
HUF	294,571	301,500
USD	576,277	0
	<u>3,505,452</u>	<u>7,104,063</u>

7.2 Interest receivables from affiliated companies

	Dec 31, 2006	Dec 31, 2005
	EUR'000	EUR'000
Receivables from shareholder	764,740	881,217
Receivables from group companies	191,801	201,982
	<u>956,541</u>	<u>1,083,199</u>

7.3 Prepaid expenses

The breakdown of the prepaid expenses reads as follows:

	Dec 31, 2006	Dec 31, 2005
	EUR'000	EUR'000
Disagio on Bonds issued	157,388	160,115
Disagio on MTNs issued	40,183	35,007
Disagio on Bank loans taken up	66	93
Agio on loan granted	1,169	2,012
Shelf registration fee	2,672	2,924
Other prepaid expenses	28	34
	<u>201,506</u>	<u>200,185</u>

8 Shareholder's equity

8.1 Share capital

The authorised share capital of the company as at December 31, 2006 amounts to EUR 2,268,900 and consists of 5,000 shares of common stock at a par value of EUR 453.78 each. There were no movements in the number of shares in 2006.

The movements in shareholders' equity over 2005 and 2006 are as follows:

	Issued share capital	Other reserves	Result for the year	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Balance as at January 1, 2005	454	34,132	9,840	44,426
Ordinary dividend	0	(32,586)	(9,840)	(42,426)
Result current year	0	0	10,696	10,696
Balance as at December 31, 2005	454	1,546	10,696	12,696

	Issued share capital	Other reserves	Result for the year	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Balance as at January 1, 2006	454	1,546	10,696	12,696
Ordinary dividend	0	0	(10,696)	(10,696)
Result current year	0	0	10,824	10,824
Balance as at December 31, 2006	454	1,546	10,824	12,824

8.2 Appropriation of result 2005

At the General Meeting of Shareholders held on May 11, 2006, the 2005 result was adopted as follows:

	EUR'000
Distributed to holders of ordinary shares (EUR 0 already distributed as interim dividend)	10,696
Result after dividend payment	0

9 Long-term liabilities

The long-term liabilities consist of Bonds, MTNs and loans granted by credit institutions with a maturity of ≥ 1 year. The short-term liabilities are accounted with the current liabilities, specified in note 10.

	2006	2005
	EUR'000	EUR'000
Bonds	21,919,728	21,791,236
MTNs	9,997,875	7,320,410
Loans from credit institutions	635,357	436,623
	<u>32,552,960</u>	<u>29,548,269</u>

9.1 Bonds

The bonds can be specified as follows:

			Dec 31, 2006	Dec 31, 2005
	Term 1 – 5 years	Term ≥ 5 years	Total 2006	Total 2005
	EUR'000	EUR'000	EUR'000	EUR'000
EUR	7,500,000	5,250,000	12,750,000	13,750,000
GBP	0	446,898	446,898	436,623
USD	3,982,162	4,740,668	8,722,830	7,604,613
	<u>11,482,162</u>	<u>10,437,566</u>	<u>21,919,728</u>	<u>21,791,236</u>

In 2006 the interest rates on bonds are both fixed and floating. Fixed interest rates vary from 3.25 % to 9.25 %. There is only one floating rate bond denominated in USD with an interest rate of Libor 3M+18bp.

In 2005 there were only fixed rate bonds and their interest rates varied from 3.25 % to 9.25 %.

Repayment of the principals of these bonds is guaranteed by Deutsche Telekom AG.

9.2 MTNs

The MTNs can be specified as follows

			Dec 31, 2006	Dec 31, 2005
	Term 1 – 5 years	Term ≥ 5 years	Total 2006	Total 2005
	EUR'000	EUR'000	EUR'000	EUR'000
EUR	5,770,800	2,000,000	7,770,800	5,500,000
GBP	365,000	1,862,075	2,227,075	1,820,410
	6,135,800	3,862,075	9,997,875	7,320,410

The interest rates on MTNs in 2006 are both fixed and floating. Fixed interest rates vary from 3.00 % to 7.50 % and the floating interest rates vary from Euribor 3M+10bp to Euribor 3M+44bp. In 2005 these interest rates ranged from 3.00 % to 7.50 % for fixed instruments and Euribor 3M+15bp to Euribor 3M+25bp for variable ones.

One MTN with a nominal amount of 250,000,000 GBP, due in 2010, is swapped to EUR (365,000,000).

Repayment of the principals of the MTNs is guaranteed by Deutsche Telekom AG.

9.3 Loans from credit institutions

The loans granted by credit institutions are denominated in GBP and HUF. The breakdown is as follows:

			Dec 31, 2006	Dec 31, 2005
	Term 1 – 5 years	Term ≥ 5 years	Total 2006	Total 2005
	EUR'000	EUR'000	EUR'000	EUR'000
GBP	446,897	0	446,897	436,623
HUF	0	188,460	188,460	0
	446,897	188,460	635,357	436,623

	<u>Bank loans</u> EUR'000
GBP Loan, 6.765%, due 2008	223,449
GBP Loan, 6.775%, due 2010	223,448
<u>HUF Loan, Bubor 3M + 10 bp</u>	<u>188,460</u>
	<u>635,357</u>

Repayment of the principals of the loans from credit institutions is guaranteed by Deutsche Telekom AG.

10 Current liabilities

The position current liabilities consist of liabilities to affiliated companies, other liabilities and deferred income.

	<u>2006</u>	<u>2005</u>
	EUR'000	EUR'000
Liabilities to affiliated companies	8,029	8,346
Other liabilities	4,454,253	7,851,901
Deferred income	<u>389,056</u>	<u>446,470</u>
	<u>4,851,338</u>	<u>8,306,717</u>

10.1 Liabilities to affiliated companies

	<u>2006</u>	<u>2005</u>
	EUR'000	EUR'000
Guarantee fees	8,029	8,304
Liabilities clearing accounts	<u>0</u>	<u>42</u>
	<u>8,029</u>	<u>8,346</u>

10.2 Other Liabilities

The breakdown of the other liabilities is as follows:

	2006	2005
	EUR'000	EUR'000
Bonds and MTNs with maturity < 1 year	3,500,000	6,788,400
Interest accruals derivatives	104,774	92,802
Interest payable on Bonds	597,636	786,243
Interest on MTNs	246,811	181,907
Interest on bank loans	4,702	1,970
Corporate income tax payable	210	413
Accrued expenses	84	163
Wage tax and other taxes payable	36	3
	4,454,253	7,851,901

The corporate income tax in the profit and loss account is calculated based on the Dutch corporate income tax rate of 25.5% - 29.6%.

10.3 Deferred Income

The breakdown of the deferred income is as follows:

	2006	2005
	EUR'000	EUR'000
Agio on bonds issued	9,645	16,616
Disagio on loans granted	179,518	187,717
Interest compensation	199,893	242,137
	389,056	446,470

11 Financial instruments

Financial instruments valued at cost

The table below shows financial instruments whose market value differs from cost.

	December 31, 2006	
	Market value	Book value
	EUR'000	EUR'000
Bonds < 1 year	2,532,675	2,500,000
MTNs < 1 year	1,009,339	1,000,000
Other bonds	23,445,180	21,919,728
Other MTNs	10,330,785	9,997,875
Bank loans	646,866	635,357
Negative fair value derivatives - interest	(13,843)	0
Negative fair value derivatives - currency	(47,993)	0
Positive fair value derivatives - interest	635,731	0
Positive fair value derivatives - currency	94,976	0

12 Salaries and social security costs

	2006	2005
	EUR'000	EUR'000
Salaries	266	222
Other social security costs	11	10
	277	232
	2006	2005
	EUR'000	EUR'000
Remuneration Management Board	117	107
	117	107
	2006	2005
	EUR'000	EUR'000
Remuneration Supervisory Board	0	0
	0	0

Above-mentioned salaries and social security costs are taken up in the general and administrative expenses.

13 Depreciation of tangible fixed assets

Depreciation

	2006	2005
	EUR'000	EUR'000
Tangible fixed assets (note 5)	8	7
	<u>8</u>	<u>7</u>

14 Taxation on result on ordinary activities

The taxation on result on ordinary activities can be specified as follows:

	2006	2005
	EUR'000	EUR'000
Result from ordinary activities before taxation	15,374	15,613
Taxation on result on ordinary activities	4,550	4,917
Effective tax rate	29.594 %	31.493 %
Applicable tax rate	29.600 %	31.500 %

15 Employees

As at December 31, 2006 the Company employed four persons. (2005: 4)

16 Related parties

No other related party transactions have occurred other than those already disclosed.

Amsterdam, February 28, 2007

The Board of Management:

R. Sheridan

S. Wiemann

The Supervisory Board:

G. Mischke

D. Cazzonelli

Dr. M. Balz

Deutsche Telekom International Finance B.V.
Strawinskylaan 1243
1077 XX Amsterdam

Other information

Profit appropriation according to the Articles of Association

According to article 19.1 of the Articles of Association the profit for the year is at the free disposal of the General Meeting of Shareholders for distributions, reservations or other options within the objects of the Company.

Proposed appropriation of profit

Following the proposed profit appropriation of the Board of Management, and pursuant to article 19 of the Articles of Association, an amount of EUR 10,823,602 will be distributed to the shareholder, awaiting approval of the General Meeting of Shareholders and the Supervisory Board.

Post balance sheet events

No other events occurred since December 31, 2006, which would make the present financial position substantially different from that shown in the balance sheet as that date, or which would require adjustment to or disclosure in the financial statements.

Auditor's report