Deutsche Telekom AG
Annual financial statements and management report as of December 31, 2005

Deutsche Telekom

Contents.

Deutsche Telekom AG's single-entity financial statements and management report for the 2005 financial year are published in the Federal Gazette (Bundesanzeiger) and filed under HRB 6794 with the Commercial Registry of the Bonn District Court.

List of abbreviations.

AktG	Aktiengesetz (Stock Corporation Act)
Arcor	Arcor AG & Co. KG, Eschborn
BPS-PT	Bundes-Pensions-Service für Post und Telekommunikation e.V., Bonn (joint pension fund for civil servants of Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom)
DeTeCardService GmbH	Deutsche Telekom CardService GmbH, Nuremberg
Deutsche Telekom	Deutsche Telekom AG, Bonn
GAS	German Accounting Standard(s)
German GAAP	German Generally Accepted Accounting Principles
DSL	Digital subscriber line
DT Finance	Deutsche Telekom International Finance B.V., Amsterdam
DTBS	Deutsche Telekom Betriebsrenten-Service e.V., Bonn (special pension fund)
DTNetPro	Deutsche Telekom Network Projects & Services GmbH, Bonn
Ernst & Young	Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Stuttgart
Erste DFMG	Erste DFMG Deutsche Funkturm Vermögens-GmbH & Co. KG, Münster
EStG	Einkommensteuergesetz (Income Tax Act)
EU	European Union
EUR	Euro
FAS	Financial Accounting Standard(s)
GBP	Pound sterling
GG	Grundgesetz (Basic Law)
GHS	Group Headquarters & Shared Services
GMG	GMG Generalmietgesellschaft mbH, Münster
GN	Global Networks (business unit transferred from T-Systems Enterprise Services GmbH in 2005 for incorporation into Deutsche Telekom)
GSH	GSH Global Satelliten-Beteiligungs Holding GmbH, Bonn
GSM	GSM mobile communications network
HGB	Handelsgesetzbuch (Commercial Code)
HRK	Croation kuna
HUF	Hungarian forint
ICSS	International Carrier Sales & Solutions (business unit transferred from T-Systems Enterprise Services GmbH in 2005 for incorporation into Deutsche Telekom)
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
Intelsat Ltd.	Intelsat Ltd., Hamilton (Bermuda)
ISDN	Integrated Services Digital Network
IT	Information technology

KfW	Kreditanstalt für Wiederaufbau, Frankfurt/Main
KPI	Key performance indicator
MagyarCom Holding	MagyarCom Holding GmbH, Bonn
MTIP	Mid-Term Incentive Plan
MTN	Medium-term note
MVBS	Marketing Vertrieb Business Services (Marketing/Sales/Business Services business unit)
o.tel.o.	o.tel.o. GmbH, Cologne
PASM	PASM Power and Air Condition Solution Management GmbH & Co. KG, Munich
PLN	Polish zloty
PostPersRG	Postpersonalgesetz (Act concerning the Legal Provision for the Former Deutsche Bundespost Staff)
Powertel	Powertel Inc., Bellevue, Washington/United States
PTNeuOG	Postneuordnungsgesetz (Posts and Telecommunications Reorganization Act)
PwC	PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main
SAR	Stock appreciation right
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
T-Com	A Deutsche Telekom brand
TKG	Telekommunikationsgesetz (Telecommunications Act)
T-Lan	Local area network (a Deutsche Telekom product)
T-Mobile	T-Mobile International AG & Co. KG, Bonn
T-Online	T-Online International AG, Darmstadt
TPG	T-Punkt Vertriebsgesellschaft mbH, Troisdorf
Triple play	Combination of telephony, Internet and TV
TS BS	T-Systems Business Services GmbH, Bonn
TS ES	T-Systems Enterprise Services GmbH, Frankfurt/Main
T-Systems	T-Systems International GmbH, Frankfurt/Main
USD	U.S. dollar
UStG	Umsatzsteuergesetz (Value-Added Tax Act)
VAP	Versorgungsanstalt der Deutschen Bundespost (special pension fund of Deutsche Bundespost)
Vivento	Service provider of Deutsche Telekom AG for personnel and business (legally dependent organizational unit)
VoIP	Voice over Internet protocol (technology enabling telephone calls via the Internet)
WLAN	Wireless Local Area Network

Management Report of Deutsche Telekom AG.

1 Company structure.

Deutsche Telekom AG, hereinafter referred to as Deutsche Telekom, Bonn, is the parent of the Deutsche Telekom Group and also its largest operating legal entity. The Company was registered as Deutsche Telekom AG with the Commercial Registry of the Bonn District Court (Amtsgericht – HRB 6794) on January 2, 1995. Its shares are traded on several stock exchanges, including Frankfurt, New York, and Tokyo. As of December 31, 2005, 62.51 percent of the shares were in free float (2004: 61.97 percent), 15.40 percent were held by the Federal Republic of Germany (2004: 22.74 percent), and 22.09 percent were held by KfW Bankengruppe (2004: 15.29 percent). The shareholding deemed to be held by the Federal Republic amounted to 37.49 percent (2004: 38.03 percent). The change in the shareholdings compared with the previous year relate to the fact that, firstly, the KfW's interest in Deutsche Telekom's capital stock initially declined by around 0.53 percent as a result of the exercise of warrants in April 2005 in connection with the exchangeable bond issued in 2003 and, secondly, KfW acquired shares of Deutsche Telekom held by the Federal Republic in July 2005 amounting to around a 7.33 percent interest under an additional holding arrangement.

The Deutsche Telekom Group is an integrated telecommunications provider that offers its customers worldwide a comprehensive portfolio of state-of-the-art services in the areas of telecommunications and IT. Since early 2005, the realignment of the Group toward the three strategic business areas of Broadband/Fixed Network, Mobile Communications, and Business Customers has superseded the previous structure with the T-Com, T-Mobile, T-Systems, and T-Online divisions. A description of the Group's structure and the development of business at major associated and related companies can be found in the Group management report. The legal entity Deutsche Telekom only consists of parts of the strategic business areas Broadband/Fixed Network and Business Customers as well as of Group Headquarters & Shared Services (GHS). The strategy and the goals of these units within the legal entity Deutsche Telekom are based on the overall strategy of the Deutsche Telekom Group.

- Deutsche Telekom's **T-Com** unit is assigned to the strategic business area Broadband/Fixed Network. T-Com serves consumers and small business customers of the Deutsche Telekom Group as well as the upstream services market. In addition, it handles business with resellers (wholesale business, including resale). T-Com is also responsible for the entire national and international network infrastructure as well as business with international network operators. The concentration of all the national and international wholesale business at T-Com resulted at the beginning of 2005 in the organizational transfer of the technical platforms (Global Network Factory, GN), the international carrier business, and network services from the former T-Systems division to the new Broadband/Fixed Network business area. This transfer took legal effect with the signing of the separation agreement between Deutsche Telekom and T-Systems Enterprise Services (TS ES) in the year under review. As part of this transaction, TS ES transferred the assets of ICSS and GN to Deutsche Telekom internally with effect from midnight on December 31, 2004. As from January 1, 2005, the date on which the seperation took effect, all activities and transactions by TS ES relating to the assets to be transferred will be performed for the account of Deutsche Telekom.

T-Com is seeking to achieve fundamental changes with its Re-Invent program, which is being systematically implemented within the scope of the Excellence Program. The cornerstones of the program are activities for more innovation and growth, measures aimed at increasing efficiency and quality as well as a major change in culture, putting the customer at the center of its actions. For T-Com, expanding its portfolio of integrated products, such as the DualPhone solution, is an important factor in the drive for growth.

One element of the Group's strategic realignment is the merger of T-Online International AG (hereinafter referred to as T-Online) into Deutsche Telekom. The shareholders' meeting of T-Online International AG on April 29, 2005 approved the agreement signed with Deutsche Telekom on March 8, 2005 on the merger of T-Online into Deutsche Telekom. Due to lawsuits filed by several T-Online shareholders against the legality of this approval, the merger can be entered in the commercial registers of the two companies, and therefore completed, as soon as the responsible court issues a legally binding ruling in so-called judicial release proceedings that the lawsuits do not stand in the way of the recording of the merger in the commercial registers (so-called release ruling), or the lawsuits are dismissed or dropped. The Frankfurt/Main Higher Regional Court, as the court of second instance, issued a release decision in February 2006. This decision, however, has not yet become final and conclusive. 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.

- The unit **Group Headquarters & Shared Services** includes all Group units and subsidiaries that cannot be allocated directly to one of the strategic business areas. The main task of Deutsche Telekom's Group Headquarters is the strategic and financial management of the Group. Group Headquarters leads the strategic planning process, adopts goals for the Group and the strategic business areas, and manages their implementation, for example, within the scope of the Excellence Program. In addition, portfolio management determines the key elements of the internationalization strategy and the investment policy of the entire Group, which is primarily focused on the potential for increasing the return on capital employed.

Shared Services is also responsible for all other operating functions that are not directly related to the core business of the strategic business areas. These include in particular Vivento, the real estate business, and fleet management. The main subsidiaries in Shared Services are integrated into Deutsche Telekom by way of control agreements or profit transfer agreements. These include, in particular, DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, GMG Generalmietgesellschaft mbH, DFMG Deutsche Funkturm GmbH, PASM Power and Air Condition Solution Management GmbH & Co KG, DeTeFleet Services GmbH, Vivento Customer Services GmbH, and Vivento Technical Services GmbH.

The purpose of Vivento, the internal personnel service agency, is to systematically qualify and find employment within and outside the Group for staff for whom no economically sensible employment can be found elsewhere within the Group. Aside from systematically qualifying employees for other tasks within the Group, Vivento creates employment prospects in newly developed business lines, for example, in the Call Center or Technical Services units that are to be hived off by 2007. Vivento also uses staff restructuring measures. Furthermore there is potential for increasing efficiency within the management of Vivento which will be exploited systematically.

- The **Business Customers** strategic business area is divided into two business units: T-Systems Enterprise Services, which supports around 60 multinational corporations and large public authorities, and T-Systems Business Services, which serves around 160,000 small and medium-sized business customers. Parts of this business area were assigned to Deutsche Telekom during the period under review. Deutsche Telekom's Marketing/Sales/Business Services (MVBS) unit is assigned to the business unit T-Systems Business Services. MVBS focuses on the definition, the marketing & sales, and the provision of IT and telecommunications services for small and medium-sized business customers. Deutsche Telekom's Billing & Collection unit is assigned to the business unit T-Systems Enterprise Services.

  Billing & Collection is an internal service provider for various units of the Group, managing the business processes of billing, accounts receivable and provision of information. The unit is also responsible for the development, implementation and operation of customer-oriented billing solutions.

Management and supervision

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

Details regarding the new Group structure, the associated functions within the Board of Management, and compensation paid to the Board of Management and Supervisory Board can be found in the Group management report and consolidated financial statements.

Value-oriented management and financial performance indicators

Value-oriented management is focused on the Deutsche Telekom Group and its strategic business areas. The legal entity Deutsche Telekom is not viewed separately for this purpose. Financial management is performed using a system of key figures based on a small number of closely related key performance indicators (KPIs). These performance indicators define the delicate balance of growth, profitability and financial security in which the Group moves when following its primary goal of profitable growth.

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

Dependent company report

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

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

2 Economic environment.

Global economic development

The global economy continued to grow at a rapid pace, although the rate of expansion declined slightly over the past year. Economic stimuli came from both expansionary monetary policy and positive corporate earnings worldwide as well as the resulting increase in capital expenditure. By contrast, economic momentum in the euro zone was sluggish. Although interest rates remained very low, the rising oil price curbed private consumption and corporate investment. Real GDP growth in Germany was estimated at only 0.9 percent in 2005. Growth was primarily driven by export demand, while the lack of domestic stimuli remained a key problem. One reason for this was the high oil price, which impacted real disposable income and, as a result, consumer demand. In addition, the labor market was again very strained.

Telecommunications market

Since the telecommunications sector was fully deregulated at the beginning of 1998, Deutsche Telekom has had to cope with increasingly intense competition. While competition for customers has until now been based first and foremost on per-minute rates, it has since extended to line charges as well. One of the primary forces driving this process is the fact that traditional fixed-network telephony is increasingly being substituted by mobile communications and that competition from telecommunications companies – local loop operators, for instance – is increasing. Technological progress focused primarily on the digitization of the telecommunications networks and broadband transmission. As a result, it is possible to transport larger and larger data volumes in less time. This, in turn, has eliminated the separation between industries and business models that were successful as distinct industries and models and caused applications to begin to converge. The existing structures of the telecommunications and IT industries are changing radically. More and more, new and established technologies are colliding. Sometimes they complement each other; at other times, the old technologies are superseded by the new ones. One of the driving forces behind this successful development is the Internet protocol (IP) – a technology that is used to send and receive data in high-performance broadband networks. New technologies – WLAN, for example – are also becoming established for wireless data transfer.

Broadband/ Fixed Network market

Overall, competition in the German fixed network has further intensified for Deutsche Telekom. In addition to growing competition – on the basis of leased subscriber lines or the companies' own infrastructure – from city network operators, some of which, like Hansenet (a subsidiary of Telecom Italia), are owned by large European telecommunications companies, the impact of fixed-mobile substitution will grow, in part because of the increased market entry of mobile virtual network operators (MVNOs) , i.e., companies that buy network services and market them independently to third parties, pursuing aggressive pricing policies. According to the Federal Network Agency, competitors increased their fixed-network call minutes to a total of 442 million minutes per day (49.3 percent), with Deutsche Telekom's share of 455 million minutes per day (50.7 percent) decreasing further. Overall, the total volume of calls is falling on the back of the increasing shift in Internet call minutes to DSL. Competitors were able to increase their market share of local calls – measured in terms of call minutes – by ten percentage points to 42 percent. Following recent developments, Deutsche Telekom will no longer be considered as holding a monopoly in the area of international calls with effect from November 22, 2005, with the result that – subject to approval by the European Commission – it will no longer be subject to regulation in this area in future. This is due to the decline in Deutsche Telekom's market shares.

The growth of the market for DSL broadband lines continued unabated in 2005. The highly intense competition was dominated by drastic price reductions, increasing bandwidths, and competitors offering bundled services.

Based on estimates in the activity report published by the Federal Network Agency, there would be around 10.4 million DSL broadband lines in Germany at the end of 2005, corresponding to market growth in excess of 50 percent. That means almost one in four households in Germany would have a DSL line. The reasons for this rapid growth are the sharp drop in the prices for ISP flat rate options, bundled services, and the launch of new, innovative products. Under the current conditions, competitors recorded higher growth in customer numbers than Broadband/Fixed Network, which led to a loss in market share for the strategic business area. It can be assumed that the bundling of telephone and broadband line/Internet access services will have a sustained impact on the competitive situation.

Including DSL resale lines, around three-quarters of DSL customers in Germany use DSL lines on the basis of Deutsche Telekom's infrastructure. The main competitive products are provided using Deutsche Telekom's subscriber lines for competitors.

Regulatory influence on Deutsche Telekom's business

Deutsche Telekom's business activities are strongly affected by regulation, combined with extensive powers of government agencies to intervene in the definition of products and pricing. The German Telecommunications Act (Telekommunikationsgesetz – TKG) amended in 2004 stipulates far-reaching regulation for many areas of telecommunications services, and will also form the basis for additional new regulations in 2006, such as extended customer protection.

Under the new TKG, the Federal Network Agency can impose obligations on companies that have significant power on individual markets regarding the services they offer on the market in question. For example, a company may be obliged to offer certain upstream products, the prices of which are subject to the prior approval of the Federal Network Agency. Regulation therefore substantially encroaches on the entrepreneurial freedom of the company concerned.

In applying the new TKG, the Federal Network Agency has not shown any tendency so far to reduce the number of regulated markets. Apart from isolated instances, existing regulatory regimes are retained and even extended to new services and markets that were previously unregulated or are only now emerging. For example, the innovative voice over IP service has now been included in the regulated voice telephony markets. In general, VDSL lines have already been classified as regulated broadband wholesale services, although development of this technology at Deutsche Telekom is still in the pilot phase. The extent to which the expansion of markets subject to regulation will affect Deutsche Telekom's obligations cannot be fully estimated at present, as not all markets have yet been analyzed and only a few regulatory orders have been issued.

3 Development of business in 2005.

Deutsche Telekom's income after taxes increased by EUR 394 million in the year under review. The decrease in net revenue of EUR 899 million was more than offset by a range of positive effects that are explained in detail below.

Results

The following table gives an overview of the results.

	2005		2004		Change
	millions of €	%	millions of €	%	millions of €
Net revenue	23,058	98.8	23,957	98.8	(899)
Changes in inventories and other own capitalized costs	283	1.2	298	1.2	(15)
Total operating performance	**23,341**	**100.0**	**24,255**	**100.0**	**(914)**
Other operating income	4,072	17.4	2,930	12.1	1,142
Goods and services purchased	(4,977)	(21.3)	(5,408)	(22.3)	431
Personnel costs	(6,882)	(29.5)	(6,579)	(27.1)	(303)
Depreciation, amortization, and write-downs	(3,874)	(16.6)	(4,152)	(17.1)	278
Other operating expenses	(7,775)	(33.3)	(7,801)	(32.2)	26
Financial income (expense), net	248	1.1	(4)	0.0	252
Results from ordinary business activities	**4,153**	**17.8**	**3,241**	**13.4**	**912**
Extraordinary losses	(585)	(2.5)	0	0	(585)
Taxes	(293)	(1.3)	(360)	(1.5)	67
Income after taxes	**3,275**	**14.0**	**2,881**	**11.9**	**394**

Deutsche Telekom's net revenues are broken down into the units T-Com, MVBS and Group Headquarters & Shared Services.

The **T-Com** unit generated the greatest proportion of Deutsche Telekom's net revenue (EUR 20.3 billion). T-Com's net revenue fell by EUR 410 million in the year under review. This was the result of various effects. The growth in revenue from broadband lines (including DSL resale) was not enough to offset the reduction in narrowband and call minute revenue. This decrease was the result of price and volume effects. Volume reductions are primarily attributable to losses of market share, in particular to local loop operators, but also to preselection, call-by-call and mobile communications. Prices effects relate mainly to the higher number of calling plans sold and the passing on of price reductions for termination of fixed-network calls in mobile communications networks to the end customer. The revenue decrease in the area of value-added services was mainly caused by the loss of market share for the Premium Rate Services product and a migration from services billed online to services billed offline. Wholesale revenues increased slightly as a result of the higher volume in DSL resale products and subscriber lines, despite price cuts due to regulatory requirements and due to the positive development in the volume of interconnection calls and lines.

T-Com offers network and support services to other Group units and provides them with fixed-network terminal equipment. Revenues generated with other Group units also decreased year-on-year, largely as a result of a decrease in prices and volumes and the transfer of parts of the value chain to the Business Customers business area. In 2005 the exchange of services between T-Systems Business Services GmbH (TS BS) and T-Systems Enterprise Services GmbH (TS ES) was no longer settled via T-Com because TS BS was reallocated to the Business Customers segment at the start of the reporting year. This had a negative impact of EUR 601 million on net revenue at Broadband/Fixed Network.

The transfer of International Carrier Sales & Solutions (ICSS) and Global Network (GN) to Deutsche Telekom in the reporting period and effective January 1, 2005, however, boosted revenues by EUR 733 million.

The decrease in revenues was compensated in part by savings from revenue-related costs such as interconnection services, merchandise, telecommunications services, and raw materials and supplies. T-Com also achieved cost savings in the area of rentals as well as by securing improved logistics procurement conditions and reduced prices for billing services and in the area of IT. However, these positive effects were partly offset by increased personnel costs and higher litigation expenses. These include additions to accruals for voluntary redundancy payments amounting to EUR 519 million.

Net revenue of the unit **MVBS** amounted to EUR 2.8 billion in the year under review, a year-on-year decrease of EUR 489 million as a result of the intense competition on the market and the price adjustments that this entailed. As a result, revenues decreased in the areas of lines/calls and data communication in particular. An increase was recorded, however, in revenues from DSL lines/usage, multimedia/IT, with one-time business in the areas of T-Lan and IT solutions, as well as purchased equipment. The other main factors determining the results of the MVBS unit were personnel costs and other operating expenses. Accruals of EUR 13 million were recognized for voluntary redundancy payments and partial retirement arrangements in the year under review. Other operating expenses amounting to EUR 700 million relate mainly to expenses for postal charges (EUR 239 million), IT (EUR 230 million), and research and development (EUR 55 million).

Only a very small amount of net revenue is generated by **Group Headquarters & Shared Services** (< EUR 0.5 million). The share of Deutsche Telekom's total revenue accounted for by GHS' net revenue is therefore of little significance. The contribution of Group Headquarters & Shared Services to the results from ordinary business activities in 2005 was strongly influenced by the effects of the amendment to the German Federal Posts and Telecommunications Agency Act (Bundesanstalt Post-Gesetz) on Deutsche Telekom. Until now, the deficit of the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse) was to be borne by the successor companies of the former Deutsche Bundespost (which include Deutsche Telekom). This resulted in accruals of around EUR 1.3 billion (as of December 31, 2004) at Deutsche Telekom. An amendment to the Act changed the basis for the financing of the Civil Service Health Insurance Fund and limited the deficit compensation liabilities of the successor companies of the former Deutsche Bundespost. As a result, the major part (EUR 786 million) of the accruals that were regularly recognized in the past could be reversed and reclassified as income, while another portion was used, without impact on income, to build an interest-bearing capital stock to secure the Civil Service Health Insurance Fund's budget stability for the long term (EUR 238 million). The operating results of Group Headquarters & Shared Services were negatively impacted by expenses relating to accruals for voluntary redundancy payments that were recognized as part of planned personnel restructuring measures at Deutsche Telekom (EUR 163 million).

The transfer of the T-Systems Enterprises Services GmbH units ICSS and GN to Deutsche Telekom resulted in an extraordinary loss of EUR 585 million from the offsetting of the additional net assets against the proportional carrying amount of the investment at Deutsche Telekom.

Net worth

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

	Dec. 31, 2005		Dec. 31, 2004		Change in
	millions of €	%	millions of €	%	millions of €
Intangible assets	718	0.7	651	0.6	67
Property, plant and equipment	23,920	23.4	26,011	24.5	(2,091)
Financial assets	67,219	65.7	67,278	63.3	(59)
Noncurrent assets	**91,857**	**89.8**	**93,940**	**88.4**	**(2,083)**
Inventories, materials, and supplies	98	0.1	203	0.2	(105)
Receivables	5,215	5.1	4,398	4.1	817
Other assets, prepaid expenses and deferred charges.	1,175	1.1	1,188	1.1	(13)
Marketable securities	237	0.2	7	0.0	230
Liquid assets	3,457	3.4	6,273	5.9	(2,816)
Current assets	**10,182**	**9.9**	**12,069**	**11.3**	**(1,887)**
Prepaid expenses and deferred charges	274	0.3	276	0.3	(2)
Total assets	**102,313**	**100.0**	**106,285**	**100.0**	**(3,972)**

	Dec. 31, 2005		Dec. 31, 2004		Change in
	millions of €	%	millions of €	%	millions of €
Capital stock and reserves	46,237	45.2	46,217	43.5	20
Unappropriated net income	3,570	3.5	2,881	2.7	689
Shareholders' equity	**49,807**	**48.7**	**49,098**	**46.2**	**709**
Pensions and similar obligations	3,434	3.3	3,679	3.5	(245)
Taxes	597	0.6	982	0.9	(385)
Other accruals	4,270	4.2	4,321	4.1	(51)
Accruals	**8,301**	**8.1**	**8,982**	**8.5**	**(681)**
Debt	2,834	2.8	2,376	2.2	458
Other liabilities	41,346	40.4	45,763	43.1	(4,417)
Liabilities	**44,180**	**43.2**	**48,139**	**45.3**	**(3,959)**
Deferred income	25	0.0	66	0.0	(41)
Total capital	**102,313**	**100.0**	**106,285**	**100.0**	**(3,972)**

Noncurrent assets

The decrease in property, plant and equipment is mainly a consequence of intercompany transfers of property, plant and equipment, disposals of real estate and scheduled depreciation. At Group Headquarters & Shared Services, for example, power supply facilities and other operating facilities were transferred to PASM Power & Air Condition Solution Management GmbH & Co. KG, which was established early in 2005. Continued real estate sales also had an impact.

Of the total investments in property, plant and equipment of EUR 1.6 billion, technical equipment and machinery accounted for EUR 1.1 billion. This amount relates mainly to transmission equipment (EUR 648 million), the outside plant network (EUR 274 million), and other telecommunications equipment (EUR 140 million). In addition, increases of EUR 328 million were recorded under intangible assets, in particular for software purchased, IT projects as part of contracts for work and materials, and for concessions and licenses. After deduction of depreciation of EUR 3.9 billion charged for the year under review, a residual value of EUR 23.9 billion remains for property, plant and equipment at December 31, 2005.

The investment ratio for property, plant and equipment, i.e., the ratio of net investment (additions minus disposals at residual values) to historical cost, increased by 0.1 percentage points to 1.5 percent. The proportion of noncurrent assets in total assets (asset utilization) increased, in particular as a result of the year-on-year decrease in the level of total assets, by 1.4 percentage points to 89.8 percent. Noncurrent assets are covered by shareholders' equity to 54.2 percent (prior year: 52.3 percent).

The main changes in financial assets relate to the purchase of additional shares in T-Online amounting to EUR 1.8 billion. In addition, financial assets decreased by EUR 693 million as a result of the integration of T-Systems units (ICSS and GN) into Deutsche Telekom, by EUR 514 million as a result of the reversal of additional paid-in capital of GSH Global Satelliten-Beteiligungs Holding GmbH, Bonn, and by EUR 500 million as a result of the repayment of a loan granted to T-Systems Enterprise Services GmbH, Frankfurt/Main.

Current assets

Current assets decreased by EUR 1.9 billion year-on-year to EUR 10.1 billion. This was predominantly a result of the EUR 2.8 billion reduction in cash and cash equivalents. The presentation of the Company's financial position includes details of the development of cash and cash equivalents.

The ratio of current assets to total assets (current asset ratio) was 9.9 percent in the year under review, a decrease of 1.4 percentage points as a result of the year-on-year decline in the level of cash and cash equivalents.

Trade receivables and receivables from subsidiaries, which increased by EUR 817 million in the year under review, were the main elements with an offsetting effect. The increase in trade receivables is mainly a result of the integration of the units ICSS and GN into Deutsche Telekom. The growth in receivables from subsidiaries is largely attributable to the increase in profits transferred by T-Mobile International GmbH, Bonn, of EUR 1.1 billion. This is offset by a decrease in profits transferred by T-Systems Enterprise Services GmbH, Frankfurt/Main by EUR 371 million and the non-recurrence of receivables totaling EUR 526 million from the ICSS and GN business units integrated into Deutsche Telekom in 2005.

Shareholders' equity

The increase in the equity ratio from 46.2 percent in the prior year to 48.7 percent in the year under review is attributable both to the increase in the level of shareholders' equity, as a result of the current net income, and to the decrease in the balance sheet total.

Accruals

The decrease in accruals is mainly attributable to a decline in accruals for pensions and similar obligations and the partial reversal of the accrual for risk sharing with the Civil Service Health Insurance Fund. The reduction in accruals for pensions is primarily due to the departure from the measurement method in accordance with SFAS 87 and the adoption of the minimum accrual method in accordance with § 6a of the German Income Tax Act (Einkommensteuergesetz – EStG). The basis for financing the Civil Service Health Insurance Fund was redefined and the deficit compensation obligation of the successor companies of the former Deutsche Bundespost restricted as a result of a change in the law. This made is possible for the majority of the accrual to be reversed and recognized as income.

Liabilities

The decrease in liabilities by approximately EUR 4 billion is predominantly attributable to the decline in payables to subsidiaries. The largest item under payables to subsidiaries is the liability to Deutsche Telekom International Finance B.V., which amounts to EUR 25.1 billion (prior year: EUR 27.8 billion). These liabilities relate mainly to bonds issued by DT Finance. The decrease in liabilities is the result of repayments.

In addition, liabilities to the companies of the T-Mobile group have changed in particular. While the liabilities to T-Mobile International AG & Co. KG, Bonn, rose by EUR 4.3 billion to EUR 5.3 billion, the liabilities to T-Mobile USA Inc., Bellevue/Washington, and T-Mobile Worldwide Holding GmbH, Bonn, were repaid in full. The liabilities to T-Mobile Global Holding GmbH, Bonn, also decreased by EUR 1.2 billion to EUR 598 million.

This is due to the cash pooling for a large number of group companies that was implemented in the Mobile Communications business area during the reporting year. The cash accounts of the companies in the T-Mobile group are now reported at T-Mobile International AG & Co. KG, not at the respective group companies. This explains both the substantial increase in liabilities to T-Mobile International AG & Co. KG and the decrease in liabilities to the aforementioned group companies.

Financial position

The main elements of the statement of cash flows are summarized to elaborate on the Company's financial position. The selected key figures below give a brief overview of Deutsche Telekom's financial position.

	2005 millions of €	2004 millions of €	Change millions of €
Net cash provided by operating activities	5,617	11,144	(5,527)
Net cash used for investing activities	(3,344)	(130)	(3,217)
Net cash used for financing activities	(5,089)	(12,121)	7,032
Net change in cash and cash equivalents	(2,816)	1,107	-
Cash and cash equivalents, at beginning of period	6,273	7,380	-
Cash and cash equivalents, at end of period	3,457	6,273	-

This decrease in net cash provided by operating activities is mainly due to the decline in short-term liabilities and the increase in short-term receivables from subsidiaries. The offsetting change in both balance sheet items resulted in a net cash outflow of EUR 4.7 billion.

Net cash used for investing activities amounted to EUR 3.3 billion. The higher cash outflows for investments of EUR 1.9 billion are attributable to a year-on-year increase in investments in financial assets (EUR 1.8 billion) and property, plant and equipment (EUR 172 million). At the same time, there were lower cash inflows from disposals of property, plant and equipment (EUR 213 million) and higher cash inflows from disposals of financial assets (EUR 350 million). In addition, financial receivables with maturities longer than three months generated a cash outflow of EUR 376 million.

Net cash used for financing activities decreased by EUR 7 billion year-on-year to EUR 5 billion, mainly reflecting the reduction in liabilities and the dividend payment.

Statement on business development in 2005

Despite increasingly intense competition, the 2005 financial year was extremely successful for Deutsche Telekom. The Group achieved its goal of continuing to grow profitably, and concluded its strategic realignment toward the three business areas of Broadband/Fixed Network, Mobile Communications, and Business Customers. This was thanks in part to the Excellence Program which was launched at the start of 2005. This is a three-year Group-wide program supplemented by business area-specific growth programs.

4 Research and development.

Innovation is one of the keys Deutsche Telekom holds to becoming the leading service provider in the European telecommunications and information technology industries. Customer benefit is at the heart of these innovation activities, which is why Deutsche Telekom develops top-quality, highly efficient, innovative products and services to meet the needs of its customers.

In 2005, Deutsche Telekom pooled the central departments Technology & Platforms and Innovation to form Technology & Innovation, a new central department that will harmonize and closely coordinate the strategies for developing new applications and products as well as new network platforms.

This new department manages the technology platforms with which Deutsche Telekom implements its products and services. It defines the strategies for these platforms and ensures coordinated production architectures across all business areas as well as highly efficient work on the production systems. The new department is also responsible for innovation. The Innovation Strategy area is systematically building up its knowledge base on customers, technologies, and markets that it uses to define the innovation strategy in collaboration with Deutsche Telekom's areas of innovation. Innovation management is responsible for the conceptual planning and implementation of new products and also for developing new business models to enhance the innovation activities of the units operating on the market.

Deutsche Telekom has created the new position of Chief Technology Officer (CTO) to head this central department. The CTO is responsible for developing the technology and innovation strategies and manages one of Deutsche Telekom's key innovation tools – Deutsche Telekom Laboratories, Deutsche Telekom's central research and development unit.

Deutsche Telekom has also reorganized its standardization activities. Technology & Innovation has assumed the task of making all standardization activities transparent, knitting them more closely together, and generally managing them across all business areas. This management enables important synergies between the market units to be tapped. The high level of standardization within the Company gives Deutsche Telekom weight on pivotal international committees. These include the European Telecommunications Standards Institute (ETSI), the International Telecommunication Union (ITU), the Internet Engineering Task Force (IETF), the DSL and UMTS Forums, and the Third Generation Partnership Project (3GPP).

In 2005, T-Com set up a new Board department called Innovation. It also established T-Com Innovationsgesellschaft mbH in Berlin in the reporting period. The purpose of this new company is to develop and roll out innovative, ground-breaking business models and products. Another of its goals is to accelerate T-Com's innovation processes.

Deutsche Telekom focuses its innovation strategy on customers and their current and future requirements. In 2005, Deutsche Telekom concentrated on four existing areas and one new area of innovation (the 5i's):

- Inherent Security is the new area of innovation that was added in 2005. It meets customers' needs for end-to-end security in their communications applications. Deutsche Telekom identifies technologies and applications to offer network-based security solutions. Harmful software programs will be stopped before they get near the PC, the connection will be intercept-proof, and the backbone network hardware will be made failsafe. Users will be able to know exactly with whom they are communicating so that they can execute secure transactions or sign agreements, for example.

- Intuitive Usability ensures that services and functions that are often still complicated to use will be easy for all customers to use in the future.

- Intelligent Access ensures that customers are offered the best service available in each situation independent of the terminal device used and without requiring action on their part. Users are no longer required to select a network access manually. Rather, the network gives them automatic access.

- Integrated Communication focuses on relieving people of routine tasks through the automatic technical networking of everyday objects and the automatic integration of electronic object and Internet information.

- Infrastructure Development expands and optimizes technological platforms with the aim of meeting customer needs in terms of bandwidth, mobility, and security as efficiently as possible.

The research and development activities of the centralized innovation unit and Deutsche Telekom Laboratories were driven forward in 2005 to such an extent that significant results have already been integrated into the activities of the market units. The projects transferred to such units had the following focal points: Internet in rapid public transportation, unambiguous user identification by voice, location-based services with full user control over personal data, user-friendly process automation in call centers, modules for semantic media searches, and security models for the transition from Internet Protocol Version 4 to Version 6. The transfer of other development projects has already begun or is currently in preparation.

The central innovation unit and Deutsche Telekom Laboratories concentrate primarily on issues relevant to all business areas and on new technologies that are expected to be launched or ready for the market in two to five years. The Deutsche Telekom units operating on the market are responsible for product innovations that are near to market launch, i.e., within a development timeframe of up to 24 months. These innovation activities are supplemented by Deutsche Telekom's central innovation management unit.

Deutsche Telekom's research and development operations, which were officially opened in April 2005, are developing as planned. In 2005 they implemented Deutsche Telekom's R&D program in line with the specifications laid down in the innovation strategy.

One example of the company's successful development activities is offered by the field of Intuitive Usability, winning the Voice Award in 2005 for innovations in two categories: The award in the Most Innovative Application category was for the most pioneering technical implementation of a German voice application, while the award in the Best Voice User Interface category was for the Customer Service voice portal. It was this portal's ease of use, in particular, that won over the panel.

Last year, Deutsche Telekom and Berlin's Technical University joined forces to set up four endowed chairs at the university. The chairs will investigate four fields of research: Security in telecommunications, Usability, Intelligent networks and management of distributed systems, and Service-centric networking. The appointment and tendering processes for the four professorships were launched in 2005. These will support the management of Deutsche Telekom Laboratories on the scientific side.

Deutsche Telekom Laboratories' partner network was expanded further in 2005. One of the main events was the signing of a research and development agreement with Ben-Gurion University in Israel, one of the world's top universities for research on IT security. In the next few years, the Israeli experts and researchers at Deutsche Telekom Laboratories will work on comprehensive security solutions within the scope of the new Inherent Security area of innovation.

In the reporting period, Deutsche Telekom's market units made a large number of innovations ready for the market. Broadband/Fixed Network rolled out a triple-play offering (i.e., combined telephony, Internet access, and television services) in 2005. This includes DSL telephony and improved transmission procedures for on-demand services that deliver a high-quality movie-viewing experience. Deutsche Telekom has carved out a leading role for itself in online identity management with its new network ID, which enables users to access a wide array of services and partner websites with a single sign-on. At the same time, T-Com doubled the transmission rates for DSL lines to up to 6 Mbit/s. Deutsche Telekom intends to press ahead with this expansion from 2006 onwards with the help of new DSL technologies, and is planning to set up a high-speed broadband network: By developing ADSL2+ technology with bandwidths of up to 20 Mbit/s and using VDSL2 technology, which is increasingly based on fiber optics and uses bandwidths of up to 50 Mbit/s, the Company will make particularly high bit rate lines available to a wider public. This network, which will pave the way for brand new services and applications, will require capital expenditure of around EUR 3 billion.

2005 also saw the announcement of the DualPhone solution, which T-Com is planning to roll out in 2006. The solution allows customers to make high-quality, low-price calls at HotSpots and via the fixed network. If no WLAN service is available, the DualPhone solution switches to the GSM mobile network. Since March 2005 Deutsche Telekom has been using its T-Com House in Berlin to showcase the extent to which future communications and household technologies will make everyday activities more interesting and more convenient. Multiple technical innovations demonstrate what high-tech communication in private households will look like in the future.

Research and development expenditure

In the 2005 financial year, Deutsche Telekom's expenditure for experimental, explorative and pre-production research and development remained unchanged year-on-year at EUR 0.2 billion (2004: EUR 0.2 billion). Typical research and development activities included, in particular, the development of new data transmission processes and innovative telecommunications products. The expenditure relates primarily to the development and adaptation of internally developed software and software platforms and architectures to improve processes for the provision of services and operation of products. As in previous years, the vast majority was attributable to Broadband/Fixed Network. In 2005, more than 580 employees were involved in projects and activities within Deutsche Telekom aimed at creating new products and offering them efficiently to customers.

Patent applications and intellectual property rights

In the telecommunications market, intellectual property rights play an extremely important role, both nationally and internationally. For this reason, Deutsche Telekom focuses intensively on the areas of in-house development and third-party acquisition of such rights.

The number of patent applications increased by 10 percent year-on-year to 412. In 2005, Deutsche Telekom held a total of 6,686 intellectual property rights (inventions, patent applications, patents, utility models, and design models), up almost 12 percent on the previous year. The management of these intellectual property rights at Deutsche Telekom takes into account cost-benefit factors. The portfolio of intellectual property rights is reviewed on a regular basis and those that are no longer relevant are eliminated.

5 Employees.

Deutsche Telekom's human resources strategy in the year under review focused on reducing the personnel cost ratio and on workforce development and culture change. As part of the Excellence Program, more farreaching measures and concepts were developed, aimed at generating a long-term improvement in the personnel cost ratio, i.e., the ratio of net revenue to personnel costs.

As part of its Excellence Program, the Company launched a range of measures aimed at reducing the personnel cost ratio on a long-term basis. The decision was also taken to implement a comprehensive, demand-driven staff restructuring program in Germany over the coming years.

A total of 32,000 employees within Germany are scheduled to leave the Group between 2006 and 2008. This includes about 7,000 employees to 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 Group's alignment toward improved 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 of jobs in the Deutsche Telekom Group over the next three years will therefore be 19,000.

If the roll-out of the high-speed fiber-optic network is threatened by regulatory restrictions in this new market, however, there is a risk that the 5,000 jobs planned for the roll-out may not materialize. The personnel restructuring program will be carried out in a socially considerate way, i.e., on a voluntary basis. Deutsche Telekom will adhere to the agreement reached with the trade unions in 2004 to avoid compulsory redundancies. The cost of the entire program for the Group is about EUR 3.3 billion spread over the next three years.

In 2005, Deutsche Telekom launched the Personnel Productivity project with a view to implementing a number of measures to help optimize the personnel cost ratio. As well as the demand-driven staff restructuring, the project is focusing on Group-wide capacity management to improve the flexibility of staff movements within Deutsche Telekom. Among other things, "round tables" have been established to allow representatives of all the strategic business areas, as well as Vivento, DeTeImmobilien, and T-Punkt Vertriebsgesellschaft, to directly, quickly, and efficiently identify and consolidate any vacancies and surplus staff within Germany. This will improve the transparency of the Group's internal labor market.

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

Employees	2005	2004
Total	106,604	**110,979**
T-Com	80,993	80,383
Group Headquarter & Shared Services	16,184	21,471
Business Customers	9,427	9,125

Vivento – employment rate remains at constantly high level

Thanks to the successful interaction of the four strategic action areas – driving external workforce reduction, filling internal positions with Vivento employees, migrating staff to the Vivento business lines, and pushing ahead with internal projects – approximately 6,120 employees left Vivento during 2005. The employment rate was once again at a high level: Of the around 14,500 employees (excluding Vivento's own staff), some 83 percent were in employment or training at the end of the year.

Innovative projects for increased employment

New avenues are being explored in the search for solutions with good employment prospects:

In 2005, Vivento made a major contribution to the goal of increased employment with the Security project, which was launched in cooperation with DeTeImmobilien and Group Security. This project, under which Vivento staff are deployed as receptionists and security guards at Deutsche Telekom sites, will create around 900 permanent jobs in the Group by the end of 2006. 530 such positions are currently staffed by Vivento employees. The internal staffing of these positions means that contracts with external companies can be gradually terminated, generating annual cost savings in the region of several million euros for the Group. The aim is to install Group employees to perform reception and security services at all Deutsche Telekom sites over the coming months.

A service-oriented direct sales channel for the T-Com business unit was set up in the space of just a few months in the shape of Telekom Direkt (Deutsche Telekom Direktvertrieb und Beratung). Telekom Direkt teams visit selected consumer groups and small business customers at home or at work with the aim of acquiring new customers and enhancing existing customer relationships. At present, 160 employees work for Telekom Direkt, which is staffed by Vivento.

Following the Business Finder competition in 2004, Vivento launched two new employment projects in 2005: Digital Services from Vivento and Vertixx. Digital Services from Vivento offers services for business customers, including automated invoicing, digitization of incoming mail, and digitization and filing of records and invoices. Vertixx provides the full range of online sales services for companies with goods they no longer use, stock, or residual items. Both projects offer good employment prospects.

In addition to employment opportunities within the Company, existing cooperation arrangements with government agencies and other employers – for example, with the German Federal Employment Agency concerning benefits for the long-term unemployed – were expanded. This has opened up new employment options for civil servants in particular.

Human resources development and culture change for improved management quality and heightened service focus

Human resources development and culture change in the past year focused on the STEP up! program (Systematic & Transparent Executive Development Program), a Group-wide initiative for executive development. An innovative component of this program is its end-to-end perspective, which integrates all the steps in the process from the areas of executive development, target management, and personnel marketing. STEP up! creates uniform standards and procedures for executive development to be applied throughout the Group, thus ensuring that development and staffing processes will have a high degree of transparency for all concerned in future.

The Company is committed to a policy of systematically encouraging high achievers and employees with strong potential. The components of this program include performance-related compensation, a stronger focus on filling management positions internally, and the regular identification of optimization potential. Another element is "on-the-job development," with cross-divisional projects giving employees the opportunity to experience the work performed in other areas of the Company. This helps to improve integration, while at the same time illustrating the possibilities for a career move change within the Company.

The STEP up! program is being implemented in phases. The first measures were introduced at the end of 2005. Performance management for the Business Leader Team for 2006 has already been implemented in accordance with the new principles, thus significantly streamlining the target agreement process at Deutsche Telekom, too. The full implementation of the program for all executives – including those at the Group's international subsidiaries – is scheduled to be completed by the end of 2007.

Various human resources development measures will be introduced as part of the personnel restructuring program, too, with the aim of improving customer and service orientation. In fully implementing the executive development system, the Company is ensuring a high level of management quality. For example, skills such as customer orientation and employee development are being included in executives' performance and potential reviews. The new personnel development concepts for executives, requirement driven training measures for new technologies and business areas to support the workforce adjustment, and the staff expansion in T-Punkt stores will all significantly enhance the quality of service in the Company.

Culture change at all levels of the hierarchy

The launch of the T-SPIRIT corporate vision and values in 2003 clearly inspired the thoughts and actions of the Group's employees. This vision is now the driving force behind the culture change within the Company across all levels of the corporate hierarchy. Senior executives are setting an example within Deutsche Telekom, for instance, by participating in the "Five days with the customer" project, which aims to put the Company's top managers in direct contact with customers for five days. Deutsche Telekom's top managers responded to this call and gained practical experience, for example, at a T-Com call center, in the back office, in a T-Punkt store, or at the service and diagnosis point at a technical customer service center.

In September 2005, the Company carried out a uniform employee survey for the first time. Employees were given the opportunity to answer around 70 questions and provide feedback on topics including strategy implementation, customer orientation, cooperation, processes, and T-Spirit. A set of questions common to all surveys was supplemented by business and region-specific questions in the various units. This employee survey was carried out online at Deutsche Telekom for the first time. In total, around 153,000 employees Group-wide, or around 70 percent of Deutsche Telekom's workforce, took part in the survey.

The results of the employee survey in the past financial year are superior to those recorded by comparable companies. In particular, the commitment index, which serves as an indicator of the commitment, motivation, identification, and satisfaction of employees with their employer Deutsche Telekom and its performance, again improved significantly compared with the previous year.

Employee surveys are an established management tool and have been regularly carried out in various forms since 1998. Together with other feedback instruments, employee surveys are a key tool in determining areas requiring improvement within the Company, in the business units, and in the teams. They are used to support the permanent dialog between management and employees in the change process.

Anniversary shares granted to employees

Ten years ago, Deutsche Telekom established itself as an independent stock corporation. Since then, the Group has undergone a fundamental transformation. The former state-owned telephone company has evolved into a global, integrated telecommunications and IT service provider, and its employees have played a key role in this development. To mark this anniversary and as a sign of its gratitude for this successful cooperation, the Company's management set up the "Anniversary shares 2005" employee stock participation plan. Employees from Deutsche Telekom and a total of 75 other Group companies in eight countries participated in the plan. The anniversary shares were offered in all countries in which this was legally possible and economically viable.

From September 12 to September 23, 2005, all participating employees were able to order ten Deutsche Telekom shares at preferential conditions. They received a discount of 50 percent from the lowest price quoted for Deutsche Telekom shares in official trading on a German stock exchange on the date on which the shares were transferred, October 17, 2005. The share price on this date was EUR 15.24. In total, approximately 78,000 employees took up the offer; this represents around 40 percent of those eligible.

Age Management project tackles demographic challenges in the Group

Successfully managing the aging process in the workforce will be one of the major human resources challenges in future. With the Age Management project, the Company is developing measures to support older employees in coping successfully with the demands placed on them, which are evolving at an increasing pace. Key topics include concepts for lifelong learning that are tailored to the respective age groups, and programs aimed at providing effective healthcare support. These will be implemented at Deutsche Telekom in particular due to the age structure of the Company's employees.

The aim of Age Management is to better recognize and optimally develop the potential offered by employees across all age groups.

Deutsche Telekom remains the largest provider of vocational training in Germany

As of September 1, 2005, around 4,000 young people began their training at Deutsche Telekom in four commercial vocations, five technical and industrial/technical vocations, and various dual study programs. The Company has added a new vocational track, namely that of retail sales assistant. Trainees pursuing this track will receive most of their practical training at T-Punkt Vertriebsgesellschaft.

Deutsche Telekom's training goes far beyond its own staff requirements, thus helping combat youth unemployment, for example. Its training programs boast a high level of quality and a large number of participants. Every year, the chambers of commerce number Deutsche Telekom-trained staff among the best in their intake. The top ten percent of graduates from the previous year were offered permanent positions within the Company or the Group in 2005. Deutsche Telekom's total number of trainees in Germany was around 11,440 at the end of 2005.

Deutsche Telekom will continue to take responsibility for the next generation in 2006 by offering around 4,000 young people the opportunity to make a good start to their professional career with a position as a trainee.

6 Sustainability and environmental protection.

All business units of Deutsche Telekom implement the goals of the Group-wide climate protection policy by suitable means in each case. They are supported by PASM, which was established in August 2004 and is responsible for the entire supply of energy-based products to the technical units of Deutsche Telekom. This enables the Company to exploit new savings potential, in terms of both energy consumption and cost, and with regard to CO_2 emissions.

Like Centralized Purchasing in the past, PASM will evaluate the environmental aspects of electricity generation when purchasing power and take its findings into account when awarding contracts to suppliers. This ensures that energy consumption and the CO_2 emissions attributed to us continue to be considered separately, as PASM's and therefore Deutsche Telekom's contribution to global climate protection. Renewable energy certificates for 2006 were purchased for one Terawatt hour (TWh) of power. These certificates serve as documented proof that specific quantities of power consumed are generated in certified production plants using renewable energies.

PASM is planning to replace or modernize its power supply facilities in the coming years. This will substantially increase power conversion efficiency. In ecological terms, this means that fewer energy resources will be used, making for a positive contribution to climate protection.

The number of natural gas-powered vehicles in T-Com's subsidiaries was increased to 410, making consulting visits and the installation and maintenance of equipment more climate-friendly and considerably reducing consumption of fossil fuels. Natural gas is a low-carbon fuel, so it is easier on the environment than gasoline and diesel. Combustion of natural gas releases minimal soot particles and no sulfur oxides. Natural gas-powered vehicles reduce emissions like nitrogen oxides, carbon monoxide, and hydrocarbons as well as noise. Special eco-driving courses are conducted for diesel and gasoline-powered vehicles, in which drivers learn how to use specific driving techniques to minimize fuel consumption.

T-Com's energy efficiency drive proved extremely successful. By the end of December, the business unit had saved 75.63 Gigawatt hours (GWh), thus reaching its year-end target of 54.6 GWh ahead of schedule. This spared the environment to the tune of around 35,800 tons of carbon dioxide, which corresponds to the energy consumption of 18,000 four-person households.

Climate compensation is another means of enhancing climate protection. Greenhouse gases have a global effect. This means that if emissions of greenhouse gases cannot be avoided in a certain place, they can be offset by additional climate protection measures somewhere else.

T-Com's activities in the Hessian Climate Partner initiative drove forward climate protection measures. Standards for climate-neutral products and services were developed in cooperation with other major companies in Germany. Investigations focused on the market potential of these products and services and on determining to what extent consumers are willing to pay for voluntary climate protection.

Deutsche Telekom collaborates with the Supply Chain Working Group (SCWG) of the ICT sector's Global e-Sustainability Initiative (GeSI). This working group has set itself the goal of improving social and environmental processes and the results of the global ICT sector's supply chain. Another of its aims is to develop instruments and processes that simplify the implementation of internationally accepted workplace and environmental standards throughout the entire supply chain. This project incorporates our concept of value that has been laid down in T-Spirit, the Social Charter, and the Code of Conduct of our Company. In the working group, we also comply with internationally applicable standards such as IS0 14001, SA 8000, and other relevant legal requirements such as the WEEE directive (waste electrical and electronic equipment directive) and the RoHS directive (directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment).

7 Risk and opportunity management.

Deutsche Telekom employs a holistic risk and opportunity management system, systematically exploiting the opportunities available to it to achieve its goals, while keeping sight of the associated risks. The Company faces the business challenge of making risks as manageable as possible by means of efficient procedures and appropriate risk awareness. In accordance with the Company's principles of risk management, risks are taken in a controlled manner – and only if an appropriate level of added value can be expected.

The early identification, assessment, and management of risks and opportunities are an integral component of the planning, control, and monitoring systems. Of course, opportunities are viewed primarily in the strategy, innovation, and product development areas. Deutsche Telekom attaches particular importance to detailed market studies, scenarios, projections, relevant drivers, and critical success factors, using them to derive specific potential opportunities for its strategic business areas and markets. In the field of innovation, Deutsche Telekom is focusing on five areas of innovation (see "Research and development.") The successful cultivation of these areas of innovation opens up new opportunities for sustained growth for Deutsche Telekom.

The Company analyzes its risks and opportunities on a regular basis. The "aggregate risk" is determined from the totality of all material risks – and opportunities are not used to offset them in this equation. In addition to risks specific to the strategic business areas, overarching risks are also factored into the calculation of this aggregate risk. These risks include traditional financial risks (see below) as well as risks related to human resources, strategy, regulation, law, and communication.

Issues management, part of corporate communications, provides valuable indicators, in particular of communication risks and opportunities that could ultimately also give rise to financial risks.

An indicator system that captures all material risk fields is used to determine the change in aggregate risk. The individual risks are aggregated into an overall risk potential using combination and simulation processes, taking into account probabilities of occurrence and correlations.

Reporting is on a standard quarterly cycle, but ad hoc reports are also generated in the event of unexpected risks. Individual materiality thresholds for risks are defined for each reporting level. Opportunities must also be reported if they lie below these materiality thresholds or cannot otherwise be quantified (weak signals). Corporate Risk Management is in charge of the methods and systems used for this standardized risk reporting system and ensures that it works efficiently. The Board of Management, Supervisory Board, and Audit Committee receive a risk report on a quarterly basis that informs them about material risks and the overall risk situation in the Group.

Deutsche Telekom attaches particular importance to managing risks arising from financial positions. All treasury activities – in particular the use of derivatives – are subject to the principle of risk minimization. For this purpose, all financial transactions and risk positions are managed in a central treasury system so that Group management can be informed regularly about these positions. Derivative financial instruments are used for the purpose of hedging interest rate and currency exposures which could have an effect on cash flow.

Certain financial transactions require the prior approval of the Board of Management, which is also regularly briefed on the extent and the amount of the current risk exposure. The department performs simulations using different market and worst case scenarios to estimate the effects of different conditions on the market.

Selected derivative and non-derivative hedging instruments are used to hedge market risk, depending on the risk assessment. However, Deutsche Telekom only hedges the risks that affect the Company's cash flows. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes.

The efficiency of risk management processes and compliance with the regulations and guidelines defined in Deutsche Telekom's Risk Management Manual are regularly reviewed by the Corporate Audit department. Within the scope of the legal mandate to audit the Company's annual financial statements, the auditor examines whether the risk management system is able to identify at an early stage risks and developments that could jeopardize the continued existence of the Company as a going concern.

The system ensures that business risks are identified at early on and can be countered actively and effectively. It complies with the statutory requirements for its early warning system and conforms to German corporate governance principles. In July 2005 Deutsche Telekom received the Successful Practice Company award for the quality of its risk management system as part of an international benchmarking study carried out by St. Gallen University.

The risks.

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

Economy and industry

Deutsche Telekom's business development is closely linked to general economic developments. For Germany, the current economic forecasts are now pointing toward a positive trend, although growth in the current financial year is likely to remain below the euro zone average. If economic growth proves lower than expected, this would probably have an adverse effect on both the willingness of business customers to invest, and on consumer spending by Deutsche Telekom's residential customers. This could jeopardize the achievement of the Company's growth targets – for example for higher-value, DSL-based add-on products in the fixed network. If the rate of value-added tax is increased in Germany as planned on January 1, 2007, economic forecasts are likely to be downgraded.

Regulation

Unlike its competitors, Deutsche Telekom is subject to strict regulation in Germany, in particular in areas of fixed-network communications (T-Com), combined with extensive powers of government agencies to intervene in the definition of products and pricing. Deutsche Telekom can only anticipate this intervention to a limited extent, yet it may result in considerable price and competitive pressure.

The amended German Telecommunications Act (Telekommunikationsgesetz – TKG) came into force on June 26, 2004. It gives the Federal Network Agency greater discretion in the design of the regulatory framework. Although deliberations on deregulation have not been completed for all segments of the telecommunications market, it is already clear that the level of regulation for our business will remain high. To date, only services that are of less importance for Deutsche Telekom, such as international calls, have been relieved of regulation.

The Federal Network Agency has a statutory mission to expose to general competition law regulated markets in which sustained competition has evolved. It still has some way to go before it exhausts the deregulation potential in the telecommunications markets.

Over and above the existing government controls, regulation may be extended to markets that have so far been unregulated. These include the emerging area of voice over IP, for example. Planned infrastructure investments – for instance in a fiber optic network as a platform for broadband applications – also run the risk of being subjected to regulatory intervention. The provision of wholesale services for DSL access to competitors in the end-customer market also entails considerable revenue and cost risks. There are also substantial risks that future investments will not pay off and product innovations will not generate any competitive advantage if they must be made available to competitors at the same point in time.

Since the TKG came into force, a range of amendments to extend customer protection, in particular, have been under discussion. Depending on how these amendments are structured, they could entail considerable investment and revenue risks for the industry as a whole.

EU guidelines with regard to the retention of communication data for the purposes of criminal prosecution must be translated into national law within the next year and a half. This will involve investments and costs depending on how the national rules are structured (retention period and extent of data to be retained). The question of whether these costs will be reimbursed is still open.

Competition

Prices for voice communications in the fixed network fell significantly in Germany in recent years, due to fiercer competition and technological progress. Fixed-network telephony is also being substituted by mobile communications.

There is a risk that this trend will continue. The possible reasons for this include extended market coverage by local loop operators; the continuing trend toward bundled products, e.g., combining telephone and DSL flat rates; further substitution on the back of price reductions and flat rates in mobile communications; and convergence products. Another possibility is that cable operators may corner a larger share of the market if they offer attractive triple-play services. Despite the previous loss in market share, Deutsche Telekom believes that it is exposed to the risk of further loss of market shares and falling margins.

T-Online merger

The shareholders' meeting of T-Online International AG on April 29, 2005 approved the agreement signed with Deutsche Telekom on March 8, 2005 on the merger of T-Online into Deutsche Telekom. Several T-Online shareholders filed a lawsuit challenging the legality of the decision of the shareholders' meeting approving the merger. The merger can only be entered in the commercial registers of the two companies, and therefore completed, as soon as the responsible court issues a legally binding ruling in so-called judicial release proceedings that the lawsuits do not stand in the way of the recording of the merger in the commercial registers (so-called release ruling), or the lawsuits are dismissed or dropped. The Frankfurt/Main Higher Regional Court, as the court of second instance, issued a release decision in February 2006. This decision, however, has not yet become final and conclusive.

Any delay in the merger means that planned synergies cannot yet be realized. This means it is not possible to optimally meet the growing demand on the market for a portfolio with fully integrated products, consisting in particular of fixed-network telephony and Internet, potentially supplemented by media content (triple play). This situation, coupled with the multiple contractual relationships and contacts, makes it more difficult to attract and retain customers.

Once the merger of T-Online into Deutsche Telekom has become effective, T-Online shareholders who received Deutsche Telekom shares in return for their T-Online shares in the course of the merger can file a legal challenge to have the exchange ratio laid down in the merger agreement reviewed. During the course of this procedure, the court might, for a variety of reasons, come to the conclusion that the exchange ratio laid down in the merger agreement is too low from the perspective of the T-Online shareholders, and that the T-Online shareholders should therefore be granted a supplementary cash payment.

Investors wishing to own T-Online shares but not Deutsche Telekom shares can sell the Deutsche Telekom shares they receive or can expect to receive in the course of the merger. This could put pressure on the market price of the Deutsche Telekom share.

Products, services, and innovations

As a result of rapid technological progress and increasing technological convergence, there is a possibility not only that new and established technologies or products may complement one another, but that in some cases they may even substitute each other.

Voice traffic may be substituted by VoIP on the basis of new technologies (WLAN, DSL, WiMAx). This would lead to more intensified competition and ultimately to substantially lower prices. Voice over IP could jeopardize our market share and revenues in fixed networks and mobile communications.

Human resources

Deutsche Telekom announced an extensive staff restructuring program for its operations in Germany in October 2005, under which approximately 32,000 employees will leave the Group by 2008. When carrying out this program, Deutsche Telekom will adhere to the agreement with the trade unions not to enforce any compulsory redundancies until the end of 2008 at Deutsche Telekom and to the moratorium on redundancies agreed under the 2004 employment alliance.

Target group-specific measures are planned to implement the staff restructuring. Part of this reduction is to be realized through partial retirement arrangements for salaried employees (non-civil servants). These plans could be put at risk if the new Federal Government changes the law.

There are also plans to motivate salaried employees to leave the Company using severance programs based on voluntary arrangements on both sides. The implementation of these plans will depend on general developments on the labor market and on the details of the voluntary redundancy program.

A critical factor for the overall success of the staff restructuring program will be the availability of a set of instruments for civil servants. A new law would help govern the arrangements for an early retirement model, but the political enforcement of such a new law involves risks. It is assumed that such a corresponding model will be available in 2006. The planned deconsolidation of Vivento subsidiaries also entails risks.

Health and the environment

Electromagnetic fields are repeatedly associated with potential environmental and health damage. This is a controversial issue and the subject of public debate. Existing public acceptance problems relate to networks and the use of terminal equipment and may have an impact on network structure and the intensity of usage. In addition to legal risks, there is also the risk of regulatory measures to implement the precautionary principle.

The World Health Organization has declared that, on the basis of current scientific knowledge, there are no known adverse effects on health below the international threshold standards. Nor does it expect any serious dangers to arise in the future – although it does recommend continued research due to the ongoing scientific uncertainty.

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

IT/telecommunications infrastructure

Deutsche Telekom's production processes are supported by information and telecommunications technology (data centers, switching nodes, transmission systems, etc.) and software applications that are subject to continuous technological development. Disruptions and outages, e.g., due to hacker attacks, sabotage, power failures, natural disasters or other events could have a sustained adverse effect on Deutsche Telekom's internal production processes and customer services (including data/voice traffic and the Internet).

Deutsche Telekom counteracts these risks by employing a large number of measures, including back-up systems and protective systems such as firewalls, virus scanners, and building security. Early warning systems ensure that automated and manual countermeasures can be initiated in the event of disruptions. In addition, efficient organizational and technical emergency procedures are in place to minimize damage. Group-wide insurance programs have also been established to cover operational interruptions and damage to current and noncurrent assets.

Purchasing

As an IT/telecommunications service provider and an operator and provider of IT/telecommunications products, Deutsche Telekom cooperates with a broad variety of suppliers of technical components. It employs a large number of precautionary measures to counteract potential risks, such as supplier default or dependence on individual suppliers. These include global procurement policies and state-of-the-art quality standards to safeguard the supply and procurement process.

Litigation

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

More than 2,000 lawsuits have been filed against Deutsche Telekom in Germany by shareholders who claim to have bought shares of Deutsche Telekom on the basis of the offering prospectuses dated May 28, 1999 and May 26, 2000. Many of these lawsuits also allege improper recognition of the carrying amount of the real estate assets. Several thousand other investors have initiated conciliatory proceedings. Some of these lawsuits are also directed at KfW (formerly Kreditanstalt für Wiederaufbau) and/or the Federal Republic of Germany. The aggregate amount of the claims filed under these lawsuits is approximately EUR 76 million. The Capital Investors Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG), which will apply to these lawsuits, came into force on November 1, 2005. A series of applications for so-called model proceedings have already been filed.

In the arbitration proceedings between the members of the Toll Collect consortium, the consortium itself, and the Federal Republic of Germany regarding disputes relating to the truck toll collection system, Deutsche Telekom received the Federal Republic's statement of claim on August 2, 2005. In the statement of claim, the Federal Republic maintains its claim to lost toll revenues of approximately EUR 3.51 billion plus interest, alleging that it was deceived as to the possible commencement of operations on September 1, 2003. The total of the asserted claims for contractual penalties was increased to approximately EUR 1.65 billion plus interest. The contractual penalties are based on alleged violations of the operator agreement (lack of consent to subcontracting, delayed provision of on-board units and monitoring equipment.)

On May 3, 2005 Deutsche Telekom and T-Mobile International AG & Co. KG were served with a complaint from Vivendi Universal SA. The plaintiff alleges that the defendants unlawfully broke off negotiations on the acquisition of a 48 percent stake in Polska Telefonia Cyfrowa Sp.zo.o in order to then obtain these shares at a lower price. The value in dispute is approximately EUR 2,272 million. The complaint is pending before the Commercial Court in Paris. In connection with this lawsuit, a number of complaints and arbitration proceedings have been initiated in relation to the transfer of shares in Polska Telefonia Cyfrowa Sp.zo.o.

On October 19, 2005, following enforcement proceedings Deutsche Telekom received a claim for damages of approximately EUR 86.10 million from telegate AG. telegate alleges that Deutsche Telekom charged excessive prices for the provision of subscriber data between 1997 and 1999, which resulted in telegate AG having insufficient funds available for marketing measures, thus preventing it from reaching its planned market share. Following enforcement proceedings, Deutsche Telekom received a claim for damages of approximately EUR 328.63 million from Dr. Harisch, also on October 19, 2005. Dr. Harisch alleges that because of the excessive prices for the provision of subscriber data between 1997 and 1999, the equity ratio of telegate AG fell significantly on several occasions, resulting in the need for capital increases. This required Dr. Harisch and another shareholder to release shares from their own holdings, thereby diluting their remaining shareholdings.

Responsibility for providing housing assistance to former employees of Deutsche Bundespost was transferred to Deutsche Post AG in 1995. Deutsche Post AG and Deutsche Telekom differ in opinion regarding the proportion to be reimbursed by Deutsche Telekom for these services. Deutsche Post AG is currently demanding payments from Deutsche Telekom under arbitration proceedings of approximately EUR 139.73 million. Deutsche Telekom has filed counterclaims amounting to EUR 62.58 million, demanding the return of prepayments it had made in 1995 and 1996. Deutsche Post AG and Deutsche Telekom aim to reach an agreement in these proceedings.

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

For further details on the legal disputes relating to the merger of T-Online into Deutsche Telekom, including the status of the release proceedings, please refer to “Company structure” and “T-Online merger.”

Financial risks.

Liquidity risk

The primary instruments used for medium to long-term financing are bonds and medium-term notes (MTNs) issued in a variety of currencies and jurisdictions. The main additions in 2005 were a EUR 3 billion fixed-interest bond, two EUR 500 million MTNs, a USD 668 million European Investment Bank current account credit, and a GBP 250 million MTN. A liquidity reserve in the form of credit lines and cash is maintained to guarantee the solvency and financial flexibility of Deutsche Telekom at all times. Deutsche Telekom signed standardized bilateral credit agreements totaling EUR 16.8 billion for this purpose with various banks in 2005. After varying initial maturities, the bilateral loan agreements will each have a maturity of 36 months that can be extended after 12 months. Spreading the maturities over the year significantly reduces the loan extension risk.

Deutsche Telekom believes that there is only a minor risk that it will have difficulty in accessing the capital markets due to a decline in its ratings.

Credit risk

To reduce the credit risk, the financial instruments are generally entered into only with leading financial institutions whose credit rating is at least BBB+/Baa1. In addition, collateral agreements are used to hedge the credit 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 so-called 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 down to daily calculation. Moreover, 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.

Foreign-currency risk

Foreign-currency risks in the financing area are caused by financial liabilities in foreign currecy. Group Treasury hedges these risks as far as possible. At December 31, 2005, 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. Intercompany 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 December 31, 2005.

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 purchase price exceeds EUR 100 million or equivalent, the Board of Management must make a special decision on how the risk shall be hedged. At December 31, 2005, Deutsche Telekom was not exposed to any significant risks from foreign-currency transactions in the field of investments.

The Company conducts most of its operating activities in euros. This is why the assessment of Deutsche Telekom's exchange-rate risk from ongoing operations is low. As of December 31, 2005, Deutsche Telekom was not exposed to any material foreign-currency risk from its operating activities.

Interest rate risk

Deutsche Telekom is exposed to interest rate risk mainly in the euro zone, the United Kingdom, and the United States. 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 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 debt in the composition specified by the Board of Management.

Sales of shares by the Federal Republic or KfW

The Federal Republic of Germany (which together with KfW holds approximately 37.5 percent of the shares) has announced that it will continue its policy of privatization and intends to sell further equity interests, including shares in Deutsche Telekom, in a manner that does not disrupt the capital markets and with the involvement of KfW.

For shareholders, there is a danger that the sale of a significant volume of Deutsche Telekom shares by the Federal Government or KfW, or speculation to this effect on the markets, could have a negative short-term impact on the price of the Deutsche Telekom share.

Aggregate risk position

The assessment of the aggregate risk position is the outcome of the consolidated analysis of all material individual risks. There are significant potential risks in increased competitive pressure, in the substitution of products and technologies, and in the continued decline in prices. Moreover, there is a risk that regulation will be extended to cover previously unregulated or emerging markets.

The aggregate risk position did not change fundamentally compared with the previous year. As it stands today, there is no risk to the Company's continued existence as a going concern.

Deutsche Telekom's long-term rating by both Standard & Poor's and Moody's improved in 2005 compared with the previous year. The outlook from both rating agencies remains "stable."

The opportunities

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

Innovative bundled products as well as convergence products provide opportunities for Deutsche Telekom. As a large, integrated ICT provider, Deutsche Telekom is not only able to cope with substitution risks better than specialized providers; as an innovation driver it can also offer new bundled products such as triple play on the planned high-speed fiber optic network. For further information, please refer to the "Outlook" section.

By acquiring the Internet rights for the Bundesliga soccer games, the Group can expand its content offerings. In December 2005, Deutsche Telekom, Siemens, and The Boston Consulting Group published a joint study entitled "Economic and political opportunities of the information society." This study finds that Germany has a lot of catching up to do in a number of key aspects of ICT use, including broadband penetration. The authors of the study propose a national ICT master plan to make use of growth potential in the ICT sector. This master plan includes concepts for e-learning, e-government, and e-health that also provide considerable opportunities for Deutsche Telekom.

8 Highlights after December 31, 2005.

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 this new 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, an increase of 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 completed. The Frankfurt/Main Higher Regional Court, as the court of second instance, reached a decision in February 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 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.

9 Outlook[1].

Leading economic research institutes are forecasting positive overall development for Germany in 2006. Aided by favorable conditions internationally, the economic policy measures implemented with the aim of jump-starting the economy will start to take effect. Real gross domestic product will be driven in particular by the expected rise in consumer spending, with the VAT increase that is scheduled for 2007 encouraging buyers to bring forward the purchase of long-lived consumer goods. Rising oil prices, the euro exchange rate, and interest rate development will continue to constitute risk factors. We concur with research institutes' opinion that economic growth will be approximately 1.2 percent in Germany, around 1.8 percent in the euro zone and roughly 3.1 percent worldwide in 2006. In contrast, economic growth will be weaker all-round in 2007.

According to BITKOM, information technology and telecommunications providers are therefore confident on the whole that 2006 will be a growth year, with software companies and IT service providers in particular anticipating higher revenues.

2006 will see Deutsche Telekom invest more heavily in revenue growth. The efforts of the Mobile Communications and Business Customers business areas will have an impact on Deutsche Telekom's income after taxes in the coming years by way of the existing profit transfers of the domestic subsidiaries (T-Mobile International Holding GmbH, T-Systems Business Services GmbH, T-Systems Enterprise Services GmbH).

In 2006, the Broadband/Fixed Network strategic business area will focus on safeguarding and further developing the core voice and access business, and on expanding its broadband business by means of innovative products. Our outlook with respect to future business development is based in part on the expectation that the merger of T-Online into Deutsche Telekom will be completed successfully in 2006. We expect the Business Customers strategic business area to successfully defend its telecommunications business in the Business Services unit in a fiercely contested market.

The traditional fixed-network business will continue to be characterized in 2006 by fixed-mobile substitution, competition-driven loss of market share, price cuts due to regulatory requirements, and the after-effects of the massive fall in prices for ISP rates in the reporting year. Product innovation campaigns and subscriber-driven growth in the broadband area will not be enough to fully offset the decline in revenue resulting from the aforementioned factors. However, we do expect broadband growth and revenue from new products based on new technologies (e.g. voice over IP) to offset this decline as of 2007.

[1] The Outlook contains forward-looking statements that reflect management's current views with respect to future events. Words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "plan," "project," "should" and similar expressions identify forward-looking statements. These forward-looking statements include statements on the expected development of net revenues, adjusted EBITDA, liquidity reserves, gearing, and personnel numbers for 2006 and 2007. Such statements are subject to risks and uncertainties, e.g., economic downturn in Europe or North America, changes in exchange and interest rates, the outcome of disputes in which we are involved, and competitive and regulatory developments. Some uncertainties or other imponderabilities that might influence Deutsche Telekom's ability to achieve its objectives, are described in the "Opportunities and risk management" section in the management report and in the "Forward Looking Statements" and "Risk factors" sections in the Annual Report on Form 20-F and the disclaimer at the end of the annual report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. We do not guarantee that our forward-looking statements will prove corrrect. The forward-looking statements presented here are based on the current structure of our Group, without regard to significant acquisitions, dispositions or business combinations we may choose to undertake (other than the planned merger with T-Online, which we assume for purposes of these forward-looking statements). They are made with respect to conditions as of the date of this document's publication. We do not intend or assume any obligation to update forward-looking statements.

In the DSL new customer business, we expect the merger to generate a sharp rise in the number of lines, including resale. In addition, we plan to establish our triple-play offerings under the motto “Conquer the home.” A major element of this strategy will be the expansion of our high-speed Internet infrastructure, which is scheduled to be rolled out in the 50 largest cities in Germany by the end of 2007, provided such an investment is economically viable in the regulatory environment. Accordingly, this will be one of the key areas of capital expenditure in 2006. The roll-out of the high-speed infrastructure has already begun in 10 cities.

The Broadband/Fixed Network business area is also planning to extend its range of convergent fixed-network/mobile products. For example, the DualPhone solution, which is based on WLAN and GSM technology, will be launched in mid 2006. The solution combines the benefits of fixed-network telephony and mobile communications in a single handset.

All in all, increased market investments in customer acquisition and retention in the Broadband/Fixed Network business area will be necessary in 2006 to ensure sustainable growth.

Based on these underlying assumptions, we currently anticipate a medium-term (i.e. as of 2007) reversal of the total revenue trend due, in part, to current measures.

Statement on the anticipated development of business

In the opinion of the management, Deutsche Telekom enjoys a wide range of opportunities, but is also faced with a number of challenges. The Group is responding to the challenges presented by the changes in its markets with its planned market investments and the measures it has introduced.

Deutsche Telekom aims to be in a position to continue offering its shareholders an attractive dividend in the future. This is largely dependent on the development of income after taxes.

The massive changes in Deutsche Telekom’s market environment – in particular the rapid technological change – are forcing the Company to adapt its workforce structure to market requirements. The reduction will be implemented using both natural fluctuation and voluntary instruments, such as partial retirement arrangements or redundancy payments. For detailed information, please refer to the “Employees” section.

Statement of income for the period from January 1 to December 31, 2005.

	Note	2005 millions of €	2004 millions of €
Net revenue	[1]	**23,058**	**23,957**
Changes in inventories and other own capitalized costs	[2]	283	298
Total operating performance		**23,341**	**24,255**
Other operating income	[3]	4,072	2,930
Goods and services purchased	[4]	(4,977)	(5,408)
Personnel costs	[5]	(6,882)	(6,579)
Depreciation, amortization and write-downs	[6]	(3,874)	(4,152)
Other operating expenses	[7]	(7,775)	(7,801)
Financial income (expense), net	[8]	248	(4)
Results from ordinary business activities		**4,153**	**3,241**
Extraordinary income (loss)	[9]	(585)	-
Taxes	[10]	(293)	(360)
Income after taxes		**3,275**	**2,881**
Unappropriated net income carried forward from previous year		295	2,035
Transfer to retained earnings		(2)	(2,035)
Transfer from treasury stock		2	-
Unappropriated net income		**3,570**	**2,881**

Balance sheet as of December 31, 2005.

	Note	2005 millions of €	2004 millions of €
ASSETS			
Noncurrent assets			
Intangible assets	[11]	718	651
Property, plant and equipment	[12]	23,920	26,011
Financial assets	[13]	67,219	67,278
		91,857	**93,940**
Current assets			
Inventories, materials and supplies	[14]	98	203
Receivables	[15]	5,215	4,398
Other assets	[16]	1,175	1,188
Marketable securities	[17]	237	7
Liquid assets	[18]	3,457	6,273
		10,182	**12,069**
Prepaid expenses and deferred charges	[19]	**274**	**276**
		102,313	**106,285**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	[20]		
Capital stock	[21]	10,747	10,747
- Contingent capital of EUR 1,136 million			
Additional paid-in capital	[22]	24,374	24,354
Retained earnings	[23]	11,116	11,116
Unappropriated net income		3,570	2,881
		49,807	**49,098**
Accruals			
Pensions and similar obligations	[25]	3,434	3,679
Taxes	[26]	597	982
Other accruals	[27]	4,270	4,321
		8,301	**8,982**
Liabilities	[28]		
Debt		2,834	2,376
Other		41,346	45,763
		44,180	**48,139**
Deferred income		**25**	**66**
		102,313	**106,285**

Statement of noncurrent assets.

	Acquisition costs					
	Jan. 1, 2005 millions of €	Changes due to mergers millions of €	Additions millions of €	Disposals millions of €	Reclassi-fications millions of €	Dec. 31, 2005 millions of €
I. Intangible assets						
1. Concessions, industrial and similar rights and assets, and licenses in such rights and assets	1,088	92	228	(324)	146	1,230
2. Advance payments	157	1	100	(6)	(126)	126
	1,245	**93**	**328**	**(330)**	**20**	**1,356**
II. Property, plant and equipment						
1. Land and equivalent rights and buildings including buildings on land owned by third parties	14,368	-	16	(380)	17	14,021
2. Technical equipment and machinery	57,648	467	1,077	(4,008)	226	55,410
3. Other equipment, plant and office equipment	1,734	16	73	(765)	6	1,064
4. Advance payments and construction in progress	350	-	481	(16)	(269)	546
	74,100	**483**	**1,647**	**(5,169)**	**(20)**	**71,041**
III. Financial assets						
1. Investments in subsidiaries	65,898	(716)	2,174	(515)	-	66,841
2. Loans to subsidiaries	1,414	-	31	(820)	-	625
3. Investments in associated and related companies	258	-	-	(84)	-	174
4. Other long-term loans	13	-	-	(1)	-	12
	67,583	**(716)**	**2,205**	**(1,420)**	**-**	**67,652**
Total noncurrent assets	**142,928**	**(140)**	**4,180**	**(6,919)**	**-**	**140,049**

Depreciation and amortization								Net carrying amounts	
Jan. 1, 2005 millions of €	Changes due to mergers millions of €	Additions millions of €	Disposals millions of €	Reclassi-fications millions of €	Transfer from other Group companies millions of €	Write-ups millions of €	Dec. 31, 2005 millions of €	Dec. 31, 2005 millions of €	Dec. 31, 2004 millions of €
594	56	307	(319)	-	-	-	638	592	494
-	-	-	-	-	-	-	-	126	157
594	**56**	**307**	**(319)**	**-**	**-**	**-**	**638**	**718**	**651**
6,773	-	544	(229)	-	1	(89)	7,000	7,021	7,595
39,964	123	2,945	(3,784)	-	4	(3)	39,249	16,161	17,684
1,352	12	78	(571)	-	1	-	872	192	382
-	-	-	-	-	-	-	-	546	350
48,089	**135**	**3,567**	**(4,584)**	**-**	**6**	**(92)**	**47,121**	**23,920**	**26,011**
120	-	126	-	-	-	-	246	66,595	65,778
29	-	-	-	-	-	-	29	596	1,385
156	**-**	**2**	**-**	**-**	**-**	**-**	**158**	**16**	**102**
-	-	-	-	-	-	-	-	12	13
305	**-**	**128**	**-**	**-**	**-**	**-**	**433**	**67,219**	**67,278**
48,988	**191**	**4,002**	**(4,903)**	**-**	**6**	**(92)**	**48,192**	**91,857**	**93,940**

Statement of cash flows.

	Note	2005 millions of €	2004 millions of €
Income after taxes		3,275	2,881
Depreciation and amortization		3,874	4,151
Income tax expense		265	303
Net interest expense		2,336	2,464
Net (gains) losses from the disposal of intangible assets, property, plant and equipment, and financial assets		52	(46)
Results from associated companies		(5)	0
(Increase) decrease in inventories, receivables, other assets, prepaid expenses, and deferred charges		(587)	15,827
Changes in accruals		(1,169)	626
Other noncash income		(1,438)	(2,561)
(Increase) decrease in payables and deferred income		(2,082)	(12,091)
Income taxes paid		(498)	(80)
Dividends received		3,662	2,424
Cash generated from operations		**7,685**	**13,898**
Interest paid		(3,252)	(4,257)
Interest received		1,184	1,503
Net cash provided by operating activities	[29]	**5,617**	**11,144**
Cash outflows for investments in intangible assets		(329)	(295)
Cash outflows for investments in property, plant and equipment		(1,634)	(1,462)
Cash outflows for investments in financial assets		(2,717)	(1,048)
Cash inflows from the disposal of intangible assets		1	1
Cash inflows from the disposal of property, plant and equipment		197	410
Cash inflows from the disposal of financial assets		1,514	1,164
Net change in short-term investments		(376)	1,100
Cash flow used for investing activities	[30]	**(3,344)**	**(130)**
Issuance of short-term debt		5,796	3,169
Repayment of short-term debt		(12,598)	(16,740)
Issuance of medium and long-term debt		7,438	2,211
Repayment of medium and long-term debt		(3,159)	(782)
Dividends paid		(2,586)	0
Proceeds from share offerings		20	21
Net cash used for financing activities	[31]	**(5,089)**	**(12,121)**
Net decrease in cash and cash equivalents		**(2,816)**	**(1,107)**
Cash and cash equivalents, at beginning of year		**6,273**	**7,380**
Cash and cash equivalents, at end of year		**3,457**	**6,273**
Change in cash and cash equivalents		(2,816)	(1,107)

Statement of shareholders' equity.

	Capital stock			Retrained earnings			
	Shares issued and outstanding in thousands	millions of €	Additional paid-in capital millions of €	Treasury stock millions of €	Other retained earnings millions of €	Unappro-priated net income millions of €	Total millions of €
Balance at Jan. 1, 2003	**4,197,752**	**10,746**	**24,319**	**7**	**7,040**	**-**	**42,112**
Dividends for 2002							-
Proceeds from stock options granted			14				14
Transfer from retained earnings							-
Income after taxes						4,069	4,069
Transfer to retained earnings					2,034	(2,034)	-
Balance at Dec. 31, 2003	**4,197,752**	**10,746**	**24,333**	**7**	**9,074**	**2,035**	**46,195**
Dividends for 2003							-
Proceeds from stock options granted	102	1	21				22
Transfer from retained earnings							-
Income after taxes						2,881	2,881
Transfer to retained earnings					2,035	(2,035)	-
Balance at Dec. 31, 2004	**4,197,854**	**10,747**	**24,354**	**7**	**11,109**	**2,881**	**49,098**
Dividends for 2004						(2,586)	(2,586)
Proceeds from stock options granted	224	-	20				20
Transfer from retained earnings							-
Income after taxes						3,275	3,275
Transfer to retained earnings				(2)	2		-
Balance at Dec. 31, 2005	**4,198,078**	**10,747**	**24,374**	**5**	**11,111**	**3,570**	**49,807**

Exchange rates used.

	Annual average rate		Rate at balance sheet date	
	2005 €	2004 €	Dec. 31, 2005 €	Dec. 31, 2004 €
100 Swiss francs (CHF)	64.5951	64.7855	64.2964	64.7880
100 Czech korunas (CZK)	3.3574	3.1363	3.44983	3.2905
1 Pound sterling (GBP)	1.4621	1.4731	1.4554	1.4162
100 Hungarian forints (HUF)	0.4032	0.3977	0.3956	0.4069
100 Indonesian rupiahs (IDR)	0.0083	0.0090	0.0086	0.0079
100 Japanese yen (JPY)	0.7302	0.7439	0.7188	0.7157
100 Malaysian ringgits (MYR)	21.2083	21.1503	22.3684	19.2946
100 Philippine pesos (PHP)	1.4600	1.4337	1.5907	1.3060
100 Polish zlotys (PLN)	24.8608	22.1001	25.9021	24.5255
100 Russian rubles (RUB)	2.8400	2.7915	2.9423	2.6450
100 Singapore dollars (SGD)	48.2920	47.5618	50.8466	44.8853
100 Slovak korunas (SKK)	2.5915	2.4984	2.6399	2.5816
100 Croatian kunas (HRK)	13.5128	13.3372	13.5648	13.0455
1 U.S. dollar (USD)	0.8033	0.8039	0.84496	0.7332

Members of the Supervisory Board of Deutsche Telekom AG in 2005 including seats on the supervisory boards of other companies.

Dr. Klaus Zumwinkel

Member of the Supervisory Board since March, 7 2003

Chairman of the Supervisory Board since March 14, 2003

Chairman of the Board of Management of Deutsche Post AG

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

Member of comparable supervisory bodies of companies in Germany or abroad:

- Morgan Stanley, New York (U.S.), Board of Directors (since 1/2004)

Franz Treml

Member of the Supervisory Board since July, 8 2003

Deputy Chairman of the Supervisory Board since August 21, 2003

Deputy Chairman of ver.di trade union

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

Monika Brandl

Member of the Supervisory Board since November 6, 2002

Member of the Central Works Council at Deutsche Telekom AG, Bonn

- No other seats

Josef Falbisoner

Member of the Supervisory Board since October 2, 1997

- Head of ver.di District of Bavaria
- PSD Bank eG, Munich, Augsburg office (since 6/1994)

Dr. Hubertus von Grünberg

Member of the Supervisory Board since May 25, 2000

Member of the Supervisory Board at Continental Aktiengesellschaft, Hanover, et al.

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

Member of comparable supervisory bodies of companies in Germany or abroad:

- Schindler Holding AG, Hergiswil (Switzerland), Board of Directors (since 5/1999)

Volker Halsch

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

State Secretary, Federal Ministry of Finance, Berlin

- Deutsche Bahn AG, Berlin (since 2/2003)

Lothar Holzwarth

Member of the Supervisory Board since November 6, 2002

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

- PSD Bank RheinNeckarSaar eG (since 1/1996), Deputy Chairman of the Supervisory Board (since 7/2004)

Dr. sc. techn. Dieter Hundt

Member of the Supervisory Board since January 1, 1995

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

- EvoBus GmbH, Stuttgart (since 5/1995)
- Stauferkreis Beteiligungs-AG, Göppingen, Chairman of the Supervisory Board (from 1/1999 to 3/2005)
- SHB Stuttgarter Finanz- und Beteiligungs Aktiengesellschaft, Stuttgart, Deputy Chairman of the Supervisory Board (since 4/1993)
- Stuttgarter Hofbräu Verwaltungs-AG, Stuttgart (since 5/1999), Chairman of the Supervisory Board (from 11/2004 to 8/2005)
- Pensions-Sicherungs-Verein, Cologne, (since 6/2005)

Member of comparable supervisory bodies of companies in Germany or abroad:

- Landesbank Baden-Württemberg, Stuttgart, Administrative Board (since 1/1999)

Waltraud Litzenberger

Member of the Supervisory Board since June 1, 1999

Member of the Works Council at Deutsche Telekom AG, Technical Customer Service Branch Office, Central District, Mainz

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

Michael Löffler

Member of the Supervisory Board since January 1, 1995

Member of the Works Council at Deutsche Telekom AG, Technical Infrastructure Branch Office, Central/Eastern District, Dresden

- No other seats

[1] Supervisory board seats in companies that are members of the same group, as defined in § 100 (2), Sentence 2 AktG

Dr. Thomas Mirow

Member of the Supervisory Board
since January 17, 2006

State Secretary, Federal Ministry
of Finance, Berlin

- No other seats

Hans-W. Reich

Member of the Supervisory Board
since May 27, 1999

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

- Aareal Bank AG, Wiesbaden (since 6/2002), Chairman of the Supervisory Board (since 6/2004)
- Deutsche Post AG, Bonn (since 9/2004)
- HUK-COBURG Haftpflicht-Unterstützungs-Kasse kraftfahrender Beamter Deutschlands a.G., Coburg (since 7/2000)
- HUK-COBURG-Holding AG, Coburg (since 7/2000)
- IKB Deutsche Industriebank AG, Düsseldorf, Deputy Chairman of the Supervisory Board (since 9/1999)
- RAG AG, Essen (from 11/2000 to 2/2005)
- Thyssen Krupp Steel AG (formerly ThyssenKrupp Stahl AG, renamed in 10/2005), Duisburg (since 12/2005)
- ThyssenKrupp Steel Beteiligung AG (formely ThyssenKrupp Steel AG, renamed 10/2005), Duisburg (from 7/2000 to 12/2005)

Member of comparable supervisory bodies of companies in Germany or abroad:

- DePfa Bank plc., Dublin, Board of Directors (since 3/2002)

Prof. Dr.-Ing. Wolfgang Reitzle

Member of the Supervisory Board
since February 10, 2005

Chairman of the Executive Board of
Linde AG, Wiesbaden

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

Dr. jur. Hans-Jürgen Schinzler

Member of the Supervisory Board
since May 20, 2003

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

- Bayerische Hypo- und Vereinsbank AG, Munich (from 3/2003 to 11/2005), Deputy Chairman of the Supervisory Board (from 1/2004 to 11/2005)
- Metro AG, Düsseldorf (since 5/2002)

Member of comparable supervisory bodies of companies in Germany or abroad:

- UniCredit S.p.A., Genoa, Italy (since 1/2006)

Dr. Klaus G. Schlede

Member of the Supervisory Board
since May 20, 2003

Member of the Supervisory Board of
Deutsche Lufthansa AG

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

Member of comparable supervisory bodies of companies in Germany or abroad:

- Swiss International Air Lines AG, Basle, Switzerland (since 9/2005)

Wolfgang Schmitt

Member of the Supervisory Board
since October 2, 1997

Head of Liaison Office, T-Com
Headquarters, Bonn

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

Michael Sommer

Member of the Supervisory Board
since April 15, 2000

Chairman of the German Trade
Union Federation (DGB), Berlin

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

Ursula Steinke

Member of the Supervisory Board
since January 1, 1995

Expert consultant to the Works Council

- No other seats

Prof. Dr. h.c. Dieter Stolte

Member of the Supervisory Board
since January 1, 1995

Former Director General of ZDF
(Zweites Deutsches Fernsehen)

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

[1] Supervisory board seats in companies that are members of the same group, as defined in § 100 (2), Sentence 2 AktG

Bernhard Walter

Member of the Supervisory Board
since May 27, 1999

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

- Bilfinger Berger AG, Mannheim (since 7/1998)
- DaimlerChrysler AG, Stuttgart (since 5/1998)
- Henkel KGaA, Düsseldorf (since 5/1998)
- mg technologies ag, Frankfurt/Main (from 3/1993 to 6/2005)
- Staatliche Porzellan-Manufaktur Meißen GmbH, Meißen, Deputy Chairman of the Supervisory Board (since 1/2001)
- Thyssen Krupp AG, Düsseldorf (from 3/1997 to 1/2005)
- Wintershall AG, Kassel, Deputy Chairman of the Supervisory Board (since 2/2001)

Wilhelm Wegner

Member of the Supervisory Board
since July 1, 1996

Chairman of the Central Works Council at Deutsche Telekom AG, Bonn.

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

Dr. Wendelin Wiedeking

Member of the Supervisory Board
from May 20, 2003 to February 9, 2005

Chairman of the Board of Management of Dr. Ing. h.c. F. Porsche AG, Stuttgart

- No other seats

Member of comparable supervisory bodies of companies in Germany or abroad:

- Novartis AG, Basle (Switzerland)
- Eagle-Picher Industries Inc., Phoenix, Arizona (U.S.)
- Porsche Business Services Inc., Wilmington, Delaware (U.S.)[1]
- Porsche Cars Great Britain Ltd., Reading, England (UK)[1]
- Porsche Cars North America Inc., Wilmington, Delaware (U.S.)[1]
- Porsche Deutschland GmbH, Bietigheim-Bissingen[1]
- Porsche Engineering Group GmbH, Weissach[1]
- Porsche Enterprises Inc., Wilmington, Delaware (U.S.)[1]
- Porsche Financial Services GmbH, Bietigheim-Bissingen[1]
- Porsche Financial Services Inc., Wilmington, Delaware (U.S.)[1]
- Porsche Iberica S.A., Madrid (Spain)[1]
- Porsche Italia S.p.A., Padua (Italy)[1]
- Porsche Japan K.K., Tokyo (Japan)[1]
- Porsche Lizenz- und Handelsgesellschaft mbH, Bietigheim-Bissingen[1]

[1] Supervisory board seats in companies that are members of the same group, as defined in § 100 (2), Sentence 2 AktG

Members of the Board of Management of Deutsche Telekom AG in 2005 including seats on the supervisory boards of other companies.

Kai-Uwe Ricke

Chairman of the Board of Management

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- T-Online International AG, Darmstadt (since 10/2001), Chairman of the Supervisory Board (since 9/2002)
- T-Mobile International AG, Bonn (since 11/2002), Chairman of the Supervisory Board (since 12/2002)
- T-Mobile USA Inc., Bellevue (U.S.), Board of Directors (since 5/2001), Chairman of the Board of Directors (since 8/2004)
- T-Systems Enterprise Services GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 1/2003)
- T-Systems Business Services GmbH, Bonn, Chairman of the Supervisory Board (since 4/2005)
- T-Punkt Vertriebsgesellschaft mbH, Bonn, Chairman of the Supervisory Board (from 4/2004 to 2/2005)

Member of comparable supervisory bodies of companies in Germany or abroad:

- JPMC International Council of JPMorgan Chase & Co., New York (United States) (since 3/2005)

Dr. Karl-Gerhard Eick

Deputy Chairman of the Board of Management, Board member responsible for Finance

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- GMG Generalmietgesellschaft mbH, Münster (since 1/2000), Chairman of the Supervisory Board (since 5/2002)
- Sireo Real Estate Asset Management GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 5/2001)
- DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (since 2/2002)
- T-Mobile International AG, Bonn (since 3/2000)
- T-Online International AG, Darmstadt (since 2/2000)
- T-Systems Enterprise Services GmbH, Frankfurt/Main (since 6/2002)
- T-Systems Business Services GmbH, Bonn (since 12/2005)

Member of comparable supervisory bodies of companies in Germany or abroad:

- Deutsche Bank, Frankfurt (since 8/2004)
- FC Bayern München AG, Munich (since 10/2004)

Dr. Heinz Klinkhammer

Board member responsible for Human Resources

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (since 2/2002), Chairman of the Supervisory Board (since 4/2002)
- GMG Generalmietgesellschaft mbH, Münster (since 6/1996)
- Sireo Real Estate Asset Management GmbH, Frankfurt/Main (since 5/2001)
- T-Mobile International AG, Bonn (since 5/2003)
- T-Online International AG, Darmstadt (since 2/2003)
- T-Systems Enterprise Services GmbH, Frankfurt/Main (since 11/2000)
- T-Systems Business Services GmbH, Bonn (since 12/2005)

Member of comparable supervisory bodies of companies in Germany or abroad:

- Federal Posts and Telecommunications Agency, Bonn, Administrative Board (from 2000 to 11/2005)

René Obermann

Board member responsible for Mobile Communications

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- T-Mobile Deutschland GmbH, Bonn, Chairman of the Supervisory Board (since 6/2002)
- T-Mobile USA, Board of Directors, Bellevue (U.S.) (since 1/2003)

Lothar Pauly

Board member responsible for Business Customers since October 1, 2005

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- Detecon International GmbH, Bonn, Chairman of the Supervisory Board (since 10/2005)

Member of comparable supervisory bodies of companies in Germany or abroad:

- Siemens VDO Automotive AG, Schwalbach (since 7/2001)

Walter Raizner

Board member responsible for Broadband/Fixed Network

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- T-Punkt Vertriebsgesellschaft mbH, Bonn, Chairman of the Supervisory Board (since 2/2005)
- T-Com Innovationsgesellschaft mbH, Berlin (since 9/2005)

Board members who left during 2005:

Konrad F. Reiss

Board member responsible for Business Customers from January 20, 2003 until April 6, 2005 (deceased)

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- DETECON International GmbH, Bonn (since 2/2003), Chairman of the Supervisory Board (from 3/2003 to 4/2005)
- Deutsche Telekom Network Projects & Services GmbH, Bonn (since 9/2005: T-Systems Business Services GmbH, Bonn), Chairman of the Supervisory Board (from 5/2003 to 4/2005)
- T-Venture Telekom Funds Beteiligungs-GmbH, Bonn, Member of the Advisory Board (from 4/2004 to 4/2005)

Summary of accounting policies.

Description of business and relationship with the Federal Republic of Germany

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

The strategic realignment of the Deutsche Telekom Group toward the Broadband/Fixed Network, Mobile Communications, and Business Customers strategic business areas, replacing the previous Group structure with the T-Com, T-Mobile, T-Systems, and T-Online divisions, also resulted in changes at Deutsche Telekom and transfers between the individual areas.

As some of these adjustments affect Deutsche Telekom's figures, the main changes are set forth below.

In the previous reporting period, Deutsche Telekom comprised parts of the T-Com division and Group Headquarters & Shared Services (GHS). In the year under review, Deutsche Telekom consisted of parts of the Broadband/Fixed Network and Business Customers business areas as well as GHS.

As a result of the change in the Group's organization, T-Com now forms part of the **Broadband/Fixed Network** strategic business area.

T-Com is responsible in particular for the Deutsche Telekom Group's fixed-network business and is one of Europe's largest operators in this area. In the upstream services market, T-Com provides network-related services to all strategic business areas of the Deutsche Telekom Group, as well as around 200 network-related telecommunications companies.

In addition, parts of T-Com and GHS were reallocated to the new **Business Customers** strategic business area. MVBS, for example, is now part of the Business Customers strategic business area, not the T-Com business unit. The Billing & Collection unit, which is primarily responsible for billing and receivables management services, has also been transferred from GHS to Business Customers.

GHS consists of Group Headquarters and Shared Services. Deutsche Telekom's Group Headquarters focuses on strategic and cross-divisional management functions. All other operating functions not directly related to the Group segments' core business activities are now the responsibility of Shared Services. These include shared services at Deutsche Telekom and subsidiaries, such as real estate management, fleet management, and Vivento, the service provider for personnel and business.

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

The Federal Republic of Germany's direct and indirect shareholding in Deutsche Telekom amounted to 37.49 percent as of December 31, 2005. In accordance with the letter dated January 10, 2006, the direct shareholding amounts to 15.40 percent (646,575,126 shares); a further 22.09 percent (927,367,390 shares) is held by a federal corporation, KfW, Frankfurt/Main, in accordance with the letter dated January 9, 2006. The Federal Republic administers its shareholding and exercises its rights as a shareholder through a public law entity, the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency), which, following the dissolution of the Federal Ministry of Posts and Telecommunications on December 31, 1997, is subject to supervision by the Federal Ministry of Finance.

The Regulatory Authority for Telecommunications and Posts (the Regulatory Authority) commenced its activities on January 1, 1998. The Regulatory Authority, which was under the authority of the Federal Ministry of Economics and Labor, took the place of the dissolved Federal Ministry of Posts and Telecommunications in supervising the telecommunications sector in Germany, and in this capacity regulated the business activities of Deutsche Telekom. The Second Energy Statutes Reorganization Act entered into force on July 13, 2005. Since then, the Regulatory Authority has been called Federal Network Agency for Electricity, Gas, Telecommunications, Posts and Railways (Federal Network Agency) and is now under the authority of the Federal Ministry of Economics and Technology.

Comparability with prior-year figures following the strategic realignment and other asset transactions

Deutsche Telekom CardService GmbH and the International Carrier Sales & Solutions and Global Network business units of T-Systems Enterprise Services GmbH were integrated into Deutsche Telekom as part of the strategic realignment of the Deutsche Telekom Group.

Deutsche Telekom entered into an agreement with Deutsche Telekom CardService GmbH (DeTeCardService GmbH) on June 21, 2005 relating to the merger of DeTeCardService GmbH into Deutsche Telekom. The merger became effective upon entry in the commercial registers of the companies involved. All of DeTeCardService GmbH's assets were transferred internally to Deutsche Telekom with effect from midnight on June 30, 2005 (merger by absorption). As from July 1, 2005, the date on which the merger took effect, all activities and transactions by DeTeCardService GmbH will be performed for the account of Deutsche Telekom. Deutsche Telekom has rolled over the assets and liabilities carried in DeTeCardService GmbH's closing balance sheet to its annual financial statements (basis rollover).

In 2005, Deutsche Telekom also entered into an agreement with T-Systems Enterprise Services GmbH (TS ES) to take over International Carrier Sales & Solutions (ICSS) and Global Network (GN). This agreement became effective upon approval at TS ES's shareholders' meeting and entry in TS ES's commercial register. The agreement provides for the transfer of the ICSS and GN business units for incorporation into Deutsche Telekom. As part of this transaction, TS ES transferred the assets of ICSS and GN to Deutsche Telekom internally with effect from midnight on December 31, 2004. As from January 1, 2005, the date on which the separation took effect, all activities and transactions by TS ES relating to the assets to be transferred will be performed for the account of Deutsche Telekom. Deutsche Telekom has rolled over the assets and liabilities carried in ICSS's and GN's opening balance sheets to its annual financial statements (basis rollover).

In addition, all facilities for secured power supply and air conditioning system were transferred from Deutsche Telekom to PASM Power and Air Condition Solution Management GmbH & Co. KG (PASM) with effect from January 1, 2005.

On account of the merger with DeTeCardService GmbH, the integration of ICSS and GN, and the transfer of noncurrent assets to PASM, the prior-year figures were not adjusted in the external presentation for reasons of materiality. Where required for greater transparency, the transactions are presented separately in the notes to the individual items in the balance sheet and the statement of income.

Summary of significant accounting principles

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

The balance sheet and the statement of income are prepared in accordance with the classification requirements of § 266 and § 275 HGB.

Contrary to the prior year, the statement of income for the 2005 financial year and subsequent periods is presented using the total-cost format as shown in §275 (2) HGB. This is due to the change in the reporting for the Deutsche Telekom Group. Since the start of the 2005 financial year, Deutsche Telekom's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). In the course of the transition of the Group's reporting, any financial information used internally by Deutsche Telekom since this key date has also been reported in accordance with IFRS. Against this background, using the cost-of-sales method to prepare a statement of income for single-entity financial statements under German GAAP would result in an inordinate amount of extra work, which is why the total-cost format will be used for the classification of the statement of income in Deutsche Telekom's future financial statements under German GAAP.

While the functions of production, selling, and administration are the main criteria behind the classification of the statement of income using the cost-of-sales method, the operating expenses are broken down by types of costs when the total-cost format is used. In general, it is not possible to derive the presentation of expenses under the total-cost format directly from the expenses presented using the cost-of-sales method. A precise evaluation on the basis of the types of costs has been carried out for the transition.

Certain items have been combined for presentation purposes in the balance sheet and the statement of income in order to make the financial statements more informative and understandable. These items are disclosed separately in the notes. In the case of changes in presentation, prior-year amounts are reclassified to conform with the current-year presentation.

The single-entity financial statements of Deutsche Telekom as well as the consolidated financial statements of the Deutsche Telekom Group are published in the Federal Gazette (Bundesanzeiger) and filed under HRB 6,794 with the Commercial Registry of the Bonn District Court. This annual report and the Annual Report on Form 20-F, filed with the SEC due to Deutsche Telekom's listing on the NYSE, are available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

Accounting policies

Net revenue contains all revenues from the ordinary business activities of Deutsche Telekom. For example, these include revenues from the rendering of services and the sale of goods and products that are typical for Deutsche Telekom. Net revenue is recorded net of value-added tax and sales-related reductions. They are recognized in the accounting period concerned in accordance with the realization principle. The activities of the Broadband/Fixed Network strategic business area, which largely comprises the T-Com business unit and accounts for the main proportion of Deutsche Telekom's revenue, are as follows:

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

Research and development costs are expensed as incurred.

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

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

Marketing expenses are expensed as incurred.

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

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

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

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

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

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

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

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

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

Maintenance and repair costs are expensed as incurred.

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

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

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

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

Foreign currency receivables are measured at the lower of the exchange rate applicable on the transaction date or the selling rate applicable at the balance sheet date, as are foreign currency fixed-term deposits included under liquid assets.

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

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

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

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

On account of the change in the financial reporting for the consolidated financial statements and to avoid capital market-related fluctuations in results that are alien to commercial law, accruals for pensions and similar obligations are no longer recognized in accordance with SFAS 87. Instead, the provisions of commercial law are brought into line with the measurement regulations under tax law in accordance with § 6a EStG. This change in the measurement method results in income of EUR 115 million from the reversal of accruals.

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

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

Accruals are not discounted, with the exception of pensions and similar obligations as well as civil service health insurance fund accruals for future shortfalls, accruals for partial retirement, accruals for jubilee payments, and accruals for bridging allowances.

Liabilities are recognized at the higher of nominal value or repayment amount. In instances where the repayment amount of a liability is greater than the principal amount, the difference is recorded under prepaid expenses and deferred charges, and distributed over the term of the liability. Foreign currency liabilities are carried at the higher of the exchange rate applicable on the transaction date or the buying rate applicable at the balance sheet date.

In line with the imparity principle, unrealized losses relating to **derivative financial instruments** that do not qualify for hedge accounting are recognized when incurred, whereas unrealized gains are deferred until realized.

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

Notes to the statement of income.

[1] Net revenue

Revenue by area of activity.

	2005 millions of €	2004 millions of €
Broadband/Fixed Network	20,283	20,693
Business Customers	2,775	3,264
Group Headquarters & Shared Services	0	0
	23,058	23,957

Deutsche Telekom's Broadband/Fixed Network strategic business area, which primarily comprises parts of the T-Com business unit, experienced offsetting effects. While falling prices further accelerated the dynamic growth in the broadband market, narrowband lines continued their downward trend. This is due in particular to customer churn and, in part, fixed-mobile substitution.

In 2005 the exchange of services between T-Systems Business Services GmbH (TS BS) and T-Systems Enterprise Services GmbH (TS ES) was no longer settled via T-Com because TS BS was reallocated to the Business Customers segment at the start of the reporting year. This reduced Broadband/Fixed Network revenues by EUR 601 million.

The transfer of ICSS and GN to Deutsche Telekom, however, boosted revenues by EUR 733 million.

Deutsche Telekom's revenue in the Business Customers business area decreased slightly. The largest share of revenue was generated by Network Communications (EUR 1.4 billion). In this area, revenues from lines/calls declined due to competition in the market and related price adjustments. Higher DSL revenues only partly offset this trend. Data Communications revenues (EUR 609 million) fell year-on-year, principally as a result of price adjustments for digital standard leased lines and portfolio restructuring. By contrast, Multimedia/IT revenues increased by EUR 302 million, mainly due to one-time contracts in the T-Lan and IT Solutions areas.

Revenue by geographic area.

	2005 millions of €	2004 millions of €
Domestic	22,514	23,957
International	544	0
	23,058	23,957

International revenues in 2005 were generated exclusively by ICSS and GN and are thus to be allocated to the Broadband/Fixed Network strategic business area.

[2] Changes in inventories and other own capitalized costs

	2005 millions of €	2004 millions of €
Decrease in inventories of work in process	(3)	(5)
Own capitalized costs	286	303
	283	298

Own capitalized costs mainly relate to planning services. The change in 2005 is due to the introduction of new technologies such as HotSpots and T-Home-Speed, as well as to the sharp decline in outsourcing to third parties.

[3] Other operating income

	2005 millions of €	2004 millions of €
Reversal of accruals	1,558	443
Income from rental and lease agreements	894	1,091
Cost reimbursements	502	566
Bonuses from asset-backed securitization	206	197
Ancillary services	135	53
Income from foreign currency transaction gains	113	70
Income from write-ups of noncurrent assets	93	29
Income from the disposal of noncurrent assets	79	162
Income from insurance compensation	78	37
Income from derivatives	64	13
Income from reversal of valuation adjustments	34	50
Income from the elimination of liabilities	25	22
Refund of value-added tax (§ 15a Value-Added Tax Act – UStG)	5	30
Other income	286	167
	4,072	**2,930**

The higher income from the reversal of accruals is mainly due to the change in the method used to measure pension accruals. Now, the provisions of commercial law are brought into line with the measurement regulations under tax law in accordance with § 6a EStG. Accruals of EUR 786 million were also reversed to reduce the risk settlement payments to the Civil Service Health Insurance Fund.

Findings of real estate appraisals resulted in the reversal of accruals for risks related to real estate (EUR 118 million).

Tax accruals of EUR 310 million were also reversed.

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

EUR 43 million of the income from the disposal of noncurrent assets relates to the disposal of property, plant and equipment (prior year: EUR 159 million) and EUR 35 million to income from the disposal of financial assets (prior year: EUR 3 million).

Of the total amount of other operating income, EUR 1.7 billion is attributable to other accounting periods (prior year: EUR 707 million). The income from other accounting periods resulted in particular from the reversal of accruals (EUR 1.5 billion), the disposal of noncurrent assets (EUR 78 million), and the reversal of adjusted accounts receivable (EUR 27 million).

[4] Goods and services purchased

	2005 millions of €	2004 millions of €
Goods purchased		
Raw materials and supplies	162	175
Goods purchased	316	429
	478	**604**
Services purchased		
Domestic network access charges	2,371	2,447
International network access charges	683	489
Other services	1,445	1,868
	4,499	**4,804**
	4,977	**5,408**

The decrease in goods purchased is mainly due to the streamlining of the merchandise portfolio as part of the realignment toward the Group's strategic business areas.

Lower domestic network access charges are principally the result of price reductions for the settlement of termination services with mobile communications operators and are slightly offset by higher volumes.

The increase in international network access charges is mainly attributable to the tarnsfer of ICSS and GN to Deutsche Telekom.

Other services declined in particular due to the discontinuation in 2005 of the settlement of services between T-Systems Business Services GmbH (TS BS) and T-Systems Enterprise Services GmbH (TS ES) via T-Com amounting to EUR 601 million (see [1]).

Energy expenses increased by EUR 252 million, however, due to the purchase of energy provided by PASM to operate the systems used for the provision of communications services. In the prior year, this was settled via GMG and reported under other operating expenses.

[5] Personnel costs/Average number of employees

	2005 millions of €	2004 millions of €
Wages and salaries	**5,332**	**4,727**
Social security contributions and expenses for pension plans and benefits		
Payments to Bundes-Pensions-Service für Post und Telekommunikation e.V.	862	911
Social security contributions	480	519
Expenses for pension plans for non-civil servants	63	273
Health care expenses	145	149
	1,550	**1,852**
	6,882	**6,579**

The increase in expenses for wages and salaries is primarily due to the addition of EUR 682 million to the accruals for staff adjustments.

The collectively agreed wage increase of 2.7 percent for non-civil servants that took effect on January 1, 2005, and the 1.5 percent salary increase for civil servants that took effect on February 1, 2005, also increased expenses for wages and salaries. By contrast, expenses fell on account of the decline in the average number of employees.

Expenses for pension plans and benefits in 2005 amounted to EUR 925 million (prior year: EUR 1.2 billion). The decrease in expenses is attributable to the change in the method used to measure pension accruals.

The average number of employees developed as follows:

	2005 Number	2004 Number
Civil servants	46,525	48,536
Non-civil servants	61,902	66,612
	108,427	**115,148**
Trainees and student interns	10,162	9,928

In the 2005 financial year, the average number of employees decreased by 5,8 percent as a result of staff adjustment measures and transfers.

[6] Depreciation, amortization and write-downs

	2005 millions of €	2004 millions of €
Depreciation and amortization		
Amortization of intangible assets	307	303
Depreciation of property, plant and equipment	3,317	3,704
	3,624	4,007
Write-downs		
in accordance with § 253 (2) sentence 3 HGB	250	145
	3,874	4,152

Depreciation of property, plant and equipment decreased in the reporting year by EUR 387 million, due to the lower level of capital expenditure in prior years, intercompany transfers, and disposals of technical equipment and machinery. Of this figure, assets amounting to EUR 338 million were transferred from Deutsche Telekom to PASM.

Nonscheduled write-downs increased by EUR 105 million in 2005. A valuation adjustment for buildings and land was charged for buildings for which no further business use is planned.

[7] Other operating expenses

	2005 millions of €	2004 millions of €
Rental and leasing expenses	1,697	2,164
IT support	1,176	1,173
Marketing expenses	1,147	897
Maintenance and repair	703	642
Research and development	489	493
Legal and consulting fees	447	406
Losses on accounts receivable and provision for doubtful accounts	391	440
Postal and freight charges	288	289
Other employee-related costs	216	220
Losses on the disposal of noncurrent assets	131	116
Foreign currency transaction losses	90	86
Travel expenses	71	63
Donations	54	25
Incidental expenses of monetary transactions	39	46
Insurances	37	39
Reimbursements	29	53
Other expenses	770	649
	7,775	7,801

The rental and leasing expenses primarily result from the leaseback of buildings and land from GMG Generalmietgesellschaft mbH, Münster (GMG). The decrease in rental and leasing expenses is partly attributable to the service provider PASM, which started providing infrastructure services to Deutsche Telekom in 2005. All energy supply services provided by PASM to operate the systems used for communication services are recorded under goods and services purchased in the amount of EUR 372 million.

Marketing expenses include commission on sales in the amount of EUR 748 million (prior year: EUR 501 million). The increase in commission on sales is principally due to the hiving off of over-the-counter trading to T-Punkt Vertriebsgesellschaft mbH (TPG), resulting in the payment of commission fees to TPG.

Losses on the disposal of noncurrent assets mainly relate to the disposal of property, plant and equipment (EUR 91 million).

Losses on accounts receivable and provision for doubtful accounts include a discount for credit risks from the asset-backed securitization in the amount of EUR 104 million (prior year: EUR 163 million).

Of the other operating expenses, EUR 102 million (prior year: EUR 116 million) relates to other accounting periods. The entire amount relates to the disposal of noncurrent assets.

[8] Financial income/expense, net

	2005 millions of €	2004 millions of €
Income related to subsidiaries, associated and related companies of which to subsidiaries: € 301 million; prior year: € 456 million	307	463
Income from profit transfer agreements of which from tax allocations: € 0 million; prior year: € 1 million	3,099	2,201
Expenses arising from loss transfers	(692)	(198)
Income related to associated and related companies	**2,714**	**2,466**
Income from debt securities and long-term loan receivables of which to subsidiaries: € 37 million; prior year: € 84 million	53	86
Other interest and similar income of which from subsidiaries: € 116 million; prior year: € 119 million	249	266
Interest and similar expense of which to subsidiaries: € 2,139 million; prior year: € 2,084 million	(2,638)	(2,816)
Net interest expense	**(2,336)**	**(2,464)**
Write-downs on financial assets and marketable securities	**(130)**	**(6)**
	248	**(4)**

Income related to subsidiaries, associated and related companies mainly relates to dividends from HT – Hrvatske telekomunikacije d.d., Zagreb (EUR 127 million); Slovak Telecom, a.s., Bratislava (EUR 56 million); T-Online International AG, Darmstadt (EUR 44 million); Deutsche Telekom International Finance B.V., Amsterdam (EUR 42 million); and Erste DFMG Deutsche Funkturm Vermögens GmbH & Co. KG, Münster (EUR 25 million).

Income from profit transfer agreements primarily relates to T-Mobile International Holding GmbH, Bonn (EUR 2.2 billion); DFMG Holding GmbH, Bonn (EUR 258 million); MagyarCom Holding GmbH, Bonn (EUR 175 million); T-Systems Enterprise Services GmbH, Bonn (EUR 154 million); and DeTeMedien, Deutsche Telekom Medien GmbH, Frankfurt/Main (EUR 114 million).

Expenses arising from loss transfers mainly relate to GMG Generalmietgesellschaft mbH, Münster (EUR 229 million); Toll Collect GbR, Berlin (EUR 158 million); and Vivento Customer Services GmbH, Bonn (EUR 154 million). The loss absorption obligations assumed for Toll Collect GbR, Berlin, have been accrued.

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

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

Write-downs on financial assets and marketable securities principally relate to the write-downs on the carrying amounts of the investments in Vivento Customer Services GmbH, Bonn (EUR 108 million), and in Vivento Technical Services GmbH, Bonn (EUR 18 million).

[9] Extraordinary loss

All assets and liabilities were transferred in the course of the integration of the T-Systems Enterprise Services GmbH (TS ES) business units ICSS and GN. The acquisition costs of these units, determined in accordance with general exchange principles (Tauschgrundsätze), correspond to the proportion of the net carrying amount of the investment of TS ES. This transaction generates negative goodwill as the acquisition costs of the two business units exceed the value of the assets transferred. The option under German commercial law to capitalize the goodwill was not exercised. The resulting loss of EUR 585 million is reported under extraordinary expenses.

[10] Taxes

	2005 millions of €	2004 millions of €
Income taxes		
Current income taxes	241	351
Tax allocations	24	(48)
	265	303
Other taxes	**28**	57
	293	360

The German Reductions of Tax Concessions Act (Steuervergünstigungsabbaugesetz) introduced a limitation on the use of loss carryforwards for corporate income tax and trade tax purposes with effect from 2004. As in the prior year, Deutsche Telekom incurred corporate income tax and trade tax in the year under review, despite the continued existence of net operating loss carryforwards.

Expenses from tax allocations relate primarily to settlements for prior years with T-Mobile Deutschland GmbH within the trade tax fiscal unity.

Notes to the balance sheet.

[11] Intangible assets

	Dec. 31, 2005 millions of €	Dec. 31, 2004 millions of €
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	592	494
Advance payments	126	157
	718	**651**

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

[12] Property, plant and equipment

	Dec. 31, 2005 millions of €	Dec. 31, 2004 millions of €
Land and equivalent rights and buildings including buildings on land owned by third parties	7,021	7,595
Technical equipment and machinery	16,161	17,684
Other equipment, plant and office equipment	192	382
Advance payments and construction in progress	546	350
	23,920	**26,011**

Property, plant and equipment decreased by EUR 2.1 billion year-on-year as a result of intercompany transfers of property, plant and equipment, real estate disposals, and depreciation.

Expenditure on property, plant and equipment in the 2005 financial year amounted to EUR 1.6 billion (prior year: EUR 1.5 billion). Capital expenditure relates primarily to switching and transmission equipment amounting to EUR 648 million (prior year: EUR 693 million), and to the outside plant network amounting to EUR 274 million (prior year: EUR 257 million).

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

[13] Financial assets

	Dec. 31, 2005 millions of €	Dec. 31, 2004 millions of €
Investments in subsidiaries	66,595	65,778
Loans to subsidiaries	596	1,385
Investments in associated companies	13	39
Other investments in related companies	3	63
Other long-term loans	12	13
	67,219	**67,278**

Investments in subsidiaries increased in particular as a result of the purchase of shares in T-Online International AG, Darmstadt (EUR 1.8 billion) and the transfer of facilities for securing the power and air conditioning supply to PASM Power and Air Condition Solution Management GmbH & Co. KG, Munich (EUR 338 million).

The transfer of the units ICSS and GN of T-Systems Enterprise Services GmbH, Frankfurt/Main to Deutsche Telekom had a downward impact of EUR 693 million on investments in subsidiaries. The release of additional paid-in capital of GSH Global Satelliten-Beteiligungs Holding GmbH, Bonn also had a negative impact of EUR 514 million.

Loans to subsidiaries primarily include loans to T-Systems Enterprise Services GmbH, Frankfurt/Main (EUR 500 million); T-Systems North America Inc., New York (EUR 37 million); and T-Systems Austria GesmbH, Vienna (EUR 18 million). The decrease relates in particular to T-Systems Enterprise Services GmbH, Frankfurt/Main (EUR 500 million) and T-Mobile USA, Inc., Bellevue (EUR 211 million).

The **investments in associated companies** decreased by EUR 26 million, in particular a result of the disposal of digame.de GmbH, Cologne.

The reduction in **other investments in related companies** of EUR 58 million is mainly attributable to the disposal of Intelsat Ltd., Hamilton.

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

[14] Inventories, materials and supplies

	Dec. 31, 2005 millions of €	Dec. 31, 2004 millions of €
Raw materials and supplies	22	144
Work in process	6	9
Merchandise	70	50
	98	203

Raw materials and supplies mostly include modules for data communications equipment and telecommunications cables, spare parts, and components for telecommunications equipment.

The decrease in raw materials and supplies is mainly due to the reclassification as noncurrent assets of inventories used for investment or maintenance.

[15] Receivables

	Dec. 31, 2005 millions of €	Dec. 31, 2004 millions of €
Trade accounts receivable (of which with a remaining maturity of more than one year: € 0 million; prior year: € 0 million)	1,185	912
Receivables from subsidiaries (of which with a remaining maturity of more than one year: € 0 million; prior year: € 0 million)	4,025	3,475
Receivables from associated and related companies (of which with a remaining maturity of more than one year: € 0 million; prior year: € 0 million)	5	11
	5,215	4,398

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

Since their transfer, ICSS's and GN's trade accounts receivable have been reported at Deutsche Telekom. They amount to EUR 101 million at the balance sheet date.

As a result of the merger of DeTeCardService into Deutsche Telekom as of July 1, 2005, trade accounts receivable increased by EUR 17 million at the merger date.

The receivables from subsidiaries mainly relate to receivables from T-Mobile International Holding GmbH, Bonn (EUR 2.2 billion); T-Mobile (UK) Limited, Hertfordshire (EUR 678 million); T-Systems Enterprise Services GmbH, Frankfurt/Main (EUR 288 million); T-Systems Business Services GmbH, Frankfurt/Main (EUR 287 million); and Deutsche Funkturm GmbH, Münster (EUR 108 million).

The growth in receivables from subsidiaries is largely attributable to the increase in profits transferred by T-Mobile International Holding GmbH, Bonn, of EUR 1.1 billion. This is offset by a decrease in profits transferred by T-Systems Enterprise Services GmbH, Frankfurt/Main by EUR 371 million and the non-recurrence of receivables totaling EUR 526 million from the ICSS and GN units integrated into Deutsche Telekom in 2005.

The item "Receivables from subsidiaries" includes EUR 3.9 billion for receivables from financing activities within the Group (prior year: EUR 1.9 billion) and, as a minor component, EUR 170 million trade accounts receivable (prior year: EUR 1.5 billion).

[16] Other assets

	Dec. 31, 2005 millions of €	Dec. 31, 2004 millions of €
Tax receivables		
Income tax receivables		
Corporate income tax	316	126
Trade taxes	68	5
Solidarity surcharge	17	7
Other income taxes	28	0
	429	**138**
Other tax receivables	33	308
	462	**446**
Accrued interest	381	264
Receivables from collateral	102	220
Receivables from asset-backed securitization	76	90
Receivables from reimbursements	53	76
Receivables from employees	23	25
Receivables from advance payments on current assets	5	27
Receivables from loans receivable	3	3
Miscellaneous other assets	70	37
	1,175	**1,188**

Of income tax receivables, EUR 254 million relates to the current financial year (prior year: EUR 1 million) and EUR 175 million to previous years (prior year: EUR 137 million). The receivables are mainly the result of advance payments in the year under review exceeding ongoing expense as well as imputable taxes from the years 2002 to 2004.

Receivables from other taxes in the prior year in particular included receivables from the special advance payment for the granting of a permanent extension of the deadline for value-added tax payments. Contrary to the prior year, the portion of the receivables to be credited in 2005 amounting to EUR 254 million was reclassified as liabilities in the current financial year. The receivables in 2005 therefore decreased year-on-year by this amount.

Collateral is used to hedge the credit risk from financial instruments. 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 so-called allowance. The EUR 118 million decrease in receivables from collateral is attributable to the positive development, from the point of view of Deutsche Telekom, of the fair value of the entire portfolio held with banks. Receivables from collateral amounted to EUR 220 million in the prior year and were reported under miscellaneous other assets.

[17] Marketable securities

	Dec. 31, 2005 millions of €	Dec. 31, 2004 millions of €
Treasury shares	5	7
Other marketable securities	232	0
	237	7

Treasury shares account for a total of 0.05 percent of the capital stock. At 1,896,008 shares, the portfolio of treasury shares at the balance sheet date changed year-on-year, and is broken down as follows:

	Number
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, not yet issued	14,630
	1,896,008

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

Deutsche Telekom issued shares to the Group's employees in the year under review. The shares needed were taken from the portfolio of treasury shares envisaged for this, thus reducing it to 774,820 shares. The amount of the capital stock attributable to these shares is EUR 2 million, which corresponds to 0.02 percent of the capital stock. The issue price was EUR 15.24 per share.

In the reporting year, the portfolio of other marketable securities comprised purchased securities that had been transferred to a trustee to secure entitlements from partial retirement obligations as part of the contractual trust agreement (CTA). The amount of EUR 232 million equals Deutsche Telekom's outstanding settlement amounts to employees on partial retirement arrangements at December 31, 2005.

[18] Liquid assets

	Dec. 31, 2005 millions of €	Dec. 31, 2004 millions of €
Cash in banks	3,457	6,273
	3,457	6,273

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

[19] Prepaid expenses and deferred charges

Prepaid expenses and deferred charges of EUR 274 million (prior year: EUR 276 million) are primarily composed of discounts on loans amounting to EUR 129 million (prior year: EUR 127 million) and prepaid personnel costs amounting to EUR 125 million (prior year: EUR 131 million). Discounts on loans are amortized on a straight-line basis over the terms of the related liabilities.

[20] Shareholders' equity

A detailed statement of shareholders' equity for 2003, 2004 and 2005 precedes the notes to the financial statements.

[21] Capital stock

Deutsche Telekom AG's capital stock totaled EUR 10,747 million as of December 31, 2005, and is composed of 4,198 million no par value ordinary registered 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 into Deutsche Telekom; this capital increase will not take effect until the merger takes effect.

The Federal Republic's direct shareholding in Deutsche Telekom, represented by the Federal Agency, was 15.40 percent at December 31, 2005, while KfW's shareholding was 22.09 percent at the same date.

As a result, 647 million no par value shares (EUR 1.7 billion) of the capital stock were held by the Federal Republic at December 31, 2005, and 927 million (EUR 2.4 billion) by KfW. The remaining shares are in free float.

In the course of the acquisition of T-Mobile USA Inc., Bellevue (United States)/Powertel Inc., Bellevue (United States), Deutsche Telekom granted options on Deutsche Telekom shares in exchange for the outstanding warrants between Deutsche Telekom and T-Mobile USA/Powertel at the time of the acquisition. As of December 31, 2005, the number of Deutsche Telekom shares lodged as collateral for the outstanding preemptive rights granted to T-Mobile USA/Powertel employees amounted to 13,848,284.

Authorized capital

With the approval of the Supervisory Board, the Board of Management is authorized to increase the capital stock (share capital) by up to a nominal amount of EUR 2,560,000,000 by issuing up to 1,000,000,000 ordinary registered shares against noncash contributions in the period up to May 17, 2009. The authorization may be exercised as a whole or on one or more occasions in partial amounts. The Board of Management is authorized, with the approval of the Supervisory Board, to disapply shareholders' subscription rights and, with the approval of the Supervisory Bard, 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 into Deutsche Telekom. 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, composed of up to 195,312,500 shares (contingent capital I). The contingent capital increase will be implemented only to the extent that

- 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
- 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 that will be converted into shares of Deutsche Telekom common stock at maturity (June 1, 2006). The convertible bonds were issued by Deutsche Telekom's financing company in the Netherlands – Deutsche Telekom International

Finance B.V. – and are guaranteed by Deutsche Telekom. 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 to 4,237.2881 shares per bond (EUR 50,000 par value). The securities were placed with non-U.S. institutional investors outside the United States. 6,834 conversion options granted with the convertible bond had been exercised as of Dec. 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 companies in Germany and other countries as part of the Deutsche Telekom 2001 Stock Option Plan.

It will be implemented only to the extent that the holders of stock options exercise these options. The new shares carry dividend rights from the beginning of the financial year in which they are issued. If new shares are issued after the end of a financial year but before the Company's shareholders' meeting that resolves the appropriation of net income for the preceding financial year, the new shares carry dividend rights from the beginning of the preceding financial year. 318,644 stock options granted under the 2001 Stock Option Plan had been exercised as of December 31, 2005, which led to a corresponding decrease in contingent capital II.

On the basis of the authorizing resolution adopted by the shareholders' meeting on May 25, 2000, in conjunction with the amending resolution by the shareholders' meeting on May 29, 2001, the capital stock was contingently increased by up to EUR 2,621,237.76, composed of up to 1,023,921 new no par value registered shares (contingent capital III). This contingent capital increase is exclusively for the purpose of granting stock options to members of the Board of Management of Deutsche Telekom AG and executives of the Company, and to members of the boards of management, members of management, and other executives of lower-tier subsidiaries as part of the Deutsche Telekom 2000 Stock Option Plan established on the basis of a resolution by the shareholders' meeting on May 25, 2000. It will only be implemented if these beneficiaries exercise their stock options. The new shares carry dividend rights from the beginning of the financial year in which they are issued. If new shares are issued after the end of a financial year but before the Company's shareholders' meeting that resolves the appropriation of net income for the preceding financial year, the new shares carry dividend rights from the beginning of the preceding financial year. No stock options granted under the 2000 Stock Option Plan had been exercised by the time the plan ended on July 20, 2005.

On the basis of the authorizing resolution adopted by the shareholders' meeting on April 26, 2005, the capital stock was contingently increased by 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

- the holders and creditors of conversion 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

- 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; 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.

Treasury shares

The shareholders' meeting on April 26, 2005 rescinded the authorization of the Board of Management to acquire treasury shares resolved by the shareholders' meeting on May 18, 2004 with effect from 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 treasury shares, i.e., up to almost 10 percent of the capital stock, before 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 stock options are entitled and who are to be granted Deutsche Telekom stock options as a result of the merger of T-Online into Deutsche Telekom, 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. The changes in treasury shares in the notes to marketable securities (see [17]).

[22] Additional paid-in capital

The additional paid-in capital increased in 2005 by EUR 20 million primarily as a result of the T-Mobile USA/Powertel stock options exercised. This figure corresponds to the amount generated via the employee stock purchase plan in excess of par (EUR 18 million).

[23] Retained earnings

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

[24] Stock-based compensation

2000 Stock Option Plan.

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

The options could have been exercised after the end of the 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.

As 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.

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

2000 Stock Option Plan

	2005		2004		2003	
	Stock options in thousands	Weighted average exercise price €	Stock options in thousands	Weighted average exercise price €	Stock options in thousands	Weighted average exercise price €
Outstanding at beginning of year under review	855	62.69	987	62.69	994	62.69
Granted	0	-	0	-	0	-
Exercised	0	-	0	-	0	-
Forfeited	(855)	62.69	(132)	62.69	(7)	62.69
Outstanding at end of year under review	**0**	**62.69**	**855**	**62.69**	**987**	**62.69**
Exercisable at end of year under review	**0**	**-**	**0**	**-**	**0**	**-**

2001 Stock Option Plan.

For the 2001 Stock Option Plan, the shareholders' meeting in May 2001 resolved to contingently increase the capital stock (share capital) of Deutsche Telekom 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;
- a maximum of 20 percent to members of Deutsche Telekom's second-tier management;
- a maximum of 15 percent to other executives, managers and specialists of Deutsche Telekom;
- a maximum of 15 percent to members of the boards of management of Group companies outside Germany; and
- a maximum of 35 percent to other executives, managers, and specialists of Group companies within and outside Germany.

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

50 percent of the preemptive rights granted may only be exercised after a period of two years – calculated from the day the preemptive rights are issued. The remaining 50 percent of the options granted to each beneficiary may be exercised at the earliest following the end of a 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 Deutsche Börse AG's Xetra trading in Frankfurt/Main (or a successor system to the Xetra system) over the last 30 trading days before the grant of the options. If the average closing price calculated by this method is lower than the closing price of Deutsche Telekom shares in Deutsche Börse AG's Xetra trading in Frankfurt/Main (or in a successor system) on the grant date of the options, this closing price shall be taken as the reference price. The exercise price may not be lower than the notional value of one share in the capital stock (share capital). The exercise price is also the performance target.

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

Deutsche Telekom reserves the right, at its own discretion, to settle the options through the payment of a cash amount (stock appreciation rights – SARs) instead of issuing new shares. The exercise of an SAR cancels the related option, and the exercise of an option cancels the related SAR. As of December 31, 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 closing price of Deutsche Telekom's common stock in Xetra trading in Frankfurt/Main on the grant date was EUR 19.10 per share. The term of the options runs until August 12, 2011.

In the 2002 financial year, Deutsche Telekom granted additional stock options to certain employees. On July 15, 2002, Deutsche Telekom granted a further 3,927,845 options for the purchase of 3,927,845 shares at an exercise price of EUR 12.36 to the beneficiaries of the Stock Option Plan on the basis of the resolution adopted by the shareholders' meeting in May 2001. The closing price of Deutsche Telekom's common stock in Xetra trading in Frankfurt/Main on the grant date was EUR 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 activities relating to the stock options granted by Deutsche Telekom to beneficiaries of the 2001 Stock Option Plan are as follows:

2001 Stock Option Plan						
	2005		2004		2003	
	Stock options in thousands	Weighted average exercise price €	Stock options in thousands	Weighted average exercise price €	Stock options in thousands	Weighted average exercise price €
Outstanding at beginning of year under review	11,444	24.36	11,768	24.25	11,964	24.22
Granted	0	-	0	-	0	-
Exercised	(217)	12.36	(101)	12.39	0	-
Forfeited	(131)	24.11	(223)	25.18	(196)	25.89
Outstanding at end of year under review	**11,096**	**24.59**	**11,444**	**24.36**	**11,768**	**24.25**
Exercisable at end of year under review	**11,096**	**24.59**	**9,564**	**26.71**	**3,964**	**30**

In 2001 and 2002, Deutsche Telekom also granted 167,920 stock appreciation rights to employees in countries in which it was not legally possible to issue stock options. 8,525 stock appreciation rights (SARs) were forfeited in the year under review and 150,785 SARs were still outstanding at December 31, 2005.

Mid-Term Incentive Plan (MTIP)

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

The MTIP 2004 came into effect in 2004. The plan has a term of three years. The intention is to launch the plan annually on a revolving basis for five years. A decision will be taken each year on whether to re-launch the plan, as well as on the specific terms of the plan, in particular the performance targets.

The MTIP is a cash-based plan. A certain amount is earmarked as an award to the beneficiaries by the respective employer, and this amount is paid out to the beneficiaries at the end of the plan, dependent on the achievement of the two performance targets determined in advance.

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

- The absolute performance target is reached if, at the end of the individual plans, Deutsche Telekom's share price has risen by at least 30 percent compared with its share price at the beginning of the plan. The benchmark for the assessment is the non-weighted average closing prices of Deutsche Telekom shares in Deutsche Börse AG's Xetra trading during the last 20 trading days prior to the beginning and end of the plan. The performance target is achieved if an average share price of at least EUR 18.30 is reached during the defined period before the end of the plan.

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

The MTIP 2005 is tied to two equally weighted, stock-based performance parameters – one absolute and one relative. If both performance targets are achieved, then the total amount of the award is paid out; if only one performance target is achieved, 50 percent of the amount is paid out; and if neither performance target is achieved, no payment is made.

- The absolute performance target is reached if, at the end of the individual plans, Deutsche Telekom's share price has risen by at least 30 percent compared with its share price at the beginning of the plan. The benchmark for the assessment is the non-weighted average closing prices of Deutsche Telekom shares in Deutsche Börse AG's Xetra trading during the last 20 trading days prior to the beginning and end of the plan. The performance target is achieved if an average share price of at least EUR 21.36 is reached during the defined period before the end of the plan.

- The relative performance target is achieved if the total return of Deutsche Telekom shares has outperformed the Dow Jones EuroSTOXX Total Return Index on a percentage basis over the same period during the term of the individual plan. The benchmark is the non-weighted averages of Deutsche Telekom shares (based on the closing prices of Deutsche Telekom shares in Xetra trading) plus the value of dividends paid and re-invested in Deutsche Telekom shares, bonus shares etc., and the non-weighted averages the Dow Jones EuroSTOXX Total Return Index during the last 20 trading days prior to the beginning and end of the plan. The index's starting value is 358.99 points. The starting value of the total return of Deutsche Telekom shares corresponds to their share price at the beginning of the plan (EUR 16.43).

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'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 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.

[25] Accruals for pensions and similar obligations

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

In accordance with the provisions of the German Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz – PTNeuOG), BPS-PT makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil servant status. The level of Deutsche Telekom's payment obligations to its special pension fund is stipulated in § 16 of the Act concerning the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz – PostPersRG). Since 2000, Deutsche Telekom has been legally required to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. This contribution is recognized as ongoing expenses in the respective year and amounted to EUR 862 million in the year under review (prior year: EUR 911 million).

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

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

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

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

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

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

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

With the exception of the VAP parallel obligations, the actuarial computations for the pension commitments are based on the new 2005 life expectancy tables published by Prof. Klaus Heubeck. The use of the new life expectancy tables resulted in an increase in the actuarial value in accordance with § 6a EStG of approximately EUR 6 million.

Furthermore, the interest rate calculated for the pension obligations in accordance with § 6a EStG is 6 percent.

The increase in accruals for direct obligations and the corresponding decrease in accruals for indirect obligations are due to the change in the form of implementation.

The overall decrease in accruals is largely attributable to the departure from the measurement method used in accordance with SFAS 87 and the adoption of the minimum accrual method; accruals decreased primarily as a result of the increase in the interest rate to 6 percent from 5.25 percent in the previous year. The additional minimum liability (AML) is not shown separately compared with the prior year due to the change in the measurement method.

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

	Dec. 31, 2005 millions of €	Dec. 31, 2004 millions of €
Direct pension obligations	3,350	2,374
of which parallel obligation: € 1,636 million (prior year: € 1,790 million)		
Indirect pension obligations	78	1,299
	3,428	**3,673**
Obligations in accordance with Article 131 GG	6	6
	3,434	**3,679**

[26] Tax accruals

	Dec. 31, 2005 millions of €	Dec. 31, 2004 millions of €
Trade tax	33	38
Corporate income tax	418	483
Other taxes	146	461
	597	**982**

[27] Other accruals

	Dec. 31, 2005 millions of €	Dec. 31, 2004 millions of €
Employee benefits		
Staff adjustments	682	0
Partial retirement arrangement	486	378
Civil Service Health Insurance Fund	301	1,322
Other obligations	529	610
Other obligations		
Loss contingencies from interest rate derivatives	547	369
Outstanding invoices	462	459
Investment risks	311	297
Litigation risks	272	341
Restoration commitments	65	83
Order book risks	58	71
Deferred maintenance	19	17
Loss contingencies from foreign currency forward contracts	17	19
Miscellaneous other accruals	521	355
	4,270	**4,321**

The increase in personnel restructuring accruals is due to the recognition of accruals amounting to EUR 682 million for voluntary redundancy payments as a component of Deutsche Telekom's staff restructuring program. This account also contains additions to the accruals for partial retirement arrangements in the amount of EUR 191 million, which were offset by payments of EUR 83 million against such accruals and by reclassifications within the Group.

The decrease in accruals for risk settlement payments to the Civil Service Health Insurance Fund is attributable to the adoption of the German Federal Posts and Telecommunications Agency Reorganization Act (Gesetz zur Reorganisation der Bundesanstalt für Post und Telekommunikation). This Act sets out in particular that successor companies of the former Deutsche Bundespost will establish a top-up fund as basic collateral to ensure that the budget of the Civil Service Health Insurance Fund is always balanced. For this, payments of EUR 238 million were made into the top-up fund. Accruals of EUR 786 million were also reversed. The accrual for the residual risk was determined on the basis of an actuarial opinion.

The decrease in accruals for other employee benefits is mainly due to special payments to civil servants during the 2005 financial year.

The increase in accruals for loss contingencies from interest rate derivatives can be attributed in particular to the hedging of a loan portfolio used to acquire shares in T-Mobile USA Inc., Bellevue (convertible preferred stocks). The scheduled expiry of a liability results in the realization of foreign currency gains, offsetting the increase in accruals for loss contingencies for the remaining portfolio.

The decrease in accruals for litigation risks is due to settlements with regard to U.S. prospectus liability lawsuits and Arcor/o.tel.o. This is offset by higher accruals for litigation in connection with reimbursements claims relating to the sale of subscriber data.

Miscellaneous other accruals relate to accruals for potential settlements on account of convertible bonds. The increase in this account is also due to the recognition of an accrual for outstanding sales commissions and for contractual penalties.

[28] Liabilities

	2005				2004			
	Total	of which due			Total	of which due		
	millions of €	within 1 year millions of €	in 1 to 5 years millions of €	after 5 years millions of €	millions of €	within 1 year millions of €	in 1 to 5 years millions of €	after 5 years millions of €
Debt								
Bonds and debentures	1,597	459	442	696	1,547		886	661
Liabilities to banks	1,237	23	672	542	829	180	107	542
	2,834	**482**	**1,114**	**1,238**	**2,376**	**180**	**993**	**1,203**
Other								
Advances received	4	4			4	4		
Trade accounts payable	1,159	1,159			943	943		
Payables to subsidiaries	38,678	18,985	10,193	9,500	42,849	19,419	15,193	8,237
Payables to associated and related companies	6	6			30	30		
Other liabilities	1,499	808	1	690	1,937	1,240	1	696
(of which: from taxes)	(227)	(227)			(550)	(550)		
	41,346	**20,962**	**10,194**	**10,190**	**45,763**	**21,636**	**15,194**	**8,933**
Total liabilities	**44,180**	**21,444**	**11,308**	**11,428**	**48,139**	**21,816**	**16,187**	**10,136**

Bonds and debentures relate primarily to treasury notes of Deutsche Post AG, Bonn, (EUR 696 million) and medium-term notes (EUR 562 million).

Bonds and debentures are composed of the following items:

Due by December 31	up to 6% millions of €	up to 7% millions of €	up to 8% millions of €	9% – 10%[a] millions of €	**Total millions of €**
2006	459	0	0	0	459
2007	0	0	0	96	96
2008	129	0	0	0	129
2009	0	205	0	0	205
2010	12	0	0	0	12
2011 to 2020	0	0	696	0	696
Total	**600**	**205**	**696**	**96**	**1,597**

[1] Bonds amounting to EUR 96 million relate to medium-term notes (currency: PLN) that bear variable interest rates as a result of corresponding hedging activities.

The largest item under **payables to subsidiaries** is the liability to Deutsche Telekom International Finance B.V., which amounts to EUR 25.1 billion (prior year: EUR 27.8 billion). This liability relates primarily to bonds issued by DT Finance. This decrease is attributable to the repayment of liabilities.

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

2000 tranche	Nominal amounts in currency	Interest rate	Maturity
EUR	750,000,000	6.715%	2010
USD	1,685,000,000	8.340%	2030

2001 tranche	Nominal amounts in currency	Interest rate	Maturity
EUR	4,500,000,000	5.965%	2006
EUR	1,782,581,659	6.715%	2011

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

2003 tranche	Nominal amounts in currency	Interest rate	Maturity
EUR	2,288,400,000	6.575%	2006
EUR	334,885,928	6.185%	2007
EUR	1,000,000,000	5.830%	2008
USD	750,000,000	3.956%	2008
EUR	365,000,000	2.555%	2010
USD	1,250,000,000	5.335%	2013

2004 tranche	Nominal amounts in currency	Interest rate	Maturity
EUR	500,000,000	2.439%	2009
EUR	500,000,000	2.453%	2009

2005 tranche	Nominal amounts in currency	Interest rate	Maturity
EUR	550,000,000	2.350%	2008
EUR	500,000,000	2.474%	2009
EUR	500,000,000	3.075%	2009
EUR	1,250,000,000	3.325%	2010
GBP	250,000,000	4.950%	2014
EUR	1,750,000,000	4.075%	2015

In addition, liabilities to the companies of the T-Mobile group have changed in particular. While the liabilities to T-Mobile International AG & Co. KG, Bonn, rose by EUR 4.3 billion to EUR 5.3 billion, the liabilities to T-Mobile USA Inc., Bellevue/Washington, and T-Mobile Worldwide Holding GmbH, Bonn, were repaid in full. The liabilities to T-Mobile Global Holding GmbH, Bonn, also decreased by EUR 1.2 billion to EUR 598 million.

This is due to the cash pooling for a large number of group companies that was implemented in the T-Mobile group during the reporting year. The cash accounts of the companies in the T-Mobile group are now reported at T-Mobile International AG & Co. KG, not at the respective group companies. This explains both the substantial increase in liabilities to T-Mobile International AG & Co KG and the decrease in liabilities to the aforementioned group companies.

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

	2005 millions of €	2004 millions of €
Liabilities from loan notes	690	690
Liabilities from interest	368	314
Tax liabilities	227	550
Liabilities from customer credit balances	117	113
Liabilities from asset-backed securitization	30	153
Liabilities to employees	16	16
Other liabilities	51	101
	1,499	**1,937**

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

Interest liabilities relate to deferred interest on bonds and debentures, and other liabilities as of December 31, 2005.

Tax liabilities mainly comprise value-added tax liabilities amounting to EUR 165 million and wage tax liabilities amounting to EUR 56 million. The year-on-year decrease is mainly attributable to value-added tax liabilities; EUR 254 million of which relates to the credit of the amount of the special advance payment made for the permanent extension of deadlines.

Liabilities of EUR 37 million from the sale of telephone cards, which are reported under liabilities from customer credit balances as a result of the merger with DeTeCard-Service GmbH, are offset by a more or less equal decline in liabilities from security services requested extensively for interconnection lines in 2004.

Notes to the statement of cash flows.

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

Specifically, cash was provided and used as follows:

[29] Net cash provided by operating activities

Net cash provided by operating activities in the year under review amounted to EUR 5.6 billion, a year-on-year decrease of EUR 5.5 billion, despite a EUR 394 million increase in income after taxes.

This decrease is mainly due to the decline in short-term liabilities and the increase in short-term receivables from subsidiaries. The offsetting change in both balance sheet items resulted in a net cash outflow of EUR 4.7 billion.

[30] Net cash used for investing activities

Net cash used for investing activities amounted to EUR 3.3 billion, a year-on-year increase of EUR 3.2 billion.

The higher cash outflows for investments of EUR 1.8 billion are attributable to a year-on-year increase in investments in financial assets (EUR 1.6 billion) and property, plant and equipment (EUR 172 million). At the same time, there were lower cash inflows from disposals of property, plant and equipment (EUR 213 million) and higher cash inflows from disposals of financial assets (EUR 350 million). In addition, marketable securities and financial receivables with maturities longer than three months generated a cash outflow of EUR 376 million.

[31] Net cash used for financing activities

Net cash used for financing activities decreased by EUR 7.0 billion year-on-year to EUR 5.1 billion, reflecting the reduction in financial liabilities and the dividend payment.

The change in financial liabilities is attributable in part to the net change (balance of borrowings and redemptions) in short-term borrowings, combined with a cash outflow of EUR 6.8 billion. This was partially offset by the net change in medium and long-term borrowings, with a cash inflow of EUR 4.3 billion. The dividend paid for the previous year also substantially increased the net cash used for financing activities in the amount of EUR 2.6 billion.

Other disclosures.

[32] Guarantees and commitments, and other financial obligations

Guarantees and commitments.

	2005 millions of €	2004 millions of €
Liabilities arising from warranty agreements	121	144
Liabilities arising from warranty agreements (of which to subsidiaries: € 12,159 million; prior year: € 12,715 million)	16,878	17,407
	16,999	17,551

Guarantees include litigation and security deposit guarantees, and warranties.

Liabilities arising from collateral granted and from warranty agreements include guarantees and comfort letters, and relate predominantly to Deutsche Telekom International Finance B.V., Amsterdam (Netherlands) (EUR 12.0 billion); T-Mobile Deutschland GmbH, Bonn (EUR 3.9 billion); and T-Systems Enterprise Services GmbH, Frankfurt/Main (EUR 208 million).

Deutsche Telekom (45 percent), DaimlerChrysler Services AG (45 percent), and Compagnie Financiere et Industrielle des Autoroutes S.A. (Cofiroute; 10 percent) – collectively the consortium or Toll Collect GbR – entered into an agreement with the Federal Republic of Germany, represented by the German Federal Ministry of Transport, Building and Housing (Federal Ministry of Transport), "on the collection of toll charges for the use of German autobahns by heavy vehicles, and the creation and operation of a toll system for the collection of autobahn toll charges for heavy vehicles" (operating agreement), dated September 2002 and last amended in April 2004 by an implementation agreement, under the terms of which they are obligated to set up and operate a system for the electronic collection of toll charges for heavy vehicles; this is to be performed by a project company with the legal form of a limited liability company under German law (GmbH) – Toll Collect GmbH. In addition, the parties of the consortium undertook, on a joint and several basis, in agreement with the Federal Republic, to maintain an equity ratio in the project company of 20 percent of the total assets (calculated on the basis of the German GAAP single-entity financial statements of the limited liability company) until August 31, 2004, and 15 percent thereafter; the total risk for Cofiroute arising from the Toll Collect project is limited to EUR 70 million.

The liability obligation of the parties of the consortium means they are obliged to inject additional capital in the event of negative developments within the Toll Collect project. When Deutsche Telekom realized that a future injection of additional capital would be necessary during the project, accruals were recognized for anticipated losses relating to the project. The operating agreement includes provisions for further contractual penalties after the approved start of operations (issuance of the special preliminary operating permit) if the performance of the system is not adequate. The Federal Republic is asserting claims for damages from the parties of the consortium of EUR 3.51 billion plus interest for the period September 1, 2003 to December 31, 2004 for lost toll revenues. In addition, the Federal Republic of Germany is asserting claims, for example, for contractual penalties in the amount of approximately EUR 1.65 billion plus interest up to and including June 30, 2005. Deutsche Telekom believes the claims of the Federal Republic of Germany are unfounded. To assert its alleged claims, the Federal Republic of Germany has filed a request for arbitration as part of the contractual arbitration process. The maximum future obligations arising from the Toll Collect project cannot be quantified with adequate certainty; it is therefore not possible to express this in figures under guarantees and commitments.

In addition, Deutsche Telekom has given a guarantee for bank loans to Toll Collect GbR amounting to EUR 600 million.

Other financial obligations.

	2005			2004		
	Total	of which due		Total	of which due	
		in the following financial year	from the second financial year after the balance sheet date		in the following financial year	from the second financial year after the balance sheet date
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Present value of payments to BPS-PT	7,900	842	7,058	8,200	900	7,300
Obligations under rental and lease agreements (of which to subsidiaries: € 11,900 million; prior year: € 11,139 million)	12,406	1,999	10,407	11,737	1,982	9,755
Purchase commitments for capital projects in progress, including obligations arising from future expenditure (of which to subsidiaries: € 1,691 million; prior year: € 1,093 million)	3,360	3,315	45	2,484	2,459	25
Commitments arising from contributions not paid up, purchase commitments for interests in other companies, and commitments arising from transactions not yet settled (of which to subsidiaries: € 680 million; prior year: € 486 million)	1,171	551	620	976	356	620
Total other financial obligations	**24,837**	**6,707**	**18,130**	23,397	5,697	17,700

The present value of payments that Deutsche Telekom is required to make in accordance with Postreform II to the BPS-PT on the basis of the 2005 life expectancy tables published by Prof. Klaus Heubeck amounted to EUR 7.9 billion at December 31, 2005.

Obligations under rental and lease agreements include obligations to subsidiaries in the amount of EUR 11.9 billion. These consist of EUR 9.8 billion to GMG Generalmietgesellschaft mbH, Münster; EUR 701 million to DFMG Deutsche Funkturm GmbH, Münster; EUR 1.0 billion to DeTeImmobilien, Deutsche Telekom Immobilien und Service GmbH, Münster; EUR 276 million to DeTeFleetServices GmbH, Bonn; and EUR 162 million to T-Systems International Desktop Services GmbH, Frankfurt.

Purchase commitments for capital projects in progress, including obligations arising from future expenditure are composed of commitments for non-capital (EUR 2.5 billion) and capital projects (EUR 891 million).

Uncalled contributions not yet paid up relate in particular to Vivento Customer Services GmbH, Bonn (EUR 96 million); T-Com Venture Fund GmbH & Co. KG, Bonn (EUR 44 million); and Vivento Technical Services GmbH, Bonn (EUR 31 million). Commitments arising from transactions not yet settled relate in particular to the subsidiaries Vivento Customer Services GmbH, Bonn (EUR 209 million); Vivento Technical Services GmbH, Bonn (EUR 204 million); DeTeImmo, Deutsche Telekom Immobilien und Service GmbH, Münster (EUR 77 million); and GMG Generalmietgesellschaft mbH, Münster (EUR 62 million).

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

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

[33] Derivative financial instruments

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

	Notional amounts				Fair values			
	Remaining term			Total	Remaining term			Total
	Less than 1 year millions of €	1 – 5 years millions of €	More than 5 years millions of €	millions of €	Less than 1 year millions of €	1 – 5 years millions of €	More than 5 years millions of €	millions of €
Interest-related instruments								
Interest rate swaps	8,596	23,136	523	32,255	32	(349)	(46)	(363)
Cross-currency interest rate swaps	5,694	6,758	960	13,412	(748)	4	(116)	(860)
Subtotal	**14,290**	**29,894**	**1,483**	**45,667**	**(716)**	**(345)**	**(162)**	**(1,223)**
Currency instruments								
Future exchange transactions short	790	36	0	826	(5)	4	0	(1)
Future exchange transactions long	607	426	0	1,033	(1)	(26)	0	(27)
Subtotal	1,397	462	0	1,859	(6)	(22)	0	(28)
Total	**15,687**	**30,356**	**1,483**	**47,526**	**(722)**	**(367)**	**(162)**	**(1,251)**

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

	Interest receivables millions of €	**Liabilities from interest millions of €**	**Other millions of €**
Interest rate swaps	388	(359)	(362)
Cross-currency interest rate swaps	122	(89)	(185)
Foreign currency forward contracts	0	0	(17)
Total	**510**	**(448)**	**(564)**

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

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

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

Gains or losses related to changes in the fair value of interest rate swaps relating to balance sheet items are not recognized in income. Interest rate swaps which are not designated as hedging instruments for balance sheet assets and liabilities (which are mainly hedges of planned future transactions) are assigned to currency-specific portfolios.

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

The Company uses foreign currency forward contracts and foreign currency options purchased as well as cross-currency interest rate swaps to reduce fluctuations in foreign currency cash flows related to capital expenditures and financial liabilities. Foreign currency forward contracts hedging firm commitments to invest in or sell a foreign entity are not recognized at the balance sheet date. Such firm commitments are recognized using the foreign exchange rate fixed by the foreign currency forward contract. Where the Company uses call options to hedge firm commitments to invest in or sell a foreign entity, the option is carried in other assets and is not measured until exercise or expiration. The option premium is included in the purchase cost of the investment when its addition is recorded. The option premium is reversed to the income statement on receipt of the selling price.

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

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

The notional amounts of the derivative financial instruments do not generally represent amounts exchanged by the parties, but are merely the basis for measuring these settlement payments. They do not reflect the risk exposure of the financial derivatives. The amounts exchanged are calculated by reference to the notional amounts and by the other terms of the derivatives, in particular interest rates or exchange rates.

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

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation as approved in its current version by the 2004 shareholders' meeting. The members of the Supervisory Board receive fixed annual remuneration of EUR 20,000. 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 hold a seat.

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

The total remuneration of the members of the Supervisory Board in 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:

Members of the Supervisory Board	Fixed remuneration plus attendance fee €	Short-term variable[a] €	Total (net) €	Imputed long-term remuneration entitlement[a] €
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[a]	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[b]	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
Treml, Franz[c]	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[d]	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
Total	**701,466.67**	**664,066.67**	**1,365,533.33**	**617,582.00**

[a] 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.
[b] Member since February 10, 2005
[c] Mr. Treml received Supervisory Board compensation of EUR 12,271.00 from DeTeImmobilien, 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.
[d] Member until February 9, 2005

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 compensation 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 noncash compensation amounting to EUR 302,636.41 which is treated as noncash benefits.

The members of the Board of Management have taken part in Deutsche Telekom'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, including the Board of Management. The plan has a term of three years and will be issued annually on a rolling basis. It consists of two stock-based, additive and equally weighted success parameters. As in the 2004 financial year, one absolute and one relative plan hurdle were again set as the success parameters in 2005: The absolute plan hurdle 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 Dec. 31, 2007). The relative plan hurdle requires the total return of the Deutsche Telekom share to outperform the Dow Jones EuroSTOXX Total Return index.

From each tranche, each member of the Board of Management can reach an incentive volume of 15 percent (if one plan hurdle is met) or 30 percent (if both plan hurdles 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 hurdles are met, no incentive is paid. For further details, please refer to the disclosures on the 2004 and 2005 MTIP under [24].

Subject to the condition that the financial statements of Deutsche Telekom are approved in their current form, the members of the Board of Management received the following total compensation for the 2005 financial year (fixed annual salary, variable compensation, and the fair value expenditure for the 2004 and 2005 MTIP):

Name	**Fixed annual salary in 2005** €	**Variable remuneration for 2005** €	**Total cash compensation in 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
Total	**5,062,500.00**	**5,229,370.29**	**10,291,870.29**	**1,152,656.45**

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 have been met. The stock options issued for the 2000 financial year from the previous 2000 Stock Option Plan forfeited as of July 20, 2005 without replacement 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 accruals recognized for ongoing pensions and pension entitlements for former members of the Board of Management and their surviving dependents amounted to EUR 55,344,162.00 – minimal accrual under § 6a EStG RT 2005 – 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 3,311,839.00 – minimal accrual § 6a EStG. No accruals were recognized for these obligations (see § 285 No. 9b HGB).

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

[35] Proposal for appropriation of net income

The Supervisory Board and the Board of Management propose, subject to the approval of the shareholders' meeting, to pay shareholders a dividend of EUR 0.72 per individual no par value share carrying dividend rights and to carry forward the remaining balance as part of unappropriated net income of EUR 3,569,672,664.50.

[36] Auditors' fees and services

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

	Ernst & Young millions of €	PwC millions of €
Professional fees for audits	4	3
Professional fees for other accounting services	13	14
Other professional fees	0	3
	17	20

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.

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

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

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

Bonn, February 13, 2006

Deutsche Telekom AG
Board of Management

Kai-Uwe Ricke

Dr. Karl-Gerhard Eick

Dr. Heinz Klinkhammer

Réné Obermann

Lothar Pauly

Walter Raizner

Auditors' report.

We have audited the annual financial statements, consisting of the statement of income, the balance sheet, the statement of cash flows, the shareholders`equity and the notes to financial statements and the management report of Deutsche Telekom AG, Bonn, together with the bookkeeping system for the business year from January 1 to December 31, 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart/Frankfurt (Main), February 13, 2006

Ernst & Young
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Stuttgart

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

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Frankfurt/Main

(Frings)	(Menke)
Wirtschaftsprüfer	Wirtschaftsprüfer

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