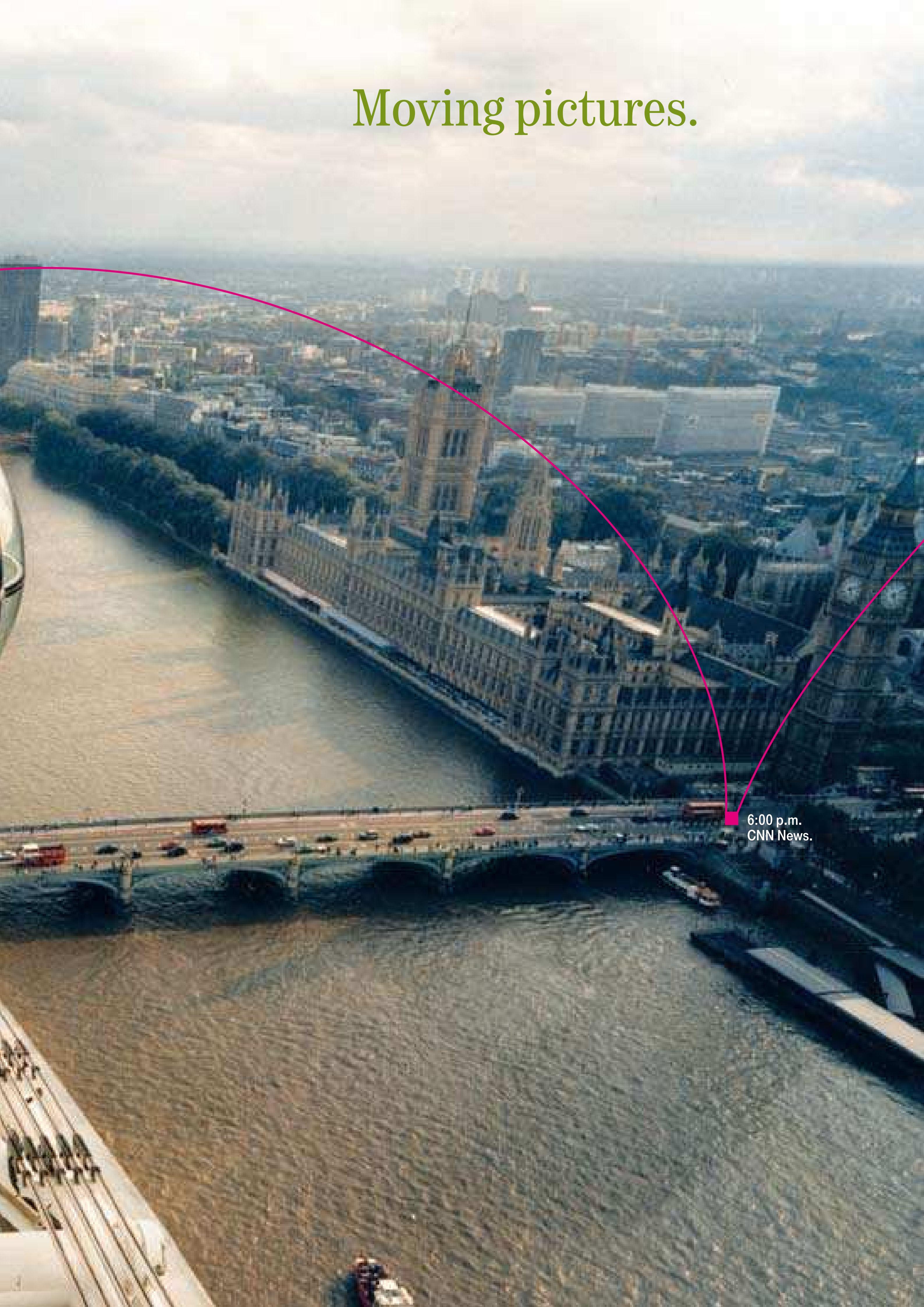
Group management report


5:30 p.m.
MTV Top 20.

Moving pictures.



Outstanding reception. Practice the kick flip, but Mobile TV sends television to your cellular phone –


6:30 p.m.
Skateboard World Championships 2006.
first check how the pros are doing it.
for up and coming stars.

Deutsche Telekom Group management report.

Net revenue rose by 3.9 percent to EUR 59.6 billion year-on-year, in the fourth quarter of 2005 by as much as 5.4 percent to EUR 15.5 billion // Group EBITDA adjusted for special factors increased by 5.7 percent to EUR 20.7 billion; in the fourth quarter of 2005, by as much as 10.4 percent to EUR 5.2 billion. Unadjusted EBITDA rose by 3.7 percent to EUR 20.1 billion // Profit after income taxes increased from EUR 2.0 billion to EUR 6.0 billion; adjusted for special factors, this item rose from EUR 4.1 billion to EUR 5.1 billion // Free cash flow before dividend payments and the acquisition of network infrastructure and licenses in the United States decreased from EUR 10.3 billion to EUR 7.8 billion // Substantial improvement in the Group's financial ratios: equity ratio increased two percentage points to around 39 percent; net debt further reduced to EUR 38.6 billion // All major rating agencies raised their long-term rating to single A, with a "stable" outlook // Proposed dividend of EUR 0.72 per share highest in the history of the Company

Strong DSL growth continues: number of broadband lines in Germany and abroad, including DSL resale, increased by 2.4 million to 8.5 million // Number of mobile customers rose by a further 9.0 million to 86.6 million customers // Business Customers strategic business area wins additional major contracts, lifting the level of orders received by 3 percent to EUR 13.6 billion

The Group's profitable growth continues. 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 Broadband/Fixed Network, Mobile Communications, and Business Customers. This was thanks in part to the Excellence Program that was launched at the start of 2005. This is a three-year Group-wide program supplemented by business area-specific growth programs.

In 2005, Deutsche Telekom's net revenue rose by EUR 2.3 billion compared with the previous year to EUR 59.6 billion. This corresponds to an increase of 3.9 percent, the main contribution to which was made by mobile communications.

Group EBITDA rose by approximately EUR 0.7 billion or 3.7 percent to EUR 20.1 billion in 2005; adjusted for negative special factors totaling EUR 0.6 billion, Group EBITDA actually climbed to EUR 20.7 billion. This represents an increase of EUR 1.1 billion or 5.7 percent. Apart from revenue growth, this development is primarily the result of improved cost structures.

Profit after income taxes increased year-on-year by EUR 4.0 billion to around EUR 6.0 billion. In addition to EBITDA, the main factors contributing to this positive development were a decrease in depreciation, amortization and impairment losses, the lower loss from financial activities and reduced income taxes. Adjusted for special factors, profit after income taxes rose by EUR 1.0 billion to EUR 5.1 billion.

The free cash flow before dividend payments and the acquisition of network infrastructure and licenses in the United States decreased from EUR 10.3 billion to EUR 7.8 billion on account of factors such as higher tax payments.

Deutsche Telekom also improved the financial ratios in the Group. At 0.8, the "gearing" indicator, the ratio of net debt to equity, is at a historical low, one of the reasons why Deutsche Telekom's rating was increased in 2005.

On the basis of the very encouraging development in the 2005 financial year, the Board of Management is proposing to pay a dividend of EUR 0.72 for each share carrying dividend rights so that the Company's shareholders can participate in its success. This is the highest dividend ever paid in the history of the Company.

2005 is the first financial year for which Deutsche Telekom has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The 2005 consolidated financial statements also include the 2004 and 2003 comparative financial statements. Material effects on the financial position and results of operations as a consequence of the transition from German GAAP to IFRS are shown in the reconciliation in the notes to the consolidated financial statements under "Transition to IFRS."

Strong DSL growth in the Broadband/Fixed Network strategic business area. In the 2005 financial year, the continued development of the broadband market despite tough competition remained the main driver of business development in the Broadband/Fixed Network strategic business area, which consists of the T-Com and T-Online units. In 2005, Broadband/Fixed Network once again increased the number of broadband customers – both in terms of lines and calling plans – as a result of its successful marketing strategy.

The number of broadband lines in Germany and abroad increased by around 40 percent to 8.5 million.

At the end of 2005, T-Com had approximately 7.9 million DSL lines in operation in Germany including resale DSL lines marketed by Wholesale, i.e., DSL products sold by other providers outside the Deutsche Telekom Group. This represents an increase of 2.1 million DSL lines. All in all, competition in broadband intensified significantly, due for example to increased competition on the Internet service provider (ISP) market and the increased presence of other European telecommunications companies and local loop operators on the German broadband market. In the 2005 financial year, T-Com benefited from overall market growth in its third-party DSL resale activities and the marketing of high bit rate unbundled subscriber lines in particular. A total of 1.3 million resale lines were provided to competitors, attributable to trends such as the further migration from retail to resale customers.

The fixed network subsidiaries in Eastern Europe were particularly successful in marketing broadband lines. The number of DSL lines in Hungary, Croatia, and Slovakia doubled year-on-year to a total of 541,000, with both T-Hrvatski Telekom and Slovak Telecom passing the mark of 100,000 broadband lines by the end of the year.

Increased bandwidths are a key requirement to benefit from the positive development of the broadband market. Since July 1, 2005, for example, T-Com has been providing DSL lines with transmission rates of up to 6 Mbit/s. A further component of T-Com's broadband strategy is WLAN (Wireless Local Area Network), a technology for wireless data transmission. By the end of the year, T-Com was operating more than 5,600 public HotSpots.

In the narrowband sector, T-Com recorded a further decrease in the number of lines in Germany. The number of narrowband lines in Germany and abroad fell by 3.7 percent to 41.2 million in the course of the year, with a higher percentage decline in ISDN lines than in analog lines.

In Germany, the number of narrowband lines decreased by 4.1 percent as against the prior period to 35.2 million. This was due to customer churn in favor of competitors, especially local loop operators, and in part to fixed-mobile substitution effects. At 9.8 million, the total number of T-ISDN lines decreased by a disproportionately high 6.1 percent as against the previous year. This trend can be attributed in part to the discontinuation of the price advantage of combining T-DSL with T-ISDN as compared with T-DSL combined with a T-Net line. The growing saturation of the market and the new integrated voice and Internet products offered by competitors also had a negative impact.

Key financial figures for the Deutsche Telekom Group

billions of €	**2005**	2004	2003
Net revenue	59.6	57.3	55.6
of which: international revenue	25.4	22.6	21.2
EBITDA[a]	20.1	19.4	18.6
EBITDA (adjusted for special factors)[a]	20.7	19.6	18.5
Profit after income taxes	6.0	2.0	2.5
Profit after income taxes (adjusted for special factors)[a]	5.1	4.1	2.9
Net profit	5.6	1.6	2.1
Shareholders' equity	49.6	45.8	43.7
Net debt[b]	38.6	39.9	51.1
Free cash flow (before dividend payments)[c]	7.8[d]	10.3	8.7
Employees (annual average)	244,026	247,559	251,263

[a] Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses. For a detailed explanation of the special factors affecting EBITDA and adjusted EBITDA, as well as special factors affecting profit/loss and the adjusted profit/loss after income taxes, please refer to the "Development of business in 2005" section.

[b] The "net debt" indicator is used by senior operating decision-makers at Deutsche Telekom to manage and control debt. Although many of Deutsche Telekom's competitors use this measure, its definition may vary from one company to another, however. For detailed information, please refer to the "Development of business in 2005" section.

[c] Deutsche Telekom is of the opinion that the "free cash flow (before dividend payments)" is used by investors as a measure to assess the Group's net cash from operating activities after deduction of cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment, in particular with regard to subsidiaries, associates and joint ventures, and the repayment of liabilities. "Free cash flow (before dividend payments)" should not be used to determine the financial position of the Group. There is only limited comparability between Deutsche Telekom's definition of free cash flow and methods of calculating this measure and similarly designated measures and disclosures of other companies. For detailed information, please refer to the "Development of business in 2005" section.

[d] Free cash flow (before dividend payments and the acquisition of network infrastructure and licenses in the United States). For detailed information, please refer to the "Development of business in 2005" section.

The volume of call minutes generated by end customers continued to decline. This is mainly attributable to the reduction in the number of lines operated by T-Com as a result of leased subscriber lines and to competitors rolling out their own infrastructure. In addition, call-by-call and preselection are contributing to the negative trend in call minutes. A positive effect was the launch of the "Wünsch Dir Was" (make a wish) calling plan[1] in March 2005, which allowed T-Com to further stabilize its call minutes market share[2]. In comparison with the prior year, the number of calling plans sold by T-Com rose by over 14 percent to 13.8 million, enabling T-Com to achieve a penetration rate[3] of 39 percent. This increase was driven by the new XXL Fulltime and "Fixed-to-mobile" calling plans introduced in the fourth quarter of 2005.

The wholesale business (including resale) was characterized by price adjustments for wholesale products with Internet service providers and reductions in the prices charged to competitors for key wholesale products due to regulatory requirements. Volume-related growth was recorded in both unbundled subscriber lines (number as of December 31, 2005: 3.3 million) and DSL resale lines (number as of December 31, 2005: 1.6 million), as well as interconnection calls and lines. In its business with international network operators (International Carrier Sales & Solutions business) T-Com focused on high-margin services.

Since January 31, 2005 the focus in Broadband/Fixed Network has been on marketing T-Online's DSL full-service packages. By marketing these packages – which comprise a DSL line, Internet access, and hardware components – throughout Germany, T-Online expanded its DSL rate customer base in 2005 by 41.9 percent to approximately 5.1 million. The company further expanded its DSL rate portfolio midway through the year. T-Online also increased the appeal of its DSL telephony offering in the voice over IP business by making this service independent of a PC through the WLAN and DSL telephony routers it has been offering since September 2005. By broadening its DSL telephony offering in this way, T-Online is accelerating the development of attractive services that are tailor-made for DSL lines.

T-Online also successfully further strengthened its foothold on the Western European broadband market with attractive packages: For example, the number of rate customers in France and Spain with a DSL rate plan increased by 77 percent. In addition, T-Online has laid the groundwork for the establishment of its own, fully IP-based network in France and Spain. This allows the company to offer customers Internet access, entertainment and broadband communication services with high bandwidth and the requisite quality. T-Online's own networks are also providing the foundation in these two markets for the planned triple-play offerings with a TV component.

One prerequisite for benefiting from the positive development of the broadband market is the ongoing expansion of online content. In 2005, T-Online launched Gamesload, its third digital sales platform for entertainment content on the Internet after successful offers such as video on demand and Musicload.

Another important factor for the successful development of the broadband market is the merger of T-Online International AG into Deutsche Telekom AG. In the event of any delay in this merger, planned synergies cannot be leveraged. For example, it will not be 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.

Mobile Communications remains the key growth driver. In 2005, the Mobile Communications business area was the Group's key growth driver. The T-Mobile group substantially increased both its revenue and its subscriber base.

T-Mobile USA was again the most successful T-Mobile company with 4.4 million net additions. This meant that, during the course of the year, the number of T-Mobile USA customers exceeded 20 million. All in all, T-Mobile USA had a customer base of 21.7 million at year-end. In 2005, T-Mobile Deutschland recorded 2.1 million net additions, increasing its customer base to a total of 29.5 million. This was driven in particular by its focused subscriber acquisition strategy: For example, one success story was the marketing of calling plans with packages of inclusive minutes (Relax calling plans). In the United Kingdom, T-Mobile UK (including Virgin Mobile) recorded around 1.4 million net additions. Customer numbers at T-Mobile Czech Republic and T-Mobile Netherlands developed satisfactorily in 2005, and in Austria they increased slightly despite intense competition. Cumulatively, the major Eastern European mobile communication companies in Hungary, Slovakia, Croatia, and Macedonia recorded appreciable growth of 0.8 million to a total of 9.0 million mobile customers. The Montenegrin subsidiary MONET, which was consolidated for the first time in the 2005 financial year, reported around 0.2 million mobile customers by the end of the year.

Furthermore, T-Mobile Austria entered into an agreement in the fourth quarter with Western Wireless International Austria Corporation, Little Rock, United States, to acquire full control of the Austrian mobile communications operator tele.ring Telekom Service GmbH, Vienna. This transaction is subject to approval by the Austrian telecommunications regulator and the European Commission.

[1] Since March 1, 2005 T-Com has been offering a highly simplified calling plan portfolio with four rate variants (Call Plus, Call Time, XXL and XXL Freetime) and two optional calling plans (XXL Local und CountrySelect) that can be added to these variants. Since March 1, 2005, the following service features have been included as standard with all lines with Call Plus, Call Time, XXL or XXL Freetime: calling line identification, call waiting, call completion on busy, consultation call, switching between lines, three-way conferencing, call forwarding and calling line identification restriction. In the case of Call Plus/T-Net, however, the service has only included the T-Net Box since August 1, 2005. Furthermore, exact to-the-minute billing is now available for all calling plans that are currently offered, including those for City calls.

[2] Ratio of call minutes realized on T-Com's own lines to the total number of minutes in T-Com's network.

[3] Ratio of calling plans to the total number of narrowband lines.

Business Customers strategic business area increases the level of new orders despite difficult market environment. The Business Customers strategic business area, under the T-Systems brand name, stabilized its business despite continued pressure on margins and dynamic structural changes in its market environment. In 2005, T-Systems increased its level of new orders by 3 percent to EUR 13.6 billion. This business development clearly reflects the success of the Focus on Growth program, which is enabling T-Systems to further strengthen its customer relationships and tap new growth potential.

As a result, T-Systems Enterprise Services was able to gain new key accounts on the back of large-scale contracts, including the logistics company DHL, the tour operator Thomas Cook, and the IT service providers for the Sparkasse financial group. As well as the significant volumes involved, transactions of this size are characterized by the establishment of a long-term partnership between the customer and T-Systems. Successful expansion was also recorded in the business process outsourcing area, in which T-Systems takes over entire business processes from the customer and provides end-to-end support.

In the Business Services unit, the strategic focus centered around the reacquisition and expansion of market share in the area of telecommunications services for large and medium-sized enterprises. The unit is also working on expanding its IT services. Significant growth was recorded in the unit's IT business, compensating for the downturn in voice and network services.

At the end of 2005, T-Systems entered into an agreement with Volkswagen AG to buy its global IT arm gedas AG, thus also securing a master agreement with the VW Group for IT services valued at EUR 2.5 billion over seven years. The purchase has yet to be approved by the anti-trust authorities.

Group organization.

Realignment toward three strategic business areas completed // 62.51 percent of shares in free float // Judicial release proceedings for the merger of T-Online International AG into Deutsche Telekom not yet finalized and legally binding

Deutsche Telekom is an integrated telecommunications provider. The Group offers its customers worldwide a comprehensive portfolio of state-of-the-art services in the areas of telecommunications and IT. Since 2005, the Group has realigned its structures and processes toward the three main growth sectors of the industry: Broadband/Fixed Network, Mobile Communications, and Business Customers.

Organizational structure and business activities. Since early 2005, the realignment toward the three strategic business areas – 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.

This strategic realignment resulted in changes within the Group and transfers between the individual business areas. Small and medium-sized enterprises (SMEs), for example, have been transferred from the former T-Com division to the new Business Customers strategic business area. The planning, rollout, and operation of the service platform for SMEs will also be managed by T-Systems Business Services. The Eastern European mobile communications subsidiaries, which were previously assigned to the T-Com division, have been reported under the Mobile Communications strategic business area since 2005. The concentration of the entire national and international wholesale business at T-Com results in the transfer of the transport platforms (Global Networks) and the international carrier business (International Carrier Sales & Solutions) business from the former T-Systems division to the new Broadband/Fixed Network strategic business area, which consists of T-Online and T-Com. The Billing & Collection unit, which is primarily responsible for billing and receivables management services, has been transferred from Group Headquarters & Shared Services to Business Customers.

The **Broadband/Fixed Network** strategic business area, consisting of the T-Com and T-Online business units, offers consumers and smaller business customers traditional fixed-network services with state-of-the-art infrastructures, broadband Internet access, and customer-oriented multimedia services based on attractive Internet content. The business area also conducts wholesale business (including resale, i.e., the sale of DSL products to other providers and local loop operators), business with national and international network operators (carrier services business), and provides upstream services for Deutsche Telekom's other strategic business areas.

In this business area, T-Com is responsible for supporting consumers and smaller business customers with state-of-the-art telecommunications services. The business unit also performs wholesale business (including resale) and provides wholesale services to Deutsche Telekom's other business areas. The bundling of the entire national and international wholesale business at T-Com resulted in the transfer of the technical platforms and the international carrier business from the former T-Systems division to the new Broadband/Fixed Network business area at the start of 2005.

Magyar Telekom, formerly MATÁV, Magyar Távközlési (Hungary), including its subsidiaries MakTel and Telekom Montenegro (fully consolidated since the first quarter of 2005), as well as T-Hrvatski Telekom (Croatia) and Slovak Telecom (Slovakia) have also given T-Com a foothold in the fixed-network market in Central and Eastern Europe.

As an Internet service provider, T-Online offers its customers a combination of Internet access and additional services.

Since January 31, 2005 the Broadband/Fixed Network strategic business area has focused on the marketing of T-Online's DSL full-service packages. T-Online has since been marketing full-service packages in Germany comprising a DSL line, Internet access, and hardware components, thus giving its customers low-cost, high-quality access to the Internet across a wide range of bandwidths, types of access, and terminal equipment. In addition to basic Internet access, T-Online offers its customers a variety of additional services, including e-mail, online banking, DSL telephony, or digital entertainment such as video on demand or Musicload, the music download service. Musicload is the market leader in Germany. More than 15.5 million titles were downloaded in 2005 alone.

Given the increasing spread of broadband access, T-Online is further expanding its product portfolio in the form of combined products, thus linking fast Internet access with attractive communication and digital entertainment services. T-Online's strategic objective is to present its customers with attractive packages comprising Internet access, communication and entertainment services (triple play). T-Online already offers Internet access combined with voice telephony over DSL (voice over IP) as a so-called double-play offering. The introduction of digital entertainment services such as TV over DSL, in particular, is crucial for the implementation of a full triple-play package.

T-Online is also present in the French, Spanish, Portuguese, Austrian, and Swiss markets through its subsidiaries in these countries.

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

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. The bundling of support for business customers means that since 2005 SMEs – which were previously allocated to T-Com – are now also served by the Business Customers strategic business area. The planning, roll-out, and operation of the service platform for SMEs will also be managed by T-Systems Business Services in future.

T-Systems has been Deutsche Telekom's business customers brand since 2005. As a solutions provider along the entire information and communication technology (ICT) value chain, T-Systems offers its customers products and services from a single source. The T-Systems services portfolio extends from the management of the ICT infrastructure, from the provision of process-related applications, down to outsourcing of complete business processes such as billing or payroll accounting. With its large customer base, T-Systems focuses on the global banking and insurance (finance), manufacturing, public authorities, telecommunications, media & utilities, and services sectors. Its extensive expertise in these sectors allows T-Systems to offer its customers the right balance of tailored and standardized services, thereby generating flexibility benefits in terms of quality, time, and cost. T-Systems is represented in over 20 countries by subsidiaries, primarily in Germany and Western Europe (France, Spain, Italy, the United Kingdom, Austria, Switzerland, Belgium, and the Netherlands).

In addition to the three strategic business areas, the organizational structure also includes **Group Headquarters & Shared Services**, which comprises all Group units and subsidiaries that cannot be allocated directly to any of the strategic business areas. Group Headquarters is responsible for strategic management functions across the business areas. All other operating functions not directly related to the strategic business areas' core business are the responsibility of the so-called shared services, which include real estate services, DeTeFleetServices GmbH (DeTeFleetServices), the full-service provider of fleet management and mobility services, and Vivento. The main Shared Services subsidiaries include 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. Since 2005, the former shared service Billing & Collection has been managed as part of the Business Customers strategic business area under the T-Systems brand name.

Legal structure of the Deutsche Telekom Group. Deutsche Telekom AG, Bonn, is the parent of the Deutsche Telekom Group and also its largest operating company. Its shares are traded on several stock exchanges, including Frankfurt, New York, and Tokyo. At 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). Accordingly, the shareholding attributable to the Federal Republic amounted to 37.49 percent (2004: 38.03 percent).

The change in shareholdings compared with the previous year relates to the fact that, firstly, the interest held by KfW Bankengruppe initially fell by around 0.53 percentage points when warrants were exercised in April 2005 in connection with the convertible bond the banking group issued in 2003. Secondly, in July 2005 KfW Bankengruppe acquired around 7.33 percent of the shares in Deutsche Telekom AG held by the Federal Republic under an additional holding arrangement.

The principal subsidiaries and associates of Deutsche Telekom AG whose revenues, together with those of Deutsche Telekom AG, account for more than 90 percent of the Group, are listed in the notes to the consolidated financial statements ("Summary of accounting policies" section, paragraph on the "Consolidated group"). In addition to Deutsche Telekom AG, 69 German and 281 foreign subsidiaries are fully consolidated in Deutsche Telekom's consolidated financial statements (2004: 73 and 272). 22 associates (2004: 28) and two joint ventures (2004: 4) are also included using the equity method.

Deutsche Telekom bought and sold several companies in 2005: In the first quarter of 2005, Magyar Telekom acquired a majority interest in the Telekom Montenegro group. T-Systems DSS (Business Customers business area) was sold in the second quarter of 2005. In the Broadband/Fixed Network business area, the Spanish company Albura was fully consolidated in the third quarter and merged into T-Online's Spanish subsidiary Ya.com in December 2005. In addition, the remaining interest in the Russian mobile communications company MTS was sold in September 2005.

Furthermore, T-Mobile Austria entered into an agreement in the fourth quarter with Western Wireless International Austria Corporation, Little Rock, United States, to acquire full control of the Austrian mobile communications operator tele.ring Telekom Service GmbH, Vienna. This transaction is subject to approval by the Austrian telecommunications regulator and the European Commission. The company was not consolidated in the reporting year.

At the end of 2005, T-Systems entered into an agreement with Volkswagen AG to buy its global IT arm gedas AG, thus also securing a master agreement with the VW Group for IT services valued at EUR 2.5 billion over seven years. The purchase has yet to be approved by the anti-trust authorities. The company was not consolidated in the reporting year.

In 2005, Deutsche Telekom AG also sold 25.9 percent of its interest in Sireo Real Estate Asset Management GmbH to Corpus Immobiliengruppe GmbH & Co. KG. The sale has yet to be approved by the anti-trust authorities. Up to now, Deutsche Telekom AG has held 51 percent of the interest in Sireo Real Estate Asset Management GmbH. Co-shareholders each holding 24.5 percent are Morgan Stanley Bank AG and Corpus Immobiliengruppe GmbH & Co. KG. The company was fully consolidated in the reporting year.

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 (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 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.

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 comply with the recommendations of the German Corporate Governance Code.

The Deutsche Telekom Group's strategic realignment led to a reassignment of responsibilities in the Board of Management. Three areas of responsibility – Broadband/Fixed Network, Mobile Communications, and Business Customers – were defined for the management of the Company's business operations. Furthermore, three Board departments remain in charge of centralized functions: the Chairman of the Board of Management, Finance, and Human Resources. The Supervisory Board of Deutsche Telekom oversees the management of business by the Board of Management and advises the Board. It consists of twenty members: ten representatives of the shareholders and ten of the employees.

The six members of the Board of Management are entitled to fixed and annual variable remuneration, as well as long-term variable remuneration components (Mid-Term Incentive Plan). Total remuneration is gererally 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 each financial year.

The members of the Supervisory Board receive fixed annual compensation, plus variable, performance-related remuneration with short-term and long-term components, depending on the development of net profit per share. The compensation of the members of the Board of Management and the Supervisory Board is reported individually in the notes to the consolidated financial statements under Note (44) "Compensation of the Board of Management and the Supervisory Board," broken down by the various components.

Group strategy and Group management.

The Group enters a new growth and value enhancement phase // Defense of core business, expansion of new business, and leveraging of economies of scale // Excellence Program set up for 2005 to 2007 // Value-oriented management of the Group

Group strategy. The debt clearance and restructuring phase initiated at the beginning of 2002 was successfully concluded in 2005, enabling the Group to further reduce its net debt and complete its realignment toward the three strategic business areas Broadband/Fixed Network, Mobile Communications, and Business Customers. In 2005, Deutsche Telekom was the unchallenged leader of all integrated telecommunications companies in Europe in terms of net revenue.

The telecommunications market is characterized by growth potential, in particular in the areas of broadband and mobile communications for voice and data applications, increased convergence of what used to be separate markets and technologies, and economic benefits of economies of scale. 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. Besides the growth potential, the market environment is dominated by price pressure and the entry of new competitors in the fixed network and in mobile communications. The increased use of mobile communications may result in a further decline in the number of call minutes in the fixed network and in intensified competition in the access business.

Against this background, Deutsche Telekom is entering a new growth and value enhancement phase in 2006. Its strategic goal reads: "We are shaping the information and telecommunications sector as Europe's largest integrated telecommunications company and the leading service provider in the industry."

Based on organic business development, these fundamental objectives will be pursued with ten strategic measures:

Defense of the fixed-network core business through strategic pricing measures, e.g., in the form of bundled products and segment-specific customer retention campaigns.

Conquer the home in the broadband business through mass market penetration with DSL, e.g., also VDSL in combination with fiber-optic networks. The Group aims to launch customer-oriented double and triple-play offerings, i.e., combinations of voice, broadband Internet access and TV-based entertainment services.

Expansion of the wireless communications core business as a leading service provider by offering customer-oriented solutions with attractive and simple calling plans.

Expansion of mobile data services by becoming the leader in mobile broadband and introducing the mobile Internet, e.g., with "web'n'walk."

Convergence by developing integrated fixed-network/mobile communications packages such as T-Mobile@home and the DualPhone solution, as well as IP-based services and services that can be used with different technologies (multi-access IP), e.g., video on demand and voice over IP.

Reinforcement of the telecommunications core business with both SMEs and multinational corporations through strategic pricing measures, cross-selling and up-selling, mobile business solutions, and operational excellence.

Growth with ICT solutions, e.g., through growth in the IT outsourcing core business by increasing Deutsche Telekom's share in its existing customers' budget (share of wallet) and by winning additional large-scale contracts.

Customer relationship management on the basis of a customer database for all of T-Com's and T-Mobile's customers.

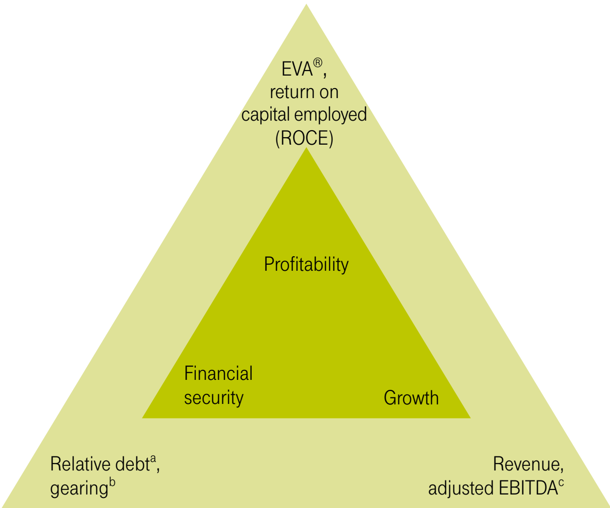
Operational excellence for leveraging cost efficiencies. The Group's purchasing volume for goods and services in 2005, for example, amounted to around EUR 19.9 billion. Significant additional synergy potential can be tapped by harmonizing and standardizing products and services and bundling demands throughout the Group.

Culture change and human resources development in particular at the customer interface to improve the quality of service.

The ten strategic measures as a ten-point program are being systematically implemented through the **Excellence Program** that was launched at the beginning of 2005. In future, these will also be implemented as part of the growth programs in the three strategic business areas, Group-wide initiatives, and a fundamental transformation of the corporate culture. The initiatives of the strategic business areas will form the core of the Excellence Program.

To fully implement its strategic "Conquer the home" initiative, Deutsche Telekom will not be able to offer a fully integrated triple-play product on the basis of a single contractual relationship before the merger of T-Online into Deutsche Telekom takes effect. For this reason, and to leverage further synergies, T-Online and Deutsche Telekom are looking to complete the merger as soon as possible. Both companies assume that the highly competitive broadband market is more difficult to develop at present, e.g., because of the greater coordination involved, than it will be following a merger.

Group management. The financial management of the Group is performed using an integrated 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:



[a] The "relative debt" indicator is the ratio of net debt to EBITDA adjusted for special factors; for detailed information, please refer to the "Development of business in 2005" section.
[b] The "gearing" indicator is the ratio of net debt to equity; for detailed information, please refer to the "Development of business in 2005" section.
[c] Corresponds to EBITDA adjusted for special factors; for detailed information, please refer to the "Development of business in 2005" section.

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 profit/loss from operations excluding depreciation, amortization, and impairment losses. The Group uses EBITDA growth to measure its short-term operational performance and the success of its individual operations. In addition to EBITDA, the Group uses the EBITDA margin – the ratio of EBITDA to revenue – as a performance indicator. This relative indicator enables a comparison of the earnings performance of profit-oriented units of different sizes.

The Group's focus on financial security ensures that it will continue to be able to repay its debt and remain financially sound in the future. Financial security is primarily measured using the "gearing" and "relative debt" KPIs. One component of the indicators is net debt, which Deutsche Telekom uses as an important indicator for investors, analysts, and rating agencies.

To measure the profitability of business development, the Group uses the return on capital employed as a relative indicator and economic value added (EVA®) as an indicator of value creation.

The return on capital employed shows the result obtained in relation to the assets employed in achieving that result. The return on capital employed (ROCE) is calculated using the ratio of profit from operations after depreciation, amortization and impairment losses and taxes (i.e., net operating profit after taxes, or NOPAT) to the average value of the assets that need to be tied up for this in the course of the year (i.e., net operating assets, or NOA).

Deutsche Telekom's goal is to exceed the return targets imposed on it by lenders and equity suppliers on the basis of capital market requirements (superior shareholder return). Return targets are measured using the weighted average cost of capital (WACC). The cost of equity is the return that an investor expects on an investment in the capital market with equivalent risk. The cost of debt is calculated on the basis of the Group's financing terms on the debt market, taking into account that interest on borrowed capital is tax-deductible.

The Group uses EVA® as its key indicator of value creation to measure the absolute contributions made by the operational units to the value of the Group. In general, it is also the main benchmark for focusing all operational measures on superior value.

The main elements are:

- Value-oriented growth in the strategic business areas that promise an appropriate return on capital employed: Each investment must generate a return that corresponds at least to the WACC. In addition, the business portfolio is optimized by focusing on the business areas that are expected to generate the highest returns in the medium term.

- Optimization of ongoing business activities: A continuous search for significant gaps and potential with the aim of improving the value contribution of existing units and optimizing the tying up of capital.

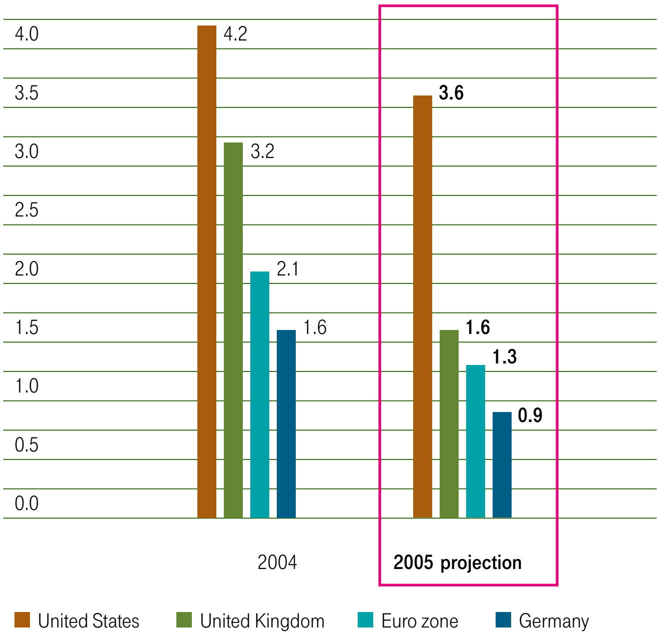
In this way, all activities are focused on superior value. Value-oriented management thus implements the Group's commitment to growth in value-creating business areas down to the level of the operational units.

The economic environment.

The global economy is growing at a high level // Mobile communications continues to drive growth in the telecommunications market // The broadband market is turning the Internet into a mass medium

Gross domestic product

Changes over prior-year period in real terms (%)



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 as well as the resulting increase in capital expenditure, although high oil prices in particular offset these developments to an extent. The United States was again one of the fastest growing regions, with a consistently high level of consumer and investment demand. By contrast, economic momentum in the euro zone was sluggish. Although interest rates remained very low, rising oil prices curbed private consumption and corporate investment. The new European Union member states again expanded at a stronger pace than the euro zone, but here, too, economic momentum slowed somewhat as domestic demand and exports declined. Economic expansion also slowed in the United Kingdom, where interest rate hikes cut consumer spending.

According to estimates by the Institut für Weltwirtschaft (Institute for the World Economy), the United States substantially increased its real gross domestic product (the value of all products and services generated within a country) by 3.6 percent. By contrast, growth in the United Kingdom and the euro zone economies was weaker, at 1.6 percent and 1.3 percent respectively. Expansion in the new European Union member states remained high, at 4.2 percent.

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 in turn consumer demand. In addition, the labor market was again very strained.

Telecommunications market. Since the German telecommunications sector was fully deregulated at the beginning of 1998, Deutsche Telekom has had to cope with increasingly intense competition. The battle for customers initially focused on call minutes, but now also encompasses access charges. Among 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 converging. 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; 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.

Technical development and the resulting product overlap are also leading to growing demand for integrated, single-source products that are designed to be fully compatible with one another. One example is the combination of Internet access and voice telephony as a double-play package that can be expanded into a triple-play package by adding entertainment elements.

Against the background of overall weak economic growth, the communication sector remains one of the key drivers of the German economy as a whole. According to the activity report published by the Federal Network Agency, total industry revenue amounted to EUR 68.3 billion in 2005, up by around 2.2 percent on the previous year. The positive growth was driven in particular by the spread and usage of mobile communications, as well as Internet use and the increase in broadband access.

Broadband/fixed-network market. In the past four years, Deutsche Telekom has developed broadband communications in Germany into a mass market. The focus is on aligning the business with two fundamental trends in the European Internet market: the growing significance of broadband technology and the related expansion of user options as well as the further personalization and tailoring of products and services to meet customer needs. In future, the Group will offer its customers an even broader portfolio of information, communication and entertainment services, which will be delivered directly to homes via broadband technology. The products and services offered will range from personalized Internet packages to film and television. Voice over IP (VoIP) services were increasingly offered in 2005 for the first time. In principle, VoIP services can compete with traditional voice telephony both in the access business and on the various call markets. With regard to the access business, there are few offerings at present. VoIP services have greater competitive potential on the call markets in the short term, however.

Overall, competition in the German fixed network has further intensified for Deutsche Telekom. In addition to increasing 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 with aggressive pricing policies that buy network services and market them independently to third parties.

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. For local calls, competitors were able to increase their market share – measured by call minutes – by ten percentage points to 42 percent. Following recent developments, since the end of November 2005 (November 22, 2005) Deutsche Telekom is no longer considered as holding a monopoly in the area of international calls, with the result that – subject to approval by the European Commission – it will no longer be subject to regulation in this area. This is due to the decline in Deutsche Telekom's market shares.

Competition in the fixed-network segment in Central and Eastern Europe also increased. The growing number of market players offering call-by-call and, more recently, preselection services to consumers stiffened competition, especially in Hungary, which also experienced substitution by mobile communications. Increased fixed-to-mobile substitution also affected the market in Slovakia. Competition in Croatia is expected to increase through the award of additional fixed-network licenses.

The dynamic 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. This means that 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 this strategic business area. It can be assumed that the bundling of telephone and broadband lines and 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.

Broadband remained the key growth driver also in the European online markets. According to estimates by Jupiter Research, the total number of users in Western Europe who access the Internet from home, work, or elsewhere increased from approximately 173 million in 2004 to approximately 189 million in 2005. This represents growth of around 9 percent. This means that, overall, approximately 48 percent of the Western European population already have access to the Internet. In Western Europe, the proportion of households with broadband Internet access rose from 21 percent in 2004 to 28 percent in 2005. Meanwhile, more than half of all households with Internet access use a broadband line. The increase in the number of broadband households is accompanied by the growing use of data-intensive applications allowing entertainment programs such as films, music, and games to be accessed online. At the same time, the trend toward digitizing content – including entertainment programs, photos, and information – is also stimulating demand for broadband Internet access.

Growth on the German Internet market accelerated once again in 2005. The high intensity of competition in the broadband segment was characterized by dramatic price cuts, higher bandwidths, and Internet telephony services. In addition to other Internet service providers, competition was heightened in particular by local loop operators using their own network infrastructure. Nevertheless, T-Online continued to position itself successfully as a high-quality provider in the past financial year and, with 4.5 million DSL rate customers as of December 31, 2005 expanded its strong position on the fiercely contested broadband market. This means that T-Online attracted over 1.2 million DSL rate customers in 2005, bringing its total number of rate customers with a billing relationship in Europe to more than 14 million.

Besides the German market, T-Online is also represented in other European countries via its subsidiaries, providing Internet access in France and Spain.

The French market in particular is characterized by strong investment by market participants in the expansion of telecommunications networks and in customer acquisition, as well as by fierce price competition. T-Online's French subsidiary, T-Online France (Club Internet), pursues an aggressive approach to pricing and offers innovative products using its own IP-based network, with an increasing focus on quality of service as a means of differentiating itself from its competitors. With this strategy, T-Online succeeded in outperforming the French market as a whole in terms of growth in the past year, thus gaining additional market share in a highly dynamic and fast-growing environment.

In Spain, too, the consolidation of the broadband market continued in the past year. The cable operator Auna was acquired by another cable operator, Ono, while the local DSL provider Comunitel was taken over by the Scandinavian company Tele2. T-Online acquired the network operator Albura in 2005. Now that it has its own network, T-Online is also able to set itself apart from its Spanish competitors in terms of pricing and products via its subsidiary Ya.com. The new acquisition, Albura, which was merged into Ya.com at the end of 2005, is the third-largest network operator on the Spanish market behind the telecommunications company Telefónica and the France Telecom unit Wanadoo. The acquisition allowed the Company to reinforce and expand the market position of its Spanish subsidiary Ya.com in the past financial year.

102,000 new DSL rate customers were won in France and Spain in the fourth quarter of 2005 alone. In 2005, Deutsche Telekom's international operations thus registered an increase of 276,000 DSL rate customers.

Mobile communications market. The global mobile communications market also developed strongly in 2005. Although growth tailed off slightly in the largely saturated markets of Western Europe, the United States and Eastern Europe continued to record strong growth in net additions and revenue. There was further consolidation among the providers on the market.

The mobile communications market is characterized by three competing groups of providers: network operators, resellers, and companies that buy network services and market them independently to third parties (MVNOs). A precondition for operating mobile communication networks, and hence for offering mobile communication services, is a frequency spectrum license that is awarded by the government. Whereas these are normally awarded by the national authorities in Europe, there is a large number of license areas in the United States, even down to the level of the individual states. The number of licenses awarded limits the number of network operators in each market, subjecting mobile communications to a range of regulatory regimes, including price regulation. The award of licenses, the prices of the licenses, and regulation are significant factors influencing the mobile communications business.

Until 2004, the competitive landscape in the United States consisted of one extremely large mobile network operator (Verizon Wireless) and five substantially smaller providers of equal size. Recent market consolidation has dramatically changed this picture. T-Mobile now competes with three major national providers – Verizon, Cingular/AT&T Wireless, and Sprint/Nextel – each of which has a significantly larger national customer base and, overall, a larger frequency spectrum. The opportunities for T-Mobile USA to further expand its network coverage and capacity in future depend on whether it can acquire additional spectrum (frequency range) licenses.

In most European markets, the intense competition in terms of price, contract options, applications, network coverage, and quality of service continues unabated. As the European markets become ever more saturated, the main focus of competition has shifted from customer acquisition toward customer retention, with the spotlight on the quality and value of existing customers. In addition, the introduction of Europe-wide services has accelerated competition on the European mobile communications market.

Despite this increasingly difficult market environment, T-Mobile USA continued to record above-average growth in 2005 and was able to further expand its market share. In Germany, T-Mobile again increased the number of net additions compared with the previous year. In the fiercely contested UK market, T-Mobile UK recorded a loss of market shares in terms of revenue. T-Mobile remains the largest mobile communications company on the Central and Eastern European markets in terms of customer numbers.

Business customer market. Developments on the business customer market for information and communication technologies are closely linked to the macroeconomic environment and the regional economic situation. Together with price reductions and longer sales cycles, the current economic climate in the ICT market resulted in severe competition in 2005. One consequence of this was the further consolidation of the market, which currently consists of a handful of large IT and telecommunications providers and a rising number of fast-growing smaller providers.

In this market environment, in terms of total revenue T-Systems recorded pleasing results in Germany and Western Europe. T-Systems is the German market leader in the IT and telecommunications segment. In Western Europe, T-Systems is one of the top five providers of IT services, together with IBM Global Services, EDS, HP Services, and Accenture. In the area of telecommunications services, T-Systems, BT Global Services, France Telecom/Equant, and Telefónica are the top four providers. Globally, T-Systems is one of the top 20 IT and telecommunications providers in terms of total revenue.

Regulatory influence on Deutsche Telekom's business. Deutsche Telekom's business activities are strongly affected by regulation, combined with extensive powers of government agencies to intervene in product design and pricing. The German Telecommunications Act (Telekommunikationsgesetz – TKG), which was 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 amended TKG, the Federal Network Agency can impose obligations on companies that have significant power on individual markets regarding the services they offer on those markets. 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 that company.

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 maintained and even extended to new or emerging services and markets that were previously unregulated. For example, the innovative voice over IP service has now been included in the regulated voice telephony markets. Similarly, VDSL lines have generally been allocated to the broadband wholesale services segment (a regulated market), although development of this technology at Deutsche Telekom is still in the pilot phase. The extent to which the expansion of regulated markets 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.

Deutsche Telekom is not only subject to regulation in Germany; some of its subsidiaries abroad also have to comply with local regulations. For the fixed network, this applies in particular to subsidiaries in Hungary, Slovakia, and Croatia. In mobile communications, subsidiaries in the United States, the United Kingdom, the Netherlands, Austria, the Czech Republic, Hungary, Croatia, and Slovakia are subject to regulation.

Development of business in 2005.

Customer growth generates significant increase in revenue // Group records continued profitable growth // Strategic business areas continue on successful course // Increase in investment and further reduction of net debt // All of the major rating agencies have given Deutsche Telekom a single A rating

Earnings situation of the Group. In 2005, Deutsche Telekom's **net revenue** rose by EUR 2.3 billion compared with the previous year to EUR 59.6 billion. This corresponds to an increase of 3.9 percent. Changes to the composition of the group had a favorable impact on net revenue growth of approximately EUR 0.4 billion, as did currency translation effects of EUR 0.1 billion, in particular from the translation of U.S. dollars.

The main contributor to net revenue – and also to revenue growth – was once again the Mobile Communications strategic business area. By contrast, Broadband/Fixed Network and Business Customers registered declining revenues.

The proportion of international revenue continued to increase, rising year-on-year by around three percentage points to 42.6 percent. The key factor underlying this trend is the sustained positive business development at T-Mobile USA.

Contribution of the strategic business areas to net revenue

	2005 billions of €	**Proportion of net revenue of the Group %***	2004 billions of €	Proportion of net revenue of the Group %*	Change billions of €	Change %*	2003 billions of €
Net revenue	**59.6**	**100.0**	**57.3**	**100.0**	**2.3**	**3.9**	**55.6**
Broadband/Fixed Network	21.7	36.4	22.4	39.0	(0.7)	(3.0)	23.2
Mobile Communications	28.5	47.9	25.4	44.4	3.1	12.1	22.9
Business Customers	9.1	15.2	9.2	16.1	(0.1)	(2.0)	9.3
Group Headquarters & Shared Services	0.3	0.5	0.3	0.5	0.0	9.2	0.2

* Calculated and rounded on the basis of millions for the purpose of greater precision.

Development of revenue by geographic area

	2005 billions of €	2004 billions of €	Change billions of €	Change %*	2003 billions of €
Net revenue	**59.6**	**57.3**	**2.3**	**3.9**	**55.6**
Domestic	34.2	34.7	(0.5)	(1.6)	34.4
International	25.4	22.6	2.8	12.4	21.2
Proportion generated internationally (%)*	42.6	39.4			38.2
Europe (excluding Germany)	13.3	13.0	0.3	2.5	13.1
North America	11.9	9.3	2.6	27.5	7.7
Other	0.2	0.3	(0.1)	(18.9)	0.4

* Calculated and rounded on the basis of millions for the purpose of greater precision.

EBITDA for the Group increased in the reporting year by around EUR 0.7 billion or 3.7 percent to EUR 20.1 billion.

EBITDA in 2005 was impacted negatively by special factors totaling EUR 0.6 billion. This reflected the impact of offsetting effects: negative special factors, mainly expenditures of approximately EUR 1.2 billion in connection with staff-related measures, were mitigated by positive special factors, primarily EUR 0.8 billion from the reversal of provisions in connection with new arrangements for the financing of the Civil Service Health Insurance Fund. In the prior year, negative special factors of approximately EUR 0.2 billion were recognized, primarily arising from staff-related measures.

Excluding the above special factors, adjusted EBITDA improved by EUR 1.1 billion or 5.7 percent to EUR 20.7 billion, and the EBITDA margin improved by 0.6 percentage points to 34.8 percent, attributable to higher revenues and the continued overall improvement of cost structures.

At just short of EUR 10 billion, the Broadband/Fixed Network and Mobile Communications business areas provided the largest contribution to adjusted EBITDA.

Profit after income taxes increased year-on-year by EUR 4.0 billion to around EUR 6.0 billion. In addition to EBITDA, the main factors contributing to this positive development were the improvement in depreciation, amortization and impairment losses, the lower loss from financial activities and reduced income taxes.

This development was impacted by contrasting special factors. In addition to those already mentioned, the following special factors also had a significant effect in the reporting year:

While changes in the market price of mobile communications companies in the United Kingdom in 2005 (Telefónica's takeover offer for O_2) resulted in goodwill impairment losses totaling EUR 1.9 billion at T-Mobile UK, the positive earnings trend in the United States allowed a total of EUR 2.2 billion to be realized as tax income from the reversal of impairment losses on deferred tax assets related to U.S. loss carryforwards. Gains on the disposal of the remaining MTS shares in the amount of EUR 1.0 billion, which are reported under profit/loss from financial activities, also contributed to the improved results.

The principal items recorded in the prior year were goodwill impairment losses totaling EUR 2.4 billion (T-Mobile UK and Slovak Telecom), impairment losses on U.S. mobile communications licenses totaling EUR 1.3 billion and, as offsetting factors, income of EUR 1.2 billion from the sale of MTS and SES shares, as well as EUR 0.6 billion in tax effects.

Adjusted for these special factors, profit after income taxes rose by EUR 1.0 billion or 23.3 percent to EUR 5.1 billion.

Consolidated income statement and impact of special factors[a]

billions of €	**2005**	**Special factors**	**2005 without special factors**	2004	Special factors	2004 without special factors	2003	Special factors	2003 without special factors
Net revenue	59.6		59.6	57.3		57.3	55.6		55.6
Cost of sales	(31.9)	(0.6)[c]	(31.3)	(31.5)	(1.3)[k]	(30.2)	(29.5)	(0.0)	(29.5)
Gross profit	**27.7**	**(0.6)**	**28.3**	**25.8**	**(1.3)**	**27.1**	**26.1**	**(0.0)**	**26.1**
Selling expenses	(14.7)	(0.3)[d]	(14.4)	(12.8)	(0.0)	(12.8)	(12.8)	(0.0)	(12.8)
General and administrative expenses	(4.2)	(0.2)[e]	(4.0)	(4.5)	(0.2)[l]	(4.3)	(4.6)	(0.1)[r]	(4.5)
Other operating income	2.4	0.8[f]	1.6	1.7	0.1[m]	1.6	2.4	0.5[s]	1.9
Other operating expenses	(3.6)	(2.3)[g]	(1.3)	(3.9)	(2.5)[n]	(1.4)	(2.8)	(1.3)[t]	(1.5)
Profit from operations (EBIT)	**7.6**	**(2.6)**	**10.2**	**6.3**	**(3.9)**	**10.2**	**8.3**	**(0.9)**	**9.2**
Profit (loss) from financial activities	(1.4)	1.1[h]	(2.5)	(2.7)	1.2[o]	(3.9)	(4.1)	0.6[u]	(4.7)
Profit before income taxes	**6.2**	**(1.5)**	**7.7**	**3.6**	**(2.7)**	**6.3**	**4.2**	**(0.3)**	**4.5**
Income taxes	(0.2)	2.4[i]	(2.6)	(1.6)	0.6[p]	(2.2)	(1.7)	(0.1)[v]	(1.6)
Profit after income taxes	**6.0**	**0.9**	**5.1**	**2.0**	**(2.1)**	**4.1**	**2.5**	**(0.4)**	**2.9**
Profit attributable to minority interests	0.4	(0.0)	0.4	0.4	0.0	0.4	0.4	(0.1)	0.5
Net profit	5.6	0.9	4.7	1.6	(2.1)	3.7	2.1	(0.3)	2.4
Profit from operations (EBIT)	7.6	(2.6)	10.2	6.3	(3.9)	10.2	8.3	(0.9)	9.2
Depreciation, amortization and impairment losses	(12.5)	(2.0)[j]	(10.5)	(13.1)	(3.7)[q]	(9.4)	(10.3)	(1.0)[w]	(9.3)
EBITDA	**20.1**	**(0.6)**	**20.7**	**19.4**	**(0.2)**	**19.6**	**18.6**	**0.1**	**18.5**
EBITDA margin (%)[b]	**33.8**		**34.8**	**33.8**		**34.2**	**33.6**		**33.3**

[a] EBITDA for the strategic business areas and the Group as a whole is derived from profit/loss from operations (EBIT). This measure of earnings before profit/loss attributable to minority interests, income taxes and profit/loss from financial activities is additionally adjusted for depreciation, amortization and impairment losses to calculate EBITDA. It should be noted that Deutsche Telekom's definition of EBITDA may differ from that used by other companies. In this definition, profit/loss from financial activities includes finance costs, the share of profit/loss of associates and joint ventures accounted for using the equity method, and other financial income/expense. As it is based on profit/loss from operations, this method of computation allows EBITDA to be derived in a uniform manner on the basis of a measure of earnings in accordance with IFRS published for the strategic business areas and the Group as a whole. In the reporting period as well as the comparable prior-year period, Deutsche Telekom's net profit/loss as well as the EBITDA of the Group and of the strategic business areas were affected by a number of special factors. Deutsche Telekom defines EBITDA adjusted for special factors as profit/loss from operations (EBIT) before depreciation, amortization and impairment losses and before the effects of any special factors. The underlying concept involves the elimination of special factors that affect operational business activities and thus impair the comparability of EBITDA and net profit/loss with the corresponding figures for prior periods. In addition, due to such special factors, a statement about the future development of EBITDA and net profit is only possible to a limited extent. Adjustments are made irrespective of whether the relevant income and expenses are reported in profit/loss from operations, profit/loss from financial activities, or in tax expense. Income and expenses directly relating to the items being adjusted are also adjusted. To compare the earnings performance of profit-oriented units of different sizes, the EBITDA margin and the adjusted EBITDA margin are presented in addition to EBITDA and adjusted EBITDA. The EBITDA margin is calculated as the ratio of EBITDA to net revenue (EBITDA divided by net revenue).
[b] Calculated and rounded on the basis of millions for the purpose of greater precision.

Special factors in 2005:
[c] Expenditures for staff-related measures, primarily in Broadband/Fixed Network (EUR –0.4 billion) and Business Customers (EUR –0.1 billion), as well as Group Headquarters & Shared Services (EUR –0.1 billion).
[d] Expenditures for staff-related measures, primarily in Broadband/Fixed Network (EUR –0.2 billion) and other strategic business areas (EUR –0.1 billion).
[e] Expenditures for staff-related measures, mainly in Broadband/Fixed Network (EUR –0.1 billion) and Business Customers (EUR –0.1 billion).
[f] Primarily income from the reversal of provisions in connection with the Civil Service Health Insurance Fund (EUR 0.8 billion).
[g] Goodwill impairment losses at T-Mobile UK (EUR –1.9 billion), additions to out-of-court settlement payments at Group Headquarters & Shared Services (EUR –0.1 billion) and in particular expenditures for staff-related and restructuring measures (EUR –0.3 billion).
[h] Gains on disposal, mainly from the sale of MTS (EUR 1.0 billion; Mobile Communications) and comdirect bank (EUR 0.1 billion; Broadband/Fixed Network).
[i] Positive tax effects from the reversal of impairment losses on deferred tax assets in connection with loss carryforwards at T-Mobile USA (EUR 2.2 billion) and from expenses for staff-related measures (EUR 0.5 billion) are offset by negative tax effects from the reversal of provisions for the Civil Service Health Insurance Fund (EUR –0.3 billion; Group Headquarters & Shared Services).
[j] Primarily goodwill impairment losses at T-Mobile UK (EUR –1.9 billion).

Special factors in 2004:
[k] Goodwill impairment losses on U.S. mobile communications licenses of just under EUR –1.3 billion as well as expenditures for staff-related measures of less than EUR –0.1 billion (Broadband/Fixed Network).
[l] Expenditures for staff-related measures in Broadband/Fixed Network as well as other risks (EUR –0.1 billion in total).
[m] Retroactive income from the sale of Virgin Mobile (EUR 0.1 billion; Mobile Communications).
[n] Goodwill impairment losses at T-Mobile UK (EUR –2.2 billion) and Slovak Telecom (EUR –0.2 billion) as well as expenditures for staff-related measures at Broadband/Fixed Network and Group Headquarters & Shared Services (EUR –0.1 billion in total).
[o] In particular, gain on the disposal of shares in MTS (EUR 1.0 billion; Mobile Communications) and SES (EUR 0.2 billion; Group Headquarters & Shared Services).
[p] Tax income primarily from the above-mentioned expenditures for staff-related measures (EUR 0.1 billion) and impairment losses on U.S. mobile communications licenses (EUR 0.5 billion).
[q] Goodwill impairment losses at T-Mobile UK (EUR –2.2 billion) and Slovak Telecom (EUR –0.2 billion) as well as impairment losses on U.S. mobile communications licenses (EUR –1.3 billion).

Special factors in 2003:
[r] Restructuring expenditures at T-Hrvatski Telekom (Broadband/Fixed Network) as well as staff-related measures and expenditures in connection with the sale of the remaining cable companies (Broadband/Fixed Network).
[s] Gains of EUR 0.4 billion on the disposal of the remaining cable companies (Broadband/Fixed Network) and EUR 0.1 billion from the disposal of the Telecash and Siris subsidiaries (Business Customers).
[t] Goodwill impairment losses at Magyar Telekom (EUR –0.2 billion) which are allocated to the Broadband/Fixed Network and Mobile Communications business areas, as well as goodwill impairment losses at T-Mobile USA (EUR –0.8 billion). In addition, expenditures for staff-related measures (EUR –0.1 billion) and expenditures in connection with the disposal of cable companies (Broadband/Fixed Network) and two further subsidiaries in Business Customers (EUR –0.2 billion total).
[u] Primarily expenses for an addition to provisions for payments to the Civil Service Health Insurance Fund (EUR –0.2 billion) as well as gains on the disposal of various equity interests totaling EUR 0.8 billion.
[v] Primarily tax income from the conversion of T-Mobile International AG into an AG & Co. KG limited partnership (EUR 0.1 billion), the reclassification of T-Mobile subsidiaries outside of Germany (EUR 0.3 billion), and an addition to provisions for payments to the Civil Service Health Insurance Fund (EUR 0.1 billion), offset by tax expense on gains on the disposal of the remaining cable companies and in connection with the lower corporate income tax loss carried forward at Deutsche Telekom AG (EUR –0.4 billion).
[w] Goodwill impairment losses at Magyar Telekom (EUR –0.2 billion; Broadband/Fixed Network) and T-Mobile USA (EUR –0.8 billion).

Earnings development in the strategic business areas

billions of €	Broadband/Fixed Network			Mobile Communications			Business Customers			Group Headquarters & Shared Services		
	2005	2004	2003	**2005**	2004	2003	**2005**	2004	2003	**2005**	2004	2003
Net revenue	**21.7**	**22.4**	**23.2**	**28.5**	**25.4**	**22.9**	**9.1**	**9.2**	**9.3**	**0.3**	**0.3**	**0.2**
Intersegment revenue	4.3	4.6	5.1	0.9	1.1	1.4	3.8	3.8	3.6	3.2	3.2	3.1
Total revenue	**26.0**	**27.0**	**28.3**	**29.4**	**26.5**	**24.3**	**12.9**	**13.0**	**12.9**	**3.5**	**3.5**	**3.3**
Profit (loss) from operations (EBIT)	**5.1**	**5.5**	**5.6**	**3.0**	**1.5**	**3.4**	**0.4**	**0.5**	**0.4**	**(0.8)**	**(1.4)**	**(1.2)**
Depreciation, amortization and impairment losses	(4.1)	(4.4)	(4.7)	(6.7)	(7.0)	(3.8)	(0.9)	(1.0)	(1.1)	(0.9)	(0.9)	(0.8)
EBITDA	**9.2**	**9.9**	**10.3**	**9.7**	**8.5**	**7.2**	**1.3**	**1.5**	**1.5**	**0.1**	**(0.5)**	**(0.4)**
EBITDA margin (%)[a]	35.2	36.8	36.5	32.9	31.9	29.6	10.2	11.6	11.8	2.5	(15.8)	(12.1)
Special factors affecting EBITDA	(0.7)	(0.3)	(0.1)	(0.1)	0.1	–	(0.3)	(0.1)	0.0	0.4	(0.0)	0.1
EBITDA adjusted for special factors	**9.9**	**10.2**	**10.4**	**9.8**	**8.4**	**7.2**	**1.6**	**1.6**	**1.5**	**(0.3)**	**(0.5)**	**(0.5)**
EBITDA margin adjusted for special factors (%)[a]	37.9	37.6	36.7	33.2	31.7	29.6	12.3	12.6	11.5	(9.6)	(15.5)	(15.4)
Employees[b]	**112,872**	**115,292**	**128,065**	**49,479**	**47,417**	**44,899**	**51,744**	**51,978**	**54,390**	**29,931**	**32,872**	**23,909**

[a] Calculated and rounded on the basis of millions for the purpose of greater precision.
[b] Annual average.

Broadband/Fixed Network. In the 2005 financial year, the **net revenue** in the **Broadband/Fixed Network** strategic business area decreased by EUR 0.7 billion year-on-year to EUR 21.7 billion. Within this total, revenue growth at the T-Online business unit was more than offset by the decline in revenue at T-Com. In addition, the intersegment revenue of the strategic business area dropped by 6.7 percent to EUR 4.3 billion.

Net revenue at the T-Com business unit decreased by 3.5 percent to EUR 19.8 billion. This was primarily due to lower revenue in Germany, where the favorable trend in revenue from broadband lines (including DSL retail) was not enough to compensate for the drop in narrowband line and call minute revenue. This decline is attributable in particular to price effects caused by the greater number of calling plans and to declining volumes due to the loss of lines to competitors and fixed-mobile substitution. Revenue in the area of value-added services also decreased, largely as a result of the shrinking market for premium rate services and the migration of traffic from services billed online to services billed offline. By contrast, wholesale revenue increased slightly, with contributing factors including volume growth in DSL resale products and subscriber lines accompanied by price reductions driven by regulation. The positive development of interconnection calls and lines also had a favorable impact.

At EUR 2.5 billion, revenue generated by the fixed-network operations in Central and Eastern Europe in 2005 was close to the prior-year level. While local currency revenues in Croatia were largely stable, the decline in currency-adjusted revenues from the traditional fixed-network business at Magyar Telekom and Slovak Telecom could not be fully offset by growth in broadband and by the consolidation of Telekom Montenegro.

T-Com provides network and support services to other business areas/units and supplies them with fixed-network terminal equipment. In the year-on-year comparison, **revenue from other business areas/units** dropped by EUR 0.2 billion to EUR 4.8 billion, largely as a result of a decrease in prices and volumes and the transfer of parts of the value chain to T-Systems.

In the reporting year, the **net revenue** of the T-Online business unit grew by 3.2 percent to EUR 1.9 billion. This development reflects the growth in the unit's customer base and the increased acceptance of content and services in its broadband business. Revenue was negatively affected by the reduced DSL rates introduced at the beginning of July 2005 and the reimbursement of activation charges. The waiving of subscription fees as part of the broadband campaign that was launched in 2004 and continued into the first half of 2005 also impacted revenue.

Revenue from other business areas/units accounted for less than 10 percent of the total revenue generated by T-Online, and was primarily attributable to goods and services provided to Deutsche Telekom AG under the terms of the portal advertising agreement.

Adjusted EBITDA in the **Broadband/Fixed Network** strategic business area decreased by EUR 0.3 billion to EUR 9.9 billion in 2005, reflecting developments in the T-Com and T-Online business units. Due to a greater impact of negative special factors, the decline of unadjusted EBITDA in Broadband/Fixed Network in the reporting period was more pronounced than that of the corresponding adjusted figure.

T-Com's **adjusted EBITDA** decreased by EUR 0.1 billion to EUR 9.6 billion. By contrast to revenue, which dropped by 3.5 percent, the decline in adjusted EBITDA was only 0.9 percent. This can be attributed to savings of revenue-related costs, such as merchandise, telecommunications services, and raw materials and supplies, as well as improvements in other operating income and expenses. T-Com also achieved cost savings in the area of rentals, including by using space more efficiently and by leasing out office space, as well as by securing improved logistics procurement conditions and reduced prices for billing services and IT. However, these positive effects were partly offset by the cost-driver based allocation of Group Headquarters & Shared Services costs to the business areas, increased advertising expenses in connection with the broadband campaign, maintenance expenses, and higher legal fees. **EBITDA** in the year under review was also impacted by additions to provisions for severance and voluntary redundancy payments, as well as the severance component of the provisions for partial retirement in Germany, severance and voluntary redundancy payments at Magyar Telekom, and the restructuring of the card business (DeTeCard); these items totaled EUR 0.7 billion. In the prior year, expenses relating to restructuring, the derecognition of receivables, and additions to provisions for severance and voluntary redundancy payments only amounted to EUR 0.2 billion.

At T-Online, revenue growth contrasted with a drop in **adjusted EBITDA** by EUR 0.1 billion to EUR 0.3 billion. This decrease was mainly attributable to two factors: Firstly, marketing and sales expenses for the combined DSL and entertainment packages were higher; and secondly, the costs of the aggressively pursued market expansion in France – and to a lesser extent also in Spain – reduced adjusted EBITDA.

Profit from operations (EBIT) in the **Broadband/Fixed Network** business area in 2005 decreased by EUR 0.4 billion to EUR 5.1 billion. This decline was primarily due to the development of EBITDA in the reporting year, and was only partly offset by the improvement in depreciation, amortization, and impairment losses.

The T-Com business unit is the main contributor to **profit from operations (EBIT)** in the Broadband/Fixed Network business area. However, only part of the change in EBIT at Broadband/Fixed Network was attributable to T-Com. The EUR 0.1 billion decline in T-Com's EBIT to EUR 5.1 billion is attributable in particular to the reduction in EBITDA in the past financial year. At the same time, however, EBIT benefited from the decrease in depreciation, amortization, and impairment losses in 2005, which fell thanks to the structural effects of the non-recurrence of investments relating to the development program for Eastern Germany. The non-recurrence of the goodwill impairment losses recognized for Slovak Telecom in 2004 also had a positive effect on the profit from operations. Adjusted for the special factors detailed above, EBIT increased by EUR 0.2 billion to EUR 5.8 billion.

Profit from operations (EBIT) at T-Online decreased in 2005 by EUR 0.2 billion to EUR 0.1 billion. This reduction was due to the drop in T-Online's EBITDA as well as higher expenses for depreciation, amortization and impairment losses. The growth of investment activities in the 2005 financial year resulted in an increase in the depreciation and amortization base, and hence also in higher depreciation and amortization expenses.

Mobile Communications (T-Mobile). In the 2005 financial year, T-Mobile increased its **net revenue** by 12.1 percent or EUR 3.1 billion over the prior year. This was driven by the Slovak mobile communications company T-Mobile Slovensko, which was fully consolidated for the first time in 2005, as well as growth at T-Mobile USA in excess of 28 percent. With 4.4 million net additions in the 2005 financial year, T-Mobile USA increased its customer base to a total of 21.7 million by year-end. The companies in Croatia and the Czech Republic also recorded a substantial increase in revenue with double-digit growth rates. The decline in revenue in the United Kingdom was due in particular to the reduction in termination charges and line rental discounts (half price). The revenue losses in Germany resulted mainly from the drop in low-margin revenue from terminal equipment.

Intersegment revenue decreased by EUR 0.2 billion to EUR 0.9 billion in 2005, and was primarily generated from so-called mobile terminated calls within Germany.

EBITDA in the Mobile Communications strategic business area rose in the reporting period by EUR 1.2 billion to EUR 9.7 billion. This means that T-Mobile achieved EBITDA growth of 14.6 percent in the 2005 financial year. The EBITDA margin improved from 31.9 percent to 32.9 percent, while **adjusted EBITDA** increased by 16.3 percent to around EUR 9.8 billion. This development is primarily attributable to revenue growth, although this effect was partly offset by higher cost of sales and selling expenses, particularly at T-Mobile USA. In addition, the full consolidation of T-Mobile Slovensko and the first-time consolidation of MONET in 2005 contributed to EBITDA growth with a total of EUR 0.2 billion. In the fourth quarter of 2005, the EBITDA contributions by T-Mobile USA and T-Mobile Deutschland were close to equal for the first time, at around EUR 0.9 billion each. In the 2005 financial year as a whole, however, T-Mobile Deutschland again made the largest contribution to EBITDA with EUR 3.6 billion, followed by T-Mobile USA (EUR 3.3 billion) and T-Mobile UK (approximately EUR 1.3 billion).

Profit from operations (EBIT) increased by EUR 1.5 billion to EUR 3.0 billion in the 2005 financial year. This reflects the positive development of EBITDA and depreciation, amortization, and impairment losses. In both 2005 and 2004, EBIT was significantly impacted by the impairment of intangible assets. Goodwill impairment losses of EUR 1.9 billion at T-Mobile UK in 2005 compared to approximately EUR 2.2 billion of impairment losses in 2004. In addition, impairment losses were recognized in the previous year on goodwill at T-Mobile Slovensko in the amount of EUR 0.1 billion and on U.S. mobile communications licenses in the amount of approximately EUR 1.3 billion, the latter due to the winding up of the network joint venture between T-Mobile USA and Cingular Wireless. In 2005, this effect was tempered in particular by an increase in the amortization of UMTS licenses of around EUR 0.3 billion year-on-year, as the UMTS licenses in Germany and the United Kingdom were not put into commercial operation until the second and third quarters of 2004 respectively; accordingly, their amortization did not begin until the second and third quarters of 2004. Depreciation and impairment of property, plant and equipment also increased, primarily as a result of higher depreciation relating to the network infrastructure in California, Nevada and New York that was acquired in the first quarter of 2005. EBIT adjusted for special factors remained essentially unchanged year-on-year at around EUR 5.0 billion.

Business Customers (T-Systems). Net revenue decreased by 2.0 percent to EUR 9.1 billion in the 2005 financial year, on the back of developments in both business units. Net revenue at Enterprise Services was down year-on-year by 2.6 percent or EUR 0.1 billion, while Business Services recorded a year-on-year decline in revenue of 1.4 percent or EUR 0.1 billion. After declining revenues in the first three quarters of 2005, the business unit increased net revenue in the fourth quarter of 2005 by 3.3 percent year-on-year. Within the Enterprise Services business unit, Systems Integration in particular saw a reduction in net revenue, largely as a result of ongoing competition on the market. The measures initiated under the Focus on Growth program, including business process outsourcing programs, could only partially offset this trend. Similarly, the implementation of the IT strategy for SMEs and the reacquisition of customers for telecommunications services did not fully offset the revenue drop at the Business Services business unit, which was due to the continued fall in the prices of traditional telecommunications services and persistent competitive pressure.

Intersegment revenue improved by 2.0 percent year-on-year to EUR 3.8 billion.

In 2005, T-Systems achieved **adjusted EBITDA** of around EUR 1.6 billion, down 2.7 percent on the comparable prior-year period. The positive development recorded by Computing & Desktop Services, with growth of 13.1 percent, more than offset the downturn in the Systems Integration and Telecommunications units at Enterprise Services. By contrast, Business Services recorded a decline of 29.8 percent, which is primarily due to strategic pricing measures to reacquire telecommunications customers. Despite substantial savings from improved procurement terms and conditions, T-Systems' **EBITDA** decreased by EUR 0.2 billion or 13.5 percent from the 2004 financial year. The negative special factors contained in this figure, which amounted to EUR 0.3 billion, increased in the reporting period and are primarily attributable to measures relating to restructuring expenses.

Profit from operations (EBIT) declined in the current reporting period by EUR 0.1 billion to EUR 0.4 billion. This was due in particular to declining net revenues and higher selling expenses driven by expenditures in connection with staff-related measures. These effects were partially offset by an improvement in depreciation and amortization expenses. The drop in amortization and depreciation expenses is primarily attributable to the lower depreciation and amortization base in the reporting period.

Group Headquarters & Shared Services. In the 2005 financial year, **net revenue** generated by Group Headquarters & Shared Services increased by around 9.2 percent year-on-year. This was due in particular to revenue growth at DeTeFleetServices and Vivento. Net revenue accounted for approximately 8.1 percent of total revenue.

Intersegment revenue decreased slightly. This was largely attributable to the negative revenue development in the Real Estate shared service, in particular because of the lower volumes of orders being placed by customers as a result of the conversion to new market-based lease models with the strategic business areas. A positive factor offsetting this decline was a slight increase in revenues at the Vivento Call Center unit and at Vivento Technical Services (VTS), resulting from the further expansion of business activities compared with the previous year. DeTeFleetServices also recorded a moderate increase in revenue.

Despite the slight decline in revenue, **EBITDA** improved year-on-year by EUR 0.6 billion to EUR 0.1 billion. This is mainly due to the drop in the Vivento workforce from the prior year, as well as higher income from contract and temporary work arrangements. A further positive development was the fact that the costs of trainees and social security expenses for civil servants, which were reported at Headquarters until the end of last year, are now allocated on the basis of actual cost generation and therefore no longer impact costs at Group Headquarters. However, these positive effects are offset by a slight increase in expenses, for instance, for centralized marketing and IT projects. Moreover, the Real Estate shared service also recorded a decline in EBITDA as against the previous year. This was largely due to declining revenue.

Special factors affecting EBITDA increased substantially year-on-year to EUR 0.4 billion in 2005. This was largely attributable to the reversal of provisions as a result of the reduction in future liabilities relating to annual deficit compensation for the Civil Service Health Insurance Fund (PBeaKK), whose positive EBITDA effect amounted to around EUR 0.8 billion. Special factors improving EBITDA also included income from insurance refunds and transfer payments to Vivento. Countering these effects, charges and provisions for severance and voluntary redundancy payments already implemented and those arising in conjunction with the Group's planned staff restructuring measures, as well as expenses for other personnel-related measures, impacted EBITDA to the tune of approximately EUR 0.3 billion. Also included are expenses related to a capital increase for the Deutsche Telekom Foundation in the amount of EUR 0.1 billion. By contrast, the impact of special factors on EBITDA in the prior year was immaterial (largely transfer payments to Vivento and severance and voluntary redundancy payments). **Adjusted** for special factors, **EBITDA** improved from the 2004 reporting period by EUR 0.2 billion to EUR –0.3 billion.

Loss from operations (EBIT) decreased by EUR 0.6 billion year-on-year to EUR 0.8 billion, largely on the back of the improvement in EBITDA. This was partially offset by the slight increase in depreciation, amortization, and impairment losses, which is attributable in particular to higher impairment losses on property, plant and equipment.

The Board of Management proposes a dividend of EUR 0.72. In general, internationally operating groups focus their reporting on their consolidated financial statements. However, dividend payments at Deutsche Telekom are based on the single-entity financial statements of Deutsche Telekom AG[1]. The income statement of Deutsche Telekom AG reports income after taxes of EUR 3,275 million. Following inclusion of the unappropriated net profit of EUR 295 million carried forward from 2004, cumulative unappropriated net profit amounts to EUR 3,570 million. Under the German Federal Stock Corporation Act (Aktiengesetz – AktG), the amount payable to shareholders as a dividend is based on unappropriated net profit as reported by Deutsche Telekom AG in its annual financial statements prepared according to the German Commercial Code. The Board of Management proposes that a dividend of EUR 0.72 per no par value share carrying dividend rights be paid from this unappropriated net profit, and that the remaining balance be carried forward.

Net worth and financial position of the Group. Total assets of the Deutsche Telekom Group increased by 2.1 percent or EUR 2.6 billion in 2005 to EUR 127.9 billion.

On the **assets** side, the increase is attributable to a rise in intangible assets and property, plant and equipment of EUR 3.5 billion and an increase of EUR 0.8 billion in trade and other receivables. By contrast, cash and cash equivalents decreased by around EUR 3.0 billion.

In addition to significant exchange rate effects totaling EUR 3.2 billion, the increase in intangible assets was largely driven by additions to goodwill from the acquisition of additional shares in T-Online International AG, as well as the purchase of additional FCC mobile communications licenses in the United States. The increase in property, plant and equipment is attributable to exchange rate effects of around EUR 1.1 billion and, in particular, to the purchase of networks in California, Nevada and New York, and additions resulting from further network expansion in the United States.

Investments in property, plant and equipment, and intangible assets (excluding goodwill) increased by EUR 3.7 billion year-on-year to EUR 10.2 billion. Investment was mainly centered on the acquisition of additional mobile communications licenses, software and technical equipment and machinery. More than half of the investments were made in Mobile Communications and Broadband/Fixed Network, predominantly in the United States and Germany.

The rise in trade and other receivables is due, among other reasons, to T-Mobile USA's receivables from Cingular under the terms of the wholesale agreement and to receivables for roaming services at T-Mobile UK.

In 2005, cash and cash equivalents were used mainly to purchase additional shares in T-Online International AG and to acquire networks in the United States, as well as for dividend payments and bond repayments. In addition to the free cash flow, the income from the disposal of the remaining shares in MTS and the issuance of bonds and MTNs had an offsetting effect.

The increase in **liabilities and shareholders' equity** was attributable to a rise in shareholders' equity of EUR 3.8 billion and an additional EUR 2.9 billion in other liabilities, partly offset in particular by a decline of EUR 4.4 billion in financial liabilities and a decrease in provisions of EUR 0.5 billion.

Shareholders' equity increased by EUR 3.8 billion to EUR 49.6 billion due to net profit and in particular to positive exchange rate effects recorded in other comprehensive income as a result of currency translations from foreign Group entities. This development was partly offset by a decrease in minority interests following the acquisition of additional interests in T-Online International AG prior to the merger process of T-Online International AG into Deutsche Telekom AG, as well as the dividend payment and the reduction in other comprehensive income related to the sale of the remaining stake in MTS, since changes in the fair value of MTS shares were recognized directly in equity.

In addition, deferred tax liabilities – reported under other liabilities – rose by EUR 2.4 billion.

Current and non-current financial liabilities declined by EUR 4.4 billion, mainly due to the repayment of bonds and liabilities to banks.

Current and non-current provisions totaled EUR 10.2 billion, down EUR 0.5 billion on the previous year. This decrease is driven by offsetting effects: Additions in connection with staff-related measures totaling EUR 1.0 billion were offset in particular by the reversal of provisions in connection with the new arrangements for the financing of the Civil Service Health Insurance Fund.

[1] The single-entity financial statements of Deutsche Telekom AG will continue to be prepared in accordance with the accounting principles under the German Commercial Code. The single-entity financial statements of Deutsche Telekom AG are published in the Federal Gazette (Bundesanzeiger) and filed with the Commercial Registry of the Bonn District Court. The financial statements are available upon request from Deutsche Telekom, Investor Relations, Postfach 2000, D-53105 Bonn, Germany, fax +49 (0) 228 181-88899.

Consolidated balance sheet

as of Dec. 31 of each year **Assets**	**2005 billions of €**	**2005 %***	2004 billions of €	2004 %*	Change billions of €	2003 billions of €
Current assets	**16.7**	**13.0**	**18.9**	**15.1**	**(2.2)**	**21.5**
Cash and cash equivalents	5.0	3.9	8.0	6.4	(3.0)	8.7
Trade and other receivables	7.5	5.9	6.7	5.4	0.8	7.6
Miscellaneous assets	4.2	3.2	4.2	3.3	0.0	5.2
Non-current assets	**111.2**	**87.0**	**106.4**	**84.9**	**4.8**	**114.6**
Intangible assets	52.7	41.2	50.7	40.5	2.0	55.5
Property, plant and equipment	47.8	37.4	46.3	36.9	1.5	49.2
Miscellaneous assets	10.7	8.4	9.4	7.5	1.3	9.9
Total assets	**127.9**	**100.0**	**125.3**	**100.0**	**2.6**	**136.1**
Liabilities and shareholders' equity						
Current liabilities	**25.0**	**19.5**	**26.3**	**21.0**	**(1.3)**	**30.3**
Financial liabilities	10.4	8.1	12.6	10.1	(2.2)	17.3
Trade and other payables	6.9	5.4	6.1	4.9	0.8	6.4
Provisions	3.6	2.8	3.6	2.8	0.0	3.1
Other liabilities	4.1	3.2	4.0	3.2	0.1	3.5
Non-current liabilities	**53.3**	**41.7**	**53.2**	**42.5**	**0.1**	**62.1**
Financial liabilities	36.3	28.4	38.5	30.7	(2.2)	46.8
Provisions	6.6	5.2	7.1	5.7	(0.5)	6.8
Other liabilities	10.4	8.1	7.6	6.1	2.8	8.5
Shareholders' equity	**49.6**	**38.8**	**45.8**	**36.5**	**3.8**	**43.7**
Total liabilities and shareholders' equity	**127.9**	**100.0**	**125.3**	**100.0**	**2.6**	**136.1**

* Calculated and rounded on the basis of millions for the purpose of greater precision.

Deutsche Telekom's **financial management** ensures the Group's ongoing solvency and hence its financial equilibrium. The fundamentals of Deutsche Telekom's financial policy are established each year by the Board of Management and overseen by the Supervisory Board. Group Treasury is responsible for implementing the finance policy and for ongoing risk management.

The primary instruments used for the Group's medium to long-term financing are bonds and MTNs. The main additions in 2005 were a EUR 3 billion fixed-interest bond, two MTNs worth EUR 500 million each, a USD 668 million European Investment Bank current account credit, and a GBP 250 million MTN. The individual terms and conditions for the most important financial instruments are explained in the notes to the consolidated financial statements under Note (24) "Financial liabilities."

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.

To manage its **financial stability** Deutsche Telekom essentially uses two indicators: gearing and relative debt. One component of the indicators is net debt, which Deutsche Telekom considers to be an important measure for investors, analysts, and rating agencies.

In 2005, Deutsche Telekom succeeded in reducing its **net debt** by EUR 1.3 billion to EUR 38.6 billion. In addition to free cash flow, the primary factors contributing to this development were inflows from the sale of the stake in the Russian mobile communications entity MTS and the shares in comdirect bank for a combined total of around EUR 1.4 billion. This was offset, in particular, by higher dividend payments as well as the acquisition of additional T-Online shares.

Now that Moody's has upgraded Deutsche Telekom AG's senior unsecured debt **rating** by one grade from Baa1 to A3, Deutsche Telekom AG's long-term rating is now in the single A bracket of all major rating agencies. The rating agency Fitch has also upgraded Deutsche Telekom AG's short-term rating from F2 to F1.

Net debt*

billions of €, as of Dec. 31 of each year	**2005**	2004	2003
Bonds	37.2	39.8	51.6
Liabilities to banks	2.2	3.1	3.8
Liabilities to non-banks from promissory notes	0.6	0.7	0.8
Liabilities from derivatives	0.7	1.1	1.3
Lease liabilities	2.4	2.5	2.4
Liabilities arising from ABS transactions	1.4	1.6	1.2
Other financial liabilities	0.1	0.0	0.1
Gross debt	**44.6**	**48.8**	**61.2**
Cash and cash equivalents	5.0	8.0	8.7
Available-for-sale financial assets	0.1	0.1	0.1
Derivatives	0.4	0.4	0.5
Other financial assets	0.5	0.4	0.8
Net debt	**38.6**	**39.9**	**51.1**

* Net debt is used by senior operating decision-makers at Deutsche Telekom as a key financial figure to manage and control debt. Although many of Deutsche Telekom's competitors use this measure, its definition may vary from one company to another, however.

Financial security*

as of Dec. 31 of each year	**2005**	2004	2003
Gearing			
$\frac{\text{Net debt}}{\text{Shareholders' equity}}$	0.8	0.9	1.2
Relative debt			
$\frac{\text{Net debt}}{\text{EBITDA (adjusted for special factors)}}$	1.9	2.0	2.8

* Calculated and rounded on the basis of millions for the purpose of greater precision.

Long-term rating of Deutsche Telekom AG

	Standard & Poor's	**Moody's**	**Fitch**
2003	BBB+	Baa2	BBB+
2004	BBB+	Baa1	A-
2005	**A-**	**A3**	**A-**
Outlook	stable	stable	stable

Net cash from operating activities. Net cash from operating activities fell by EUR 1.7 billion to EUR 15.0 billion in 2005, primarily due to the change in working capital and tax payments (tax refunds recorded in the prior year). This was offset by lower net interest payments.

Net cash used in investing activities. The strong increase in net cash used in investing activities is mainly attributable to cash outflows for intangible assets and property, plant and equipment at T-Mobile - in particular, at T-Mobile USA in connection with the winding up of the U.S. mobile communication joint venture - and to the cash outflow for the acquisition of additional shares in T-Online.

Net cash used in financing activities. The reduction in net cash used in financing activities is the result of increased borrowing; this was offset by higher dividend payments (mainly Deutsche Telekom AG).

Consolidated cash flow statement (condensed)[a]

billions of €	**2005**	2004	2003
Net cash from operating activities	**15.0**	**16.7**	**15.1**
Cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment	(7.2)[b]	(6.4)	(6.4)
Free cash flow (before dividend payments)[c]	7.8	10.3	8.7
Net cash used in investing activities	**(10.1)**	**(4.5)**	**(2.3)**
Net cash used in financing activities	**(8.0)**	**(12.9)**	**(5.8)**
Effects of exchange rate changes	0.1	(0.0)	(0.0)
Net increase (decrease) in cash and cash equivalents	(3.0)	(0.7)	7.0
Cash and cash equivalents	5.0	8.0	8.7

[a] Calculated and rounded on the basis of millions for the purpose of greater precision.

[b] Cash outflows for investments in intangible assets and property, plant and equipment (excluding goodwill and before the acquisition of U.S. network infrastructure and licenses). Cash outflows for the acquisition of network infrastructure and licenses in the United States amounted to EUR 2.1 billion in 2005.

[c] Deutsche Telekom is of the opinion that the "free cash flow (before dividend payments)" is used by investors as a measure to assess the Group's net cash from operating activities after deduction of cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment, in particular with regard to subsidiaries, associates and joint ventures, and the repayment of liabilities. "Free cash flow (before dividend payments)" should not be used to determine the financial position of the Group. There is only limited comparability between Deutsche Telekom's definition of free cash flow and methods of calculating this measure and similarly designated measures and disclosures of other companies.

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 that was launched at the start of 2005. This is a three-year Group-wide program supplemented by business area-specific growth programs.

Research and development.

Realignment of the Group's innovation activities // Number of innovation areas increased to five // Successful innovation transfer to the strategic business areas // Innovations successfully launched on the market

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

Organizational realignment of the Group's innovation activities. In 2005, the Group 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 the Group implements its products and services. It defines the strategies for these platforms and ensures coordinated production architectures across all strategic 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 the Group'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 strategic business areas' innovation activities.

Deutsche Telekom has created the new position of Chief Technology Officer (CTO) to head this central department. The CTO is responsible for the development of the technology and innovation strategy and manages two of the Group's main innovation instruments: Deutsche Telekom Laboratories, i.e., the Group's central research and development unit, and the venture capital company T-Venture, which finances and supports innovative telecommunications and IT start-ups during their formation period.

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 the entire Group. This Group-wide management enables important synergies between the strategic business areas to be tapped. The high level of standardization within the Group 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" and established T-Com Innovationsgesellschaft mbH in Berlin. The purpose of this new company is to develop and roll out innovative, ground-breaking business models and products, and to accelerate T-Com's innovation processes.

Innovation strategy focused on five areas. Deutsche Telekom focuses its innovation strategy on customers and their current and future requirements. In 2005, the Group concentrated on four existing and one new area of innovation (the so-called "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; instead, 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.

Intensive transfer of results to the strategic business areas. The research and development activities of the centralized Group innovation unit at Deutsche Telekom's headquarters 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 strategic business areas. The projects transferred to the strategic business areas 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. For other development projects the transfer has already begun or is currently in preparation.

The Group innovation unit at Deutsche Telekom's headquarters and Deutsche Telekom Laboratories focus primarily on issues that are relevant to all strategic business areas and on new technologies that are expected to be launched or ready for the market in two to five years. The Group's strategic business areas 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 Group innovation management activities.

Deutsche Telekom Laboratories on course. Deutsche Telekom's research and development unit, which was officially launched in April 2005, is developing as planned. In 2005, it implemented the Group's research & development program in line with the specifications set out in the innovation strategy.

One example of the Group's successful development activities is the innovation "Intuitive Usability," whose innovations received Voice Awards in no fewer than two categories in 2005. T-Online received the Voice Award for the Most Innovative Application for its groundbreaking technical implementation of a German-language speech application, while T-Mobile won in the Best Voice User Interface category for its 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 signature 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.

Successful roll-out of innovations by strategic business areas. In the reporting period, Deutsche Telekom's strategic business areas made a large number of innovations ready for the market. In the Broadband/Fixed Network business area, T-Online expanded its DSL offering in 2005 to include DSL telephony based on voice over IP technology, and therefore now has what is known as a double-play offering. T-Online's aim is to complement this by the missing TV component, thus realizing a triple-play offering. T-Online has carved itself out a pioneering role 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. The Group 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 speeds of up to 25 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.

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 HotSpot 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 technologies for communication and household networking 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.

With **web'n'walk** for consumers and **Office in your Pocket** for business customers, T-Mobile started marketing coordinated products and services for on-the-move Internet access and mobile data transmission in the past financial year. Key products include mobile communication equipment from the MDA family, BlackBerry handhelds, the Sidekick, and devices for mobile data transmission via laptops. The launch of web'n'walk in July 2005 made T-Mobile Deutschland the first network operator in Europe to bring the open Internet to mobile phones. In contrast to other mobile online services that only offer limited content, web'n'walk gives users direct access to the entire World Wide Web to the same extent as they would expect from their PC at home, for example. In the course of the year, the T-Mobile companies in Austria, the United Kingdom, and the Netherlands also rolled out web'n'walk services. In addition, T-Mobile will introduce mobile Internet services in the Czech Republic in 2006. In 2005, T-Mobile facilitated broadband **Internet access** in Deutsche Bahn's **ICE high-speed trains** and British express trains for the first time using a specially designed mobile HotSpot. It also trialed the innovative transmission technology **HSDPA** (High Speed Downlink Packet Access), which UMTS customers will be able to use after CeBIT 2006 to send data at DSL speed even when on the move. T-Mobile also paved the way for **interactive digital television** on mobile phones with a large-scale pilot project in the Czech Republic in 2005.

Innovations for business customers were launched in sectors such as logistics, automotive, and healthcare in 2005. The new **Real Time Enterprise Services** systems solution, for example, enables business processes to be automated by sending information on the movement of goods read from RFID chips (wireless barcode reading) to a centralized systems platform, where it is then managed. In the automotive area, T-Systems' **InCar solutions** link electrical and electronic systems that were originally separate to form a single unit, thus facilitating communication between the vehicle and its environment. These solutions provide increased convenience and safety, as well as improved information and entertainment services in the vehicle, and can be integrated into manufacturers' and suppliers' business processes. As part of the Partners for Innovation drive, T-Systems developed a **telemonitoring system** with which key data of chronically ill patients can be sent from their home to medical specialists over a broadband line so that the patients can be monitored on an ongoing basis. This system is TV-operated and will be trialed in 2006 with around 1,000 patients in the Berlin area.

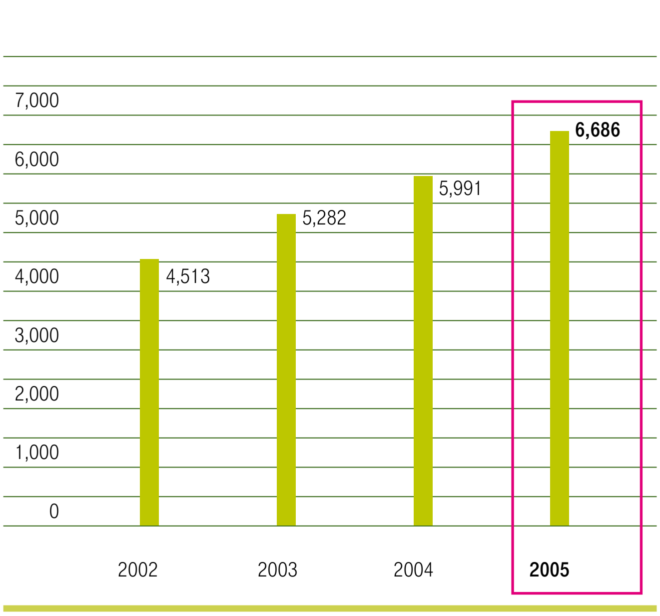
Research and development expenditure and investment. At EUR 0.2 billion, expenditure for experimental, explorative, and pre-production research and development remained virtually unchanged in 2005 (2004: EUR 0.2 billion). Typical research and development activities included, in particular, the development of new data transmission processes and innovative telecommunications products. In 2005 and 2004 alike, investment in internally generated intangible assets to be capitalized amounted to EUR 0.2 billion. This investment related primarily to the development and adaptation of internally developed software as well as software platforms and architectures, with the aim of improving processes for the provision and operation of services and products. As in previous years, the vast majority was attributable to the Broadband/Fixed Network and Mobile Communications strategic business areas.

In the past financial year, over 2,600 employees were involved in projects and activities aimed at creating new products and marketing them efficiently to customers.

Patent applications and intellectual property rights. In the market for mobile and fixed-network telephony, intellectual property rights play an extremely important role, both nationally and internationally. For this reason, the Group 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. Management of these intellectual property rights is governed by strict cost/benefit considerations. The portfolio of intellectual property rights is reviewed on a regular basis and those that are no longer relevant are eliminated.

Intellectual property rights



Employees.

Optimization of personnel cost ratio and launch of staff restructuring program // Vivento: employment rate at constantly high level // Human resources development and culture change through management quality and service focus // Vocational and professional training as a future-oriented quality factor for Deutsche Telekom

The Group's human resources strategy in 2005 focused on reducing the personnel cost ratio and on human recources development and culture change. As part of its Excellence Program, the Group developed new measures and concepts to generate a long-term improvement in the personnel cost ratio, i.e., the ratio of net revenue to personnel costs.

Personnel cost ratio optimization and staff restructuring measures launched. In 2005, personnel costs in the Group were EUR 14.3 billion, an increase of EUR 1.0 billion compared with the previous year. This was primarily attributable to expenses relating to staff measures, which totaled around EUR 1.2 billion (2004: around EUR 0.2 billion). Adjusted for these expenses, the personnel cost ratio improved by 1.0 percentage points to 21.9 percent.

As part of its Excellence Program, the Group launched a range of measures to reduce the personnel cost ratio on a long-term basis. It also resolved to implement a comprehensive, demand-driven staff restructuring program in Germany over the coming years.

Workforce development (as of Dec. 31)

Employees in the Group	2005	2004	2003
Total	**243,695**	**244,645**	**248,519**
of which: Deutsche Telekom AG	106,604	110,979	118,669
Broadband/Fixed Network	111,267	114,083	118,640
Mobile Communications	51,410	47,797	46,600
Business Customers	52,041	51,173	52,585
Group Headquarters & Shared Services	28,977	31,592	30,694
Breakdown by geographic area			
Germany	167,875	170,837	173,278
International	75,820	73,808	75,241
of which: other EU Member States	37,339	38,789	41,846
of which: rest of Europe	9,243	9,909	10,188
of which: North America	27,851	23,788	21,525
of which: rest of world	1,387	1,322	1,682
Revenue per employee in the Group			
Development of productivity (thousands of €)	244	234	224

Personnel costs in the Group

billions of €	2005	2004	2003
Personnel costs in the Group	14.3	13.3	13.2
Special factors	1.2[a]	0.2[b]	0.2[c]
Personnel costs in the Group (adjusted for special factors)	13.1	13.1	13.0
Net revenue	59.6	57.3	55.6
Adjusted personnel cost ratio (%)[d]	**21.9**	**22.9**	**23.5**

Special factors:

[a] Expenses for staff-related measures (severance and redundancy payments, partial retirement arrangements etc.) at Broadband/Fixed Network (EUR –0.6 billion), Business Customers (EUR –0.2 billion), Mobile Communications (EUR –0.1 billion) and Group Headquarters & Shared Services (EUR –0.3 billion).

[b] Expenses for staff-related measures, primarily at Broadband/Fixed Network (EUR –0.2 billion).

[c] Expenses for staff-related measures at Broadband/Fixed Network, Business Customers and Group Headquarters & Shared Services (total: EUR –0.2 billion).

[d] Calculated and rounded on the basis of millions for the purpose of greater precision.

A total of 32,000 employees within Germany are scheduled to leave the Group between 2006 and 2008. This will include about 7,000 employees who will be outplaced from Vivento as part of the deconsolidation of the business line. 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 is therefore scheduled to be 19,000 over the next three years .

If the roll-out of the high-speed fiber-optic network is threatened by regulatory restrictions in this market, however, there is a risk that the 5,000 jobs to be generated by the roll-out may not materialize.

The staff restructuring will be carried out in a socially responsible manner, i.e., on a voluntary basis. Deutsche Telekom AG will adhere to the agreement reached with the trade unions in 2004 to avoid compulsory redundancies. The cost of the entire program is EUR 3.3 billion spread over the period 2005 through 2008.

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 needs-driven workforce adjustment, 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, DeTe Immobilien, 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.

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.

Vivento succeeded in creating new employment opportunities in 2005 by expanding its own business activities in the business lines and through major projects. Vivento Customer Services GmbH (VCS), which is represented in 18 locations, offers innovative and integrated customer services on the call center market. By the end of the year, the company had increased its number of employees to around 2,840. As at December 31, 2005, an additional 420 contract or temporary staff were employed at VCS. Vivento's second business line, Vivento Technical Services GmbH (VTS), was launched on the internal and external market as a technical service provider for fixed and mobile networks. Since its launch in July 2004, VTS has expanded its headcount to 1,840 by the end of 2005. In addition, 540 employees worked on a contract or temporary basis at VTS as at this date. Both business lines are set to take on more staff from within the Group in the current financial year. Furthermore, between 2006 and 2008, Deutsche Telekom plans to outplace around 7,000 employees in these business lines from Vivento by means of deconsolidation.

Innovative projects for increased employment. The Group is also exploring new avenues in its 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 DeTe Immobilien 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. Filling these positions with internal staff 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, T-Online, and T-Mobile business units 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 corporate and 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 used goods, stock, or residual items that have been written off. Both projects offer good employment prospects.

In addition to employment opportunities within the Group, existing cooperation arrangements with government agencies and other employers – e.g., 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 Group is committed to a policy of systematically encouraging top performers 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 Group. This helps to improve integration, while at the same time illustrating the possibilities for a career move within the Group.

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

Various human resources development measures will be introduced as part of the staff restructuring program, too, with the aim of improving customer and service orientation. In fully implementing the executive development system, the Group 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 shops will all significantly enhance the quality of service in the Group.

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 Group across all levels of the corporate hierarchy. Senior executives are setting an example, for instance by participating in the “Five days with the customer” project, which aims to put the Group’s top managers in direct contact with customers for five days – whether at one of T-Mobile’s new service centers, at a T-Com call center, in the back office, in a T-Punkt shops or at the service and diagnosis point at a technical customer service center.

Group-wide IT tool to make ideas management even more effective. The “KOI” (Konzernweites Ideenmanagement) IT tool, which coordinates ideas management across all Group units, was developed in 2004 and launched in 2005. The tool takes into account the different processes in the individual business areas. This ensures that all ideas management processes throughout the Group are integrated, making the transfer of ideas even more effective.

In the past financial year, the Deutsche Telekom Group generated savings of around EUR 98 million from a total of 7,821 suggestions for improvement (new submissions and subsequent approvals).

Innovations

	2005	2004	2003
Number of suggestions for improvement	7,821	7,737	7,995
Savings (millions of €)	98	87	127
Number of patent applications	412	374	402

First uniform Group-wide employee survey carried out. In September 2005, the Group carried out a uniform Group-wide employee survey for the first time. Employees around the world 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. In total, around 153,000 employees, or 70 percent of the workforce, took part in the survey.

The results of the employee survey in the past financial year are superior to those recorded by comparable groups of 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 within the Group. They have been carried out regularly and with a global focus since 1998. Together with other feedback instruments, employee surveys are a key tool in determining areas requiring improvement within the Group, in the strategic business areas, and in the teams. They 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 management of the Group set up the "Anniversary shares 2005" employee stock participation plan. Employees from 75 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 on 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, representing 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 Group 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.

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

Vocational and professional training as a future-oriented quality factor for Deutsche Telekom. In the past financial year, a total of 122,379 people took part in 12,826 seminars. Classroom seminars were increasingly replaced by e-learning components and web-based training, and prepared and complemented by virtual classrooms and conference rooms.

Further training with Telekom Training

	2005	2004	2003
Seminars	12,826	14,109	9,476
Participants	122,379	95,705	110,620
Participant days	403,178	295,168	258,202
Global Teach sessions*	555,696	744,229	239,248

* Global Teach is an in-house e-learning platform.

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 Group in 2005. At the end of 2005, Deutsche Telekom had about 11,440 trainees in Germany, meaning that trainees accounted for approximately 7.1 percent of its domestic workforce.

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 career with a traineeship.

Sustainability and environmental protection.

New subsidiary to optimize environmentally-friendly power purchasing // Climate compensation partnerships agreed // Group working actively on climate protection projects // Working group to develop global standards

Power & Air Solutions for optimized power purchasing. All business units in the Group implement the goals of the Group-wide climate protection policy adequately. They are supported in their endeavors by PASM Power and Air Condition Solution Management GmbH & Co. KG, a subsidiary of the Group that was formed in 2004. The company provides energy-based products to the technical departments of the Group throughout Germany, thus allowing the Group to exploit significant savings potential in terms of energy consumption, costs and CO_2 emissions.

Power & Air Solutions evaluates the environmental aspects of electricity generation when purchasing power, and takes this evaluation into account when awarding contracts to suppliers. The aim is to continue weakening the link between energy consumption and CO_2 emissions. Renewable energy certificates for 2006 were purchased for one terawatt hour (TWh) of power. These certificates testify that specific quantities of power consumed are generated in certified production plants using renewable energies.

Power & Air Solutions is planning to renew and modernize power supply equipment over the coming years. These measures will significantly increase the efficiency of energy conversion. In ecological terms, this means that fewer energy resources will be used, making a positive contribution to climate protection.

The use of renewable energies makes us a standard-setter both in Germany and beyond. T-Mobile Netherlands, for example, already meets 90 percent of its energy needs from renewable sources.

Fleet management lowers CO_2 emissions. DeTeFleetServices GmbH manages Deutsche Telekom's vehicle fleet. With around 42,000 vehicles, the company operates one of the largest corporate fleets in Germany. During the reporting period, the Group recorded an increase in business mileage, which in turn led to a slight increase in fuel consumption by the fleet. The purchase of new, more efficient vehicles coupled with route optimization and eco-driving courses nevertheless helped to consolidate the level of pollutant emissions from the vehicle fleet. Environmental compatibility and cost effectiveness are given equally high priority when selecting new vehicles for purchase. All new vehicles ordered in 2005 – around 3,800 in total – had diesel particle filters, provided they were available from the manufacturer. This brought the total number of vehicles with particle filters up to approximately 4,400. In addition, the fleet already includes more than 400 natural gas-powered vehicles.

Energy efficiency drive in the Broadband/Fixed Network strategic business area. T-Com's energy efficiency drive proved extremely successful. By the end of December 2005, 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: participation in the Hessian Climate Partner initiative. 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.

In the Hessian Climate Partner project, Deutsche Telekom is working together with other major German companies to develop standards for climate-neutral products and services. The project is also investigating the market potential for such products and services and the willingness of consumers to invest in voluntary climate protection.

A key topic in the area of climate protection in 2006 will be climate compensation in conjunction with the soccer World Cup. Deutsche Telekom is an official partner in the Green Goal campaign, a program that is part of the 2006 FIFA World Cup™. One of the aims of the campaign is to "neutralize" the energy consumption of the World Cup finals. To this end, T-Com has bought certificates for 20,000 tonnes of CO_2 emissions.

GeSI working group develops new international standards. As part of the Global e-Sustainability Initiative (GeSI), Deutsche Telekom collaborates with the Supply Chain Working Group (SCWG). 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 Group. In the working group, we also comply with internationally applicable standards such as ISO 14001, SA 8000, and other relevant legal requirements such as the WEEE (waste electrical and electronic equipment) and the RoHS directives (on the restriction of the use of certain hazardous substances in electrical and electronic equipment).

Risk and opportunity management.

Continued price erosion in core business // Growing competitive pressure from new providers and new offerings // Possible extension of scope of regulation // New opportunities with innovative products

The risk and opportunity management system. 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 Group'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 Group-wide planning, control, and monitoring systems. Naturally, opportunities are analyzed primarily within the framework of strategy and innovation development activities. Deutsche Telekom attaches particular importance to detailed market studies, scenarios, projections, the relevant drivers and critical success factors, using them to derive specific potential opportunities for its strategic business areas and markets. In the field of innovation, Deutsche Telekom is focusing on five areas of innovation (see the section on "Research and development"). Successfully addressing these fields of innovation gives Deutsche Telekom an opportunity for sustainable growth.

The three strategic business areas Broadband/Fixed Network, Mobile Communications, and Business Customers regularly analyze their risks and opportunities. The early warning systems used by the Group units (indicator and ratio systems, checklists, etc.) are based on methodologies prescribed for Group-wide use and are tailored to individual needs. Potential deviations in the planning period are analyzed to determine the potential scope and probability of occurrence, including methods such as scenario modeling. The reference variables for the potential scope are the Group's target values (including EBITDA).

The "aggregate risk" is determined from the totality of all material risks that are relevant to the Group. Opportunities are not aggregated. In addition to risks specific to the strategic business areas, overarching risks in the Group are also factored into the calculation of this aggregate risk. As well as traditional financial risks (see below), these also include risks relating to human resources, strategy, regulation, legal affairs, and communication. Issues management 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 large number of risk indicators includes economic and sector forecasts as well as "EBITDA at risk" indicators derived from the risk reports prepared by the strategic business areas. 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, with additional ad hoc reports 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 Group-wide, standardized risk reporting system and ensures that it works efficiently. The Board of Management, Supervisory Board, and Audit Committee receive quarterly risk reports that inform them about material risks and the overall risk situation in the Group.

Deutsche Telekom also attaches particular importance to managing risks arising from financial positions. All treasury activities – in particular the use of derivatives – are subject to the principle of risk minimization. For this 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 Group's cash flow. Derivatives are used exclusively as hedging instruments, i.e., not for trading or other speculative purposes.

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

The system ensures that business risks and opportunities are identified early on and that the Group is in a position to counter them actively and effectively. It complies with the statutory requirements for an 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 for the Group, those risk areas or individual risks that could, as it stands today, materially affect Deutsche Telekom's financial position and results are examined below.

Economy and industry. Deutsche Telekom's business development is closely linked to general economic developments in Germany, Europe, and the United States. For Germany, the current economic forecasts are now pointing toward a positive trend, although growth in the 2006 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 our growth targets, for example for mobile multimedia services or for the higher-value, DSL-based add-on products in the fixed network.

If the rate of value-added tax is raised in Germany as planned in 2007, economic forecasts are likely to be adjusted downwards.

Regulation. Unlike its competitors, Deutsche Telekom is subject to strict regulation in Germany, in particular in the area 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 will continue to be high. To date, only services that are of less importance for Deutsche Telekom, such as international calls, are to be deregulated.

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 high-speed fiber-optic network as a platform for broadband applications (triple play) – 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.

The potential tightening of regulatory control in the area of mobile communications entails a risk of price reductions or losses of revenue for international roaming and call termination charges.

Deutsche Telekom is also subject to regulation in countries other than Germany. Foreign subsidiaries are also exposed to corresponding regulatory regimes in the fixed-network and mobile areas.

Competition.

Broadband/Fixed Network. 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., combined telephone and DSL flat rates); technical innovations; a decline in wholesale prices for competitive products; and further substitution driven by price declines, 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.

The German and European markets for Internet access, portal services, and content will remain highly competitive. Prices in this area, for example for DSL flat rates, have already fallen sharply in the past. T-Online's future competitive position depends on a number of factors, such as price levels, network speed, the reliability of services, the range of services, the company's quality of customer service, and its ability to innovate.

Mobile Communications. One of the key preconditions for T-Mobile's continued competitiveness in the United States is the acquisition of additional spectrum (frequency range) licenses. If it proves impossible to obtain sufficient capacity and corresponding spectrum coverage, this could materially adversely affect the quality of service of T-Mobile USA and its growth and innovative potential. A lack of capacity in certain markets could reduce growth in customer numbers and revenues. Since T-Mobile USA is a crucial growth driver for Deutsche Telekom, this may also have a negative impact on the Group's ability to reach its growth targets.

Competition on the European mobile communications market has further intensified. This is attributable to both the market entry of low-cost providers such as MVNOs and further consolidation, e.g., the acquisition of O_2 by Telefónica. Any continued fall in prices for mobile communication services may mean that T-Mobile will be unable to reach its growth targets.

Business Customers. The ICT market in the Business Customers segment is experiencing declining prices and long sales cycles. This represents a risk of lower revenues and margins for T-Systems. T-Systems' international presence in terms of its brand awareness is limited, especially compared with certain of our competitors who are already better established in such markets. This could adversely affect the ability of T-Systems to realize potential growth, especially considering the growing importance of business with multinational corporations outside Germany.

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 between the two companies can be entered in the commercial registers and therefore completed only when the responsible court rules finally and conclusively in judicial release proceedings that the lawsuits do not stand in the way of the recording of the merger in the commercial registers (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 is not yet final and legally binding, however.

Any delay in the merger means that planned synergies cannot yet be realized. This means it is not possible to fully satisfy 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 becomes 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 that new and established technologies or products may not only complement, but in some cases even substitute one another.

Voice traffic may be substituted by voice over IP 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 may jeopardize our market share and revenues in fixed networks and mobile communications.

The extent to which investments to acquire UMTS licenses in mobile communications will pay off depends on usage and revenue growth, in particular in mobile data communications. Corresponding add-on services and applications will be generated through both in-house developments and cooperation with third parties (content providers). There is a risk that Deutsche Telekom will not be able to convince customers sufficiently of the benefits of current and future services, or to ensure corresponding customer acceptance of these services. This risk also exists for our potential growth drivers in the fixed network (broadband, content).

Human recourses. 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 making these job cuts, Deutsche Telekom will adhere to the agreement with the trade unions not to enforce any compulsory redundancies until the end of 2008 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 subject to collective agreements (non-civil servants). These plans could be put at risk by possible changes in the law. There are also plans to encourage employees to leave the Group 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 model will be available in 2006.

The planned deconsolidation of Vivento business lines also entails risks.

Health and the environment. Electromagnetic fields (EMFs) are repeatedly associated with potential environmental and health damage. This is a controversial issue and the subject of public debate. Existing public acceptance problems affect networks and the use of terminal equipment, and have an effect on T-Mobile, particularly with regard to network structure and intensity of usage. In addition to legal risks, the Company fears regulatory measures to implement the precautionary principle in the area of mobile communications.

The World Health Organization (WHO) 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 ongoing scientific uncertainties.

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. Among other things, Deutsche Telekom is involved in "Informationszentrum Mobilfunk" (IZMF), an industry initiative by mobile communications enterprises, as well as in the German Research Association for Radio Applications (Forschungsgemeinschaft Funk – FGF), which supports independent research into the biological effects of electromagnetic fields. In addition, the EMF policy adopted in 2004 has enabled T-Mobile to take measures in the areas of transparency, information, involvement, and research funding that minimize both potential legal and regulatory problems as well as acceptance problems among the public.

IT/telecommunications infrastructure. Deutsche Telekom's production processes are supported by information and telecommunications technologies (data centers, switching nodes, transmission systems, etc.) and software applications that are constantly subject to 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 non-current 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. The Company employs a large number of precautionary measures to counteract potential risks, such as supplier default or dependence on individual suppliers. These include Group-wide 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 Bankengruppe 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. z o.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. z o.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 and preventing it from reaching its planned market share. Deutsche Telekom received a claim for damages of approximately EUR 328.63 million from Dr. Harisch, also on October 19, 2005 and again following enforcement proceedings. 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.

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

For further details of legal disputes involving T-Online relating to the merger of T-Online into Deutsche Telekom, including the status of the release proceedings, please refer to the "Group organization" section and the paragraphs on the "T-Online merger" in this section.

Financial risks.

Liquidity risk. The primary instruments used for medium to long-term financing are bonds and MTNs issued in a variety of currencies and jurisdictions. The main additions in 2005 were a EUR 3 billion fixed-interest bond, two MTNs each worth EUR 500 million, 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 counterparty may have to provide higher collateral. 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 currency. 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, at December 31, 2005 Deutsche Telekom was not exposed to any significant currency risks in the area of financing.

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 individual Group entities predominantly execute their operating activities in their respective functional currencies. This is why the assessment of Deutsche Telekom's exchange-rate risk from ongoing operations is low. Some Group entities, however, are exposed to foreign-currency risks in connection with scheduled payments in currencies other than their functional currency. These are mainly payments to international carriers for the provision of subscriber lines for the international calls of Deutsche Telekom's customers in Germany, plus the procurement of handsets and payments for international roaming. Deutsche Telekom uses currency forwards, currency swaps and currency options to hedge these risks. These hedge the payments up to one year in advance. As of December 31, 2005, Deutsche Telekom was not exposed to any material foreign-currency risk from its operating activities.

Where allowed under IAS 39, Deutsche Telekom uses hedge accounting for its foreign-currency hedges. The primary objective here is to reduce earnings volatility. No hedge accounting is used in the case of hedges where changes in the fair value of the hedged item and the hedging instrument are more or less balanced out in the income statement. For foreign-currency transactions, cash flow hedges were therefore designated to hedge unrecognized firm commitments. Firstly, these relate to currency forwards entered into to hedge the euro equivalent of U.S. dollar payments at T-Systems under a software maintenance agreement. Secondly, the euro equivalent of external interest payments on a liability denominated in U.S. dollars was hedged by entering into currency derivatives. In addition, Deutsche Telekom holds redeemable preferred stock of T-Mobile USA that is denominated in U.S. dollars. This results in a cash flow risk that is hedged by U.S. dollar bonds. For accounting purposes, this hedging relationship was designated as a hedge of a net investment in a foreign operation to reduce earnings volatility.

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.

Where allowed under IAS 39, Deutsche Telekom uses hedge accounting for its interest rate hedges. The objective here is to reduce earnings volatility. No hedge accounting is used in the case of hedges where changes in the fair value of the hedged item and the hedging instrument are more or less balanced out in the income statement. No hedges are designated for interest rate risks if hedging transactions are effectively closed out by offsetting interest-rate swaps. Fair value hedges were designated for certain fixed-interest liabilities, as the underlyings, that were twisted into synthetic variable bonds by "pay variable, receive fixed" interest-rate swaps. These hedged the fair value.

Sales of shares by the Federal Republic and KfW Bankengruppe. The Federal Republic (which together with KfW Bankengruppe 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 AG, in a manner that does not disrupt the capital markets and with the involvement of KfW Bankengruppe. For shareholders, there is a danger that the sale of a significant volume of Deutsche Telekom shares by the Federal Government or KfW Bankengruppe, or speculation to this effect on the markets, could have a negative short-term impact on the share price.

Aggregate risk position. The assessment of the aggregate risk position is the outcome of the consolidated analysis of all material individual risks. There are potential risks in increased competitive pressure, in the substitution of products and technologies, and in the continued decline in prices, increasingly in mobile communications as well. 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." For more information on ratings, please refer to the "Development of business in 2005" section.

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

Although the German and Western European markets are largely saturated in many areas, Deutsche Telekom still has substantial growth potential in the emerging countries of Central and Eastern Europe as it can be assumed that efforts will be made to bring prosperity levels in large parts of Europe into line in the long term. Deutsche Telekom can benefit significantly from this development due to its strong presence in Central and Eastern Europe.

Innovative bundled products as well as convergence products also 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 via 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. The roll-out of new convergence products (e.g., T-Mobile@home and the DualPhone solution) will also provide opportunities for the Group.

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, specifically broadband penetration and the use of mobile communications. 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 provide considerable opportunities also for Deutsche Telekom.

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

Medium-term notes issued by Deutsche Telekom International Finance B.V. Deutsche Telekom issued two medium-term notes each worth EUR 500 million 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.

Outlook.*

Fragile economic recovery expected in Germany // Broadband business to be further expanded // Mobile Communications will remain the growth engine // Business Customers lays Focus on Growth // Group measures aimed at securing sustained profitable growth and value enhancement

Fragile economic recovery expected in Germany. Leading economic research institutes are forecasting positive overall development for Germany in 2006. Aided by favorable conditions internationally, economic policy measures are expected to jump-start the economy. Real gross domestic product will be driven in particular by the forecast rise in consumer spending, with the value-added tax 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 rates remain 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.

Broadband business to be further expanded. 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 International AG into Deutsche Telekom AG will be completed successfully in 2006.

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.

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. This development will be reflected in EBITDA (adjusted for special factors), for which we also expect to see a trend reversal starting from 2007 after the decline recorded in 2006.

Mobile communications will remain the growth engine. The Mobile Communications strategic business area will continue to be the growth driver of the Group. The further development of the business area will again be driven in particular by the U.S. market, which is recording relatively high customer growth rates. For Europe, despite strong price pressure we expect to be able to expand our revenue market share, primarily through higher usage on the part of our customers. A further major growth factor will be advanced mobile data services. The roll-out of the first web'n'walk devices has already begun. The Save for Growth program launched in 2004 should support this development.

The Group's capital expenditure activities in 2006 will continue to focus on its mobile communications business. In Europe, key areas will include improvements in the quality of the existing GSM networks and the further expansion of our UMTS networks. In the United States, the Group will drive forward the expansion of network capacity and the acquisition of additional mobile communications licenses to safeguard medium-term growth. Among other measures, small network acquisitions are planned for this purpose. In addition, the Group is preparing to invest in the next-generation network in the United States.

Based on these assumptions, we expect further growth in total revenue and EBITDA (adjusted for special factors) in the Mobile Communications business area in the next two years.

Business Customers lays Focus on Growth. In the Business Customers area, the Business Services unit will focus on successfully defending its telecommunications business in a fiercely contested market. In the core telecommunications business (voice, data, IP), we are aiming to maintain revenue levels despite the fall in prices. The primary task here is to extend the customer base, i.e., to win back customers. This strategy will be accompanied by efforts to increase telecommunications revenue in areas such as LAN Solutions, i.e., network solutions for connecting workstations at a company's site. The Business Services unit is expecting strong growth in its IT business. The goal of this unit is to substantially boost revenues, especially from small and medium-sized enterprises, by 2007. Capital expenditure will rise in 2006 due to the technical consolidation of the IT environment and the introduction of value-added services.

In the Enterprise Services unit, we plan to significantly expand our market share in the telecommunications business through integrated IT and telecommunications sales activities. In the IT business, meanwhile, we intend to grow primarily by expanding outsourcing activities, in particular through large-scale contracts and continued business process outsourcing with a focus on billing and collection. We are planning to increase capital expenditure also in Enterprise Services, particularly through the assumption of assets in conjunction with business process outsourcing.

We currently expect higher total revenues and EBITDA (adjusted for special factors) in the Business Customers segment in 2006 and 2007 by leveraging these new growth opportunities in the IT business.

Statement on the anticipated development of business: Group measures aimed at securing sustained profitable growth and value enhancement. 2006 will see Deutsche Telekom invest more heavily in revenue growth. Against the backdrop of the current situation in the market, we are excepting EBITDA (adjusted for special factors) of between EUR 20.2 and 20.7 billion for the coming year. Investment in the market is expected to result in a year-on-year increase in EBITDA (adjusted for special factors) of up to EUR 1.5 billion already in 2007. On the back of this, we are anticipating average annual revenue growth of approximately 5 percent in the Group for the next two years.

Deutsche Telekom aims to continue offering its shareholders an attractive dividend in the future. Among other factors, this will largely depend on the development of net profit.

Our "Investments in revenue growth" strategy will also be reflected in investments in property plant, and equipment and in intangible assets (excluding goodwill), which will again be concentrated on the Broadband/Fixed Network and Mobile Communications business areas.

It is vital to the Group's long-term success that it remains able to operate on a sound financial footing. This includes maintaining a liquidity reserve of at least 40 percent of net debt and an appropriate gearing (ratio of net debt to equity) of between 0.8 and 1.2.

The massive changes in Deutsche Telekom's market environment – and in particular the pace of technological change – are forcing the Group to adjust its workforce structure. For example, we aim to reduce the net number of jobs in Germany by 19,000 (see also the "Employees" section). The workforce reduction will be implemented using voluntary instruments, such as partial retirement arrangements or redundancy payments. A total of approximately EUR 3.3 billion is available for this purpose.

* 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 "Risk and opportunity management" section in the management report and in the "Forward-Looking Statements" and "Risk factors" sections in the Annual Report on Form 20-F and the "Disclaimer" at the end of this Annual Report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. We do not guarantee that our forward-looking statements will prove correct. 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.