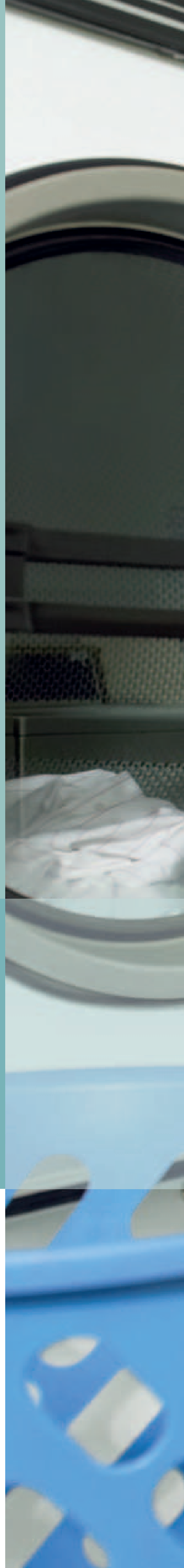
Consolidated financial statements



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Consolidated statement of income.

(millions of €)	Note	2004	2003	2002
Net revenue	1	**57,880**	**55,838**	**53,689**
Cost of sales	2	(31,402)	(31,402)	(44,477)
Gross profit		**26,478**	**24,436**	**9,212**
Selling costs	3	(13,282)	(13,505)	(13,264)
General and administrative costs	4	(4,680)	(4,976)	(6,062)
Other operating income	5	6,936	4,558	3,901
Other operating expenses	6	(5,584)	(5,084)	(14,915)
Operating results		**9,868**	**5,429**	**(21,128)**
Financial expense, net	7	(3,327)	(4,031)	(6,022)
Results from ordinary business activities		**6,541**	**1,398**	**(27,150)**
Income taxes	8	(1,608)	225	2,847
Income (loss) after taxes		**4,933**	**1,623**	**(24,303)**
(Income) losses applicable to minority shareholders	9	(299)	(370)	(284)
Net income (loss)		**4,634**	**1,253**	**(24,587)**
Earnings (loss) per share in €		1.10	0.30	(5.86)

Consolidated balance sheet.

(millions of €)	Note	Dec. 31, 2004	Dec. 31, 2003
Assets			
Noncurrent assets			
Intangible assets	13	43,255	45,193
Property, plant, and equipment	14	44,152	47,268
Financial assets	15	3,030	3,190
		90,437	**95,651**
Current assets			
Inventories, materials, and supplies	16	1,417	1,432
Receivables	17	5,131	5,762
Other assets	18	1,959	3,162
Marketable securities	19	95	173
Liquid assets	20	8,050	9,127
		16,652	**19,656**
Prepaid expenses and deferred charges	21	**727**	**772**
		107,816	**116,079**
Shareholders' equity and liabilities			
Shareholders' equity	22		
Capital stock	23	10,747	10,746
Additional paid-in capital	24	50,113	50,092
Retained earnings	25	248	248
Unappropriated net loss carried forward		(23,311)	(24,564)
Net income		4,634	1,253
Cumulative translation adjustment account		(8,513)	(8,017)
		33,918	**29,758**
Minority interest	26	4,023	4,053
		37,941	**33,811**
Accruals			
Pensions and similar obligations	28	4,591	4,456
Other accruals	29	12,250	11,247
		16,841	**15,703**
Liabilities	30		
Debt		42,652	55,411
Other		9,758	10,451
		52,410	**65,862**
Deferred income		**624**	**703**
		107,816	**116,079**

Consolidated statement of noncurrent assets.

(millions of €)	Acquisition or production cost						
	Jan. 1, 2004	Currency translation adjustment	Changes in the composition of the Deutsche Telekom Group	Additions	Disposals	Reclassi-fications	Dec. 31, 2004
Intangible assets							
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	36,866	(1,277)	213	761	499	135	36,199
of which: UMTS licenses	14,888	4	0	87	0	0	14,979
of which: FCC licenses	16,876	(1,282)	0	13	9	(1)	15,597
of which: GSM licenses	737	12	0	0	0	81	830
of which: other assets	4,365	(11)	213	661	490	55	4,793
Goodwill	41,684	(1,159)	207	190	27	0	40,895
Advance payments	75	0	43	57	1	72	246
	78,625	**(2,436)**	**463**	**1,008**	**527**	**207**	**77,340**
Property, plant, and equipment							
Land and equivalent rights, and buildings including buildings on land owned by third parties	18,012	29	0	179	571	(24)	17,625
Technical equipment and machinery	83,155	(32)	318	2,019	2,511	1,955	84,904
Other equipment, plant, and office equipment	6,371	(10)	18	595	567	344	6,751
Advance payments and construction in progress	2,039	(77)	17	2,325	26	(2,482)	1,796
	109,577	**(90)**	**353**	**5,118**	**3,675**	**(207)**	**111,076**
Financial assets							
Investments in unconsolidated subsidiaries	322	9	(64)	47	159	0	155
Loans to unconsolidated subsidiaries	1	0	0	0	0	0	1
Investments in associated companies	2,774	113	(62)	954	493	(182)	3,104
Other investments in related companies	671	(6)	1	25	420	182	453
Long-term loans to associated and related companies	333	0	0	0	22	0	311
Other investments in noncurrent securities	86	0	(5)	1	66	0	16
Other long-term loans	92	2	(8)	87	95	0	78
	4,279	**118**	**(138)**	**1,114**	**1,255**	**0**	**4,118**
	192,481	**(2,408)**	**678**	**7,240**	**5,457**	**0**	**192,534**

Depreciation, amortization, and write-downs								Net carrying amount	
Jan. 1, 2004	Currency translation adjustment	Changes in the composition of the Deutsche Telekom Group	Additions	Disposals	Reclassifications	Write-ups	Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2003
16,260	(443)	105	2,109	479	15	2,448	15,119	21,080	20,606
4,628	(7)	0	599	0	0	0	5,220	9,759	10,260
8,697	(430)	0	546	4	0	2,448	6,361	9,236	8,179
253	4	0	54	0	27	0	338	492	484
2,682	(10)	105	910	475	(12)	0	3,200	1,593	1,683
17,171	(655)	0	2,476	27	0	0	18,965	21,930	24,513
1	0	0	0	0	0	0	1	245	74
33,432	**(1,098)**	**105**	**4,585**	**506**	**15**	**2,448**	**34,085**	**43,255**	**45,193**
7,613	2	0	756	263	(71)	14	8,023	9,602	10,399
50,363	11	154	6,169	2,424	41	0	54,314	30,590	32,792
4,333	(5)	15	736	509	16	0	4,586	2,165	2,038
0	0	0	2	0	(1)	0	1	1,795	2,039
62,309	**8**	**169**	**7,663**	**3,196**	**(15)**	**14**	**66,924**	**44,152**	**47,268**
204	1	(19)	19	144	0	0	61	94	118
0	0	0	0	0	0	0	0	1	1
388	47	9	99	13	(3)	0	527	2,577	2,386
175	(4)	(1)	15	23	3	0	165	288	496
308	0	0	0	0	0	0	308	3	25
0	0	0	0	0	0	0	0	16	86
14	0	0	13	0	0	0	27	51	78
1,089	**44**	**(11)**	**146**	**180**	**0**	**0**	**1,088**	**3,030**	**3,190**
96,830	**(1,046)**	**263**	**12,394**	**3,882**	**0**	**2,462**	**102,097**	**90,437**	**95,651**

Consolidated statement of cash flows.

(millions of €)	Note	2004	2003	2002
Net income (loss)		4,634	1,253	(24,587)
Income applicable to minority shareholders		299	370	284
Income (loss) after taxes		**4,933**	**1,623**	**(24,303)**
Depreciation and amortization		12,248	12,884	36,880
Income tax expense (refund)		1,602	(225)	(2,847)
Net interest expense		3,351	3,776	4,048
Net gains from the disposition of noncurrent assets		(1,258)	(792)	(428)
Results from associated companies		(41)	247	430
Other noncash transactions		(2,333)	(699)	1,144
(Increase) decrease in capitalized working capital[1]		577	(542)	184
Decrease in accruals		808	1,584	1,410
(Increase) decrease in other working capital carried as a liability[2]		(40)	149	101
Income taxes received (paid)		12	88	(15)
Dividends received		82	39	63
Cash generated from operations		**19,941**	**18,132**	**16,667**
Interest paid		(4,569)	(4,481)	(6,112)
Interest received		935	665	1,908
Net cash provided by operating activities	31	**16,307**	**14,316**	**12,463**
Cash outflows for investments in				
– intangible assets		(787)	(844)	(841)
– property, plant, and equipment		(5,340)	(5,187)	(6,784)
– financial assets		(809)	(373)	(568)
– consolidated companies		(483)	(275)	(6,405)
Cash inflows from disposition of				
– intangible assets		11	24	14
– property, plant, and equipment		537	1,055	1,304
– financial assets		2,028	1,569	1,130
– shareholdings in consolidated companies and business units		1	1,510	697
Net change in short-term investments and marketable securities		524	(18)	226
Other		0	466	1,187
Net cash used for investing activities	32	**(4,318)**	**(2,073)**	**(10,040)**
Net change of short-term debt		(13,010)	(9,214)	(10,012)
Issuance of medium and long-term debt		1,222	6,951	11,677
Repayments of medium and long-term debt		(481)	(2,879)	(3,472)
Dividends paid		(404)	(92)	(1,582)
Proceeds from the exercise of stock options		21	15	1
Change in minority interests		0	(7)	(47)
Net cash used for financing activities	33	**(12,652)**	**(5,226)**	**(3,435)**
Effect of foreign exchange rate changes on cash and cash equivalents		0	(43)	(14)
Net increase (decrease) in cash and cash equivalents		**(663)**	**6,974**	**(1,026)**
Cash and cash equivalents, at the beginning of the year		**8,686**	**1,712**	**2,738**
Cash and cash equivalents, at the end of the year		**8,023**	**8,686**	**1,712**

[1] Changes in receivables, other assets, inventories, materials and supplies, and prepaid expenses and deferred charges.
[2] Change in other liabilities (which do not relate to financing activities) as well as deferred income.

Consolidated statement of shareholders' equity.

(millions of €)	Deutsche Telekom AG: Capital stock	Deutsche Telekom AG: Additional paid-in capital	Consolidated shareholders' equity generated: Retained earnings	Consolidated shareholders' equity generated: Unappr. net income (loss) carried forward	Consolidated shareholders' equity generated: Net income (loss)	Cumulative translation adjustment account	Shareholders' equity in acc. with cons. balance sheet	Treasury shares	Total	Minority interest: Minority interest capital	Minority interest: Cumulative translation adjustment account	Minority interest: Total in acc. with cons. balance sheet	Cons. shareholders' equity
Balance at Jan. 1, 2002	**10,746**	**49,994**	**5,179**	**101**	**(3,454)**	**(1,572)**	**60,994**	**(7)**	**60,987**	**5,584**	**(277)**	**5,307**	**66,294**
Changes in the composition of the Group										(1,586)		(1,586)	(1,586)
Dividends for 2001				(1,539)			(1,539)		(1,539)	(43)		(43)	(1,582)
Unappropriated net income (loss) carried forward			(4,915)	1,461	3,454		–		–				–
Proceeds from the exercise of stock options		83					83		83				83
Loss after taxes					(24,587)		(24,587)		(24,587)	284		284	(24,303)
Difference from currency translation			(16)			(3,507)	(3,523)		(3,523)		26	26	(3,497)
Balance at Dec. 31, 2002	**10,746**	**50,077**	**248**	**23**	**(24,587)**	**(5,079)**	**31,428**	**(7)**	**31,421**	**4,239**	**(251)**	**3,988**	**35,409**
Changes in the composition of the Group										(123)		(123)	(123)
Dividends for 2002										(102)		(102)	(102)
Unappropriated net income (loss) carried forward				(24,587)	24,587		–		–				–
Proceeds from the exercise of stock options		15					15		15				15
Income after taxes					1,253		1,253		1,253	370		370	1,623
Difference from currency translation						(2,938)	(2,938)		(2,938)		(80)	(80)	(3,018)
Balance at Dec. 31, 2003	**10,746**	**50,092**	**248**	**(24,564)**	**1,253**	**(8,017)**	**29,758**	**(7)**	**29,751**	**4,384**	**(331)**	**4,053**	**33,804**
Changes in the composition of the Group										(39)		(39)	(39)
Dividends for 2003										(386)		(386)	(386)
Unappropriated net income (loss) carried forward				1,253	(1,253)		–		–				–
Proceeds from the exercise of stock options	1	21					22		22				22
Income after taxes					4,634		4,634		4,634	299		299	4,933
Difference from currency translation						(496)	(496)		(496)		96	96	(400)
Balance at Dec. 31, 2004	**10,747**	**50,113**	**248**	**(23,311)**	**4,634**	**(8,513)**	**33,918**	**(7)**	**33,911**	**4,258**	**(235)**	**4,023**	**37,934**

Segment reporting.

(millions of €)		Net revenue	Revenue between segments	Depreciation and amortization	Net interest income (expense)	Income (loss) related to associated and related companies	Income (loss) before income taxes	Segment assets	Segment investments	Segment liabilites	Employees[3]
T-Com[1]	**2004**	**24,425**	**3,389**	**(4,790)**	**76**	**35**	**5,525**	**27,176**	**2,384**	**3,943**	**125,395**
	2003	25,116	4,090	(5,169)	(315)	31	4,690	29,030	2,216	4,549	139,548
	2002	26,491	4,068	(5,539)	(562)	(304)	3,604	–	–	–	–
T-Mobile	**2004**	**24,088**	**907**	**(5,088)**	**(883)**	**109**	**4,636**	**48,314**	**3,386**	**15,175**	**44,226**
	2003	21,572	1,206	(5,196)	(992)	97	831	50,025	3,813	17,617	41,767
	2002	18,339	1,396	(27,285)	(1,005)	(427)	(23,754)	–	–	–	–
T-Systems[1]	**2004**	**7,238**	**3,299**	**(1,388)**	**(29)**	**(145)**	**(211)**	**4,976**	**775**	**4,535**	**39,880**
	2003	7,184	3,430	(1,499)	(39)	(447)	(581)	5,665	796	4,422	42,108
	2002	6,895	3,594	(2,616)	(98)	(20)	(1,990)	–	–	–	–
T-Online[2]	**2004**	**1,793**	**186**	**(452)**	**113**	**(4)**	**73**	**1,374**	**260**	**244**	**2,963**
	2003	1,662	189	(430)	110	90	104	1,532	116	212	2,637
	2002	1,391	193	(435)	128	(265)	(471)	–	–	–	–
Group Headquarters & Shared Services	**2004**	**336**	**4,165**	**(846)**	**(2,607)**	**35**	**(3,792)**	**9,575**	**560**	**31,042**	**35,095**
	2003	304	3,964	(881)	(2,874)	(3)	(4,071)	10,631	444	41,334	25,203
	2002	573	3,838	(1,298)	(2,510)	(1,093)	(4,690)	–	–	–	–
Reconciliation[1]	**2004**	**0**	**(11,946)**	**316**	**(21)**	**(6)**	**310**	**(978)**	**(125)**	**(3,611)**	**–**
	2003	0	(12,879)	291	334	(23)	425	(1,232)	(318)	(3,363)	–
	2002	0	(13,089)	293	(1)	135	151	–	–	–	–
Group	**2004**	**57,880**	**0**	**(12,248)**	**(3,351)**	**24**	**6,541**	**90,437**	**7,240**	**51,328**	**247,559**
	2003	55,838	0	(12,884)	(3,776)	(255)	1,398	95,651	7,067	64,771	251,263
	2002	53,689	0	(36,880)	(4,048)	(1,974)	(27,150)	–	–	–	–

[1] According to new structure (see Note on Segment reporting (36)).
[2] Amounts are calculated in accordance with German GAAP and differ from those published in the separate reports of T-Online International AG under IFRS.
[3] Average number of employees for the year.

Notes to the consolidated financial statements. Summary of accounting policies.

Description of business and relationship with the Federal Republic of Germany.

The Deutsche Telekom Group (referred to as Deutsche Telekom below) is one of the world's leading services companies in the telecommunications and information technology industry. With its four divisions T-Com, T-Mobile, T-Systems, and T-Online, Deutsche Telekom covers the full range of state-of-the-art telecommunications and information technology services.

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

T-Mobile's business combines all the activities of the T-Mobile International group. Via subsidiaries, T-Mobile operates a transatlantic GSM mobile communications network and thus offers the advantages of a standardized technical platform for a broad range of customers mainly in Germany, the United Kingdom, the United States, Austria, the Czech Republic, and the Netherlands. T-Mobile is also represented on the Polish and Russian markets through its investments in the mobile communications companies Polska Telefonia Cyfrowa (PTC) and OJCS Mobile TeleSystems (MTS).

T-Systems provides Deutsche Telekom's national and international key accounts with tailored information and communications technology (ICT) solutions. T-Systems provides the network and computing infrastructure needed to do this, implements customer solutions, and operates end-to-end business processes based on these solutions if required. T-Systems is represented in over 20 countries.

T-Online is one of the leading Internet service providers in Germany. T-Online operates a combined business model within Deutsche Telekom, consisting of the access business as well as paid content, e-commerce services, and advertising. It is represented by subsidiaries in France, Spain, Portugal, Austria, and Switzerland. The acquisition of the Scout24 group in February 2004 gives T-Online additional online market places.

Group Headquarters & Shared Services includes all group units which cannot be directly allocated to an individual segment. Group Headquarters focuses on strategic and cross-divisional management functions. All other operating functions not directly related to the segments' core businesses are now the responsibility of Shared Services. These include in particular subsidiaries and shared services, such as Vivento, Real Estate, DeTeFleetServices GmbH – a full-service provider of fleet management and mobility services – as well as the Billing & Collection unit (customer billing, and credit assessment and collection services).

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

The Federal Republic of Germany's direct and indirect shareholding in Deutsche Telekom at December 31, 2004 amounted to 38.03 %. In accordance with the letter dated January 4, 2005, the direct shareholding amounts to 22.74 % (954,372,849 shares); a further 15.29 % (641,717,667 shares) is held by a federal corporation, KfW, Frankfurt/Main, in accordance with the letter dated January 6, 2005. The Federal Republic administers its shareholding and exercises its rights as a shareholder through a public law entity, the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency), which is subject to supervision by the Federal Ministry of Finance (BMF).

The Regulatory Authority for Telecommunications and Posts (the Regulatory Authority) commenced its activities on January 1, 1998. The Regulatory Authority, which is under the authority of the Federal Ministry of Economics (BMWA), supervises the telecommunications sector in Germany and in this capacity regulates the business activities of Deutsche Telekom.

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

Summary of significant accounting principles.

The consolidated financial statements and the group management report of the Deutsche Telekom Group have been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB), referred to for convenience as "German GAAP" below, and the German Stock Corporation Act (Aktiengesetz – AktG). In general, Deutsche Telekom applies the relevant German Accounting Standards (GASs), but reserves the right not to apply these standards where it believes that non-application is justified. At present, the revaluation method for capital consolidation required by GAS 4 and GAS 10 "Deferred taxes in consolidated financial statements" are not applied.

In addition to Frankfurt, other German stock exchanges, and Tokyo, Deutsche Telekom shares are also traded on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs). As a result of special reporting requirements, in particular to the U.S. Securities and Exchange Commission (SEC), Deutsche Telekom also uses accounting policies in line with those of U.S. GAAP (generally accepted accounting principles – GAAP) applicable at the balance sheet date. Differences between the accounting policies applied in Deutsche Telekom's consolidated financial statements and those of U.S. GAAP are, in most cases, the result of binding rules of German GAAP that differ from those of U.S. GAAP.

The accompanying consolidated financial statements also differ from consolidated financial statements prepared in accordance with U.S. GAAP where the classification and presentation requirements of German GAAP (§§ 298 in conjunction with 266 and 275 HGB) are binding. Differences between accounting and measurement principles applied in Deutsche Telekom's consolidated financial statements and those of U.S. GAAP are presented as a separate reconciliation to supplement the consolidated financial statements, and explained in detail in the "Annual Report on Form 20-F" filed with the SEC.

Although German GAAP requires only the presentation of one year's comparative figures in the statement of income, Deutsche Telekom presents two years' comparatives, in accordance with SEC requirements. The same applies to the consolidated statement of cash flows, the consolidated statement of shareholders' equity and those parts of segment reporting affecting the statement of income.

The consolidated statement of income was presented using the cost-of-sales method (in accordance with § 275 (3) HGB) for the first time for the 2003 financial year. This format compares net revenue with the expenses incurred to generate these revenues, classified into cost of sales, selling, and general and administrative functions. The classification of the consolidated statement of income using the cost-of-sales method is designed to enhance the international comparability of financial reporting.

All amounts shown are in millions of euros (€/EUR). Certain items have been combined for presentation purposes in the statement of income and the balance sheet in order to make the financial statements more informative and understandable. These items are disclosed separately in the notes. In the case of changes in presentation, prior-year amounts are reclassified to conform with the current-year presentation. In accordance with § 297 (1) HGB, the consolidated financial statements also include a consolidated statement of cash flows, a consolidated statement of shareholders' equity, and a segment report.

The single-entity financial statements included in the consolidated financial statements were prepared using uniform group accounting policies. The accounting policies used in the consolidated financial statements differ from those used in the single-entity financial statements of Deutsche Telekom AG. Such differences, mostly applied to conform with U.S. GAAP, include the following:

– Property, plant, and equipment leased under contracts for which, in accordance with U.S. GAAP and in contrast to the leasing provisions of tax law, the risks and rewards of ownership have been assumed (primarily excluding sale and lease back transactions) are recognized at cost. Scheduled depreciation is recorded over the useful economic life of the asset or over the term of the lease. The present value of payment obligations resulting from future lease payments is included as liabilities.

– Interest incurred during the construction of items of property, plant, and equipment has been capitalized as part of these assets' costs.

– No accruals are recognized for internal year-end closing expenses.

– Investment grants received are recorded as reductions in the acquisition cost of assets.

The single-entity financial statements of Deutsche Telekom AG as well as the consolidated financial statements of the Deutsche Telekom Group are published in the Federal Gazette (Bundesanzeiger) and filed under HRB 6794 with the Commercial Registry of the Bonn District Court. This annual report and the Annual Report on Form 20-F, filed with the SEC due to Deutsche Telekom's listing on the NYSE, are available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on the Internet at www.deutschetelekom.com.

Consolidated group.
The consolidated financial statements comprise the accounts of Deutsche Telekom AG and its subsidiaries.

The subsidiaries, associated companies, and other related companies have been included in the consolidated financial statements in accordance with the following criteria:

– Subsidiaries are companies in which Deutsche Telekom directly or indirectly holds majority voting rights or exercises management control.

– Associated companies are companies in which Deutsche Telekom directly or indirectly holds between 20 % and 50 % of the voting rights and exercises a significant influence. Such companies are generally included in the consolidated financial statements using the equity method.

– Companies in which Deutsche Telekom holds less than 20 % of the voting rights are carried in the consolidated financial statements at the lower of cost or market value and classified as other investments in related companies.

The changes in the composition of the Deutsche Telekom Group in 2004 are presented in the following table:

Changes in the composition of the Deutsche Telekom Group

	Domestic	International	Total
Consolidated subsidiaries			
Jan. 1, 2004	64	246	310
Additions	12	24	36
Disposals	(5)	(9)	(14)
Reclassifications	2	3	5
Dec. 31, 2004	73	264	337
Associated companies included at equity			
Jan. 1, 2004	19	22	41
Additions	1	2	3
Disposals	(2)	(3)	(5)
Reclassifications	(4)	(3)	(7)
Dec. 31, 2004	14	18	32
Other unconsolidated subsidiaries and other investments in related companies (greater than 5 %)			
Jan. 1, 2004	87	41	128
Additions	15	10	25
Disposals	(18)	(11)	(29)
Reclassifications	2	0	2
Dec. 31, 2004	86	40	126
Total			
Jan. 1, 2004	170	309	479
Additions	28	36	64
Disposals	(25)	(23)	(48)
Reclassifications	0	0	0
Dec. 31, 2004	**173**	**322**	**495**

The consolidated financial statements include the single-entity financial statements of the parent company, Deutsche Telekom AG, as well as 73 (December 31, 2003: 64) domestic and 264 (December 31, 2003: 246) foreign subsidiaries in which Deutsche Telekom AG has a direct or indirect controlling interest.

The changes in the composition of the Deutsche Telekom Group had the following effects on the consolidated financial statements:

Effects on the consolidated statement of income	
(millions of €)	
Net revenue	(345)
Cost of sales	310
Gross profit	**(35)**
Selling costs	42
General and administrative costs	55
Other operating income	(571)
Other operating expenses	176
Operating results	**(333)**
Financial income (expense), net	1
Results from ordinary business activities	**(332)**
Income taxes	170
Net income (loss)	**(162)**
Income (losses) applicable to minority shareholders	(1)
Net income (loss)	**(163)**

Effects on the consolidated balance sheet	
(millions of €)	
Assets	
Noncurrent assets	376
Current assets, prepaid expenses, and deferred charges	225
	601
Shareholders' equity and liabilities	
Shareholders' equity	397
Accruals	28
Liabilities and deferred income	176
	601

Significant changes in the composition of the Deutsche Telekom Group.

2004:

Pursuant to a purchase agreement dated December 23, 2004, Deutsche Telekom's majority-owned Slovakian subsidiary Slovak Telecom has taken over the remaining 49 % of the shares in the mobile communications operator EuroTel Bratislava for a price of EUR 0.3 billion. This transaction generated goodwill amounting to EUR 172 million. In accordance with IFRS, the company generated net revenues of EUR 332 million in the 2004 financial year (2003: EUR 270 million) and net income of EUR 47 million (2003: EUR 27 million). EuroTel Bratislava was fully consolidated in the subgroup financial statements of Slovak Telecom for the first time at December 31, 2004.

Deutsche Telekom AG acquired all shares in Scout24 AG, Baar, Switzerland, on February 18, 2004 via its subsidiary T-Online International AG. The Deutsche Telekom consolidated group expanded as a result of this transaction by 26 fully consolidated subsidiaries and one associated company. The purchase price was EUR 182 million and included the take-over of a shareholder loan amounting to EUR 37 million. The resulting goodwill of EUR 134 million will be amortized over a period of seven years. The Scout24 group generated revenues of EUR 84 million in 2004 (2003: EUR 73 million) and net income of EUR 23 million (2003: net loss of EUR 24 million). The above figures are calculated on the basis of IFRS.

2003:

Deutsche Telekom AG completed the sale of its cable activities in the six regions of Rhineland Palatinate/Saarland, Lower Saxony/Bremen, Berlin/Brandenburg, Bavaria, Hamburg/Schleswig-Holstein/Mecklenburg-Western Pomerania, and Saxony-Anhalt on March 13, 2003. These companies were sold for a total of EUR 1.7 billion to a consortium consisting of APEX, Goldman-Sachs Capital Partners, and Providence Equity. The companies were deconsolidated effective February 28, 2003. The sale of the companies generated a book gain of around EUR 0.4 billion.

T-Systems International GmbH sold TELECASH Kommunikations-Service GmbH for EUR 0.1 billion effective March 24, 2003. The disposition of this company generated a book gain of EUR 0.1 billion. The company was deconsolidated effective February 28, 2003.

In early May 2003, T-Systems International GmbH disposed of its interest in T-Systems SIRIS S.A.S. for a price of EUR 30 million. This company was deconsolidated effective May 1, 2003, and the transaction generated a book gain of EUR 32 million.

2002:

Deutsche Telekom AG acquired the remaining shares of T-Systems ITS GmbH from DaimlerChrysler Services AG on March 4, 2002 via its T-Systems International GmbH subsidiary. The purchase price was EUR 4.7 billion. The goodwill of EUR 2.7 billion generated by this acquisition will be amortized on a straight-line basis over a period of up to ten years, corresponding to the estimated useful life. T-Systems ITS GmbH has been included in the consolidated financial statements of Deutsche Telekom AG since October 2000 as a result of the acquisition of the majority shareholding of 50.1 %. In November 2002, T-Systems International GmbH was combined with T-Systems ITS GmbH in a downstream merger. At the same time, T-Systems ITS GmbH was renamed T-Systems International GmbH.

On September 25, 2002, T-Mobile International AG acquired the remaining 50.0001 % of the shares in T-Mobile Netherlands Holding B.V. (formerly Ben Nederland Holding B.V.) from the company's other shareholders Belgacom, TDC, and Gringots (Crédit Suisse First Boston) for a purchase price of EUR 1.7 billion. In addition, T-Mobile International took over outstanding shareholder loans amounting to approximately EUR 0.3 billion. The goodwill of EUR 1.7 billion generated by this transaction was written down by EUR 1.0 billion as a result of the strategic review of net carrying amounts; the remaining amount will be amortized over a period of 12 years. T-Mobile Netherlands provides mobile communications services in the Netherlands; the company generated net revenues of EUR 552 million in the 2002 financial year (2001: EUR 448 million) and recorded a net loss of EUR 594 million (2001: net loss of EUR 199 million). The net loss before extraordinary items in 2002 amounted to EUR 578 million (2001: EUR 199 million). The company was included in the consolidated financial statements as a fully consolidated subsidiary for the first time as of September 30, 2002.

Pro forma financial information concerning these acquisitions was not disclosed because they are not material to Deutsche Telekom's statement of income, neither individually nor collectively.

88 subsidiaries (December 31, 2003: 88) were not included because they were not material to the net worth, financial position, and results of the Deutsche Telekom Group. These subsidiaries accounted for less than 1 % of revenue, net income/loss, and total assets of the Deutsche Telekom Group.

In accordance with § 311 (1) HGB, 32 (December 31, 2003: 41) companies over which Deutsche Telekom exercises significant influence have been classified as associated companies and are accounted for using the equity method. The remaining 34 (December 31, 2003: 30) associated companies which have little or no effect on the net worth, financial position, and results of the Deutsche Telekom Group were classified as other investments in related companies, and are carried at amortized cost.

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

Principal subsidiaries and associated companies.

The principal subsidiaries and associated companies whose revenues and results, together with Deutsche Telekom AG, account for more than 90 % of the Group are shown in the table below:

Principal subsidiaries and associated companies

Name and registered office	Deutsche Telekom share Dec. 31, 2004 %	Shareholders' equity Dec. 31, 2004 millions of €	Revenue 2004 millions of €	Income (loss) after taxes 2004 millions of €	Employees 2004 annual average
Fully consolidated subsidiaries					
T-Mobile Deutschland GmbH, Bonn[2]	100.00	1,457	8,704	2,205	8,284
T-Mobile Holdings Ltd., Hatfield, United Kingdom[1, 3]	100.00	7,373	4,344	(113)	6,058
T-Mobile Austria GmbH, Vienna, Austria[1, 4]	100.00	441	883	(21)	1,749
T-Mobile USA, Inc., Bellevue, Washington, United States[1, 3]	100.00	16,029	9,366	868	22,616
T-Mobile Czech Republic a.s., Prague, Czech Republic[5]	60.77	688	828	133	2,485
T-Mobile Netherlands Holding B.V., The Hague, Netherlands[1, 3]	100.00	321	1,046	(5)	1,540
T-Online International AG, Darmstadt[1]	73.93	5,271	1,979	(93)	2,963
T-Systems International GmbH, Frankfurt/Main	100.00	1,180	6,232	525	14,063
T-Systems GEI GmbH, Aachen[6]	100.00	77	615	68	3,867
GMG Generalmietgesellschaft mbH, Münster	100.00	241	2,323	(29)	0
DeTeImmobilien, Deutsche Telekom Immobilien und Service GmbH, Münster	100.00	20	876	(34)	6,544
Deutsche Telekom Network Projects & Services GmbH, Bonn[1]	100.00	528	1,118	66	2,859
MATÁV, Magyar Távközlési Rt., Budapest, Hungary[1, 7]	59.49	2,311	2,392	160	14,610
Slovak Telecom a.s. Bratislava, Slovakia[1]	51.00	1,303	422	52	6,864
HT-Hrvatske telekomunikacije d.d., Zagreb, Croatia[1]	51.00	1,657	1,086	258	8,929
Associated companies					
PTC, Polska Telefonia Cyfrowa Sp.z o.o., Warsaw, Poland[1, 8, 9, 10]	49.00	444	1,274	149	3,803

1 Consolidated subgroup financial statements.
2 Indirect shareholding via T-Mobile International AG & Co. KG, Bonn (Deutsche Telekom AG's indirect share: 100 %).
3 Indirect shareholding via T-Mobile Global Holding GmbH, Bonn (Deutsche Telekom AG's indirect share: 100 %).
4 Indirect shareholding via T-Mobile Global Holding Nr. 2 GmbH, Bonn (Deutsche Telekom AG's indirect share: 100 %).
5 Indirect shareholding via CMobil B.V., Amsterdam (Deutsche Telekom AG's indirect share: 92.14 %).
6 Indirect shareholding via T-Systems International GmbH, Frankfurt/Main (Deutsche Telekom AG's share: 100 %).
7 Indirect shareholding via MagyarCom Holding GmbH, Bonn (Deutsche Telekom AG's share: 100 %).
8 Indirect shareholding via T-Mobile Deutschland GmbH, Bonn; T-Mobile Poland Holding Nr. 1 B.V., Eindhoven; and Polpager Sp.z o.o., Warsaw (Deutsche Telekom AG's indirect share: 100 % each).
9 2003 financial year.
10 Employees at balance sheet date at end of 2003.

Consolidation principles.

Capital consolidation uses the German purchase method of accounting. Under this method, the purchase consideration for an acquisition is allocated to the assets and liabilities acquired, based on their fair values. Any resulting excess of the purchase consideration over the parent's interest in the fair value of net assets acquired is capitalized as goodwill and amortized over its useful life. Negative goodwill from capital consolidation is included under other accruals.

Profits or losses generated by subsidiaries during their period of affiliation with the Group are included in retained earnings/deficit; they also include the consolidation adjustments recognized in the statement of income and the net income/loss of subsidiaries.

If shares are issued to third-party shareholders without the involvement of Deutsche Telekom in the course of capital increases of subsidiaries, and associated and related companies, the resulting added value for Deutsche Telekom is recognized in the income statement in cases of cash capital increases; in cases of capital increases for noncash contributions, it is only recognized in the income statement if the added value exceeds a given level of goodwill acquired by the subsidiary, or associated or related company, in the course of the capital increase.

Revenue, income, and expenses, as well as receivables and liabilities between the consolidated companies, are eliminated. **Intercompany profits and losses** and income effects from the **consolidation of intercompany debt** are eliminated in the income statement.

Deferred taxes are recognized for consolidation adjustments recognized in the income statements, provided that the tax expense is expected to reverse in later years, and the consolidation adjustments at the parent company do not relate to the periods prior to the end of 1995, when it was essentially exempt from taxation.

The investments in associated companies included **at equity** are accounted for using the German purchase method; equity is calculated by applying local GAAP measurement principles, as permitted by § 312 (5), sentence 2 HGB. The principles used for full consolidation are also applied to the treatment of the differences resulting from first-time consolidation.

Joint ventures are included using the equity method.

Foreign currency translation.

In the single-entity financial statements of the companies included in the consolidated financial statements, foreign currency receivables, cash in banks, and liabilities are translated at the exchange rate applicable on the transaction date. Unrealized foreign currency losses due to exchange rate fluctuations through the balance sheet date are recognized in the income statement, while unrealized foreign currency gains are not recognized. Where foreign currency items have been hedged by forward exchange contracts, they are measured at the corresponding hedge rate.

The financial statements of foreign subsidiaries are translated using the functional currency method. The functional currency is the currency in which the foreign subsidiary performs its principal operations. The activities and financial structure reported in this currency should be reflected in the consolidated financial statements. Generally, the functional currency of dependent subsidiaries is identical to that of the parent company. The financial statements of dependent subsidiaries are translated using the temporal method. By contrast, the functional currency of largely independent subsidiaries is the local currency. Currently, all consolidated foreign subsidiaries of Deutsche Telekom conduct their operations independently of the parent company; the currencies are therefore translated according to the modified current rate method. In the consolidated financial statements, the balance sheet items of foreign subsidiaries are translated from the local currencies into euros using middle rates at the balance sheet date. Gains and losses resulting from translation are taken directly to the cumulative translation adjustment account in equity. The income statements of foreign subsidiaries are translated at the average exchange rates.

The exchange rates of certain significant currencies changed as follows:

Exchange rates

(in €)	Annual average rate 2004	2003	2002	Rate at balance sheet date Dec. 31, 2004	Dec. 31, 2003
100 Swiss francs (CHF)	64.78550	65.76650	68.15990	64.78800	64.15200
100 Czech korunas (CZK)	3.13631	3.14101	3.24851	3.29045	3.08873
1 pound sterling (GBP)	1.47305	1.44585	1.59101	1.41624	1.41663
100 Croatian kunas (HRK)	13.33720	13.21220	13.49190	13.04550	13.11000
1,000 Hungarian forints (HUF)	3.97687	3.94347	4.11657	4.06902	3.79407
1,000 Japanese yen (JPY)	7.43854	7.64138	8.47821	7.15720	7.42171
100 Malaysian ringgits (MYR)	21.15030	23.28190	27.93620	19.29460	20.89500
100 Philippine pesos (PHP)	1.43367	1.63218	2.08452	1.30603	1.44055
100 Polish zlotys (PLN)	22.10010	22.73590	25.99300	24.52550	21.27500
100 Russian rubles (RUB)	2.79149	2.88655	3.38456	2.64501	2.71500
100 Singapore dollars (SGD)	47.56180	50.70260	59.22700	44.88530	46.72500
100 Slovak korunas (SKK)	2.49843	2.41004	2.34284	2.58158	2.43000
1 U.S. dollar (USD)	0.80386	0.88492	1.06158	0.73320	0.79340

Accounting policies.

Net revenues contain all revenues from the ordinary business activities of Deutsche Telekom. For example, these include revenues from the rendering of services and the sale of goods and products that are typical for Deutsche Telekom. Net revenues are recorded net of value-added tax (VAT) and sales-related reductions. They are recognized in the accounting period concerned in accordance with the realization principle. Revenue was generated in the individual divisions as follows:

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

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

T-Systems.

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

Information Technology Services and Consulting.
The terms of information technology service contracts generally range from less than one year up to ten years. Revenue from outsourcing contracts reflects the extent of actual services delivered in the period in accordance with the terms of the contract. Revenue from time and material service contracts is recognized as the services are provided. Revenue from systems integration contracts requiring the delivery of unique products and/or services is generally covered by one of the following types of contracts: fixed price, milestone, or cost-related contracts. For fixed-price contracts, revenue is generally recognized when a project is completed and accepted by the customer. For milestone contracts, revenue is recognized at the time a milestone is achieved and approved by the customer. Revenue for cost-related contracts is recognized on a similar basis to time and material service contracts. Revenue from maintenance services is recognized over the contractual period or as the services are performed.

In some of the Company's services contracts, Deutsche Telekom performs the service prior to billing the customer. This situation may lead to unbilled accounts receivable for Computing Services and Telecommunication Services which are included as revenues in the consolidated statement of income.

Revenue from hardware sales or sales-type leases is recognized when the product is shipped to the customer, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Any cost of these obligations is accrued when the corresponding revenue is recognized. Revenue from rentals and operating leases is recognized monthly as the fees accrue.

The Company enters into transactions that include multiple element arrangements, which may include any combination of hardware, services, or software. These arrangements and stand-alone software arrangements may also involve any combination of software maintenance, software technical support, or unspecified software upgrades. When some elements are delivered prior to others in an arrangement, revenue is deferred until the delivery of the last element.

T-Online.
T-Online revenues consist primarily of revenues from subscriber fees, and charges for advertising and e-commerce. Subscriber fees, consisting primarily of basic monthly charges for T-Online services and Internet access as well as use-related fees, are recognized as revenue in the period the service is provided. Advertising revenues are recognized in the period that the advertisements are exhibited. Transaction revenues are recognized upon notification from the customer that qualifying transactions have occurred and collection of the resulting receivable is reasonably assured.

The **cost of sales** comprises the aggregate cost of products and services sold in the year under review. In addition to directly attributable costs, such as direct material and labor costs, it also includes indirect costs, including depreciation and amortization.

Selling costs comprise all costs of activities that do not directly increase the value of the Company's products and services, but serve to secure sales. Selling costs include the costs of all sales, advertising, and marketing departments.

General and administrative costs generally include all expenses attributable to the core administrative functions that cannot be allocated directly to the production or selling process.

Research and development costs are expensed in full as incurred.

Pension costs for defined benefit plans are actuarially computed using the projected unit credit method in accordance with SFAS No. 87, and are presented in accordance with SFAS No. 132 (as revised in 2003). This method is based on the total present value of the benefit obligations accumulated during the reporting period and takes into consideration the expected increases in wages and salaries and in retirement benefits. By contrast, the minimum accrual method in accordance with § 6a of the German Income Tax Act (Einkommensteuergesetz, EStG) is aimed at the recognition of the expense over the employees' entire working lives and does not take the expected increases in wages and salaries and retirement benefits into account (see Note on Accruals for pensions and similar obligations (28)).

Total pension costs for the current year include standard costs for benefit obligations acquired in the financial year (service cost), interest cost, and amortization of actuarial gains and losses, less the return on plan assets to cover pension obligations. In accordance with U.S. GAAP, if the measurement of pension obligations under SFAS No. 87 results in the need to disclose an additional minimum liability (AML), this special item is charged directly to other comprehensive income (OCI). The consolidated financial statements in accordance with German GAAP do not include an equivalent shareholders' equity line; changes in the additional minimum liability are expensed here.

Marketing expenses are expensed as incurred.

Income tax expense includes current income taxes payable as well as deferred taxes. Deferred income taxes are recognized for the expected future tax effects attributable to temporary differences between the carrying amounts in the tax accounts and in the financial statements, except for the effects of those differences that are not expected to reverse in the foreseeable future. Due to the minimum taxation provision in effect from the 2004 financial year, deferred taxes are recognized for only 40 % of the differences in Deutsche Telekom AG's income tax consolidation group that are offset within the expected net operating loss carryforward periods. Such differences may arise at the individual taxable entity level as well as in the consolidated financial statements as a result of measurement and consolidation adjustments. Deferred taxes on temporary differences relating to Deutsche Telekom AG have not been included in the consolidated financial statements for periods prior to January 1, 1996 as Deutsche Telekom AG was not taxable prior to January 1, 1995, and benefited from an essentially complete exemption from tax in 1995.

Earnings per share for each period are calculated by dividing net income/loss by the weighted average number of ordinary bearer shares outstanding during that period.

Purchased **intangible assets** including UMTS and U.S. mobile communications licenses are carried at acquisition cost and are amortized on a straight-line basis over their estimated useful lives. Acquired goodwill, including goodwill resulting from capital consolidation, is amortized on a straight-line basis over its useful life.

Deutsche Telekom tests for possible impairment of the goodwill of subsidiaries for which a considerable level of goodwill is recorded. These tests are based on the calculation of the enterprise value of the respective company and are carried out using the discounted cash flow method.

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

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

Nonscheduled write-downs are charged where the carrying amount of the asset is impaired because the decrease in the market value is not temporary. Events or circumstances which may lead to this situation include unfavorable developments in the economic environment and changes in the expectations originally associated with an investment.

As a rule, noncurrent assets are depreciated or amortized using the straight-line method, based largely on the following useful lives:

Useful life

	Years
Mobile communications licenses	
UMTS licenses	20 to 22
FCC licenses	20
GSM licenses	10 to 20
Goodwill	3 to 20
Other intangible assets	2 to 7
Buildings	25 to 50
Shop improvements and window displays	8
Telephone facilities and terminal equipment	3 to 10
Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment and technical equipment for broadband distribution networks	4 to 10
Broadband distribution networks, outside plant networks, and cable conduit lines	15 to 35
Telecommunications power facilities and other	3 to 10
Other equipment, plant, and office equipment	3 to 23

Additions to limited-life real estate and movable items of property, plant, and equipment are depreciated ratably in the year of acquisition. Until December 31, 2003, the full-year rate of depreciation was charged in the year of acquisition for movable items of property, plant, and equipment acquired in the first half of a year and, for those assets acquired in the second half of the year, half the full-year rate of depreciation was charged.

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

Maintenance and repair costs are expensed as incurred.

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

Financial assets are carried at the lower of cost or market value. Low-interest or non-interest bearing loan receivables are discounted and carried at their net present value. Write-downs are charged only if the impairment of financial assets is assumed to be permanent. The market value is preferably based on stock exchange or market prices as well as other measurement methods, taking into account any available information about the company concerned. Loss absorption obligations are accrued and reported in net financial income/expense.

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

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

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

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

Accruals for pensions and similar obligations are based on obligations to non-civil servants. They are calculated using actuarial methods in accordance with the internationally accepted projected unit credit method, which is consistent with U.S. GAAP (SFAS No. 87), and are presented in accordance with SFAS No. 132 (as revised in 2003).

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

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

Deferred taxes are calculated for temporary differences between carrying amounts in the financial statements and the tax accounts, and for temporary differences arising from consolidation adjustments. Deferred taxes are offset and the balance is reported separately either as a deferred tax asset, or as a deferred tax liability reported under tax accruals. For purposes of computing deferred taxes, Deutsche Telekom uses a combined tax rate for domestic companies, covering German corporate income taxes, trade taxes (at an average German assessment national rate), and the solidarity surcharge (Solidaritätszuschlag); the respective local tax rate is used for foreign companies.

Cost accruals are only recognized by Deutsche Telekom when there is an obligation to recognize the corresponding liabilities under § 249 (1) HGB. These relate mainly to accruals for costs of maintenance work deferred in the financial year but carried out within the first three months of the following year.

No accruals are discounted, with the exception of pensions and similar obligations, Civil Service Health Insurance Fund accruals for future shortfalls, and accruals for long-term contingent losses.

Liabilities are carried at their repayment amount. In instances where the repayment amount of a liability is greater than the principal amount, the difference is recorded as an asset and recognized as an adjustment to interest expense over the term of the liability.

Unrealized losses relating to **derivative financial instruments** that do not qualify for hedge accounting are recognized when incurred, whereas unrealized gains are deferred until realized.

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

Notes to the consolidated statement of income.

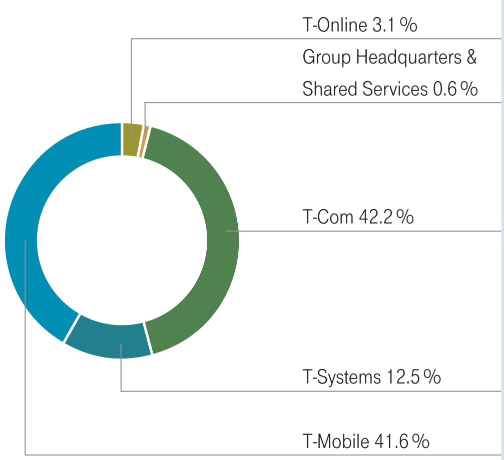
1 Net revenue.

(millions of €)	2004	2003	2002
T-Com	24,425	25,116	26,491
T-Mobile	24,088	21,572	18,339
T-Systems	7,238	7,184	6,895
T-Online[1]	1,793	1,662	1,391
Group Headquarters & Shared Services	336	304	573
	57,880	**55,838**	**53,689**

[1] Amounts are calculated in accordance with German GAAP and differ from those published in the separate reports of T-Online International AG under IFRS.

(millions of €)	2004	2003	2002
Revenue by geographic area:			
Domestic	35,147	34,691	35,288
International	22,733	21,147	18,401
	57,880	**55,838**	**53,689**
Breakdown of international net revenue:			
Europe (excluding Germany)	12,982	13,080	11,903
North America	9,392	7,610	6,166
Other	359	457	332
	22,733	**21,147**	**18,401**

The percentage of the individual revenue segments in relation to net revenue is as follows:



Net revenue rose by EUR 2,042 million or 3.7 % year-on-year despite unfavorable exchange rate trends. This figure also includes the effect of changes in the composition of the consolidated group, which reduced net revenue by a total of EUR 345 million.

The introduction of call-by-call and preselection in the previous year in particular resulted in a decrease in net revenue at T-Com. This was exacerbated by the deconsolidation of the remaining cable companies.

Revenue growth at T-Mobile was driven by a sustained increase in subscriber numbers. Changes in the composition of the Group (deconsolidation of Niedermeyer at T-Mobile Austria) and unfavorable exchange rate effects prevented an even higher level of revenue growth.

Despite deconsolidations, in particular SIRIS and TELECASH, T-Systems recorded a slight increase in revenue. This was largely due to revenue growth in the IT business, which more than offset the losses recorded in the telecommunications sector.

In addition to the first-time consolidation of the Scout24 group, revenue growth at T-Online was primarily driven by the continued rise in subscriber numbers and the increasing acceptance of paid services.

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

2 Cost of sales.

The cost of sales remained unchanged year-on-year at EUR 31.4 billion. It was affected by contrasting developments.

At T-Com and T-Systems, the cost of sales fell, largely due to a decrease in revenue and the successful implementation of efficiency improvement measures. In addition, changes in the composition of the Group and exchange rate fluctuations, particularly with the U.S. dollar, led to a fall in the cost of sales. This was offset by the increase in the cost of sales at T-Mobile, which was due to the growth in subscriber numbers.

Combined with the increase in revenues, the stability in the cost of sales led to an improvement in the gross profit margin from 43.8 % in the previous year to 45.7 % in 2004.

3 Selling costs.

Selling costs fell by EUR 0.2 billion year-on-year to EUR 13.3 billion, of which a total of EUR 0.1 billion is attributable to deconsolidations. The ratio of selling costs to net revenues decreased substantially from 24.2 % to 22.9 %.

The T-Com division was responsible for the majority of the year-on-year decrease in selling costs. This is attributable in particular to the improvement in its cost structure and the reduction in losses on receivables due to improved receivables management. By contrast, selling costs at T-Mobile increased, due primarily to higher advertising, marketing and customer acquisition costs – offset in part by U.S. dollar exchange rate effects.

4 General and administrative costs.

General and administrative costs decreased year-on-year by EUR 0.3 billion or 5.9 % to EUR 4.7 billion. This equates to a year-on-year decrease in the ratio of administrative costs from 8.9 % to 8.1 % in 2004. All the divisions of the Group contributed to this development with the exception of T-Online, mainly as a result of the acquisition of the Scout24 group. Of the overall decrease in administrative costs, EUR 0.1 billion is attributable to changes in the composition of the Deutsche Telekom Group, and EUR 0.2 billion to the non-recurrence of one-time expenses relating to the Civil Service Health Insurance Fund incurred in the previous year.

5 Other operating income.

(millions of €)	**2004**	2003	2002
Income from write-ups of noncurrent assets	2,462	16	18
Income from the disposition of noncurrent assets (including sale of investments)	1,515	1,464	818
Reversal of accruals	1,016	804	791
Income from the reversal of valuation adjustments (including asset-backed securities)	598	688	556
Cost reimbursements	387	367	388
Foreign currency transaction gains	135	291	222
Insurance compensation	52	63	77
Refund of value-added tax (§ 15a Value-Added Tax Act – UStG)	30	54	68
Other income	741	811	963
	6,936	**4,558**	**3,901**

Other operating income increased by EUR 2,378 million year-on-year to EUR 6,936 million. This was primarily due to the write-up of U.S. mobile communications licenses by EUR 2.4 billion due to changes in fair value measurements.

Income from the disposition of noncurrent assets primarily contains income of EUR 1.0 billion from the sale of further shares in MTS and income of EUR 0.2 billion from the sale of the satellite operator SES Global. In the previous year, this item included income from the sale of the remaining cable activities (EUR 0.4 billion), the sale of shares in MTS (EUR 0.4 billion), and the sale of TELECASH, Globe Telecom, and Eutelsat (around EUR 0.1 billion each).

Of the total amount of other operating income, EUR 2,762 million (2003: EUR 2,680 million; 2002: EUR 1,342 million) relates to other financial years.

6 Other operating expenses.

(millions of €)	**2004**	2003	2002
Amortization of goodwill	2,476	2,521	13,108
Additions to accruals (if not allocated to functional costs)	743	348	265
Expenses from ABS credit risk discount	589	286	387
Foreign currency translation losses	229	307	310
Losses from the disposition of noncurrent assets	201	323	390
Other expenses	1,346	1,299	455
	5,584	**5,084**	**14,915**

Other operating expenses increased by EUR 500 million year-on-year to EUR 5,584 million.

This increase is mainly attributable to the recognition of an accrual for contingent losses relating to the winding up of the U.S. mobile communications joint venture in the amount of EUR 529 million.

The increase in expenses from the ABS credit risk discount is due in particular to T-Mobile Deutschland GmbH, which has sold its trade accounts receivable to a special-purpose entity as part of its asset-backed securitization program since November 2003. These expenses affected the financial year as a whole for the first time.

Of the other operating expenses, EUR 255 million (2003: EUR 395 million, 2002: EUR 463 million) relates to other accounting periods.

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

7 Financial income/expense, net.

(millions of €)	2004	2003	2002
Dividend income from investments	11	26	41
Results related to companies accounted for under the equity method (including amortization of goodwill)	41	(247)	(430)
Income (loss) related to associated and related companies	**52**	**(221)**	**(389)**
Income from debt securities and long-term loan receivables	3	7	171
Other interest and similar income	259	703	1,781
Interest and similar expense	(3,613)	(4,486)	(6,000)
Net interest expense	**(3,351)**	**(3,776)**	**(4,048)**
Write-downs on financial assets and marketable securities	**(28)**	**(34)**	**(1,585)**
	(3,327)	**(4,031)**	**(6,022)**

Financial expense improved year-on-year by EUR 0.7 billion to EUR 3.3 billion. This was primarily due to the fall in net interest expense as a result of continued debt reduction. In addition, increased income from companies accounted for under the equity method and lower expenses for Toll Collect (EUR 0.1 billion) compared with the previous year (EUR 0.4 billion) had a positive impact on the income related to associated and related companies.

8 Income taxes.

Breakdown of income before income taxes:

Income before income taxes

(millions of €)	2004	2003	2002
Germany	6,570	4,270	712
International	(29)	(2,872)	(27,862)
	6,541	**1,398**	**(27,150)**

Breakdown of the Group's income taxes, Germany and international:

Group's income taxes

(millions of €)	2004	2003	2002
Current taxes			
Germany	870	(181)	132
International	239	257	190
Deferred taxes			
Germany	(35)	(357)	(150)
International	534	56	(3,019)
	1,608	**(225)**	**(2,847)**

The combined statutory income tax rate for 2004 in Germany was 39.0 %, including corporate income tax at a rate of 25.0 %, the solidarity surcharge of 5.5 % on corporate income tax (Solidaritätszuschlag) and trade tax at an average German national rate.

The Reductions of Tax Concessions Act (Steuervergünstigungsabbaugesetz), which came into effect in 2004, set a limitation on the use of losses (so-called minimum taxation) for corporate income tax and trade tax. In contrast to 2003, Deutsche Telekom AG therefore incurred corporate income tax and trade tax expense in its tax consolidation group, despite the existence of net operating loss carryforwards.

Deferred taxes result primarily from temporary differences between income determined under German GAAP and under applicable tax law. There was an additional tax expense of EUR 0.6 billion as a result of the recognition of deferred tax liabilities from the write-up of U.S. mobile communications licenses. Due to the minimum taxation provision that will come into effect from the 2004 financial year (which limits the deduction of net operating loss carryforwards to 60 % of positive income), only 40 % of the differences in Deutsche Telekom AG's income tax consolidation group that are offset in the period of utilization of the net operating loss carryforwards were recognized.

Differences between the total income tax expense of EUR 1,608 million (previous year: income of EUR 225 million) and the imputed, "expected" income tax expense computed using the statutory corporate income tax rate for the parent company (combined income tax rate) of 39 % are as follows:

(millions of €)	**2004**	2003	2002
Expected corporate income tax at the statutory income tax rate applicable for the parent company	2,551	565	(10,447)
Increase (decrease) in income tax due to:			
Reduction of the Group's results without tax effect	149	3,136	11,027
Increase in the Group's results without tax effect	(143)	(1,001)	(435)
Group results not subject to the Group's rate of taxation	(220)	(44)	(2,878)
Permanent and semi-permanent differences between the carrying amounts in the tax accounts and in the financial statements	(668)	(1,809)	(34)
Other permanent differences	600	(58)	(323)
Trade tax (e.g., long-term debt)	258	(10)	247
Effect of losses and valuation adjustments	(767)	61	386
Effects of taxes relating to prior years/changes in tax law	(160)	(1,058)	(361)
Other	8	(7)	(29)
Income taxes	**1,608**	**(225)**	**(2,847)**
Effective income tax rate	25 %	(16 %)	11 %

At December 31, 2004, the Deutsche Telekom Group had corporate income tax and similar net operating loss carryforwards amounting to approximately EUR 16,795 million (2003: EUR 17,686 million) and trade tax net operating loss carryforwards amounting to approximately EUR 4,368 million (2003: EUR 5,488 million). With the exception of net operating loss carryforwards of EUR 9,365 million, the utilization of which is limited to periods from 2005 to 2023, these net operating loss carryforwards have an unlimited carryforward period under German and local tax law.

9 Income/losses applicable to minority shareholders.

Income/losses applicable to minority shareholders includes EUR 400 million (2003: EUR 384 million; 2002: EUR 390 million) in gains and EUR 101 million (2003: EUR 14 million; 2002: EUR 106 million) in losses. The gains in 2004 relate mainly to T-Hrvatski Telekom, MATÁV, T-Mobile Czech Republic, and Slovak Telecom. The losses relate mainly to T-Online International AG.

10 Personnel costs/Average number of employees.

(millions of €)	2004	2003	2002
Wages and salaries	**10,428**	**10,571**	**10,467**
Social security contributions and expenses for pension plans and benefits:			
Social security costs	1,483	1,406	1,340
Pension costs[1]	1,436	1,746	1,497
Health care expenses	188	194	176
	13,535	**13,917**	**13,480**

[1] This item primarily consists of the net periodic pension costs, plus the change in additional minimum liability (AML) and the expenses for Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT).

Number of employees (average for the year)

Number	2004	2003	2002
Civil servants	48,536	49,998	52,961
Non-civil servants	199,023	201,265	202,935
Total Deutsche Telekom Group	**247,559**	**251,263**	**255,896**
Trainees and student interns	10,146	9,958	9,869

Personnel costs decreased by EUR 0.4 billion or 2.7 % year-on-year in 2004 to EUR 13.5 billion. On the one hand, this reduction is due to a decline in the number of employees, which decreased both on average and at the balance sheet date. Staff reductions, at T-Com and T-Systems in particular, and cuts in weekly working hours at Deutsche Telekom AG were offset by staff increases at T-Mobile (especially T-Mobile USA) and T-Online (acquisition of the Scout24 group). On the other hand, currency translation effects and the non-recurrence of an adjusted discount rate, applied to pension accruals (AML) in the prior year, contributed to the reduction. Collectively agreed wage and salary increases partly offset this reduction.

11 Depreciation and amortization.

Depreciation and amortization decreased during the year under review by EUR 636 million or 4.9 % year-on-year to EUR 12,248 million.

Amortization of intangible assets decreased by EUR 93 million or 2 %, mainly as a result of lower amortization of goodwill and amortization of software licenses, totaling approximately EUR 0.2 billion. This was offset by a slight increase in the amortization of both mobile communications licenses and other usage rights, amounting to a total of approximately EUR 0.1 billion.

Depreciation of property, plant, and equipment fell by EUR 543 million or 6.6 % in the year under review. This development is primarily a result of lower depreciation (EUR 0.4 billion), relating mainly to technical equipment and machinery, as a consequence of the disposition of noncurrent assets and the corresponding decrease in the depreciation base, and a result of restrained capital expenditure in prior years. In addition, nonscheduled write-downs of property, plant, and equipment decreased by approximately EUR 0.1 billion.

(millions of €)	**2004**	2003	2002
Amortization of intangible assets	4,585	4,678	27,355
of which: amortization of goodwill	2,476	2,521	13,108
of which: UMTS licenses and FCC licenses	1,145	1,113	13,244
Depreciation of property, plant, and equipment	7,663	8,206	9,525
	12,248	**12,884**	**36,880**

Nonscheduled write-downs of property, plant, and equipment totaling EUR 0.2 billion were charged in the year under review. These consisted mainly of a write-down on buildings and land for structures for which no further business use is planned. This item consisted of write-downs of EUR 0.3 billion in the previous year. Of this figure, approximately EUR 0.2 billion relates to buildings for which no further business use is planned.

12 Other taxes.

Other taxes included in the operating results amounted to EUR 199 million, compared with EUR 162 million in the previous year.

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

Notes to the consolidated balance sheet.

13 Intangible assets.

(millions of €)	**Dec. 31, 2004 Net carrying amount**	Dec. 31, 2003 Net carrying amount
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	21,080	20,606
of which: UMTS licenses	9,759	10,260
of which: FCC licenses	9,236	8,179
of which: GSM licenses	492	484
Goodwill	21,930	24,513
Advance payments	245	74
	43,255	**45,193**

The decline in intangible assets by EUR 1.9 billion to EUR 43.3 billion is due primarily to the effect of exchange rate losses on the translation of foreign Group companies and to continued amortization. This was offset by a moderate year-on-year increase in the investment volume, among other things, for software licenses (EUR 0.5 billion) and the write-up of U.S. mobile communications licenses (FCC) in the amount of EUR 2.4 billion.

As of the balance sheet date, Deutsche Telekom did not record any indefinite-lived intangible assets. The following remaining useful lives apply to the mobile communications licenses at December 31, 2004: UMTS licenses: 15.5 to 19.1 years, FCC licenses: 16.4 years, and GSM licenses: 5.0 to 19.0 years.

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

14 Property, plant, and equipment.

(millions of €)	**Dec. 31, 2004 Net carrying amount**	Dec. 31, 2003 Net carrying amount
Land and equivalent rights, and buildings including buildings on land owned by third parties	9,602	10,399
Technical equipment and machinery	30,590	32,792
Other equipment, plant, and office equipment	2,165	2,038
Advance payments and construction in progress	1,795	2,039
	44,152	**47,268**

The decline in property, plant, and equipment by EUR 3.1 billion to EUR 44.2 billion is due primarily to scheduled depreciation that significantly exceeded the investment volume as well as to the reduction in land and buildings as a result of the streamlining of the real estate portfolio.

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

Rental and leasing obligations.
Minimum lease payments under leases expiring subsequent to December 31, 2004 are shown below (millions of €):

Financial year	Capital leases	Operating leases
2005	50	1,733
2006	49	1,545
2007	48	1,394
2008	48	1,250
2009	48	1,121
after 2009	388	5,110
Total minimum lease payments	**631**	**12,153**
Imputed interest	226	
Present value of net minimum lease payments	**405**	

Capital leases relate primarily to office buildings and have terms of up to 25 years.

15 Financial assets.

(millions of €)	Dec. 31, 2004 Net carrying amount	Dec. 31, 2003 Net carrying amount
Investments in unconsolidated subsidiaries	94	118
Loans to unconsolidated subsidiaries	1	1
Investments in associated companies	2,577	2,386
Other investments in related companies	288	496
Long-term loans to associated and related companies	3	25
Other investments in noncurrent securities	16	86
Other long-term loans	51	78
	3,030	**3,190**

The development of the net carrying amount of associated companies was impacted by a number of offsetting effects. The net carrying amount increased due to positive earnings contributions from the companies, a favorable exchange rate effect relating to the Polish mobile communications company PTC, and an increase in the equity interest in GSM Facilities. The reduction in the equity interest in MTS by around 15 percentage points to 10.06 % means that the net carrying amount of EUR 179 million is now reported under other investments in related companies.

The complete sale of the interest in the satellite operator SES Global (EUR 366 million) led to a decrease in the net carrying amount of other investments in related companies. The aforementioned reclassification of MTS had a partially offsetting effect.

Long-term loans to associated and related companies are mainly composed of shareholder loans. The decrease in this item is primarily due to the repayment in full of a loan granted to DeASat.

The decrease in other investments in noncurrent securities is attributable in particular to the sale of the entire funds portfolio of Zeta Telekommunikationsdienste and a reduction in T-Hrvatski Telekom's securities portfolio.

The development of financial assets is shown in the statement of noncurrent assets. The list of investment holdings is filed with the Commercial Registry of the Bonn District Court (HRB 6794). The list is available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

Significant investments in associated companies are shown below:

	Dec. 31, 2004			Dec. 31, 2003		
Name	Deutsche Telekom share %	Net carrying amount millions of €	of which: embedded goodwill millions of €	Deutsche Telekom share %	Net carrying amount millions of €	of which: embedded goodwill millions of €
PTC	49.00	1,292	920	49.00	1,097	877
GSM Facilities	35.17	905	–	29.20	592	–
MTS[1, 2]	–	–	–	25.15	330	5
Other		380	111		367	107
		2,577	**1,031**		**2,386**	**989**

[1] Proportional market value on December 31, 2003: EUR 1,647 million.

[2] Following the reduction in the equity interest in December 2004, MTS is no longer classified as an associated company, but is instead included in "Other investments in related companies".

16 Inventories, materials, and supplies.

(millions of €)	Dec. 31, 2004 Net carrying amount	Dec. 31, 2003 Net carrying amount
Raw materials and supplies	486	391
Work in process	177	307
Finished goods and merchandise	737	635
Advance payments	17	99
	1,417	**1,432**

Raw materials and supplies include spare parts for data communications equipment, transmission equipment, and other telecommunications spare parts, components, and cable. The change in this item is largely due to the increase in inventories of optical fiber cable as a result of purchase commitments, the increase in inventories of T-DSL components to cover current demand, and increases in inventories relating to further network expansion by T-Mobile USA.

Work in process relates mainly to projects that have not yet been completed, such as the implementation of IT systems solutions. The year-on-year reduction in this item is attributable to the completion of projects at T-Systems in the year under review.

Finished goods and merchandise relate mainly to inventories of terminal equipment held both for resale and leasing, as well as hardware for Desktop Services. The increase in this item is due primarily to forthcoming launches of terminal equipment products.

Advance payments largely relate to orders for replacement modules and components.

17 Receivables.

(millions of €)	Dec. 31, 2004 Net carrying amount	Dec. 31, 2003 Net carrying amount
Trade accounts receivable	4,893	5,318
Receivables from unconsolidated subsidiaries	130	203
Receivables from associated and related companies	108	241
	5,131	**5,762**

The reduction in trade accounts receivable is largely due to more rigorous receivables management.

Certain trade accounts receivable are sold to a special-purpose entity as part of asset-backed securitization (ABS). ABS relates in particular to Deutsche Telekom AG (since December 2001), T-Systems International GmbH, and its subsidiaries T-Systems PCM AG and T-Systems GEI GmbH (since December 2002), and T-Mobile Deutschland GmbH (since November 2003).

The decrease in receivables from associated and related companies is primarily due to the sale of Virgin Mobile.

All receivables are due within one year, with the exception of trade accounts receivable amounting to EUR 29 million.

18 Other assets.

(millions of €)	Dec. 31, 2004 Net carrying amount	Dec. 31, 2003 Net carrying amount
Tax receivables	673	1,526
Accrued interest	269	408
Receivables from reimbursements and loans receivable	102	120
Receivables from employees	59	41
Miscellaneous other assets	856	1,067
	1,959	**3,162**

The decrease in other assets is mainly due to the fall in tax receivables, and relates to income taxes. This reduction is primarily attributable to a refund of corporate income tax and the solidarity surcharge in the amount of EUR 296 million due to the change in the legal form of T-Mobile International AG & Co KG from a stock corporation to a partnership, as well as to a refund of advance payments of trade tax totaling EUR 204 million due to the reorganization of the T-Mobile Group in conjunction with the change in legal form. In addition, a trade tax receivable that was due to Deutsche Telekom AG for the years 1997 to 1999 in the amount of EUR 285 million was received in the year under review.

Accrued interest mainly consists of interest receivables legally accruing after the balance sheet date.

19 Marketable securities.

(millions of €)	Dec. 31, 2004 Net carrying amount	Dec. 31, 2003 Net carrying amount
Treasury shares	7	7
Other marketable securities	88	166
	95	**173**

At 2,670,828 shares, the portfolio of treasury shares at the balance sheet date was unchanged year-on-year, and is broken down as follows:

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

The shares are recorded in the balance sheet at an acquisition cost of EUR 2.56 per share. The shares not purchased by employees in 2000 (14,630) were initially shown in the balance sheet at their acquisition cost of EUR 0.9 million, and written down to the lower quoted price at the balance sheet date. Treasury shares account for a total of 0.07 % of the capital stock.

The decrease in other marketable securities compared with the previous year is primarily due to the sale of the Deutsche Bundespost bonds held to maintain favorable trading conditions.

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

20 Liquid assets.

(millions of €)	Dec. 31, 2004 Net carrying amount	Dec. 31, 2003 Net carrying amount
Checks	6	8
Cash-in-hand and deposits at the Bundesbank	25	33
Cash in banks	8,019	9,086
	8,050	**9,127**

(millions of €)	Dec. 31, 2004 Net carrying amount	Dec. 31, 2003 Net carrying amount
Cash and cash equivalents		
Original maturity less than 3 months	8,023	8,686
Temporary cash investments (original maturity longer than 3 months)	27	441
	8,050	**9,127**

Cash and cash equivalents with original maturity of less than three months consist primarily of fixed-term bank deposits, as well as cash-in-hand, deposits at the Bundesbank, and checks. Temporary cash investments (with maturities longer than three months) consist almost exclusively of fixed-term bank deposits.

The development of cash and cash equivalents is shown in the consolidated statement of cash flows.

21 Prepaid expenses and deferred charges.

Prepaid expenses and deferred charges of EUR 727 million (December 31, 2003: EUR 772 million) include discounts on loans of EUR 201 million (December 31, 2003: EUR 264 million) which are amortized on a straight-line basis over the terms of the respective liabilities. Other prepaid expenses and deferred charges are also recognized for advance personnel costs and lease payments.

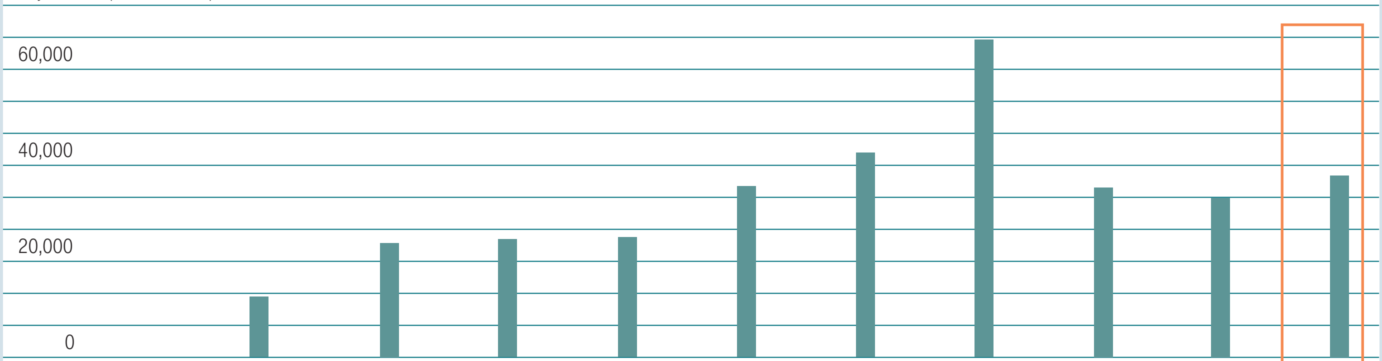
22 Shareholders' equity.

A detailed account of the development of the consolidated shareholders' equity for the years 2002, 2003, and 2004 is presented in a separate table before the notes to the consolidated financial statements.

The development of the consolidated shareholders' equity from December 31, 1995 to December 31, 2004 is as follows (millions of €):

Total shareholders' equity

at year-end (millions of €)



1995	1996	1997	1998	1999	2000	2001	2002	2003	**2004**
12,646	23,826	24,616	25,064	35,689	42,716	66,301	35,416	33,811	**37,941**

23 Capital stock.

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

The Federal Republic's direct shareholding in Deutsche Telekom AG, represented by the Federal Agency, was 22.74 % at December 31, 2004, while KfW's shareholding was 15.29 % at the same date. This means that 954 million no-par value shares (EUR 2,443 million) of the capital stock were held by the Federal Republic at December 31, 2004, and 642 million (EUR 1,643 million) by KfW. The remaining shares are in free float.

In the course of the acquisition of T-Mobile USA Inc., Bellevue (United States)/Powertel Inc., Bellevue (United States), Deutsche Telekom AG granted options on Deutsche Telekom shares in exchange for the outstanding warrants between Deutsche Telekom AG and T-Mobile USA/Powertel at the time of the acquisition. As of December 31, 2004, the number of Deutsche Telekom shares lodged as collateral for the outstanding preemptive rights granted to T-Mobile USA/Powertel employees amounted to 17,515,909.

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

Authorized capital.
With the approval of the Supervisory Board, the Board of Management is authorized to increase the capital stock (share capital) by up to a nominal amount of EUR 2,560,000,000 by issuing up to 1,000,000,000 ordinary registered shares against noncash contributions in the period up to May 17, 2009. The authorization may be exercised as a whole or on one or more occasions in partial amounts. The Board of Management is authorized, with the approval of the Supervisory Board, to disapply shareholders' preemptive rights. The Board of Management is also authorized, with the approval of the Supervisory Board, to determine the rights accruing to the shares in future and the conditions for issuing shares.

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

a. the holders and creditors of conversion rights or warrants attached to convertible bonds or bonds with warrants to be issued before May 28, 2006 by Deutsche Telekom AG or its direct or indirect majority shareholdings on the basis of the authorizing resolution adopted by the shareholders' meeting on May 29, 2001 exercise their conversion or option rights; or

b. the holders and creditors of convertible bonds to be issued before May 28, 2006 by Deutsche Telekom AG or its direct or indirect majority shareholdings on the basis of the authorizing resolution adopted by the shareholders' meeting on May 29, 2001 who are obligated to convert the convertible bonds fulfill their conversion obligation.

The new shares carry dividend rights from the beginning of the financial year in which they arise through exercise of conversion rights or options, or the fulfillment of conversion obligations. Contingent capital I was used in 2003 to issue convertible bonds amounting to approximately EUR 2.3 billion that will be converted into shares of Deutsche Telekom AG common stock at maturity (June 1, 2006). The convertible bonds were issued by Deutsche Telekom's financing company in the Netherlands – Deutsche Telekom International Finance B.V. – and are guaranteed by Deutsche Telekom AG. The securities were issued at par with a coupon of 6.5 %. Depending on share price performance, the conversion ratio may fluctuate between 3,417.1679 to 4,237.2881 shares per bond (EUR 50,000 par value). The securities were placed with non-U.S. institutional investors outside the United States.

On the basis of the authorizing resolution adopted by the shareholders' meeting on May 29, 2001 in conjunction with the amending resolution adopted by the shareholders' meeting on May 18, 2004, the capital stock was contingently increased by up to EUR 33,280,000, composed of up to 13,000,000 new no-par value registered shares (contingent capital II). This contingent capital increase is exclusively for the purpose of granting stock options to members of the Board of Management of Deutsche Telekom AG, to members of Deutsche Telekom's second-tier management, and to other executives, managers, and specialists of Deutsche Telekom AG, and to members of the boards of management, members of management, and other executives, managers, and specialists of lower-tier Group companies in Germany and other countries as part of the Deutsche Telekom 2001 Stock Option Plan. It will be implemented only to the extent that the holders of stock options exercise these options. The new shares carry dividend rights from the beginning of the financial year in which they are issued. If new shares are issued after the end of a financial year but before the Company's shareholders' meeting that resolves the appropriation of net income for the preceding financial year, the new shares carry dividend rights from the beginning of the preceding financial year. 101,724 stock options granted under the 2001 Stock Option Plan had been exercised as of December 31, 2004, which led to a corresponding decrease in contingent capital II).

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

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

24 Additional paid-in capital.

The additional paid-in capital of the Group exceeds Deutsche Telekom AG's additional paid-in capital of EUR 24,354 million by EUR 25,759 million. This is due in part to the recognition of the new Deutsche Telekom shares issued in the course of the acquisition of VoiceStream/Powertel at fair value (EUR 28,680 million) instead of at their par value (EUR 2,990 million), which is permitted in the consolidated financial statements.

Furthermore, there have been other allocations to additional paid-in capital in prior years from the exercise of conversion options by former shareholders of T-Mobile USA/Powertel (2003: EUR 1 million; 2002: EUR 68 million). The shares of Deutsche Telekom reserved for these conversion options in a trust were included in the single-entity financial statements of Deutsche Telekom AG in 2001 at the time of the appropriation of the additional paid-in capital.

25 Retained earnings.

In addition to the transfers made from Deutsche Telekom AG's net income from prior years, retained earnings include the consolidated group's share of the consolidated subsidiaries' net income or losses, provided they were generated by such subsidiaries since being included in the consolidated group, as well as a reserve for treasury shares held by the Company in accordance with § 272 (4) HGB. This item also includes the cumulative effects of consolidation adjustments from prior years. This item also includes cumulative foreign currency translation differences resulting from the translation of single-entity financial statements of foreign subsidiaries prepared in the respective local currency.

26 Minority interest.

Minority interest represents the minority shareholders' proportionate share of the equity of the consolidated subsidiaries and relates primarily to T-Online International AG, T-Hrvatski Telekom, Slovak Telecom, MATÁV, and T-Mobile Czech Republic.

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

27 Stock-based compensation.

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

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

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

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

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

Deutsche Telekom AG reserved the right, at its election, to settle the options through the payment of a cash amount (stock appreciation rights – SAR) instead of issuing new shares. The exercise of an SAR cancels the related option, and the exercise of an option cancels the related SAR. As of December 31, 2004, no resolution on conversion had been passed to this effect.

The weighted average remaining contractual life as of December 31, 2004 was 0.5 years.

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

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

2000 Stock Option Plan

	2004		2003		2002	
	Stock options in thousands	**Weighted average exercise price (€)**	Stock options in thousands	Weighted average exercise price (€)	Stock options in thousands	Weighted average exercise price (€)
Outstanding at beginning of year	987	62.69	994	62.69	1,001	62.69
Granted	0	–	0	–	0	–
Exercised	0	–	0	–	0	–
Forfeited	132	62.69	7	62.69	7	62.69
Outstanding at end of year	855	62.69	987	62.69	994	62.69
Exercisable at end of year under review	**0**	**–**	**0**	**–**	**0**	**–**

2001 Stock Option Plan.

For the 2001 Stock Option Plan, the shareholders' meeting in May 2001 resolved to increase the capital stock (share capital) of Deutsche Telekom AG by EUR 307,200,000 by issuing up to 120,000,000 new no-par value registered shares. This contingent capital increase is exclusively for the purpose of allowing up to 120,000,000 stock options to be issued to members of the Board of Management and other executives and specialists of the Company and lower-tier subsidiaries as part of the Deutsche Telekom 2001 Stock Option Plan. In accordance with the resolution passed by the shareholders' meeting, the allocation of the total number of options to beneficiaries is as follows:

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

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

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

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

The options may not legally be sold, transferred, pledged, or otherwise disposed of except in the event of death, in which case the options are transferred to the heirs.

Deutsche Telekom AG reserved the right, at its election, to settle the options through the payment of a cash amount (stock appreciation rights – SAR) instead of issuing new shares. The exercise of an SAR cancels the related option, and the exercise of an option cancels the related SAR. As of December 31, 2004, no resolution on conversion had been passed to this effect.

On August 13, 2001, Deutsche Telekom granted 8,220,803 options for the purchase of 8,220,803 shares at an exercise price of EUR 30.00 to the beneficiaries of the Stock Option Plan on the basis of the resolution adopted by the shareholders' meeting in May 2001. The closing price of Deutsche Telekom's common stock in Xetra trading in Frankfurt am Main on the grant date was EUR 19.10 per share. The term of the options runs until August 12, 2011.

In the 2002 financial year, Deutsche Telekom granted additional stock options to certain employees. On July 15, 2002, Deutsche Telekom granted a further 3,927,845 options for the purchase of 3,927,845 shares at an exercise price of EUR 12.36 to the beneficiaries of the Stock Option Plan on the basis of the resolution adopted by the shareholders' meeting in May 2001. The closing price of Deutsche Telekom's common stock in Xetra trading in Frankfurt am Main on the grant date was EUR 10.30 per share. The term of the options runs until July 14, 2012.

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

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

2001 Stock Option Plan

	2004		2003		2002	
	Stock options in thousands	**Weighted average exercise price (€)**	Stock options in thousands	Weighted average exercise price (€)	Stock options in thousands	Weighted average exercise price (€)
Outstanding at beginning of year	11,768	24.25	11,964	24.22	8,219	30.00
Granted	0	–	0	–	3,928	12.36
Exercised	101	12.39	0	–	0	–
Forfeited	223	25.18	196	25.89	183	29.16
Outstanding at end of year	11,444	24.36	11,768	24.25	11,964	24.22
Exercisable at end of year under review	**9,564**	**26.71**	**3,964**	**30.00**	**0**	**–**

At Deutsche Telekom AG, 3,250 SARs were additionally forfeited in the year under review by employees in countries in which it was not legally possible to issue stock options. As of December 31, 2004, 159,310 of the SARs granted in those countries between 2001 and 2004 were still outstanding.

T-Online International AG.
2000 Stock Option Plan.
In 2000, T-Online granted stock options to certain employees of T-Online International AG for the first time. On July 6, 2000, T-Online used its authority under shareholders' resolutions adopted in March 2000 to grant 214,473 options in respect of 214,473 shares of its stock to participants in its Stock Option Plan at an exercise price of EUR 37.65. The term of the options runs until July 6, 2005. In accordance with the resolution by the shareholders' meeting in March 2000, a total of 20,000,000 shares were reserved as contingent capital for future issuance under the 2000 Stock Option Plan. This contingent capital increase was reduced to EUR 214,473.00 at the shareholders' meeting on May 30, 2001.

No options granted under the 2000 Stock Option plan have yet been exercised because they were not exercisable until the end of the lock-up period on July 6, 2002, and because the options are only exercisable when both the absolute and the relative performance targets have been exceeded at least once in the period between July 7, 2002 and July 6, 2005. The absolute performance target is deemed achieved when the moving thirty-day average closing price in Deutsche Börse AG's Xetra trading exceeds the exercise price by more than 40 %. The relative performance target is linked to share price performance relative to the performance of the Dow Jones EuroSTOXX Telecom© index. The options may only be exercised if, following expiration of the two year lock-up period, the performance of the shares, adjusted for dividends, options, and other special rights (total shareholder return), exceeds the performance of the Dow Jones EuroSTOXX Telecom© index by more than 20 % measured on a moving thirty-day average basis.

The weighted average remaining contractual life as of December 31, 2004 was 0.5 years.

The activities relating to the stock options granted by T-Online International AG to beneficiaries of the 2000 Stock Option Plan are as follows:

2000 Stock Option Plan

	2004		2003		2002	
	Stock options in thousands	**Weighted average exercise price (€)**	Stock options in thousands	Weighted average exercise price (€)	Stock options in thousands	Weighted average exercise price (€)
Outstanding at beginning of year	121	37.65	209	37.65	214	37.65
Granted	0	–	0	–	0	–
Exercised	0	–	0	–	0	–
Forfeited	4	37.65	88	37.65	5	37.65
Outstanding at end of year	117	37.65	121	37.65	209	37.65
Exercisable at end of year under review	**0**	**–**	**0**	**–**	**0**	**–**

2001 Stock Option Plan.

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

The Stock Option Plan is structured as a "premium priced plan." The exercise price is payable upon exercise of the options. The exercise price per share is 125 % of the reference price. The reference price corresponds to the non-weighted average closing price of T-Online shares in Deutsche Börse AG's Xetra trading in Frankfurt am Main (or a successor system to the Xetra system) over the last 30 trading days before the day on which the options are granted. If the average price calculated using this method is lower than the closing price of T-Online shares in Deutsche Börse AG's Xetra trading (or in a successor system) on the grant date of the options, this closing price shall be taken as the reference price.

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

50 % of the options granted may only be exercised after a two-year lock-up period – calculated from the grant date of the options. The remaining 50 % of the options granted may only be exercised three years after the day the options are granted. The options have a life of ten years from the date on which they are granted, meaning that the options granted in the first tranche in 2001 and the options granted in the second tranche in 2002 are forfeited without replacement or compensation at the latest on August 12, 2011 and July 14, 2012, respectively. As of December 31, 2004, the weighted average remaining contractual life of the outstanding options from the 2001 Stock Option Plan was around 7 years.

2,369,655 options were granted in the first tranche on August 13, 2001 on the basis of the resolution adopted by the shareholders' meeting in May 2001. A further 2,067,460 options were granted in the second tranche on July 15, 2002. The exercise price – i.e., the performance target – is EUR 10.35 for the first tranche (125 % of the reference price of EUR 8.28) and EUR 10.26 for the second tranche (125 % of the reference price of EUR 8.21). The 2004 shareholders' meeting rescinded the authorization of the Board of Management and the Supervisory Board to issue additional options for the 2001 Stock Option Plan, and partially canceled the contingent capital II.

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

26,410 stock options of the 2001 tranche were exercised in the 2003 financial year and 5,879 in the 2004 financial year.

The activities relating to the stock options granted by T-Online International AG to beneficiaries of the 2001 Stock Option Plan are as follows:

2001 Stock Option Plan

	2004		2003		2002	
	Stock options in thousands	**Weighted average exercise price (€)**	Stock options in thousands	Weighted average exercise price (€)	Stock options in thousands	Weighted average exercise price (€)
Outstanding at beginning of year	4,185	10.31	4,415	10.31	2,348	10.35
Granted	0	–	0	–	2,067	10.26
Exercised	6	10.35	26	10.35	0	–
Forfeited	311	10.32	204	10.33	0	–
Outstanding at end of year	3,868	10.31	4,185	10.31	4,415	10.31
Exercisable at end of year under review	**2,893**	**10.32**	**1,062**	**10.35**	**0**	**–**

T-Mobile USA.

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

At December 31, 2004, 17.5 million shares were available for outstanding options for the 1999 Management Incentive Stock Option Plan ("MISOP"), which was changed as a consequence of the acquisition on May 31, 2001. The MISOP provides for the issue of up to 8 million shares of Deutsche Telekom common stock, either as non-qualified stock options or as incentive stock options, plus the number of shares of common stock deliverable upon the exercise of the T-Mobile USA rollover options in accordance with the Agreement and Plan of Merger between Deutsche Telekom and T-Mobile USA. The vesting period and option terms relating to the option plan are determined by the MISOP administrator. The options typically vest for a period of four years and have a term of up to 10 years.

Powertel.

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

The activities relating to the stock options granted since the acquisition of T-Mobile USA/Powertel, and the performance options are as follows:

	2004		2003		2002	
	Stock options in thousands	**Weighted average exercise price (USD)**	Stock options in thousands	Weighted average exercise price (USD)	Stock options in thousands	Weighted average exercise price (USD)
Outstanding at beginning of year	22,539	17.90	26,770	16.77	24,599	16.55
Granted	230	19.64	1,715	12.86	5,964	13.35
Exercised	3,627	6.75	3,880	4.24	2,579	3.70
Forfeited	1,626	24.19	2,066	22.05	1,214	21.26
Outstanding at end of year	17,516	19.68	22,539	18.27	26,770	16.77
Exercisable at end of year under review	**13,048**	**20.93**	**12,856**	**18.11**	**10,919**	**14.19**

Outstanding options as of Dec. 31, 2004				**Exercisable options as of Dec. 31, 2004**	
Ranges of the exercise prices (USD)	Number in thousands	Weighted average remaining contractual life (years)	Weighted average exercise price (USD)	Number in thousands	Weighted average exercise price (USD)
0.02 – 3.79	1,061	3.5	2.33	1,061	2.33
3.80 – 7.59	695	4.5	5.03	695	5.03
7.60 – 11.39	1,067	3.5	8.16	912	8.00
11.40 – 15.19	4,974	7.2	13.27	1,902	13.29
15.20 – 18.99	41	4.7	17.04	42	17.04
19.00 – 22.79	194	8.8	19.78	14	20.04
22.80 – 26.59	4,043	6.1	23.25	3,062	23.26
26.60 – 30.39	3,937	5.1	29.48	3,864	29.53
30.40 – 34.19	1,201	5.3	31.03	1,193	31.03
34.20 – 37.99	303	5.1	37.05	303	37.05
0.02 – 37.99	**17,516**	**5.4**	**19.63**	**13,048**	**20.93**

MATÁV.

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

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

On July 1, 2002, MATÁV used its authority under the shareholders' resolutions adopted in April 2002 to grant 3,964,600 options in respect of 3,964,600 shares of its stock to participants in its stock option plan at an exercise price of HUF 933 for the first tranche (exercisable in 2003) and HUF 950 for the second and third tranches (exercisable in 2004 and 2005, respectively). The closing price of MATÁV common stock quoted on BET (Budapest Stock Exchange) on the grant date was HUF 833 per share. The options have a life of five years from the grant date, meaning that the options are forfeited without replacement or compensation on June 30, 2007. The remaining contractual life as of December 31, 2004 was 2.5 years.

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

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

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

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

The activities relating to the stock options granted by MATÁV are as follows:

2002 Stock Option Plan	2004		2003		2002	
	Stock options in thousands	**Weighted average exercise price (HUF)**	Stock options in thousands	Weighted average exercise price (HUF)	Stock options in thousands	Weighted average exercise price (HUF)
Outstanding, beginning of period	3,655	944	3,965	944	0	–
Granted	0	–	0	–	3,965	944
Exercised	0	–	0	–	0	–
Forfeited	448	944	310	944	0	–
Outstanding at end of year	3,207	944	3,655	944	3,965	944
Exercisable at end of year under review	**2,137**	**942**	**1**	**944**	**0**	**–**

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

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

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

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

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

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

The ambitiousness and strategic relevance of the performance targets are reviewed and adjusted if necessary prior to each new rolling issue of the MTIP. The nature or thresholds of the performance targets cannot be changed once the plan has begun.

At the end of the term of the individual plans, the General Committee of Deutsche Telekom AG's Supervisory Board will establish whether the absolute and relative performance targets for the Board of Management have been achieved. Based on the findings of the Supervisory Board General Committee, the Board of Management will establish whether the target has been achieved for Deutsche Telekom AG and all participating companies as a whole and will communicate this decision. Once it has been established that one or both targets have been achieved, the payment will be made to the beneficiaries.

T-Mobile USA.
MTIP 2004.
T-Mobile USA's MTIP is based on the same conditions as Deutsche Telekom AG's MTIP.

LTIP 2004.
In addition to the MTIP, T-Mobile USA has established a performance cash plan as a Long-Term Incentive Plan (LTIP) that is aimed at the top management, from the Vice Presidents upwards. Additional subscriber growth and profit targets have been agreed for this group of persons.

T-Mobile UK.
MTIP 2004.
T-Mobile UK's MTIP is also based on the same conditions as Deutsche Telekom AG's MTIP. In addition to the two performance targets in that plan, however, T-Mobile UK has introduced a third target for a defined group of participants which is based on the cash contribution (EBITDA before investments in property, plant, and equipment, and intangible assets). The third performance target can only be achieved after the first two other performance targets have been achieved.

T-Online International AG.
MTIP 2004.
T-Online's MTIP is also based on the same conditions as Deutsche Telekom AG's MTIP, with the exception that performance is measured in terms of the development of the T-Online share and the TecDAX share index.

MATÁV.
MTIP 2004.
MATÁV's MTIP is also based on the same conditions as Deutsche Telekom AG's MTIP, with the exception that performance is measured in terms of the development of the MATÁV share.

The expenses relating to the MTIPs in the Deutsche Telekom Group in 2004 totaled approximately EUR 9 million. The expenses for the LTIP 2004 at T-Mobile USA amounted to around EUR 15 million.

28 Accruals for pensions and similar obligations.

Deutsche Telekom's pension obligations for non-civil servants are provided for by a range of defined benefit plans; there are further obligations under Article 131 of the Basic Law (Grundgesetz – GG). Deutsche Telekom's indirect pension obligations were made to its employees via the Versorgungsanstalt der Deutschen Bundespost (VAP) and the Deutsche Telekom Betriebsrenten-Service e.V. (DTBS).

The VAP provides pension services for pensioners who were employed by Deutsche Telekom. The VAP benefits, which supplement statutory pension benefits up to the level specified by the pension benefits formula, are generally calculated on the basis of the level of employee compensation during specific periods of their employment. Within the scope of negotiations on the realignment of the company pension plan, the employer and the trade unions agreed in 1997 on arrangements for the protection of vested VAP benefits. Pursuant to this agreement, the benefit obligations due to retirees and employees approaching retirement will remain unchanged. For younger employees with vested benefits, the obligations have been converted into an initial amount based on the number of years of coverage to date, which was then credited to a capital account held by the employer (cash balance plan). Deutsche Telekom credits further amounts to this account; when the insured event occurs, the account balance will be paid out in full, in installments, or converted into a pension. If the relevant employees had not reached the age of 35 and had been insured for less than ten years, their benefit obligations are due directly from Deutsche Telekom. The DTBS was founded for processing the remaining obligations.

A new regulation of VAP benefits was made by collective agreement in the year 2000 without affecting obligations. The pensioners covered by this collective agreement no longer receive their pension payments directly from the VAP as the indirect provider of pension services, but, since November 2000, directly and with a legal claim from Deutsche Telekom. VAP's obligations are therefore suspended (parallel obligation). Pension accruals are recognized for financial reporting purposes for the now direct pension obligations in accordance with U.S. GAAP (SFAS No. 87). Due to the direct nature of the parallel obligation, these pension accruals must also be shown in the tax accounts, measured according to § 6a of the Income Tax Act (EStG). Those pensioners remaining in the VAP continue to receive their benefits directly from the VAP as the provider of pension services. Pursuant to the VAP's business plan, Deutsche Telekom will to a certain extent continue to be assigned additional obligations and the corresponding assets on a pro rata basis.

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

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

The following table shows the composition of pension obligations:

Pension obligations

(millions of €)	**Dec. 31, 2004**	Dec. 31, 2003
Pension obligations		
– Direct	3,205	3,163
– Indirect	1,380	1,286
Obligations in accordance with Article 131 GG	6	7
	4,591	**4,456**

The obligation amounts shown contain an additional minimum liability for individual pension plans. An additional minimum liability is a step-up amount for pension obligations relating to individual pension plans; this is recognized in income under German GAAP, but directly in equity under U.S. GAAP. Excluding the additional minimum liability, the accrual for pensions amounts to EUR 3,719 million (2003: EUR 3,553 million).

(millions of €)	**Dec. 31, 2004**	Dec. 31, 2003
Actuarial present value of benefits		
Vested benefit obligation	4,572	4,455
Nonvested benefit obligation	534	486
Accumulated benefit obligation	**5,106**	**4,941**
Effect of projected future salary increases	83	91
Projected benefit obligation	**5,189**	**5,032**
Plan assets at fair value	(523)	(489)
Projected benefit obligations in excess of plan assets	**4,666**	**4,543**
Unrecognized negative prior service cost	97	0
Actuarial losses	(1,044)	(990)
Unfunded accrued pension cost (+)/prepaid pension cost (–)	**3,719**	**3,553**
Additional minimum liability	**872**	**903**
Total obligation	**4,591**	**4,456**

Calculation of pension accruals:

(millions of €)	**Dec. 31, 2004**	Dec. 31, 2003
Unfunded accrued pension cost	3,722	3,555
Prepaid pension cost	(3)	(2)
Accrual for pensions	**3,719**	**3,553**

Taking into consideration the assets transferred to other entities, the pension obligations were accounted for in full.

The carrying amount of the corresponding pension accruals measured in accordance with § 6a EStG is EUR 4,071 million (2003: EUR 3,674 million). The amount of pension obligations was determined using actuarial principles that are consistent with U.S. GAAP (SFAS No. 87), and using the assumptions at the respective balance sheet dates as shown in the following table:

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

in %	**2004**	2003	2002
Discount rate	5.25	5.25	5.75
Projected salary increase	2.75/3.50[1]	2.75/3.50[1]	2.75/3.50[1]
Projected pension increase	1.00/1.50	1.50	1.50

[1] For non-civil servants not covered by collective agreements

Assumptions for determining the net periodic pension cost for years ending Dec. 31

in %	**2004**	2003	2002
Discount rate	5.25	5.75	6.00
Projected salary increase	2.75/3.50[1]	2.75/3.50[1]	2.75/3.50[1]
Return on plan assets	5.50	6.00	6.00
Projected pension increase	1.50	1.50	1.50

[1] For non-civil servants not covered by collective agreements

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

Development of the projected benefit obligation:

Projected benefit obligation		
(millions of €)	**2004**	2003
Projected benefit obligation, beginning of year (January 1)	**5,032**	**4,472**
Service cost	171	140
Interest cost	255	251
Change in obligations	2	24
Actuarial losses	93	395
Total benefits actually paid	(260)	(250)
Plan amendments	(104)	0
Projected benefit obligation, end of year	**5,189**	**5,032**

Development of plan assets at fair value:

Plan assets at fair value		
(millions of €)	**2004**	2003
Plan assets at fair value, beginning of year	**489**	**412**
Actual return on plan assets	30	14
Contributions by employer	68	87
Benefits actually paid through pension funds	(64)	(58)
Change in obligations	0	34
Plan assets at fair value, end of year	**523**	**489**

Information on pension plans with accumulated benefit obligation exceeding assets:

(millions of €)	**Dec. 31, 2004**	Dec. 31, 2003
Projected benefit obligation	1,954	1,813
Accumulated benefit obligation	1,903	1,754
Transferred assets	523	489

Breakdown of transferred assets by investment category:

in %	**Dec. 31, 2004**	Dec. 31, 2003
Equity securities	26	18
Debt securities	50	43
Real estate	0	0
Other	24	39

Investment strategy:

Deutsche Telekom's investment strategy is conservative and concentrates on safeguarding liquidity and on investments in the euro region; no derivative instruments are used. Most investments are made in deposits and fixed-rate notes. Unless regulated by the requirements of § 54 of the Insurance Supervision Act (Versicherungsaufsichtsgesetz), the investment strategy is determined by investment committees which regularly review investment decisions made.

Net periodic pension cost is summarized as follows:

Pension cost (millions of €)	2004	2003	2002
Service cost	171	140	155
Interest cost	255	251	241
Return on plan assets	(27)	(27)	(24)
Distribution amounts (payback)	29	13	7
Net periodic pension cost	**428**	**377**	**379**

Expected amounts for subsequent years:

Years starting after Dec. 31 (millions of €)	2004	2003	2002
Expected contributions by employer	68	87	80

Years starting after Dec. 31 (millions of €)	2009–2013	2008	2007	2006	2005	2004
Expected pension payments	1,570	298	286	277	267	261

Civil servant retirement arrangements.
Until the 2000 financial year, Deutsche Telekom AG maintained a special pension fund (Unterstützungskasse) for its active and former civil servants, which was merged with the special pension funds of Deutsche Post AG and Deutsche Postbank AG by notarized agreement on December 7, 2000 to form the joint pension fund Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT). On January 11, 2001, the fund was entered in the Register of Associations with retroactive effect from July 1, 2000. The BPS-PT works for the fund of all three companies and also handles financial administration for the Federal Republic on a trust basis. It carries out all transactions for pension and allowance payments in respect of civil servants for Deutsche Post AG, Deutsche Postbank AG, and Deutsche Telekom AG.

In accordance with the provisions of the Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz – PTNeuOG), BPS-PT makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil servant status. The level of Deutsche Telekom AG's payment obligations to its special pension fund is defined under § 16 of the Law concerning the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz – PostPersRG). Since 2000, Deutsche Telekom AG has been legally obliged to make an annual contribution to the special pension fund amounting to 33 % of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. This contribution is recognized as an ongoing expense in the respective year, and amounted to EUR 911 million in the year under review (2003: EUR 809 million) (see also (34) Guarantees and commitments, and other financial obligations).

Under PTNeuOG, the Federal Republic compensates the special pension fund for differences between the ongoing payment obligations of the special pension fund, amounts received from Deutsche Telekom AG, and returns on assets, and guarantees that the special pension fund is always in a position to fulfill the obligations it has assumed. The Federal Republic cannot require reimbursement from Deutsche Telekom AG for amounts paid by it to the special fund.

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29 Other accruals.

(millions of €)	Dec. 31, 2004	Dec. 31, 2003
Taxes	**2,090**	**1,762**
Provisions for deferred taxes	**1,243**	**919**
Accruals other than taxes		
Employee benefits		
Civil Service Health Insurance Fund	1,322	1,358
Personnel restructuring	545	566
Other obligations	1,575	1,231
	3,442	**3,155**
Outstanding invoices	1,827	1,849
Accrual for contingent losses	529	0
Unused telephone units	474	524
Litigation risks	314	209
Investment risks	297	399
Restoration commitments	282	265
Advertising cost subsidies/commissions	238	300
Loss contingencies	202	243
Risks related to real estate	191	220
Refunds to be granted	168	230
Deferred maintenance	78	67
Other accruals	875	1,105
	8,917	**8,566**
	12,250	**11,247**

The Civil Service Health Insurance Fund (Postbeamten-krankenkasse – PBeaKK) provides services for its members mainly in cases of illness, birth, or death, and calculates the corresponding allowances. When Postreform II came into effect, the PBeaKK was closed to new members. Due to the aging of the group of people insured, there is an expected shortfall between the fund's sources of regular income and benefits paid. The present value of this future deficit has been determined on the basis of actuarial principles, based on the new 1998 life expectancy tables prepared by Prof. Dr. Klaus Heubeck ("Richttafeln 1998"), which primarily reflect the increase in average life expectancy. Deutsche Telekom is required to cover part of this deficit, and has recognized an accrual for its share. The expected benefits from the PBeaKK will decrease due to the effects of the health reform. Accordingly, a one-time reversal of EUR 36 million was recognized in 2004 (addition to accrual in 2003: EUR 271 million).

In the course of personnel restructuring programs at Deutsche Telekom AG and its subsidiaries, collective agreements are still used for voluntary redundancy payments and old-age part-time work, resulting in the recognition of liabilities or accruals when a concrete contractual relationship is entered into.

Non-civil servants accepted voluntary redundancy offers in the year under review. By contrast, natural attrition does not lead to any financial burden for Deutsche Telekom AG.

The personnel restructuring accruals, other obligations of the HR department, and other accruals include accruals of EUR 550 million for restructuring measures, which developed as follows in the 2004 financial year:

(millions of €)	Accruals as of Jan. 1, 2004	Change recognized in income	Accruals realized	Accruals as of Dec. 31, 2004
Type of measure:				
Personnel restructuring	566	196	217	545
Other	96	(17)	74	5
	662	**179**	**291**	**550**

The increase in tax accruals relates mainly to T-Mobile International AG & Co KG, as no assessments are yet available for prior assessment periods (from 2002), but tax expenses are expected.

The retroactively agreed reduction in the weekly working hours of Deutsche Telekom AG employees has led in particular to an increase in other obligations relating to human resources.

The accrual for contingent losses relates to the dissolution of the U.S. mobile communications joint venture GSM Facilities at T-Mobile USA.

The accruals for unused telephone units are recognized for charges for telephone services as yet not rendered but which have already been recognized as income.

The decrease in the accrual for investment risks is due to the sale of Virgin Mobile Telecoms.

30 Liabilities.

Liabilities

(millions of €)	Dec. 31, 2004				Dec. 31, 2003			
	Total	of which due			Total	of which due		
		within one year	in one to five years	after five years		within one year	in one to five years	after five years
Debt								
Bonds and debentures	39,592	7,555	16,225	15,812	51,613	12,295	22,336	16,982
Liabilities to banks	3,060	1,366	858	836	3,798	806	1,928	1,064
	42,652	**8,921**	**17,083**	**16,648**	**55,411**	**13,101**	**24,264**	**18,046**
Other liabilities								
Advances received	253	253			402	402		
Trade accounts payable	4,166	3,821	345		4,175	4,143	32	
Liabilities on bills accepted and drawn	8	8			4	4		
Payables to unconsolidated subsidiaries	103	103			198	198		
Payables to associated and related companies	68	68			213	213		
Other liabilities	5,160	4,056	114	990	5,459	4,264	179	1,016
of which: from taxes	(1,083)	(1,083)			(1,091)	(1,091)		
of which: from social security	(102)	(102)			(100)	(100)		
	9,758	**8,309**	**459**	**990**	**10,451**	**9,224**	**211**	**1,016**
Total liabilities	**52,410**	**17,230**	**17,542**	**17,638**	**65,862**	**22,325**	**24,475**	**19,062**

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The main items under bonds and debentures relate to the mandatory convertible bond issued by Deutsche Telekom International Finance B.V., Amsterdam, on February 24, 2003, and to the other bonds issued by Deutsche Telekom International Finance B.V., Amsterdam, between 2000 and 2003 at the following conditions:

Structure of the 2000 global bond

Tranche	Nominal amounts in currency	Nominal amounts €	Nominal interest rate	Maturity
EUR	2,250,000,000	2,250,000,000	6.625 %	2005
EUR	750,000,000	750,000,000	7.125 %	2010
GBP	625,000,000	885,143,747	7.625 %	2005
GBP	300,000,000	424,868,999	7.625 %	2030
USD	3,000,000,000	2,199,590,876	8.250 %	2005
USD	3,000,000,000	2,199,590,876	8.500 %	2010
USD	3,500,000,000	2,566,189,355	8.750 %	2030
JPY	90,000,000,000	644,148,015	2.000 %	2005

Structure of the 2001 eurobond

Tranche	Nominal amounts in currency	Nominal amounts €	Nominal interest rate	Maturity
EUR	4,500,000,000	4,500,000,000	6.375 %	2006
EUR	3,500,000,000	3,500,000,000	7.125 %	2011

After the downgrading by Moody's from A3 to Baa1 in March 2002, and by Standard & Poor's from A- to BBB+ in April 2002, the coupons of the 2000 global bond and the 2001 eurobond increased by 50 basis points. The change in the interest rate has already been included in the tables. If Deutsche Telekom is upgraded to at least an A- grade by both agencies, the coupons will be reduced again by 50 basis points.

Structure of the 2002 global bond

Tranche	Nominal amounts in currency	Nominal amounts €	Nominal interest rate	Maturity
EUR	2,500,000,000	2,500,000,000	7.500 %	2007
EUR	2,000,000,000	2,000,000,000	8.125 %	2012
USD	500,000,000	366,598,479	9.250 %	2032

The coupons of the 2002 global bond will increase by 50 basis points if Deutsche Telekom is downgraded by Standard & Poor's and Moody's to below BBB+/Baa1 respectively.

Structure of the 2003 USD bond

Tranche	Nominal amounts in currency	Nominal amounts €	Nominal interest rate	Maturity
USD	750,000,000	549,897,719	3.875 %	2008
USD	1,250,000,000	916,496,198	5.250 %	2013

Structure of the mandatory convertible bond

Currency	Nominal amounts €	Nominal interest rate	Maturity
EUR	2,288,500,000	6.50 %	2006

On February 24, 2003, Deutsche Telekom AG issued a mandatory convertible bond via its financing subsidiary DT Finance International Ltd. with a term up to June 1, 2006. Deutsche Telekom received proceeds from the issue totaling EUR 2.3 billion. Deutsche Telekom AG has undertaken to repay the bond by delivering Deutsche Telekom shares to investors on maturity. The necessary resolution by the shareholders' meeting authorizing the contingent capital was adopted on May 29, 2001. The number of shares to be delivered will be calculated as follows: (i) if the share price is EUR 11.80 or lower, a total of 193.9 million shares will be delivered; (ii) if the share price is EUR 14.63 or above, a total of 156.4 million shares will be delivered; and (iii) if the share price is between EUR 11.80 and EUR 14.63, the number of shares to be delivered will be calculated by dividing the nominal amount of the mandatory convertible bond by the share price on maturity. The resulting number of shares to be delivered will therefore lie between the numbers stipulated in (i) and (ii). In addition, the mandatory convertible bond offers standard anti-dilution protection. The mandatory convertible bond has a coupon of 6.50 %. Holders will also receive a special dividend calculated as the difference between (i) the dividends to be paid in the respective financial year and (ii) the average of the dividends paid in the two previous years. The special dividend will be paid on maturity for the number of shares to be delivered. Deutsche Telekom AG is entitled to pay this amount in cash or, at its election, by using shares still available as part of the contingent capital.

Breakdown of bonds and debentures (millions of €):

Due in	Effective interest rate up to 6 %	up to 7 %	up to 8 %	up to 9 %	over 9 %	Total
2005	2,066	2,404	885	2,200		**7,555**
2006	456	4,500	2,288			**7,244**
2007	500	500	2,500		88	**3,588**
2008	3,688					**3,688**
2009	1,000	705				**1,705**
after 2009	929	865	6,887	6,765	366	**15,812**
	8,639	**8,974**	**12,560**	**8,965**	**454**	**39,592**

Liabilities to banks (mainly loan notes and short-term loans) due in the next five years and thereafter are as follows (millions of €):

Due in	Amounts
2005	**1,366**
2006	**196**
2007	**188**
2008	**282**
2009	**192**
after 2009	**836**
	3,060

The average effective interest rate of total debt is as follows:

Bonds and debentures 6.82 % p. a. (2003: 6.82 % p. a.)
Liabilities to banks 6.49 % p. a. (2003: 6.12 % p. a.)

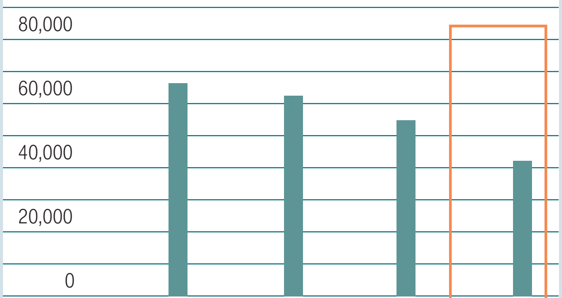
Deutsche Telekom has agreements with a number of banks pursuant to which it can draw on credit facilities of up to EUR 17.9 billion. These include syndicated loan facilities entered into by Deutsche Telekom AG for EUR 9.0 billion (Deutsche Telekom syndicated loan) and T-Mobile UK (formerly One 2 One) for EUR 3.9 billion (T-Mobile UK syndicated loan). Deutsche Telekom AG serves as guarantor of the T-Mobile UK syndicated loan. The level of the interest rates depends on Deutsche Telekom's rating, the amount of the syndicated loan, and the LIBOR rate to be applied, plus a margin ranking of between 0.275 % and 0.500 %. The loan commitment fee is between 0.050 % and 0.200 %, and also depends on Deutsche Telekom's rating. As of December 31, 2004, EUR 0.7 billion of the T-Mobile UK syndicated loan has been drawn down. This drawdown has an interest rate of 4.94 %, excluding the loan commitment fee. There were no outstanding debts relating to the Deutsche Telekom syndicated loan at the end of 2004.

Part of the syndicated loan serves as collateral for Deutsche Telekom's commercial paper program. Deutsche Telekom may not draw on the syndicated loan in the amount of commercial paper drawdowns. Deutsche Telekom had not issued any commercial paper at December 31, 2004. Furthermore Deutsche Telekom's credit facilities include bilateral bank lines amounting to EUR 5.0 billion, of which EUR 0.3 billion had been used at the end of 2004 for short-term drawings and EUR 0.1 billion for guarantees.

The development of debt over time is shown below:

Debt

(millions of €)



Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2003	**Dec. 31, 2004**
67,031	63,044	55,411	**42,652**

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Debt decreased by around EUR 4 billion in 2002, despite the acquisition of the remaining shares in debis Systemhaus and T-Mobile Netherlands, mainly because of cash generated from operations, divestitures of real estate and financial assets, and positive foreign currency effects.

In 2003, cash generated from operations, sales of assets, and positive foreign currency effects were the main drivers behind the further reduction in debt. New debt resulted from the issuance of a U.S. dollar bond and a convertible bond, for example.

The decrease in debt in 2004 was mainly due to the repayment of bonds and medium-term notes, achieved primarily as a result of the positive cash flow.

Debt includes borrowings of EUR 14,745 million (December 31, 2003: EUR 17,261 million) in foreign currencies.

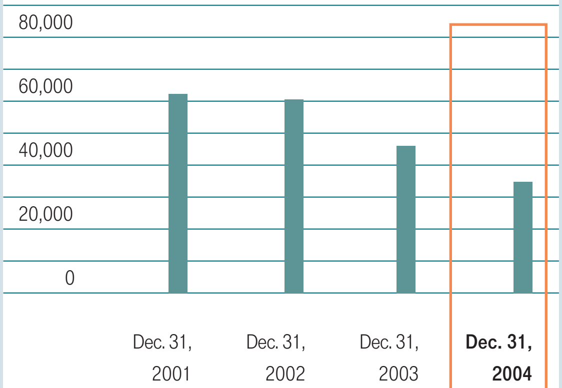
In addition to debt (in accordance with the consolidated balance sheet), Deutsche Telekom uses "net debt" in particular as an indicator.

Net debt comprises debt and, under other liabilities, loan notes, liabilities from interest rate/cross-currency swaps and collateral payments received. The following items on the assets side are subtracted from this total: liquid assets, noncurrent and marketable securities, discounts on loans as well as interest rate and cross-currency swaps reported under other assets, and collateral payments made.

Net debt changed as follows:

Net debt[1]

(millions of €)



Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2003	**Dec. 31, 2004**
62,799	61,106	46,576	**35,198**

[1] The reconciliation of net debt is included in the management report, under "Development of business in 2004".

Other liabilities.

(millions of €)	**Dec. 31, 2004**	Dec. 31, 2003
Interest	1,315	1,698
Loan notes	690	799
Rental and leasing obligations	405	425
Liabilities to employees	129	162
Other	2,621	2,375
	5,160	**5,459**

Other liabilities include taxes of EUR 1,083 million (December 31, 2003: EUR 1,091 million) and social security liabilities of EUR 102 million (December 31, 2003: EUR 100 million).

Liabilities in the amount of EUR 11 million (December 31, 2003: EUR 5 million) payable by subsidiary companies to banks and third parties are collateralized by the assignment of receivables and other collateral assignments. Deutsche Telekom AG has provided no collateral for its liabilities.

In accordance with Postreform II (§ 2 (4) of the Stock Corporation Transformation Act – Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were outstanding at January 1, 1995. At December 31, 2004, this figure was EUR 2.1 billion.

Notes to the consolidated statement of cash flows.

The consolidated statement of cash flows has been prepared in conformity with International Accounting Standard (IAS) No. 7, Cash Flow Statements. Besides IAS 7, German Accounting Standard (GAS) No. 2, Cash Flow Statements, as approved by the German Accounting Standards Board (GASB), is also used in preparing the consolidated statement of cash flows.

Liquid assets and short-term investments with original maturities of less than three months at the date of purchase are considered cash equivalents in drawing up the consolidated statement of cash flows. These current cash and cash equivalents increased by EUR 0.7 billion to EUR 8.0 billion in the 2004 financial year.

This is a result of the following developments:

31 Net cash provided by operating activities.

Net cash provided by operating activities amounted to EUR 16.3 billion in the period under review, a year-on-year increase of EUR 2.0 billion. In addition to lower net interest payments of EUR 0.2 billion and a EUR 0.9 billion improvement in working capital, this development is due in particular to the improvement in operational business.

32 Net cash used for investing activities.

Net cash used for investing activities amounted to EUR 4.3 billion compared with EUR 2.1 billion in the previous year. This EUR 2.2 billion increase in cash used was due to offsetting effects: an increase of EUR 0.8 billion in spending relating to property, plant, and equipment and to investments in financial assets, including subsidiaries (in particular associated companies at T-Mobile USA, the acquisition of the Scout24 group, and the acquisition of EuroTel), accompanied by a decrease of EUR 2.5 billion in cash inflows mainly from divestitures of property, plant, and equipment, and shares in fully consolidated companies. This was offset by a EUR 0.1 billion decrease in investments in intangible assets and a EUR 0.5 billion increase in the disposition of financial assets and a EUR 0.5 billion rise in cash inflows from liquid assets with original maturities of more than three months.

33 Net cash used for financing activities.

In the period under review, net cash used for financing activities increased by EUR 7.4 billion year-on-year to EUR 12.7 billion. This is due in particular to a EUR 5.7 billion reduction in the issuance of medium and long-term debt, while repayments decreased by EUR 2.4 billion. In addition, the sharp increase of EUR 3.8 billion in the net repayment of short-term debt had a negative impact on net cash used for financing activities.

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

Other disclosures.

34 Guarantees and commitments, and other financial obligations.

(millions of €)	Dec. 31, 2004	Dec. 31, 2003
Guarantees	49	28
Liabilities arising from warranty agreements	1,280	2,199
	1,329	**2,227**

The decrease in liabilities arising from warranty agreements is due primarily to the discontinuation of loan collateral guarantees by Deutsche Telekom AG for T-Mobile. In addition, T-Mobile International AG's obligation under a QTE (Qualified Technology Equipment) lease decreased due to exchange rate effects.

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

The liability obligation of the parties of the consortium means they are obliged to inject additional capital in the event of negative developments within the Toll Collect project. When Deutsche Telekom AG realized that a future injection of additional capital would be necessary during the project, accruals were recognized for anticipated losses relating to the project. The operating agreement includes provisions for further contractual penalties after the approved start of operations (issuance of the special preliminary operating permit) if the performance of the system is not adequate. The Federal Republic is asserting claims for damages from the parties of the consortium of EUR 3.56 billion plus interest for the period September 1, 2003 to December 31, 2004 for lost toll revenues. In addition, the Federal Republic of Germany is asserting a claim for contractual penalties in the amount of approximately EUR 1.03 billion plus interest. This amount also includes contractual penalties of approximately EUR 790 million relating to the allegation that the agreement of the Federal Republic of Germany was not sought before certain subcontractor agreements were entered into. The amount of the contractual penalties may rise as the Federal Republic is also claiming time-related contractual penalties. Deutsche Telekom AG believes the claims of the Federal Republic are unfounded. The Federal Republic has resorted to arbitrational proceedings for clarification of the legal position, as provided for by the terms of the agreement. The maximum future obligations arising from the Toll Collect project cannot be quantified with adequate certainty; it is therefore not possible to express this in figures under guarantees and commitments.

In addition, Deutsche Telekom AG has given a guarantee for bank loans to Toll Collect GbR amounting to EUR 0.6 billion; these are included in the table above.

Other financial obligations.

(millions of €)	Dec. 31, 2004			Dec. 31, 2003		
	Total	of which due		Total	of which due	
		in the following financial year	from the second financial year after the balance sheet date		in the following financial year	from the second financial year after the balance sheet date
Present value of payments to special pension fund	8,200	900	7,300	9,000	950	8,050
Purchase commitments for interests in other companies	696	203	493	763	254	509
Obligations under rental and lease agreements	12,153	1,733	10,420	11,737	1,703	10,034
Purchase commitment from capital projects in progress	2,804	2,428	376	1,924	1,634	290
Commitments arising from transactions not yet settled	505	397	108	869	783	86
Other financial obligations	8	4	4	12	3	9
Total other financial obligations	**24,366**	**5,665**	**18,701**	**24,305**	**5,327**	**18,978**

The present value of payments that Deutsche Telekom is required to make in accordance with Postreform II to the Company's special pension fund for civil servants, or its successor, on the basis of the 1998 life expectancy tables prepared by Prof. Klaus Heubeck, amounted to EUR 8.2 billion at December 31, 2004 (see Note on Accruals for pensions and similar obligations (28)).

Purchase commitments for interests in other companies relate mainly to Deutsche Telekom AG. The decrease in the commitments is due in particular to the discontinuation of the obligation for the acquisition of shares of Scout24 AG (EUR 0.2 billion in 2003), as the acquisition was completed in February 2004. This was offset by T-Mobile Global Holding Nr. 2 GmbH's obligation to purchase further shares of CMobil B.V. in 2005.

The increase in obligations under rental and lease agreements is mainly attributable to new and prolonged leases for real estate and radio towers. The majority of the lease obligations are attributable to Group Headquarters & Shared Services, T-Mobile, and T-Systems. The amount of the obligations was reduced by exchange rate fluctuations, particularly involving the U.S. dollar.

Purchase commitments for capital projects in progress are primarily attributable to Deutsche Telekom AG, T-Systems, and T-Mobile. Most of Deutsche Telekom AG's purchase commitments are short-term. T-Systems has entered into commitments relating in particular to license agreements and software projects. T-Mobile's commitments are primarily for the purchase of network and UMTS equipment.

The commitments arising from transactions not yet settled relate primarily to short-term purchase commitments at T-Mobile (EUR 0.4 billion), in particular for mobile communications terminals and accessories.

Deutsche Telekom is a party to a number of lawsuits and other proceedings arising out of the general conduct of its business, including proceedings under laws and regulations related to environmental and other matters. Litigation accruals include the costs of litigation and any probable losses. The Company does not believe that any additional costs will have a material adverse effect on the net worth, financial position, and results of the Deutsche Telekom Group.

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35 Financial instruments.

Fair value.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following is a summary of the estimated fair value of Deutsche Telekom's financial instruments:

(millions of €)	Dec. 31, 2004		Dec. 31, 2003	
	Fair value	Net carrying amount	Fair value	Net carrying amount
Assets				
Other investments in related companies	1,117	288	750	496
Other long-term loans	51	51	77	78
Other investments in noncurrent assets	17	16	80	86
Accounts receivable	5,131	5,131	5,874	5,874
Liquid assets	8,050	8,050	9,127	9,127
Other investments in marketable securities	97	95	175	173
Liabilities				
Bonds and debentures	46,823	39,592	56,151	51,613
Liabilities to banks	3,057	3,060	3,730	3,798
Other liabilities	9,758	9,758	10,666	10,666
Derivative financial instruments[1]				
Interest rate swaps	(36)	(91)	(74)	(194)
Cross-currency interest rate swaps sold	(551)	(342)	(712)	(231)
Foreign currency forward contracts	(180)	(67)	(80)	(16)
Foreign currency options	0	0	1	0

[1] Non-bracketed amounts represent assets, bracketed amounts represent liabilities.

Fair values were determined as follows:

The fair value of other investments in noncurrent securities and in marketable securities is based on quoted market prices for those instruments or similar instruments, insofar as they are available. Otherwise, these assets are measured using recognized valuation techniques. The net carrying amount of other investments in marketable securities is adjusted to market value where market value is less than the original investment. The net carrying amounts of trade accounts receivable approximate their fair values, due to the short period to maturity. The net carrying amounts of liquid assets also reflect reasonable estimates of fair value due to the relatively short period to maturity of the instruments.

The fair value of debt which is publicly traded, primarily bonds and debentures, is estimated based on quoted market prices at year end, insofar as they are available. Otherwise, these assets are measured using recognized valuation techniques. The carrying amounts of liabilities to banks and other liabilities approximate their fair values. The fair value of off-balance sheet financial instruments generally reflects the estimated amount the Company would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains and losses of open contracts. The estimated fair values of derivatives used to hedge or modify the Company's risk will vary substantially with future changes in interest rates or with fluctuations in foreign exchange rates. These changes in fair values should not be viewed in isolation, but rather in relation to adverse changes in the values of the underlying hedged transactions.

The fair values of other investments in related companies as well as loans to unconsolidated subsidiaries and associated companies, which have carrying amounts of EUR 292 million and EUR 523 million at December 31, 2004 and 2003 respectively, could not be determined, except for the investments in VocalTec and MTS, because they are not publicly traded. VocalTec and MTS are valued at fair value based on their share prices.

The fair value of derivatives is determined as the present value of future payments on the basis of recognized valuation techniques.

Derivative financial instruments.
The Company uses derivative financial instruments for the purpose of hedging interest rate and currency exposures that arise from its ongoing business operations. The top priority in all cases in which derivatives are used is to limit the risk of the underlyings. Derivatives may therefore only be used to eliminate risk exposures, and may never be used to create new risks for speculative reasons. Derivative financial instruments are subject to internal controls.

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

The main interest rate instruments used are interest rate swaps. These are entered into with the aim of transforming the coupons on bonds, and the interest rates on loans and financial assets, in accordance with a mix of fixed and floating rate interest instruments that is laid down once a year. Interest rate swaps are designated as hedging instruments for specific liabilities or groups of similar liabilities. Cross-currency interest rate swaps usually swap foreign currency bonds and medium-term notes or loans granted to Group companies outside the euro zone in required target currencies.

Gains or losses related to changes in the value of interest rate swaps are generally not recognized. Interest rate swaps which are not designated as hedging instruments for balance sheet assets and liabilities (which are mainly hedges of planned future transactions) are marked to market and resultant negative values are accrued and included as a component of net interest expense; gains are recognized upon realization. Unrealized gains and losses from changes in fair value are netted currency for currency and assigned to portfolios, and the resultant net loss is accrued. Net gains are not recognized. The interest differential to be paid or received on interest rate swaps is recognized in the statement of income, as incurred, as a component of net interest expense. Gains or losses on interest rate swaps released prior to their maturity are recognized immediately in net interest expense.

The Company uses foreign currency forward contracts and options to hedge currency risks arising from its investment, financing, and operating activities. Foreign currency forward contracts hedging firm commitments to invest in or sell a foreign entity are not recognized at the balance sheet date. Such firm commitments are recognized using the foreign exchange rate fixed by the foreign currency forward contract. Where the Company uses call options to hedge firm commitments to invest in or sell a foreign entity, the option is carried in other assets and is not measured until exercise or expiration. The option premium is included in the purchase cost of the investment when it is recorded, and in the proceeds from the sale when the selling price is received. Gains and losses resulting from foreign currency forward contracts, cross-currency interest rate swaps, and foreign currency financing which relate to the net investments in foreign entities are recorded in the cumulative translation adjustment account.

Foreign currency forward contracts hedging other payments and receipts are assigned to foreign currency portfolios categorized by foreign currency type with the related financial instruments. These portfolios are marked to market at the balance sheet date and resulting negative portfolio values are accrued under other liabilities. Measurement gains and losses are netted portfolio for portfolio. An accrual for loss contingencies is established for each portfolio for the amount of the excess loss. Net gains are not recognized.

The net carrying amounts of the derivative financial instruments amounted to EUR –500 million at December 31, 2004 (December 31, 2003: EUR –441 million), of which EUR 148 million is recognized in other assets (December 31, 2003: EUR 233 million). EUR –479 million is recognized in other liabilities (December 31, 2003: EUR –443 million). Accruals in the amount of EUR –169 million were recognized (December 31, 2003: EUR –231 million).

The following is a summary of the contract or notional principal amounts outstanding and the average interest paid/received at December 31, 2004 and 2003:

	Dec. 31, 2004				Dec. 31, 2003			
	Maturity	**Notional amount millions of €**	**Average interest rate paid**	**Average interest rate received**	Maturity	Notional amount millions of €	Average interest rate paid	Average interest rate received
Interest rate swaps (EUR)								
Receive fixed, pay variable	2005–2010	12,437	2.18 %	3.36 %	2004–2010	13,664	2.12 %	3.96 %
Forward receive fixed, pay variable	–	–	–	–	2007–2008	2,000	EURIBOR6M	3.86 %
Receive variable, pay fixed	2005–2010	2,555	5.80 %	2.20 %	2005–2010	2,555	5.80 %	2.20 %
Forward receive variable, pay fixed	2006	1,500	2.57 %	EURIBOR3M	–	–	–	–
Interest rate swaps (USD)								
Receive fixed, pay variable	2005–2007	3,079	2.73 %	2.53 %	2005–2007	2,539	1.23 %	2.31 %
Forward receive fixed, pay variable	–	–	–	–	2007	793	USDL6M	3.22 %
Receive variable, pay fixed	2007	2,200	5.07 %	2.77 %	2007	793	4.65 %	1.22 %
Forward receive variable, pay fixed	–	–	–	–	2007–2008	3,015	4.70 %	USDL6M
Interest rate swaps (GBP)								
Receive fixed, pay variable	2005	283	4.90 %	3.84 %	2005	283	4.18 %	3.84 %
Receive variable, pay fixed	2005–2006	708	5.78 %	5.00 %	2005–2006	779	5.80 %	3.83 %
Interest rate swaps (JPY)								
Receive fixed, pay variable	2005	644	0.31 %	1.50 %	2005	668	0.31 %	1.50 %
Interest rate swaps (HUF)								
Receive variable, pay fixed	2006	258	9.25 %	11.89 %	2006	241	9.25 %	9.61 %
Cross-currency interest rate swaps	2005–2032	3,607	5.71 %	3.36 %	2004–2032	4,883	5.25 %	2.57 %
Foreign currency forward contracts								
Forward purchases	2005–2008	3,118	–	–	2004–2008	1,190	–	–
Forward sales	2005–2006	417	–	–	2004–2006	982	–	–
Foreign currency options	–	–	–	–	2004–2005	5	–	–

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

36 Segment reporting.

Deutsche Telekom applies Statement of Financial Accounting Standards No. 131 “Disclosures about Segments of an Enterprise and Related Information” (SFAS 131) and the German Accounting Standard No. 3 “Segment Reporting” (GAS 3) for the calculation of segment information. These require companies to disclose information on their operational segments in accordance with their internal reporting structures. Under SFAS No. 131 and GAS 3, Deutsche Telekom has the following operational segments for which reporting is required: T-Com, T-Mobile, T-Systems, and T-Online. The segments for which reporting is required are strategic divisions which differ in their products and services, their relevant sub-markets, the profile of their customers, and their regulatory environment. The business segments are thus the primary reporting format and the geographic regions the secondary segment reporting format.

Segment reporting is presented in a table before the notes to the financial statements and explained in greater detail below.

The valuation methods used for the group segment reporting correspond to those used in the German consolidated financial statements. Deutsche Telekom evaluates the segments’ performance based on the income before income taxes; the operational figures EBIT and EBITDA are also used. Based on income before taxes, EBIT does not include extraordinary income/losses nor net financial income/expense. EBITDA additionally excludes depreciation and amortization. As no extraordinary items arose in any of the periods, the income before income taxes corresponds to results from ordinary business activities.

Revenues generated and goods and services exchanged between segments are, as far as possible, calculated on the basis of market prices. With the exception of depreciation and amortization, additions to and reversals of accruals, no major noncash items are shown in the segments. The income/loss related to associated and related companies relates to income from investments and associated companies, as well as write-downs of financial assets and other investments in marketable securities.

Segment assets under segment reporting include the carrying amount of property, plant, and equipment, intangible assets, and financial assets. Segment investments are defined as additions to such assets, adjusted for intragroup transactions. In addition, the segment assets and segment investments are shown by geographical region; assignment to the individual regions is generally determined by the location of the asset. Please refer to (1) Net revenue in the notes to the consolidated financial statements for the presentation of revenue by regions. In accordance with GAS 3, liabilities have been assigned to the segments since the 2000 financial year. As part of Group segment reporting, these include debt and other liabilities, excluding tax liabilities.

The structure of the segments has been adjusted to reflect the revised reporting structure at T-Com and T-Systems. The Toll Collect joint venture has been assigned to and reported under the T-Systems segment since April 1, 2004. To facilitate comparison, prior-year figures have been adjusted. Against the background of the expansion of the EU to the east, it is no longer necessary to disclose separate information in the secondary reporting format for the two previous geographical segments EU (excluding Germany) and Rest of Europe. These two geographic segments have been combined, since Deutsche Telekom’s activities on the European market are primarily in EU member states. The figures for the previous year have also been adjusted.

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Segments by geographic area.[1]

(millions of €)	Segment assets		Segment investments	
	Dec. 31, 2004	Dec. 31, 2003	**Dec. 31, 2004**	Dec. 31, 2003
Germany	41,377	46,065	3,137	3,201
Europe (excluding Germany)	26,564	27,337	2,162	1,810
North America	22,088	21,815	1,911	2,033
Other	408	434	30	23
Group	**90,437**	**95,651**	**7,240**	**7,067**

[1] For the assignment of net revenue to geographic segments, please refer to (1) Net revenue.

T-Com.

Net revenue decreased slightly in the year under review by EUR 691 million to EUR 24,425 million. Access revenues continued to increase as a result of price adjustments and the growing number of DSL lines. This was offset by a decrease in call revenue, in particular as a result of the impact of competition, the introduction of call-by-call and carrier preselection, as well as higher penetration of rate options. Network interconnection between other network operators, the reduction in interconnection charges in December 2003 and the deconsolidation of the remaining cable companies as of March 1, 2003 also contributed to the decrease in revenue. While revenue from data communications increased slightly, revenue from terminal equipment declined as a result of lower demand and lower prices. The revenue generated in Eastern Europe was slightly higher than the prior-year comparative as a result of currency translation adjustments.

Revenue from business with other segments decreased by EUR 701 million from EUR 4,090 million to EUR 3,389 million. T-Com provides other segments with network and support services in particular, but also supplies them with fixed-network terminal equipment. The decrease in revenue is primarily attributable to price cuts in the upstream market, network interconnection between T-Mobile and T-Systems, and the change of the business model in the T-Punkt shops; as of May 1, 2004 T-Com receives only commission for selling mobile terminals.

In the year under review, depreciation and amortization decreased by EUR 379 million year-on-year to EUR 4,790 million. This is primarily due to lower capital expenditure. Net interest expense substantially improved from EUR 315 million to a net interest income of EUR 76 million, reflecting the reduction in debt in the year under review. The income related to associated and related companies is principally composed of the pro rata contributions of the companies consolidated using the equity method. A slight year-on-year increase was recorded.

Despite a decline in revenues, income before income taxes increased considerably, as in the previous year. In addition to the reasons indicated above, the increase of EUR 835 million to EUR 5,525 million was mainly due to improved efficiency relating to operating expenses, in particular lower cost of sales, selling costs, and administrative costs. Reasons for this include the lower number of employees and the corresponding reduction in personnel-related operating costs, the decline of revenue-related costs, and the aforementioned change in the business model of the T-Punkt shops.

The reduction in segment assets of EUR 1,854 million to EUR 27,176 million is due in particular to the depreciation of property, plant, and equipment that is substantially higher than capital expenditure. The investments in T-Com's segment assets were mainly made in technical equipment – in the outside plant telecommunications network, in switching and transmission equipment, and in UMTS licenses in Hungary and Croatia. These investments were driven mainly by the expansion and upgrading of the local loop, the roll-out of the new transmission platform, capital expenditure for IT systems, and the roll-out of additional DSL lines to meet demand. Capital expenditure increased from EUR 2,216 million to EUR 2,384 million year-on-year. Segment liabilities chiefly consist of debt and trade payables.

T-Mobile.
The increase in net revenue of EUR 2,516 million from EUR 21,572 million to EUR 24,088 million reflects the substantial increase in the number of subscribers in almost all the mobile communications networks under T-Mobile's majority control, particularly in the United States, Germany, the United Kingdom, the Czech Republic, and the Netherlands. The total number of subscribers rose by more than 8 million.

Revenue from business with other segments decreased by EUR 299 million from EUR 1,206 million to EUR 907 million and was primarily generated within Germany through network interconnection services (so-called “mobile terminated calls”).

Depreciation and amortization in 2004 remained almost unchanged year-on-year at EUR 5,088 million and consisted mainly of the amortization of mobile communications licenses amounting to EUR 1,193 million and the amortization of goodwill of EUR 1,398 million. Further depreciation of EUR 1,679 million was charged on technical equipment and machinery in the 2004 financial year. The net interest expense decreased year-on-year by EUR 109 million to EUR 883 million. This is largely due to the non-recurrence of one-time measures in the previous year, such as the early repayment of the bond at T-Mobile USA and a swap closeout at T-Mobile UK. The income related to associated and related companies also improved by EUR 12 million year-on-year to EUR 109 million. The income related to associated and related companies in the year under review includes in particular the positive contributions to income made by MTS and PTC amounting to EUR 177 million and EUR 106 million respectively, and the negative contribution to income made by GSM Facilities in the amount of EUR –127 million.

The income before income taxes of the T-Mobile segment in 2004 rose substantially by EUR 3,805 million from EUR 831 million to EUR 4,636 million. Apart from the reasons stated above, this development is largely attributable to the write-up of the U.S. mobile communications licenses in the amount of EUR 2,448 million and to the proceeds from the sale of additional interests (15.09 %) in the Russian company MTS amounting to EUR 941 million. The increase in income was partially offset by the recognition of an accrual for contingent losses of EUR 529 million relating to the winding up of the mobile communications joint venture between T-Mobile USA and Cingular Wireless. In addition, economies of scale and synergy effects made a substantial contribution to improving operating performance.

Segment assets amounting to EUR 48,314 million continue to consist mainly of intangible assets, in particular mobile communications licenses and goodwill. Despite the write-up of the U.S. mobile communications licenses, the decline in the segment's intangible assets and property, plant, and equipment is due primarily to the exchange rate effects caused by translating the currencies of foreign subsidiaries – in particular T-Mobile USA – and to continued amortization. In 2004, investments focused in particular on property, plant, and equipment as a result of the further expansion of the U.S. network. Segment liabilities consist primarily of debt.

T-Systems.
Net revenue increased slightly in the year under review by EUR 54 million to EUR 7,238 million, largely due to the positive development in the two service lines Computing Services and Desktop Services within the Information Technology (IT) unit. This was offset by the decline in the net revenue posted by the Telecommunications (TC) unit resulting from the marked price and competitive pressure. The International Carrier Services service line, which experienced a decrease in voice traffic, was principally accountable for this decline. The sale of the interests in T-Systems SIRIS, T-Systems MultiLink, TELECASH Kommunikations-Service GmbH, and T-Systems CS also impacted net revenue.

Revenue from business with other segments fell by EUR 131 million year-on-year to EUR 3,299 million.

The decrease of EUR 111 million in depreciation and amortization to EUR 1,388 million is attributable in particular to the lower depreciation base. The net interest expense decreased further from EUR 39 million to EUR 29 million on account of the positive cash flow and the loss related to associated and related companies was also reduced substantially from EUR 447 million to EUR 145 million as a result of lower additions to accruals for Toll Collect risks.

The extensive measures taken to increase efficiency and quality ("Focus & Execution" strategy program) also reduced the loss before income taxes. The disproportionately large decrease in operating expenses, particularly cost of sales, in 2004 is attributable to improved business processes and consistent cost management. The loss before income taxes was negatively impacted in the reporting period by restructuring expenses and transfer payments to Vivento totaling EUR 125 million. The proceeds from the sale of T-Systems SIRIS and TELECASH Kommunikations-Service GmbH in the previous year were not matched by any comparable income in the 2004 financial year.

Segment assets amounting to EUR 4,976 million consist mainly of intangible assets, which essentially comprise goodwill relating to the former T-Systems ITS. In 2004, segment assets decreased in particular as a result of goodwill amortization. Capital expenditure focused on technical equipment and machinery and was reduced slightly to EUR 775 million. Segment liabilities consist mainly of debt.

T-Online.
T-Online's net revenue increased further in the year under review by EUR 131 million to EUR 1,793 million, thus continuing the upward trend of the previous years. This development is due to the increase in subscriber numbers in Germany in particular for broadband rates, the increased willingness to pay for services, and the first-time consolidation of the Scout24 group in the 2004 financial year.

Revenue from business with other segments was on a par with the previous year.

Depreciation and amortization mainly consists of goodwill amortization and increased slightly to EUR 452 million year-on-year, primarily due to the first-time consolidation of the Scout24 group. The net interest income remained almost unchanged in the period under review. By contrast, the income related to associated and related companies fell from EUR 90 million in the previous year to a loss of EUR 4 million, principally as a result of the non-recurrence of the one-time write-up of the net carrying amount of the stake in comdirect bank in 2003.

In addition, higher selling costs resulting from the broadband campaign had a negative impact on income before income taxes in the reporting period. The reduction in the cost of sales, despite increased revenues, was not sufficient to offset this development. The income before income taxes fell by EUR 31 million to EUR 73 million.

T-Online's segment assets mainly consist of intangible assets, primarily goodwill. The decrease in segment assets to EUR 1,374 million is due in particular to the amortization of goodwill. The increase in investments from EUR 116 million to EUR 260 million primarily relates to the goodwill of the Scout24 group. The increase in segment liabilities is attributable to short-term liabilities to Deutsche Telekom AG.

Group Headquarters & Shared Services.
The net revenue increased by EUR 32 million from EUR 304 million to EUR 336 million. The small percentage of Group Headquarters & Shared Services' total revenue accounted for by net revenue is largely generated by the real estate companies.

The increase in revenue from business with other segments of EUR 201 million to EUR 4,165 million is primarily due to the revenues generated by Vivento in the call center business and by Vivento Technical Services.

The slight decrease of EUR 35 million in depreciation and amortization to EUR 846 million in 2004 reflects the continued reduction of real estate assets. The net interest expense also decreased by EUR 267 million to EUR 2,607 million due to the reduction in net debt. The income related to associated and related companies of EUR 35 million is largely attributable to the sale of the interests in Eutelsat.

The decrease in the loss before income taxes from EUR 4,071 million to EUR 3,792 million can also be primarily attributed to the improvement in the net interest expense and the income related to associated and related companies. By contrast, the operating result remained almost constant, with the higher expenses at Vivento offset in particular by the non-recurrence of substantial additions to accruals for pensions due to the adjustment of the discount rate applied in the previous year and additions to the Civil Service Health Insurance Fund.

The reduction in segment assets of EUR 1,056 million to EUR 9,575 million is attributable in particular to the decrease in property, plant, and equipment, and in financial assets. This resulted primarily from the continued sale of real estate assets and the disposal of the interests in SES Global S.A. Capital expenditure rose in comparison with the previous year. Segment liabilities, in particular debt, were substantially reduced once again in the 2004 financial year.

Reconciliation.
The items to be reconciled relate mainly to consolidation measures. As in the previous year, the reconciliation does not include any additional items for the year under review.

37 Related party disclosures.

Federal Republic of Germany and majority shareholdings.
Deutsche Telekom has numerous business relationships with the Federal Republic of Germany and the companies in which it holds majority shareholdings. Key related parties include Deutsche Post and KfW.

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

In addition, Deutsche Telekom AG and Deutsche Postbank AG have entered into a master credit agreement in the amount of EUR 0.1 billion. In the 2004 financial year, this credit line was drawn down to a maximum of EUR 41 million. This agreement is initially valid until May 31, 2005.

Deutsche Telekom also has a credit facility with Deutsche Postbank amounting to EUR 0.4 billion, EUR 20 million of which was utilized in the 2004 financial year.

Furthermore, Deutsche Telekom made cash investments with Deutsche Postbank in 2004 at normal market rates of interest and maturities. On December 31, 2004, the cash investments totaled EUR 0.5 billion.

The Company's Dutch financing subsidiary, Deutsche Telekom Finance, has taken out three loans of GBP 150 million each with **KfW** (total volume EUR 0.6 billion). The loans were extended at the normal market rate of interest which is based on Deutsche Telekom AG's current rating, among other things. One loan will mature this year; the other two have terms of three and five years.

Associated companies.
Deutsche Telekom also has business relationships with numerous associated companies, particularly with **Toll Collect**.

In 2004, T-Systems generated revenues of EUR 0.3 billion from business with Toll Collect, of which T-Systems recognized EUR 0.1 billion as receivables from Toll Collect as of December 31, 2004. These revenues are for services rendered for the extension of the electronic toll collection system.

Natural persons.
No major transactions took place between Deutsche Telekom and persons in key management positions.

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38 Compensation of the Board of Management and the Supervisory Board.

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

In observance of the requirements of German commercial and accounting legislation, a total of EUR 11,906,899.37 is reported as remuneration for the members of the Board of Management for the past financial year. This amount includes the fixed annual salary, the variable remuneration, the expenditure for the 2004 Mid-Term Incentive Plan, and noncash compensation amounting to EUR 426,891.45 which is treated as noncash benefits.

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

The members of the Board of Management took part in Deutsche Telekom AG's Mid-Term Incentive Plan (MTIP) as part of their total compensation for the first time in the 2004 financial year. The MTIP is a Group-wide long-term compensation instrument for senior executives, including the Board of Management. The plan has a term of three years and will be issued annually on a rolling basis. It consists of two stock-based, additive and equally weighted success parameters. For the 2004 financial year, one absolute and one relative plan hurdle were set as the success parameters: The absolute plan hurdle is for the value of the T-Share to increase by at least 30 % by the end of the plan (December 31, 2006). The relative plan hurdle requires the total return index of the T-Share to outperform the Dow Jones EuroSTOXX Total Return Index. From the 2004 tranche, each member of the Board of Management can reach an incentive volume of 15 % (if one plan hurdle is met) or up to 30 % (if both plan hurdles are met) of their own contractually agreed target salary (basic compensation plus variable compensation in the case of 100 % target achievement). If no plan hurdles are met, no incentive is paid. For further details, please refer to the disclosures on MTIP 2004 under (27) in the notes to the financial statements.

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

Amounts (€) Name	Fixed annual salary in 2004	Variable remuneration for 2004	Amount accrued for both MTIP plan targets (fair value expenditure for the 2004 financial year)
Kai-Uwe Ricke	1,145,833	1,415,625	94,607.00
Dr. Karl-Gerhard Eick	859,375	1,061,719	70,955.25
Dr. Heinz Klinkhammer	687,500	821,250	56,764.20
René Obermann	687,500	798,750	56,764.20
Walter Raizner (from Nov. 1)	156,250	187,500	19,630.76
Konrad F. Reiss	687,500	811,875	56,764.20
Josef Brauner (until April 30)	250,000	279,475	left during financial year[1]
Thomas Holtrop (until Sept. 30)	500,000	675,000	left during financial year[1]
Total	**4,973,958**	**6,051,194**	**355,485.61**

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

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

Compensation for former members of the Board of Management and their surviving dependents, and accruals recognized for this purpose totaled EUR 12,122,365.73.

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

Indirect pension obligations for former members of the Board of Management resulting from pensions for civil servants via the Deutsche Telekom special pension fund in accordance with § 15 (1) of the Act concerning the Legal Provisions for the Former Deutsche Bundespost Staff (PostPersRG) amounted to EUR 3,349,813.00. No accruals were recognized for these obligations (see § 285 No. 9b HGB). They are actuarially computed in accordance with § 6a EStG.

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

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

The short-term performance-related remuneration amounts to EUR 300.00 per full EUR 0.01 by which the net income per no par value share exceeds EUR 0.50 in the financial year for which the remuneration is being paid. The long-term performance-related remuneration amounts to EUR 300.00 for every 4.0 % by which the net income per no par value share in the second financial year following the financial year in question (reference year) exceeds the net income per no par value share in the financial year preceding the financial year in question. The long-term performance-related remuneration is limited, however, to the amount of the long-term performance-related remuneration for the financial year preceding the financial year in question, unless the net revenue in the reference year exceeds the net revenue in the financial year preceding the financial year in question.

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

The Chairperson of the Supervisory Board receives double, and the Deputy Chairperson one and a half times the remuneration of an ordinary member of the Supervisory Board. In addition, remuneration increases by half for each membership on a Supervisory Board committee (with the exception of the Mediation Committee) and by a further half for each Supervisory Board committee chaired; total remuneration shall not exceed double the annual remuneration, however. Members of the Supervisory Board who were not in office for the entire financial year receive one twelfth of the remuneration for each month or part thereof that they hold a seat.

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

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

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

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

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

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

3 Member since October 1, 2004.

4 Member until September 30, 2004.

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

39 Proposal for appropriation of net income/loss of Deutsche Telekom AG.

The income statement of Deutsche Telekom AG reflects income after taxes of EUR 2,881,090,240.54. Income after taxes corresponds to unappropriated net income. Under the Stock Corporation Act (Aktiengesetz – AktG), the amount payable to shareholders as a dividend is based on the unappropriated net income disclosed by Deutsche Telekom AG in its German GAAP annual financial statements. The Supervisory Board and the Board of Management propose, subject to the approval of the shareholders' meeting, to pay shareholders a dividend of EUR 0.62 per individual no par value share carrying dividend rights and to carry forward the remaining balance as part of unappropriated net income.

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

In accordance with § 161 AktG, the Board of Management and the Supervisory Board submitted the mandatory declaration of conformity on December 16, 2004 and made it available to shareholders on Deutsche Telekom's website.

The declaration of conformity by the publicly traded subsidiary T-Online International AG has been made available to shareholders on T-Online International AG's website.

Bonn, February 22, 2005

Deutsche Telekom AG
Board of Management

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

René Obermann | Walter Raizner | Konrad F. Reiss

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Auditors' report.

We have audited the consolidated financial statements (consisting of the consolidated statement of income, the consolidated balance sheet, the consolidated statement of cash flows, the consolidated statement of shareholders' equity, the segment reporting, and the notes to consolidated financial statements) and the group management report of Deutsche Telekom AG, which is combined with the management report of the Company, for the financial year from January 1 to December 31, 2004. The preparation of the consolidated financial statements and the Group management report in accordance with German commercial law is the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with § 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Stuttgart/Frankfurt am Main, February 22, 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Stuttgart

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Frankfurt am Main

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

Summary of differences between German GAAP and U.S. GAAP.

Our results as reported under German GAAP differ from our results as reconciled to U.S. GAAP, as summarized below. A more detailed discussion and quantification of significant differences between German GAAP and U.S. GAAP applicable to our consolidated financial statements are described in notes 41 et seq. of our consolidated financial statements contained in our annual report on Form 20-F, which can be found on the Investor Relations page of our website at http://www.deutschetelekom.com.

The differences between German GAAP and U.S. GAAP that have a significant impact on net income/(loss) and shareholders' equity are summarized below. Other differences may arise in future years, resulting from new transactions and/or the adoption of new accounting standards.

(billions of €)	2004	2003	2002
Net income (loss) – German GAAP	4.6	1.3	(24.6)
Net income (loss) – U.S. GAAP	2.3	2.9	(22.0)
Shareholders' equity – German GAAP	37.9	33.8	35.4
Shareholders' equity – U.S. GAAP	47.5	45.0	45.4

Differences in bases of long-lived assets.

Adjustments to valuation of fixed assets – Under German GAAP, we previously wrote-down fixed assets primarily relating to our real estate holdings. This write-down was not required under U.S. GAAP for real estate classified as held and used. This resulted in a difference in the carrying basis of land and buildings between U.S. GAAP and German GAAP. This basis difference has been reversing mainly due to higher depreciation expenses recorded under U.S. GAAP than under German GAAP.

Real estate sale and leaseback – In 2002 and 2003, we entered into a series of sale and leaseback transactions underlying our real estate holdings. These leasebacks generally qualify as off-balance-sheet operating leases under German GAAP. However, these transactions have been accounted for as financings under U.S. GAAP due to our continuing involvement. This results in interest expense and the continuation of depreciation expense for U.S. GAAP, as compared with gains (losses) on sales of real estate and rent expense for German GAAP.

Differences in valuations of goodwill and other assets – The differences between German GAAP and U.S. GAAP in the determination of total purchase consideration in purchase business combinations has resulted in differences in the initial valuation of goodwill and other intangible and tangible assets. Purchase price differences between German and U.S. GAAP have been generated from business combinations due to net assets acquired, valuation of shares and stock options issued (including subsidiary shares issued in a business combination), valuation of underlying assets and liabilities (including deferred taxes), dates used to calculate consideration paid as well as the date at which an acquisition is considered consummated. These differences have resulted in differences in depreciation and amortization expenses. In 2002, the U.S. GAAP accounting for goodwill and indefinite lived intangible assets changed, resulting in these intangibles no longer being amortized, but rather subject to an annual impairment test. The annual impairment test in 2004 resulted in goodwill impairment charges for U.S. GAAP in certain reporting units in our T-Com and T-Mobile segments.

Capitalization and amortization of mobile communication licenses – Under German GAAP, we begin to amortize our communication licenses, primarily European UMTS licenses, upon acquisition and continue to amortize these licenses through their expected period of use. Under U.S. GAAP, amortization begins at the time the network is placed into service. In addition, interest on mobile network construction related to debt is expensed under German GAAP, whereas under U.S. GAAP this interest is capitalized during the period the mobile network is being constructed, and is subsequently amortized over the expected period of use. This results in deferrals of interest and amortization expenses for U.S. GAAP, and a higher carrying basis of our mobile network fixed assets. Mobile networks in different countries have been placed in use during 2003 and 2004. As a result, capitalization of these costs has ceased and related costs capitalized are being amortized into earnings over their remaining expected period of use. Additionally, under German GAAP, non-scheduled amortization must be reversed in subsequent periods when the reason for the amortization no longer exists. In 2004, we recorded a write-up under German GAAP relating to our FCC licenses in the U.S. Revaluation of assets is not permitted under U.S. GAAP.

Differences in equity transactions by our subsidiaries.

Effects of dilution gains – Transactions conducted by our consolidated subsidiaries or associated companies, using their common equity as currency, directly result in a reduction of our ownership percentage. Under German GAAP, we recognize “dilution gains” from share issuances by subsidiary or associated companies for cash, but do not recognize gains for shares issued in non-cash transactions (for example, as consideration for a business acquisition). Under U.S. GAAP, we recognize dilution gains both for cash and non-cash transactions.

Differences in revenue recognition.

Multiple-element contracts – Under German GAAP, we recognize revenues from each deliverable of a multiple-element contract in the period when earned by the delivery of goods or the rendering of services. Under U.S. GAAP, we allocate the total contract value among each deliverable based on its relative fair value. Certain activation and one-time fee elements and related direct costs are deferred and amortized over the expected duration of our customer relationship. Any costs in excess of amounts deferred are expensed as customer acquisition cost.

Differences in income taxes.

Deferred taxes – Under German GAAP, deferred taxes have not been recognized for temporary differences that arose during tax-free periods, temporary differences that are not expected to reverse in the foreseeable future and temporary differences that are expected to reverse during future periods in which net operating losses are expected to be available to offset income taxes that would otherwise be payable. Under U.S. GAAP, deferred taxes generally are recognized for all temporary differences, including temporary differences during tax-free periods. In addition, in contrast to German GAAP, U.S. GAAP requires the recognition of deferred taxes attributable to net operating losses.

Other differences.

Other differences in our financial results between German GAAP and U.S. GAAP consist primarily of the accounting for capitalization of internally developed software for internal use, unrealized gains on marketable securities, valuation of residual interests in asset backed securitizations, derivatives and hedge accounting, additional minimum pension liabilities, asset retirement obligations, investments in equity investees and rent expense recognition for operating leases that contain scheduled rent increases, which historically are recurring differences.