We are optimizing our network infrastructure by gradually switching over to an entirely Internet Protocol-based production architecture. This lays the long-term foundation for state-of-the-art product offerings including the seamless interaction of fixed-network and mobile communications. Our IP-based network infrastructure also paves the way for sustained cost-efficiency.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement.

millions of €	Note	2006	2005*	2004*
Net revenue	1	**61,347**	**59,604**	**57,353**
Cost of sales	2	(34,755)	(31,862)	(31,544)
Gross profit		**26,592**	**27,742**	**25,809**
Selling expenses	3	(16,410)	(14,683)	(12,870)
General and administrative expenses	4	(5,264)	(4,210)	(4,476)
Other operating income	5	1,257	2,408	1,718
Other operating expenses	6	(888)	(3,635)	(3,916)
Profit from operations		**5,287**	**7,622**	**6,265**
Finance costs	7	(2,540)	(2,401)	(3,280)
Interest income		297	398	377
Interest expense		(2,837)	(2,799)	(3,657)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	8	24	214	945
Other financial income (expense)	9	(167)	784	(360)
Loss from financial activities		**(2,683)**	**(1,403)**	**(2,695)**
Profit before income taxes		**2,604**	**6,219**	**3,570**
Income taxes	10	970	(198)	(1,552)
Profit after income taxes		**3,574**	**6,021**	**2,018**
Profit (loss) attributable to minority interests	11	409	432	424
Net profit (profit (loss) attributable to equity holders of the parent)		3,165	5,589	1,594
Earnings per share	12			
Basic		0.74	1.31	0.39
Diluted		0.74	1.31	0.39

* Impact of the adoption of IAS 19.93A on other financial income/expense: The amortization of actuarial gains and losses of EUR 7 million for 2005 and EUR 1 million for 2004. The corresponding income tax expense amounts to EUR 2 million for 2005 and EUR 0.4 million for 2004, impacting profit after income taxes with EUR 5 million in 2005 and EUR 1 million in 2004. Please refer to explanations under Note 29.

Consolidated balance sheet.

millions of €	Note	Dec. 31, 2006	Dec. 31, 2005*
Assets			
Current assets		**15,951**	**16,668**
Cash and cash equivalents	17	2,765	4,975
Trade and other receivables	18	7,753	7,512
Current recoverable income taxes	10	643	613
Other financial assets	24	1,825	1,362
Inventories	19	1,129	1,097
Non-current assets held for sale	20	907	0
Other assets		929	1,109
Non-current assets		**114,209**	**111,800**
Intangible assets	21	58,014	52,675
Property, plant and equipment	22	45,869	47,806
Investments accounted for using the equity method	23	189	1,825
Other financial assets	24	657	779
Deferred tax assets	10	8,952	8,140
Other assets		528	575
Total assets		**130,160**	**128,468**
Liabilities and shareholders' equity			
Current liabilities		**22,088**	**24,958**
Financial liabilities	25	7,683	10,374
Trade and other payables	26	7,160	6,902
Income tax liabilities	10	536	1,358
Other provisions	30	3,093	3,621
Other liabilities	28	3,616	2,703
Non-current liabilities		**58,402**	**54,911**
Financial liabilities	25	38,799	36,347
Provisions for pensions and other employee benefits	29	6,167	6,167
Other provisions	30	3,174	2,036
Deferred tax liabilities	10	8,083	8,331
Other liabilities	28	2,179	2,030
Liabilities		**80,490**	**79,869**
Shareholders' equity	31	**49,670**	**48,599**
Issued capital	32	11,164	10,747
Capital reserves	33	51,498	49,561
Retained earnings including carryforwards	34	(16,977)	(19,748)
Other comprehensive income	35	(2,275)	(1,055)
Net profit		3,165	5,589
Treasury shares	36	(5)	(6)
Equity attributable to equity holders of the parent		46,570	45,088
Minority interests	37	3,100	3,511
Total liabilities and shareholders' equity		**130,160**	**128,468**

* Impact from the adoption of IAS 19.93A: The allocation of actuarial gains and losses results in an increase in provisions for pensions of EUR 1,571 million. The corresponding taxes amount to EUR 588 million, resulting in a reduction in shareholders' equity of EUR 983 million. Please refer to explanations under Note 29.

Consolidated cash flow statement.

millions of €	Note	2006	2005*	2004*
	38			
Profit after income taxes		**3,574**	**6,021**	**2,018**
Depreciation, amortization and impairment losses		11,034	12,497	13,127
Income tax expense (benefit)		(970)	198	1,552
Interest income and interest expenses		2,540	2,401	3,280
(Gain) loss from the disposal of non-current assets		(273)	(1,058)	(1,306)
Share of (profit) loss of associates and joint ventures accounted for using the equity method		(24)	(152)	27
Other non-cash transactions		96	(111)	845
Change in assets carried as working capital		(49)	(360)	523
Change in provisions		1,893	(237)	603
Change in other liabilities carried as working capital		354	(130)	(337)
Income taxes received (paid)		(1,248)	(1,200)	48
Dividends received		27	60	82
Cash generated from operations		**16,954**	**17,929**	**20,462**
Interest paid		(4,081)	(4,017)	(4,986)
Interest received		1,322	1,086	1,244
Net cash from operating activities		**14,195**	**14,998**	**16,720**
Cash outflows for investments in				
– Intangible assets		(4,628)	(1,868)	(1,044)
– Property, plant and equipment		(7,178)	(7,401)	(5,366)
– Non-current financial assets		(624)	(604)	(870)
– Investments in fully consolidated subsidiaries		(2,265)	(2,051)	(483)
Proceeds from disposal of				
– Intangible assets		35	33	7
– Property, plant and equipment		532	333	550
– Non-current financial assets		249	1,648	2,140
– Investments in fully consolidated subsidiaries		(21)	0	1
Net change in short-term investments and marketable securities		(321)	(148)	564
Other		(57)	0	0
Net cash used in investing activities		**(14,278)**	**(10,058)**	**(4,501)**
Proceeds from issue of current financial liabilities		3,817	5,304	703
Repayment of current financial liabilities		(9,163)	(14,747)	(13,798)
Proceeds from issue of non-current financial liabilities		7,871	4,944	1,322
Repayment of non-current financial liabilities		(492)	(443)	(481)
Dividend payments		(3,182)	(2,931)	(404)
Proceeds from the exercise of stock options		16	34	21
Share buy-back		(709)	0	0
Repayment of lease liabilities		(219)	(200)	(244)
Net cash used in financing activities		**(2,061)**	**(8,039)**	**(12,881)**
Effect of exchange rate changes on cash and cash equivalents		(66)	69	(17)
Net decrease in cash and cash equivalents		**(2,210)**	**(3,030)**	**(679)**
Cash and cash equivalents, at the beginning of the year		**4,975**	**8,005**	**8,684**
Cash and cash equivalents, at the end of the year		**2,765**	**4,975**	**8,005**

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

Statement of recognized income and expense.

millions of €	2006	2005	2004
Fair value measurement of available-for-sale securities			
– Change in other comprehensive income (not recognized in income statement)	3	126	855
– Recognition of other comprehensive income in income statement	(1)	(984)	(257)
Fair value measurement of hedging instruments			
– Change in other comprehensive income (not recognized in income statement)	385	(537)	304
– Recognition of other comprehensive income in income statement	(8)	(28)	1
Revaluation due to business combinations	395	(9)	124
Exchange differences on translation of foreign subsidiaries	(1,747)	2,878	(480)
Other income and expense recognized directly in equity	80	9	0
Actuarial gains and losses from defined benefit plans and other employee benefits	314	(1,099)	(112)
Deferred taxes on items in other comprehensive income	(275)	624	(76)
Income and expense recognized directly in equity	**(854)**	**980**	**359**
Profit after income taxes	**3,574**	**6,021**	**2,018**
Recognized income and expense	**2,720**	**7,001**	**2,377**
Minority interests	517	480	575
Equity attributable to equity holders of the parent	2,203	6,521	1,802

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

General information.

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

The Company was entered as Deutsche Telekom AG in the commercial register of the Bonn District Court (Amtsgericht – HRB 6794) on January 2, 1995.

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

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

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

The annual financial statements of Deutsche Telekom AG as well as the consolidated financial statements of Deutsche Telekom AG, which have an unqualified audit opinion from Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, and Pricewaterhouse Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, are published in the electronic Federal Gazette (Bundesanzeiger). 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.

The consolidated financial statements of Deutsche Telekom for the 2006 financial year were released for publication by the Board of Management on February 13, 2007.

Basis of preparation.

The consolidated financial statements of Deutsche Telekom have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the regulations under commercial law as set forth in § 315a (1) HGB (Handelsgesetzbuch – German Commercial Code). All IFRSs issued by the International Accounting Standards Board (IASB), effective at the time of preparing the consolidated financial statements and applied by Deutsche Telekom, have been adopted for use in the EU by the European Commission. Therefore, the consolidated financial statements of Deutsche Telekom also comply with IFRS as published by the IASB. Therefore the term IFRS is used in the following.

The financial year corresponds to the calendar year. The consolidated income statement, the consolidated cash flow statement and the statement of recognized income and expense include two comparative years.

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

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

Initial application of standards, interpretations and amendments to standards and interpretations in the financial year.

In the financial year, Deutsche Telekom initially applied the following pronouncements by the IASB:

- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Funds,"
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions,"
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement – The Fair Value Option,"
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts," "Financial Guarantee Contracts," and
- Amendments to IAS 21 "The Effects of Changes in Foreign Exchange Rates."

The initial application of those pronouncements did not have a material impact on Deutsche Telekom's results of operations, financial position or cash flows.

In addition, Deutsche Telekom initially applied the amendments to International Accounting Standard (IAS) 19 "Employee Benefits." The resulting effects are presented under "Change in accounting policies."

Standards, interpretations and amendments issued, but not yet adopted. In August 2005, the IASB issued an amendment to IAS 1 "Presentation of Financial Instruments – Capital Disclosures." In January 2006, the European Union translated the amendments to IAS 1 into European law. The amendment requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after January 1, 2007. As the amendment to IAS 1 only affects disclosure requirements, it is not expected to have an impact on Deutsche Telekom's results of operations, financial position or cash flows.

In November 2005, the International Financial Reporting Interpretation Committee (IFRIC) issued IFRIC 7 "Applying the Restatement Approach under IAS 29 Reporting in Hyperinflationary Economies." In May 2006, the European Union translated IFRIC 7 into European law. IFRIC 7 clarifies that in the period in which the economy of an entity's functional currency becomes hyperinflationary, the entity shall apply the requirements of IAS 29 as though the economy had always been hyperinflationary. The effect of this requirement is that non-monetary items carried at cost shall be restated from the dates at which those items were first recognized; for other non-monetary items the restatements are made from the dates at which revised carrying amounts for those items were established. Deferred tax amounts in the opening balance sheet are determined in two stages:

(a) Deferred tax items are remeasured in accordance with IAS 12 "Income Taxes" after restating the nominal carrying amounts of the non-monetary items in the opening balance sheet by applying the measuring unit at that date.
(b) The deferred tax items remeasured in this way are restated for the change in the measuring unit from the date of the opening balance sheet to the date of the closing balance sheet. The provisions are effective for reporting periods beginning on or after March 1, 2006. The adoption of IFRIC 7 is not expected to have a material impact on Deutsche Telekom's results of operations, financial position or cash flows.

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

In March 2006, the IFRIC issued IFRIC 9 "Reassessment of Embedded Derivatives." In September 2006, the European Union translated IFRIC 9 into European law. The interpretation clarifies certain aspects of the treatment of embedded derivatives under IAS 39 "Financial Instruments: Recognition and Measurement" and answers the question whether the assessment, if an embedded derivative has to be accounted for separately from the host contract, is required upon closing of the contract or on an ongoing basis. According to IFRIC 9 a reassessment is prohibited unless the cash flows resulting from the contract are changed significantly by a change of the contract. In this case, a reassessment is required. The provisions of IFRIC 9 are effective for annual periods beginning on or after June 1, 2006. The adoption of IFRIC 9 is not expected to have a material impact on Deutsche Telekom's results of operations, financial position or cash flows.

In July 2006, the IFRIC issued IFRIC 10 "Interim Financial Reporting and Impairment." IFRIC 10 has not been translated by the European Union into European law yet. The interpretation addresses the apparent conflict between the requirements of IAS 34 "Interim Financial Reporting" and the requirements in other standards on the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets. According to IFRIC 10, any such impairment losses recognized in an interim financial statement must not be reversed in subsequent interim or annual financial statements. The provisions of IFRIC 10 are effective for annual periods beginning on or after November 1, 2006. The adoption of IFRIC 10 is not expected to have a material impact on Deutsche Telekom's results of operations, financial position or cash flows.

In November 2006, the IFRIC issued IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions." IFRIC 11 has not been translated by the European Union into European law yet. The interpretation addresses how to apply IFRS 2 to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (e.g., equity instruments of its parent). The interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. IFRIC 11 also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. The interpretation shall be applied for annual periods beginning on or after March 1, 2007. An entity shall apply the interpretation retrospectively in accordance with IAS 8, subject to the transitional provisions of IFRS 2. The adoption of IFRIC 11 is not expected to have a material impact on Deutsche Telekom's results of operations, financial position or cash flows.

In November 2006, the IFRIC issued IFRIC 12 "Service Concession Rights." IFRIC 12 has not been translated by the European Union into European law yet. Service concessions are arrangements whereby a government or other public sector entity as the grantor grants contracts for the supply of public services – such as roads, airports, prisons and energy and water supply and distribution facilities – to private sector entities as operators. IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. Depending on the consideration the operator receives from the grantor, the operator recognizes a financial or an intangible asset. A financial asset is recognized if the operator has an unconditional contractual right to receive cash or another financial asset from the grantor. If the consideration the operator receives from the grantor is a right to charge users, an intangible asset is recognized. Depending on the contractual arrangements, recognition of both a financial and an intangible asset is possible as well. The provisions of IFRIC 12 are effective for annual periods beginning on or after January 1, 2008. The adoption of IFRIC 12 is not expected to have a material impact on Deutsche Telekom's results of operations, financial position or cash flows.

In November 2006, the IASB issued IFRS 8 "Operating Segments." IFRS 8 has not been translated by the European Union into European law yet. IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments (management approach). The standard requires an explanation of how segment profit or loss and segment assets and liabilities are measured for each reportable segment. IFRS 8 requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions. The provisions of IFRS 8 are effective for annual periods beginning on or after January 1, 2009. The adoption of IFRS 8 is not expected to have a material impact on Deutsche Telekom's financial statements.

Consolidated group.

All subsidiaries, joint ventures and associates are included in the consolidated financial statements. Subsidiaries are companies that are directly or indirectly controlled by Deutsche Telekom and are fully consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity is controlled. Joint ventures are companies jointly controlled by Deutsche Telekom and other companies. Associates are companies on which Deutsche Telekom has a significant influence, and that are neither subsidiaries nor joint ventures. As with joint ventures, associates are accounted for using the equity method.

The composition of the Deutsche Telekom Group changed as follows in the 2006 financial year:

	Domestic	International	Total
Consolidated subsidiaries (including special-purpose entities)			
January 1, 2006	69	281	350
Additions	7	42	49
Disposals (including mergers)	(5)	(119)	(124)
December 31, 2006	**71**	**204**	**275**
Associates accounted for using the equity method			
January 1, 2006	11	11	22
Additions	1	0	1
Disposals	(3)	(2)	(5)
December 31, 2006	**9**	**9**	**18**
Joint ventures accounted for using the equity method			
January 1, 2006	2	0	2
Additions	0	0	0
Disposals	0	0	0
December 31, 2006	**2**	**0**	**2**
Total			
January 1, 2006	82	292	374
Additions	8	42	50
Disposals (including mergers)	(8)	(121)	(129)
December 31, 12.2006	**82**	**213**	**295**

Business combinations.

2004:

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

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

The fair values at the acquisition date of the assets, liabilities and contingent liabilities relating to the aforementioned business combinations and the carrying amounts immediately prior to the business combination are shown in the table below:

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

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

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

millions of €	Telekom Montenegro group	
	Fair value at the acquisition date	Carrying amounts immediately prior to the business combination
Assets	**201**	**181**
Current assets	**35**	**35**
Cash and cash equivalents	7	7
Other assets	28	28
Non-current assets	**166**	**146**
Intangible assets	40	19
Property, plant and equipment	114	122
Other assets	12	5
Liabilities	**41**	**44**
Current liabilities	**28**	**34**
Financial liabilities	10	15
Trade and other payables	6	6
Other liabilities	12	13
Non-current liabilities	**13**	**10**
Financial liabilities	3	3
Other liabilities	10	7

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

2006:
Effective March 31, 2006, T-Systems acquired the IT service provider **gedas** from Volkswagen AG for a purchase price of EUR 0.3 billion. The purchase price was paid in cash.

The information technology service provider gedas advises companies in the automotive and manufacturing industries on the development, systems integration, and operation of IT solutions. The technological expertise acquired in the company's core market and the understanding of business processes in the automotive sector benefit numerous customers in other sectors and public administrations. The IT service provider has developed a comprehensive thinking and working principle of its own – "Intelligent Transformation" – consisting of three elements: technological benefit, integrated view and creating an appropriate interface between people and technology. Based in Berlin, the company has more than 50 sites in 13 countries around the world.

The business combination resulted in goodwill of EUR 0.2 billion. Cash and cash equivalents in the amount of EUR 41 million were acquired in conjunction with the purchase of the gedas group.

The gedas group was included in Deutsche Telekom's consolidated financial statements as of March 31, 2006 for the first time. The gedas group has contributed a total of EUR 495 million to the Group's net revenue since the acquisition date. Net profit for the reporting period includes a net loss at the gedas group since the acquisition date in the amount of EUR 15 million. Assuming that the business combination had taken place at the beginning of the financial year, its revenue contribution would have been EUR 639 million and the loss of the gedas group would have risen to EUR 26 million.

millions of €	gedas group	
	Fair value at the acquisition date	Carrying amounts immediately prior to the business combination
Assets	**434**	**341**
Current assets	**231**	**231**
Cash and cash equivalents	41	41
Other assets	190	190
Non-current assets	**203**	**110**
Intangible assets	112	20
Property, plant and equipment	73	73
Other assets	18	17
Liabilities	**341**	**308**
Current liabilities	**298**	**293**
Financial liabilities	119	119
Trade and other payables	69	69
Other liabilities	110	105
Non-current liabilities	**43**	**15**
Financial liabilities	6	6
Other liabilities	37	9

Effective April 28, 2006, Deutsche Telekom – through the Group company T-Mobile Austria – acquired 100 percent of the shares and voting rights in the Austrian mobile communications company **tele.ring Telekom Service GmbH, Vienna, Austria (tele.ring)**. tele.ring is an Austrian telecommunications company which primarily operates in the area of UMTS/GSM mobile communications services. The purchase price of EUR 1.3 billion was settled in cash. Cash and cash equivalents in the amount of EUR 23 million were acquired as part of the transaction. Incidental acquisition expenses of EUR 5 million were incurred primarily for financial and legal advisory services. The business combination resulted in goodwill of EUR 0.7 billion. The main factors resulting in the recognition of goodwill can be summarized as follows:

- A portion of the acquired intangible assets, such as the assembled workforce, could not be recognized as intangible assets since the recognition criteria were not fulfilled.
- Expected cost savings from synergy effects of the merger were taken into account in determining the purchase price.

In addition to providing services in the area of UMTS/GSM mobile communications, the tele.ring group generates a portion of its revenues with a limited number of fixed-network customers. However, since this activity is not consistent with the strategic objectives of T-Mobile Austria, preparations are already underway to sell the existing fixed-network customer base. The acquisition of the tele.ring group was further subject to certain regulatory conditions. Nearly all cell sites necessary for mobile communications operations as well as the frequency spectrum of the UMTS license of the tele.ring group are required to be sold to competitors. The assets expected to be disposed of in the near future are classified as held for sale.

tele.ring was included in Deutsche Telekom's consolidated financial statements as of May 1, 2006 for the first time. The revenue generated by tele.ring since the acquisition date is EUR 296 million. If the business combination had already taken place effective January 1, 2006, net revenue would have been EUR 158 million higher. Net profit for the reporting period includes a net loss at tele.ring in the amount of EUR 117 million. The net profit would have been EUR 23 million lower – the amount of the net loss of tele.ring – had the business combination been executed effective January 1, 2006.

millions of €	tele.ring group	
	Fair value at the acquisition date	Carrying amounts immediately prior to the business combination
Assets	**785**	**666**
Current assets	**199**	**119**
Cash and cash equivalents	23	23
Assets held for sale	85	0
Other assets	91	96
Non-current assets	**586**	**547**
Intangible assets	461	230
Property, plant and equipment	118	304
Other assets	7	13
Liabilities	**138**	**145**
Current liabilities	**106**	**99**
Financial liabilities	17	17
Trade and other payables	47	47
Other liabilities	42	35
Non-current liabilities	**32**	**46**
Financial liabilities	0	0
Other liabilities	32	46

The deferred tax effects of tax loss carryforwards of EUR 0.9 billion have not been included, as it is not probable that taxable profit will be available in the near future against which these tax loss carryforwards can be utilized.

The **merger of T-Online International AG into Deutsche Telekom AG** was entered into the commercial register on June 6, 2006. The merger of T-Online International AG into Deutsche Telekom AG has now taken effect. In connection with the merger, Deutsche Telekom acquired 9.86 percent of the remaining shares in T-Online by issuing 62.7 million new Deutsche Telekom shares. This transaction generated goodwill of EUR 0.2 billion.

In the third quarter of 2006, Deutsche Telekom bought back 62.7 million Deutsche Telekom shares for a purchase price of EUR 0.7 billion and subsequently retired them. This corresponds to the number of shares newly issued in the course of the merger of T-Online International AG into Deutsche Telekom AG. The buy-back program was implemented solely for the purpose of reducing the share capital of Deutsche Telekom AG so that the merger with T-Online International AG does not lead to a permanent increase in the number of Deutsche Telekom AG shares.

By acquiring a further 48.0 percent of the voting rights in **Polska Telefonia Cyfrowa Sp.z o.o., Warsaw/Poland (PTC)** (via T-Mobile Deutschland GmbH, Bonn), Deutsche Telekom obtained control of the entity as of October 26, 2006. PTC provides mobile communications products and services based on GSM and UMTS technology.

For reasons of simplicity, PTC was not fully consolidated until November 1, 2006. Due to the existence of a significant influence on the company, PTC was included as an associate in the consolidated financial statements of Deutsche Telekom until October 31, 2006. The carrying amount of the investment in PTC amounted to EUR 1.8 billion as of October 31, 2006. Since the investment existed before Deutsche Telekom obtained control of the entity, the acquisition of the 48.0 percent stake is treated as a business combination achieved in stages according to IFRS 3.

Since Deutsche Telekom obtained control of the entity upon acquisition of the remaining 48.0 percent of the shares in PTC, PTC's assets and liabilities were included in the consolidated financial statements of Deutsche Telekom at fair value effective November 1, 2006. The voting rights were acquired by means of exercising a call option. Payments of EUR 0.6 billion have been made to date as consideration for the additional 48.0 percent of the shares in PTC. Further payments will be made depending on future events. A subsequent adjustment of the purchase price as a result of the judicial determination of the final purchase price would have an impact on goodwill. Cash and cash equivalents in the amount of EUR 0.2 billion were acquired in conjunction with the purchase of the PTC.

Including EUR 7 million in costs directly attributable to the business combination incurred for business and legal advisory services, the costs for the acquisition of the 48.0 percent of the shares amount to EUR 1.6 billion. The business combination resulted in total goodwill of EUR 1.7 billion. Goodwill is mainly attributable to cost savings expected from synergy effects.

The fair values of PTC's acquired assets, liabilities and contingent liabilities recognized at the date of acquisition and their carrying amounts immediately prior to the business combination are presented in the following table:

millions of €	Polska Telefonia Cyfrowa (PTC)	
	Fair value at the acquisition date	Carrying amounts immediately prior to the business combination
Assets	**3,194**	**1,900**
Current assets	**558**	**558**
Cash and cash equivalents	185	185
Assets held for sale	2	2
Other assets	371	371
Non-current assets	**2,636**	**1,342**
Intangible assets	1,963	634
Property, plant and equipment	634	706
Other assets	39	2
Liabilities	**1,044**	**666**
Current liabilities	**432**	**421**
Financial liabilities	127	120
Trade and other payables	28	28
Other liabilities	277	273
Non-current liabilities	**612**	**245**
Financial liabilities	262	159
Other liabilities	350	86

The change in hidden reserves relating to the existing interest (49.0 percent) resulting from the complete revaluation of PTC's assets and liabilities is recognized in the revaluation reserve. The revaluation reserve results from the change in hidden reserves of approximately EUR 0.4 billion compared with prior business combinations. The proportion of share capital attributable to third parties upon realization of hidden reserves amounts to approximately EUR 65 million.

The revenue generated by PTC since the acquisition date is EUR 299 million. If the business combination had taken place on January 1, 2006, the Group's net revenue would have been around EUR 1,523 million higher than the level of net revenue actually generated. Net profit for the current period includes a net loss at PTC in the amount of EUR 116 million. The net profit would have been approximately EUR 380 million lower – the amount of the net loss of PTC – had the business combination been executed effective January 1, 2006.

Pro forma information.

The following pro forma information shows the most important financial data of Deutsche Telekom, including its principal consolidated subsidiaries acquired in 2004 through 2006, as if they had been included in the consolidated financial statements from the beginning of the financial year in which they were acquired.

millions of €	2006	2005	2004
Net revenue			
Reported	61,347	59,604	57,353
Pro forma	63,172	59,627	57,671
Net profit			
Reported	3,165	5,589*	1,594*
Pro forma	2,751	5,589*	1,640*
Earnings per share/ADS (€)			
Reported	0.74	1.31*	0.39*
Pro forma	0.64	1.31*	0.40*

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

Principal subsidiaries.

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

Name and registered office	Deutsche Telekom share in % Dec. 31, 2006	Net revenue millions of € 2006	Employees annual average 2006
T-Mobile Deutschland GmbH, Bonn [b]	100.00	8,215	7,109
T-Mobile Holding Ltd., Hatfield, United Kingdom [a, c]	100.00	4,494	5,863
T-Mobile Austria Holding GmbH, Vienna, Austria [a, d]	100.00	1,149	1,760
T-Mobile USA Inc., Bellevue, Washington, United States [a, c]	100.00	13,628	28,778
T-Mobile Czech Republic a.s., Prague, Czech Republic [e]	60.77	1,043	2,532
T-Mobile Netherlands Holding B.V., Den Haag, Netherlands [a, c]	100.00	1,138	1,404
T-Systems Enterprise Services GmbH, Frankfurt/Main [a]	100.00	5,648	19,069
T-Systems GEI GmbH, Aachen [f]	100.00	477	3,361
GMG Generalmietgesellschaft mbH, Münster	100.00	1,719	0
DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster	100.00	949	6,851
T-Systems Business Services GmbH, Bonn [a]	100.00	5,911	14,869
Magyar Telekom Rt., Budapest, Hungary [a, g]	59.21	2,540	11,987
Slovak Telekom a.s., Bratislava, Slovakia [a]	51.00	818	6,739
HT-Hrvatske telekomunikacije d.d., Zagreb, Croatia [a]	51.00	1,173	7,534

[a] Consolidated subgroup financial statements.
[b] Indirect shareholding via T-Mobile International AG & Co. KG, Bonn (Deutsche Telekom AG's indirect share: 100 %).
[c] Indirect shareholding via T-Mobile Global Holding GmbH, Bonn (Deutsche Telekom AG's indirect share: 100 %).
[d] Indirect shareholding via T-Mobile Global Holding Nr. 2 GmbH, Bonn (Deutsche Telekom AG's indirect share: 100 %).
[e] Indirect shareholding via CMobil B.V., Amsterdam (Deutsche Telekom AG's indirect share: 100 %).
[f] Indirect shareholding via T-Systems Enterprise Services GmbH, Frankfurt/Main (Deutsche Telekom AG's share: 100 %).
[g] Indirect shareholding via MagyarCom Holding GmbH, Bonn (Deutsche Telekom AG's share: 100 %).

In accordance with § 313 HGB, the full list of investment holdings is filed with the Commercial 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.

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

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

Income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. Income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount, including the cumulative amount of any exchange differences that relate to the subsidiary recognized in equity, is recognized in the consolidated income statement as the gain or loss on the disposal of the subsidiary. Intercompany income and expenses, receivables and liabilities, and profits or losses are eliminated.

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

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

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

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

The exchange rates of certain significant currencies changed as follows:

€	Annual average rate			Rate at balance sheet date	
	2006	2005	2004	Dec. 31, 2006	Dec. 31, 2005
100 Czech korunas (CZK)	3.52842	3.35741	3.13631	3.63768	3.44983
1 Pound sterling (GBP)	1.46671	1.46209	1.47305	1.48966	1.45541
100 Croatian kunas (HRK)	13.65320	13.51280	13.33720	13.60670	13.56480
1,000 Hungarian forints (HUF)	3.78398	4.03201	3.97687	3.97329	3.95594
100 Polish zlotys (PLN)	25.66560	24.86080	22.10010	26.08550	25.90210
100 Macedonian denars (MKD)	1.62490	1.65696	1.61304	1.62607	1.64052
100 Slovak korunas (SKK)	2.68559	2.59153	2.49843	2.89755	2.63992
1 U.S. dollar (USD)	0.79626	0.80325	0.80386	0.75851	0.84496

Accounting policies.

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

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

	Years
Mobile communications licenses:	
FCC licenses	Indefinite
UMTS licenses	8 to 18
GSM licenses	2 to 18

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

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

These discounted cash flow calculations use projections that are based on financial budgets approved by management covering a ten-year-period and are also used for internal purposes. The planning horizon reflects the assumptions for short to mid-term market developments. Cash flows beyond the ten-year period are extrapolated using appropriate growth rates. Key assumptions on which management has based its determination of fair value less costs to sell include average revenue per user (ARPU), customer acquisition and retention costs, churn rates, capital expenditure, market share, growth rates and discount rate. Cash flow calculations are supported by external sources of information.

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

On disposal of an item of property, plant and equipment or when no future economic benefits are expected from its use or disposal the carrying amount of the item is derecognized. The gain or loss arising from the derecognition of an item of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognized as other operating income or other operating expenses when the item is derecognized.

The useful lives of material asset categories are as follows:

	Years
Buildings	25 to 50
Telephone facilities and terminal equipment	3 to 10
Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment and technical equipment for broadband distribution networks	2 to 12
Broadband distribution networks, outside plant networks and cable conduit lines	8 to 35
Other equipment, operating and office equipment	2 to 23

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

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

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

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

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

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

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

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

Inventories are carried at the lower of net realizable value or cost. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Borrowing costs are not capitalized. Cost is measured using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Deutsche Telekom sells handsets separately and in connection with service contracts. As part of the strategy to acquire new customers, it sometimes sells handsets, in connection with a service contract, at below its acquisition cost. Because the handset subsidy is part of the Company's strategy for acquiring new customers the loss on the sale of handset is recognized at the time of the sale.

Pension obligations and other employee benefits relate to obligations to non-civil servants. Liabilities for defined benefit plans are measured using the projected unit credit method, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future salary and benefit increases. For discounting the present value of benefits, taking into account future salary increases (defined benefit obligation), a rate of 4.45 percent as of December 31, 2006 was used. Actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognized in the period in which they occur outside profit or loss within equity (retained earnings). The effects of the change in the accounting for actuarial gains and losses in comparison to 2005 are presented under "Change in accounting policies." The return on plan assets is also classified in interest income. Service costs are classified as operating expenses. The amounts payable under defined contribution plans are expensed when the contributions are due and classified as operating expenses. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available. Past service costs are recognized immediately to the extent that the benefits are vested; otherwise, they are recognized on a straight line basis over the average remaining vesting period.

For active civil servants and those who have taken leave from civil-servant status and have an employment contract, Deutsche Telekom is obliged to make annual contributions to a special pension fund which makes pension payments to this group of people. The amounts of these contributions are set out by Postreform II, the legislation by which the former Deutsche Bundespost Telekom was legally transformed into a stock corporation, which came into force in 1995, and are therefore not subject to a separate actuarial calculation. The contributions are expensed in the period in which they are incurred and classified as operating expenses.

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

Provisions for voluntary redundancy and severance payments and in connection with early retirement arrangements for civil servants are recognized when Deutsche Telekom is demonstrably committed to grant those benefits. This is the case when Deutsche Telekom has a detailed formal plan for the termination of the employment relationship and is without realistic possibility of withdrawal. The termination benefits are measured based on the number of employees expected to accept the offer. Where termination benefits fall due more than 12 months after the balance sheet date, the expected amount to be paid is discounted to the balance sheet date.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Stock options (equity-settled share-based payment transactions) are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Obligations arising from cash-settled share-based payment transactions are recognized as a liability and measured at fair value at the balance sheet date. The expenses are recognized over the vesting period. For both cash-settled and equity-settled share-based payment transactions, the fair value is determined using internationally accepted valuation techniques, such as the Black-Scholes model or the Monte Carlo model.

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

Revenue from systems integration contracts requiring the delivery of customized products is recognized by reference to the stage of completion, as determined by the relationship of project costs incurred to date to estimated total contract costs, with estimates regularly revised during the life of the contract. A group of contracts, whether with a single customer or with several customers, is treated as a single contract when the group of contracts is negotiated as a single package, the contracts are closely interrelated and the contracts are performed concurrently or in a continuous sequence. When a contract covers a number of assets, the construction of each asset is treated separately when separate proposals have been submitted for each asset, each asset has been negotiated separately and can be accepted or rejected by the customer separately, and the costs and revenues of each asset can be identified. Receivables from these contracts are classified in the balance sheet item “trade and other receivables.” Receivables from these contracts are calculated as the balance of the costs incurred and the profits recognized, less any discounts and recognized losses on the contract; if the balance for a contract is negative, this amount is reported in liabilities. If the total actual and estimated expenses exceed revenues for a particular contract, the loss is immediately recognized.

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

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

Broadband/Fixed Network.
The Broadband/Fixed Network strategic business area provides its customers with narrow and broadband access to the fixed network as well as Internet access. It also sells, leases, and services telecommunications equipment for its customers and provides additional telecommunications services. The Broadband/Fixed Network strategic business area also conducts business with national and international network operators and with resellers (wholesale including resale). Service revenues are recognized when the services are provided in accordance with contractual terms and conditions. Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Revenue from rentals and operating leases is recognized monthly as the fees accrue. Revenues from customer activation fees are expensed over the average customer retention period. Revenues also result from charges for advertising and e-commerce. 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.

Business Customers.
Business Services.
Telecommunication Services include Network Services, Hosting & ASP Services, and Broadcast Services. Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of approximately three years. Customer activation fees and related costs are deferred and amortized over the estimated average period of customer retention. Revenues for voice and data services are recognized under such contracts when used by the customer. When an arrangement contains a lease, the lease is accounted for separately in accordance with IFRIC 4 "Determining whether an Arrangement contains a Lease" and IAS 17 "Leases." Revenues from Hosting & ASP Services and Broadcast Services are recognized as the services are provided.

Enterprise Services.
Enterprise Services derives revenues from Computing and Desktop Services, Systems Integration and Telecommunications Services. Revenue is recognized when persuasive evidence of a sales arrangement exists, products are delivered or services are rendered, the sales price or fee is fixed or determinable and collectibility is reasonably assured.

The terms of contracts awarded by Enterprise Services generally range from less than one year up to ten years.

Revenue from Computing and Desktop Services is recognized as the services are provided using a proportional performance model. Revenue is recognized ratably over the contractual service period for fixed-price contracts and on an output or consumption basis for all other service contracts. Revenue from service contracts billed on the basis of time and material used is recognized at the contractual hourly rates as labor hours are delivered and direct expenses are incurred.

Revenue from hardware sales or sales-type leases is recognized when the product is shipped to the customer, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

Revenue from rentals and leases is recognized on a straight-line basis over the rental period.

Revenue from systems integration contracts requiring the delivery of customized products is generally recognized by reference to the stage of completion, as determined by the relationship of project costs incurred to date to estimated total contract costs, with estimates regularly revised during the life of the contract. For contracts including milestones, revenues are recognized only when the services for a given milestone are provided and accepted by the customer, and the billable amounts are not contingent upon providing remaining services.

Revenue for Telecommunication Services rendered by Enterprise Services is recognized in accordance with the methods described under Business Services.

When an arrangement contains a lease, the lease is accounted for separately in accordance with IFRIC 4 and IAS 17. When an arrangement contains multiple elements, such as hardware and software products, licenses and/or services, revenue is allocated to each element based on its relative fair value. Elements qualify for separation when the products or services have value on a stand-alone basis, fair value of the separate elements exists, and in arrangements that include a general right of refund for the delivered item, performance of the undelivered item is considered probable and substantially in Enterprise Services' control. Fair value is generally based on vendor specific objective evidence (VSOE), the prices charged when each element is sold separately. Fair value for software is determined based on VSOE or, in the absence of VSOE for all the elements, the residual method. In the absence of fair value for a delivered element, Enterprise Services first allocates revenue to the fair value of the undelivered elements and the residual revenue to the delivered elements. Where the fair value for an undelivered element cannot be determined, revenue is deferred for the delivered elements until the elements are delivered. The amount of revenue recognized for delivered elements is limited to the amount that is not contingent on the future delivery of products or services or subject to customer-specified return or refund privileges. Separate contracts with the same entity or related parties, that are entered into at or near the same time, and that are interrelated or interdependent are evaluated as a single arrangement in considering whether there are one or more units of accounting. Revenues are recognized in accordance with the accounting policies for separate elements as described above.

Income taxes include current income taxes payable as well as deferred taxes. Tax liabilities mainly comprise liabilities for domestic and foreign income taxes. They include liabilities for the current period as well as for prior periods. The liabilities are measured based on the applicable tax law in the countries Deutsche Telekom operates in and include all facts the Company is aware of.

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

Change in accounting policies.

In 2006 Deutsche Telekom changed its policy in accounting for actuarial gains and losses in the context of defined benefit pensions plans. Previously actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions have been recognized at the balance sheet date only to the extent that the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed the higher of 10 percent of the present value of the defined benefit obligation at this point in time (prior to the deduction of the plan assets) and 10 percent of the fair value of any plan assets at this point in time. In this case they have been amortized prospectively to profit or loss over the expected average remaining working life of the employees participating in the plan. From its consolidated financial statements as of December 31, 2006, Deutsche Telekom recognizes actuarial gains and losses in the period in which they occur outside profit or loss in retained earnings including carryforwards. Deutsche Telekom adjusted comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. Deutsche Telekom believes that fully recognizing actuarial gains and losses when they occur results in a better presentation of the financial position in the balance sheet, since hidden reserves and liabilities are realized and the financial statements thus provide more relevant information. This change in accounting policy results in an increase of the liability for the pension liability in the amount of the unrecognized actuarial gains and losses in the balance sheet. Compared to the previous accounting policy profit increases by the amount of the amortization of unrecognized actuarial losses (see Note 29).

Measurement uncertainties.
The presentation of the results of operations, financial position or cash flows in the consolidated financial statements is dependent upon and sensitive to the accounting policies, assumptions and estimates. The actual amounts may differ from those estimates. The following critical accounting estimates and related assumptions and uncertainties inherent in accounting policies applied are essential to understand the underlying financial reporting risks and the effects that these accounting estimates, assumptions and uncertainties have on the consolidated financial statements.

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

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

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

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

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

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

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

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

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

Revenue recognition.

Customer activation fees.

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

Service contracts.

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

Multiple-element arrangements.

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

Notes to the consolidated income statement.

1 Net revenue.

Net revenue breaks down into the following revenue categories:

millions of €	2006	2005	2004
Revenue from the rendering of services	57,730	55,942	53,451
Revenue from the sale of goods and merchandise	3,240	3,345	3,535
Revenue from the use of entity assets by others	377	317	367
	61,347	59,604	57,353

The main contributor to net revenue – and also to revenue growth – was once again the Mobile Communications strategic business area, accounting for revenue of EUR 31.3 billion compared to EUR 28.5 billion in the previous year. By contrast, the Broadband/Fixed Network strategic business area recorded a decline in revenue of 5.0 percent. In the Business Customers strategic business area, revenue remained at the same level as in the previous year.

This continued growth course was aided by consolidation effects in the amount of EUR 1.2 billion (in particular gedas, PTC and tele.ring) and by the reversal of deferred revenue recognition, relating to changed customer retention periods at Broadband/Fixed Network amounting to EUR 0.2 billion. On the other hand, there were negative exchange rate effects totaling EUR 0.2 billion, in particular from the translation of U.S. dollars (USD) to euros.

2 Cost of sales.

The cost of sales increased by EUR 2.9 billion in 2006 to EUR 34.8 billion (2005: EUR 31.9 billion; 2004: EUR 31.5 billion).

In addition to higher expenditure in connection with staff-related measures, the increase in the cost of sales was due primarily to customer growth in the Mobile Communications strategic business area.

3 Selling expenses.

In addition to higher expenditure for staff-related measures, the increase in selling expenses of EUR 1.7 billion to EUR 16.4 billion (2005: EUR 14.7 billion; 2004: EUR 12.9 billion) is predominantly attributable to higher commission and marketing expenses in the Mobile Communications and Broadband/Fixed Network strategic business areas, which increased mainly as a result of customer growth at T-Mobile USA and intensified advertising, for example, for new calling plans and major sports events.

4 General and administrative expenses.

General and administrative expenses increased by EUR 1.1 billion year-on-year to EUR 5.3 billion in 2006 (2005: EUR 4.2 billion; 2004: EUR 4.5 billion), with Group Headquarters & Shared Services and Mobile Communications registering the strongest increase. Overall, this increase is primarily due to higher expenses in connection with staff-related measures.

5 Other operating income.

millions of €	2006	2005	2004
Income from reimbursements	250	260	372
Income from disposal of non-current assets	227	141	182
Income from insurance compensation	45	84	52
Income from reversal of provisions	38	978	144
Miscellaneous other operating income	697	945	968
	1,257	2,408	1,718

Other operating income decreased to EUR 1.3 billion in the 2006 financial year, mainly due to lower income from the reversal of provisions. In the previous year, other operating income had benefited from the reversal of provisions in connection with the new arrangements for the financing of the Civil Service Health Insurance Fund. The financing of the Civil Service Health Insurance Fund, which has been closed to new members since January 1, 1995, was changed by the amendment to the Federal Posts and Telecommunications Agency Act effective from December 1, 2005. As part of this change, the successor companies of the former Deutsche Bundespost set up a top-up fund in the amount of EUR 525 million to cover the costs of the closure. Assuming the payments to be made by the Civil Service Health Insurance Fund will rise while there is a cap on the insurance premiums, Deutsche Telekom is faced with a liability risk. A provision in the amount of approximately EUR 0.3 billion – based on an actuarial report – was recognized in response to this risk in 2005. Excess provisions of around EUR 0.8 billion were reversed in 2005.

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

6 Other operating expenses.

millions of €	2006	2005	2004
Loss on disposal of non-current assets	155	143	127
Additions to provisions	40	77	123
Goodwill impairment losses	10	1,920	2,434
Miscellaneous other operating expenses	683	1,495	1,232
	888	3,635	3,916

The reduction in other operating expenses is mainly attributable to a decrease in goodwill impairment losses and miscellaneous other operating expenses. In the prior year, goodwill impairment losses recognized as expenses totaled EUR 1.9 billion (T-Mobile UK).

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

7 Finance costs.

millions of €	2006	2005	2004
Interest income	297	398	377
Interest expense	(2,837)	(2,799)	(3,657)
	(2,540)	(2,401)	(3,280)
Of which: from financial instruments relating to categories in accordance with IAS 39:			
Loans and receivables	202	220	178
Held-to-maturity investments	14	3	13
Available-for-sale financial assets	27	36	57
Financial liabilities measured at amortized cost *	(2,636)	(2,510)	(3,402)

* Interest expense calculated using the effective interest method and adjusted for accrued interest from derivatives that were used as hedging instruments against interest-rate-based changes in the fair values of financial liabilities carried at amortized cost in the reporting period for hedge accounting in accordance with IAS 39 (2006: interest income of EUR 29 million, interest expense of EUR 13 million; 2005: interest income of EUR 120 million, interest expense of EUR 35 million).

The year-on-year increase in finance costs in 2006 was primarily due to a positive one-time effect in the second quarter of 2005 that resulted from an adjustment to the book value of financial liabilities to reflect the changes in the present value of the estimated future payments. The changes in estimated future payments were triggered by a downward adjustment in interest rates relating to these financial liabilities following an upgrade of Deutsche Telekom's credit rating by rating agencies in the second quarter of 2005.

Accrued interest payments from derivatives (interest rate swaps) that were designated as hedging instruments in a fair value hedge in accordance with IAS 39 are netted per swap contract and recognized as interest income or interest expense depending on the net amount. Finance costs are assigned to the categories on the basis of the hedged item; only financial liabilities were hedged in the reporting period.

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

millions of €	2006	2005	2004
Share of loss of joint ventures	(89)	(1)	(370)
Share of profit of associates	113	215	1,315
	24	214	945

The share of profit/loss of associates and joint ventures accounted for using the equity method decreased year-on-year. A one-time effect from the sale of the comdirect bank shares (EUR 0.1 billion) was recorded here in 2005. In 2006, the profit generated by PTC was only included under this item until the end of October. PTC has been fully consolidated since November 2006.

9 Other financial income/expense.

millions of €	2006	2005	2004
Income from investments	6	32	10
Gain (loss) from financial instruments	136	1,090	(87)
Interest component from measurement of provisions and liabilities*	(309)	(338)	(283)
	(167)	784	(360)

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

All income components including interest income and expense from financial instruments classified as “held for trading” in accordance with IAS 39 are reported under other financial income/expense.

Other financial income/expense decreased in comparison with the previous year. In the 2005 financial year, the gain from financial instruments included profit of EUR 1.0 billion on the sale of the remaining shares in MTS. In the reporting year, this item included the proceeds from the sale of Celcom in 2003, which were not received until the first quarter of 2006, (EUR 196 million).

10 Income taxes.

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

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

millions of €	2006	2005*	2004*
Germany	2,170	5,153	4,944
International	434	1,066	(1,374)
	2,604	6,219	3,570

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

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

millions of €	2006	2005*	2004*
Current taxes	**249**	**1,203**	**1,257**
Germany	(54)	916	1,069
International	303	287	188
Deferred taxes	**(1,219)**	**(1,005)**	**295**
Germany	(666)	1,027	708
International	(553)	(2,032)	(413)
	(970)	198	1,552

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

Deutsche Telekom's combined income tax rate for 2006 amounts to 39.0 percent, comprising corporate income tax at a rate of 25.0 percent, the solidarity surcharge of 5.5 percent on corporate income tax, and trade income tax at the average national multiplier of 414 percent. The combined corporate income tax for 2004 and 2005 also amounted to 39.0 percent.

Reconciliation of the effective tax rate.
Income tax benefits of EUR 970 million in the reporting year (2005: income tax expense of EUR 198 million; 2004: income tax expense of EUR 1,552 million) are derived as follows from the expected income tax expense that would have arisen had the statutory income tax rate of the parent company (combined income tax rate) been applied to profit before income taxes:

millions of €	2006	2005*	2004*
Profit before income taxes	**2,604**	**6,219**	**3,570**
Expected income tax expense (applicable income tax rate of Deutsche Telekom AG: 2006: 39.0 %; 2005: 39.0 %; 2004: 39.0 %)	1,016	2,425	1,392
Adjustments to expected tax expense			
Effect of changes in statutory tax rates	(8)	(5)	6
Tax effects from prior years	(517)	148	(15)
Non-deductible foreign withholding taxes	7	4	29
Non-taxable income	(151)	(503)	(130)
Tax effects from equity investments	(60)	(49)	(369)
Non-deductible expenses	78	100	91
Permanent differences	(270)	(18)	(283)
Impairment of goodwill or negative excess from capital consolidation	4	749	949
Tax effects from loss carryforwards	(975)	(2,585)	(274)
Tax effects from additions to and reductions of trade tax	109	103	262
Amount of taxes after adjustment to different foreign tax rates	(190)	(212)	(151)
Other tax rate effects	(13)	41	45
Income tax expense according to the consolidated income statement	**(970)**	**198**	**1,552**
Effective income tax rate (%)	(37)	3	43

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

Current income taxes in the consolidated income statement.
The following table provides a breakdown of current income taxes:

millions of €	2006	2005*	2004*
Current income taxes	**249**	**1,203**	**1,257**
Of which:			
Current tax expense	841	1,111	1,165
Prior-period tax expense (income)	(592)	92	92

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

A corporate income tax credit in the amount of EUR 12 million continues to be available. This is due to prior-year retained earnings being taxed at a higher corporate income tax rate.

Deferred taxes in the consolidated income statement.
The following table shows the development of deferred taxes:

millions of €	2006	2005*	2004*
Deferred tax expense (income)	**(1,219)**	**(1,005)**	**295**
Of which on:			
Temporary differences	89	1,103	317
Loss carryforwards	(1,275)	(2,090)	(22)

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

A positive tax effect in the amount of EUR 8 million was recorded in 2006, attributable to the utilization of loss carryforwards on which deferred tax assets had not yet been recognized (2005: EUR 306 million; 2004: EUR 5 million).

Impairments, reversals of prior impairments and the first-time recognition of deferred tax assets resulted in a positive tax effect in the amount of EUR 1.0 billion in 2006 (2005: EUR 2.3 billion; 2004: EUR 0.004 billion). In particular due to the continuing positive earnings trend, Deutsche Telekom determined in the third quarter of 2006, based on an assessment of all available evidence, that it had become probable that EUR 1.2 billion of the previously unrecognized deferred tax assets at T-Mobile USA relating primarily to federal income tax net operating loss carryforwards was realizable in the near term. For purposes of this assessment, Deutsche Telekom reviewed forecasts in relation to actual results and expected trends in the industry. The realization of the previously unrecognized deferred tax assets provided for a corresponding income tax benefit. These effects were partially offset by the write-off of deferred tax assets amounting to EUR 0.2 billion due to developments in current operating income at three foreign subsidiaries of Deutsche Telekom.

A comparable tax effect resulted in a very low tax expense at Deutsche Telekom in the prior year. Since profit before income taxes decreased significantly compared to the prior year, a negative tax expense, i.e., a tax benefit, was recorded in 2006.

The tax benefit is also due to the fact that Deutsche Telekom agreed in the second quarter of 2006 with the German tax authorities on the application of a provision of trade tax law regarding certain capital losses incurred in previous years. This decreased income tax expense by approximately EUR 0.4 billion in the second quarter of 2006.

Current income taxes in the consolidated balance sheet:

millions of €	Dec. 31, 2006	Dec. 31, 2005
Recoverable taxes	643	613
Tax liabilities	536	1,358

Deferred taxes in the consolidated balance sheet:

millions of €	Dec. 31, 2006	Dec. 31, 2005*
Deferred tax assets	8,952	8,140
Deferred tax liabilities	(8,083)	(8,331)
	869	**(191)**
Of which: recognized in equity	(20)	255

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

Development of deferred taxes:

millions of €	Dec. 31, 2006	Dec. 31, 2005*
Deferred taxes recognized in balance sheet	869	(191)
Difference	1,060	
Of which:		
Recognized in income statement	1,219	
Recognized in equity	(275)	
Acquisitions/disposals	(241)	
Currency translation adjustments	357	

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

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

millions of €	Dec. 31, 2006		Dec. 31, 2005*	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Current assets	**608**	**(991)**	**612**	**(1,273)**
Trade and other receivables	462	(531)	211	(544)
Other financial assets	114	(282)	360	(565)
Inventories	16	(10)	15	(32)
Other assets	16	(168)	26	(132)
Non-current assets	**2,080**	**(9,290)**	**2,354**	**(9,410)**
Intangible assets	1,072	(6,945)	1,408	(7,317)
Property, plant and equipment	548	(1,907)	509	(1,564)
Investments accounted for using the equity method	0	(12)	0	(56)
Other financial assets	315	(252)	340	(308)
Other assets	145	(174)	97	(165)
Current liabilities	**971**	**(480)**	**1,387**	**(712)**
Financial liabilities	81	(105)	124	(107)
Trade and other payables	436	(150)	705	(357)
Other provisions	301	(110)	471	(97)
Other liabilities	153	(115)	87	(151)
Non-current liabilities	**3,608**	**(622)**	**3,387**	**(489)**
Financial liabilities	1,355	(434)	1,441	(398)
Provisions for pensions and other employee benefits	682	(15)	799	(49)
Other provisions	914	(171)	388	(33)
Other liabilities	657	(2)	759	(9)
Tax credits	96	0	62	0
Loss carryforwards	6,581	0	6,461	0
Total	**13,944**	**(11,383)**	**14,263**	**(11,884)**
Of which: non-current	11,830	(9,912)	11,483	(8,642)
Netting	(3,300)	3,300	(3,553)	3,553
Allowance	(1,692)	0	(2,570)	0
Recognition	**8,952**	**(8,083)**	**8,140**	**(8,331)**

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

The allowances relate primarily to loss carryforwards.

The loss carryforwards are shown in the following table:

millions of €	Dec. 31, 2006	Dec. 31, 2005*
Loss carryforwards for corporate income tax purposes	**17,176**	**16,589**
Expiry within		
1 year	2	11
2 years	45	14
3 years	28	15
4 years	8	10
5 years	1,221	2
After 5 years	8,452	10,357
Unlimited carryforward period	7,420	6,180

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

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

millions of €	Dec. 31, 2006	Dec. 31, 2005*
Loss carryforwards for corporate income tax purposes	**5,017**	**7,204**
Expiry within		
1 year	1	0
2 years	11	5
3 years	5	9
4 years	3	4
5 years	1,026	2
After 5 years	120	4,264
Unlimited carryforward period	3,851	2,920
Temporary differences in corporate income tax	**148**	**68**

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 184 million (December 31, 2005: EUR 132 million) and on temporary differences for trade tax purposes in the amount of EUR 6 million (December 31, 2005: EUR 15 million). In addition, deferred taxes, separated from corporate income tax loss carryforwards for the first time, were not recognized for other foreign income tax loss carryforwards amounting to EUR 204 million.

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

Despite losses in the current and the prior year, deferred tax assets in the amount of EUR 4,684 million were recognized on loss carryforwards and temporary differences for 2006 (December 31, 2005: EUR 2,425 million; December 31, 2004: EUR 305 million), as the Company expects to generate future taxable profits.

Following simplification of T-Mobile UK's corporate structure, Deutsche Telekom believes that a capital loss of EUR 10.7 billion became available for tax purposes. However, as it is highly unlikely that this tax-related sales loss can be utilized, it is not included in the loss carryforwards above.

No deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting to EUR 616 million (December 31, 2005: EUR 515 million) as it is unlikely that these differences will be reversed in the near future.

11 Profit/loss attributable to minority interests.

Profit/loss attributable to minority interests includes EUR 430 million (2005: EUR 655 million; 2004: EUR 961 million) in gains and EUR 21 million (2005: EUR 223 million; 2004: EUR 537 million) in losses.

These amounts are mainly attributable to HT-Hrvatske telekomunikacije, T-Mobile Czech Republic, T-Mobile Croatia d.o.o., T-Mobile Macedonia AD Skopje and Magyar Telekom.

12 Earnings per share.

Basic and diluted earnings per share are calculated as follows:

Basic earnings per share.

	2006	2005	2004
Net profit (millions of €)	3,165	5,589*	1,594*
Adjustment for the financing costs of the mandatory convertible bond (after taxes) (millions of €)	38	98	95
Adjusted net profit (basic) (millions of €)	**3,203**	**5,687***	**1,689***
Number of ordinary shares issued (millions)	4,309	4,198	4,198
Treasury shares (millions)	(2)	(2)	(3)
Shares reserved for outstanding options granted to T-Mobile USA and Powertel (millions)	(22)	(24)	(28)
Effect from the potential conversion of the mandatory convertible bond (millions)	68	163	156
Adjusted weighted average number of ordinary shares outstanding (basic) (millions)	**4,353**	**4,335**	**4,323**
Basic earnings per share/ADS (€)	**0.74**	**1.31***	**0.39***

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

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

In the third quarter of 2006, 62.7 million Deutsche Telekom shares were bought back. This corresponds to the number of shares newly issued in the second quarter of 2006 in the course of the merger of T-Online International AG into Deutsche Telekom AG. The issue and the buy-back of the shares have both been included in the calculation of the basic earnings per share for the 2006 financial year in line with their respective time weighting.

In addition, to calculate basic earnings per share, the number of ordinary shares outstanding is increased by the total number of potential shares if the mandatory convertible bond issued in February 2003 were converted at the present time. Likewise, net profit is adjusted for all costs (after taxes) for financing the mandatory convertible bond, interest expense for the current period and bank fees, as these cease to apply when the bond is converted, and therefore no longer have an effect on net profit. The mandatory convertible bond was converted into 163 million shares of Deutsche Telekom AG on June 1, 2006. The aforementioned adjustments and the actual conversion were therefore recognized for the 2006 financial year in line with their time weighting.

Diluted earnings per share.

	2006	2005	2004
Adjusted net profit (basic) (millions of €)	3,203	5,687*	1,689*
Dilutive effects on profit (loss) from stock options (after taxes) (millions of €)	0	0	0
Net profit (diluted) (millions of €)	**3,203**	**5,687***	**1,689***
Adjusted weighted average number of ordinary shares outstanding (basic) (millions)	4,353	4,335	4,323
Dilutive potential ordinary shares from stock options and warrants (millions)	1	3	5
Weighted average number of ordinary shares outstanding (diluted) (millions)	**4,354**	**4,338**	**4,328**
Diluted earnings per share/ADS (€)	**0.74**	**1.31***	**0.39***

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

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

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

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

The determination of diluted earnings per share for the 2006, 2005 and 2004 financial years is nevertheless impacted by potential dilutive ordinary shares from the 2002 tranche of the 2001 Stock Option Plan. The number of ordinary shares outstanding (basic) was increased by 1 million potential dilutive ordinary shares for 2005 and 2004 respectively. For the 2006 financial year, the dilutive effect, rounded to the nearest million, is less than 1 million.

Stock options of T-Mobile USA.
As a consequence of the acquisition of T-Mobile USA in 2001, all outstanding options owned by employees of T-Mobile USA have been converted from T-Mobile USA options into Deutsche Telekom AG options at a conversion rate of 3.7647 for each T-Mobile USA option. The dilutive effect arising from these options was taken into account in the determination of diluted earnings per share. The number of ordinary shares outstanding was therefore increased by 1 million potential dilutive ordinary shares for 2006 (2005: 2 million; 2004: 3 million).

Stock options and warrants of Powertel.
As a consequence of the acquisition of Powertel in 2001 all outstanding Powertel options have been converted into Deutsche Telekom AG options at a conversion rate of 2.6353. The dilutive effect arising from these options was taken into account in the determination of diluted earnings per share for the years 2005 and 2004. Accordingly, the number of ordinary shares outstanding was increased by the potential dilutive ordinary shares. For the full year of 2004, the dilutive effect of Powertel stock options and Powertel warrants is 1 million. For the 2005 financial year, the dilutive effect, rounded to the nearest million, is less than 1 million. The Powertel warrants expired in February 2006 in accordance with the option terms and conditions. The warrants can therefore no longer be exercised in future.

13 Dividend per share.

For the 2006 financial year, the Board of Management proposes a dividend at the prior-year level of EUR 0.72 for each no par value share carrying dividend rights. On the basis of this proposed appropriation, total dividends in the amount of EUR 3,124 million (2005: EUR 3,005 million) will be appropriated to the no par value shares carrying dividend rights at February 13, 2007.

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

14 Goods and services purchased.

This item breaks down as follows:

millions of €	2006	2005	2004
Goods purchased	7,017	6,190	5,867
Services purchased	11,207	10,157	10,345
	18,224	16,347	16,212

15 Personnel costs.

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

millions of €	2006	2005	2004
Wages and salaries	13,436	11,436	10,411
Social security contributions and expenses for pension plans and benefits:			
Social security costs	1,598	1,520	1,482
Expenses for pension plans	1,351	1,129	1,195
Expenses for benefits	157	169	254
	16,542	14,254	13,342

Expenses for staff-related measures totaled EUR 2.8 billion in the 2006 financial year. These relate primarily to expenses for voluntary redundancy and severance payments (EUR 0.7 billion) and expenses in connection with early retirement arrangements for civil servants (EUR 1.8 billion). In the prior year, the expenses for staff-related measures amounted to EUR 1.2 billion, mainly attributable to provisions for voluntary redundancy and severance payments for employees in the context of the staff restructuring program announced in the fourth quarter of 2005.

In addition to effects resulting from changes in the composition of the Group, the rise in personnel costs is also attributable to collectively agreed increases in wages and salaries as well as increased staff levels, in particular at T-Mobile USA.

The personnel cost ratio for the 2006 financial year is 27.0 percent of revenue, representing a decrease of 3.1 percentage points compared with 2005.

Number of employees (average for the year).

Number	2006	2005	2004
Civil servants	42,969	46,525	48,536
Non-civil servants	205,511	197,501	199,023
Deutsche Telekom Group	**248,480**	**244,026**	**247,559**
Trainees and student interns	10,346	10,019	10,146

The increase in the annual average headcount is attributable in particular to the acquisition of companies. In addition, there was a significant increase in headcount at T-Mobile USA.

16 Depreciation, amortization and impairment losses.

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

millions of €	2006	2005	2004
Amortization and impairment of intangible assets	**2,840**	**4,427**	**5,461**
Of which:			
Goodwill impairment losses	10	1,920	2,434
Amortization of mobile communications licenses	994	951	1,824
Depreciation and impairment of property, plant and equipment	**8,194**	**8,070**	**7,666**
	11,034	**12,497**	**13,127**

Amortization and impairment of intangible assets are mainly related to mobile communications and software licenses as well as goodwill. The decrease of EUR 1.6 billion is primarily attributable to the EUR 1.9 billion goodwill impairment loss at T-Mobile UK in 2005, for which there was no corresponding impairment loss in 2006. This effect was partly offset by amortization at the new companies acquired in the Mobile Communications business area in 2006 – tele.ring and PTC. These primarily relate to amortization of the customer base and brand names totaling EUR 0.3 billion.

The decrease in amortization and impairment of intangible assets in the 2005 financial year compared with the 2004 financial year of EUR 1.0 billion resulted primarily from the fact that, in 2004, impairment losses on goodwill were recognized at T-Mobile UK (EUR 2.2 billion) and Slovak Telekom (EUR 0.2 billion), as well as on U.S. mobile communications licenses (approximately EUR 1.2 billion) in connection with the winding up of the network joint venture between T-Mobile USA and Cingular Wireless.

The impairment loss of EUR 2.2 billion at the cash-generating unit T-Mobile UK, which is part of T-Mobile, was mainly the result of the expected intensification of competition due to the market entry of new competitors and the effects of regulatory rulings by OFCOM (Office of Communication, the independent regulator and competition authority for the UK communications industries) relating to call termination charges.

In the 2005 financial year, Deutsche Telekom recognized an impairment loss of EUR 1.9 billion at the T-Mobile UK cash-generating unit. Telefónica announced its offer to acquire the UK group O_2 at a price of 200 pence per share (approximately GBP 17.7 billion) on October 31, 2005. When determining the fair value less costs to sell, the purchase prices paid in comparable transactions must generally be given preference over internal DCF calculations. The fair value of the cash-generating unit T-Mobile UK was derived from the Telefónica offer in accordance with a valuation model based on multipliers.

Depreciation and impairment of property, plant and equipment increased by EUR 0.1 billion in 2006. This was largely the result of higher depreciation of technical equipment and machinery in connection with the commissioning of operating equipment as part of the network expansion at T-Mobile USA, which led to a higher depreciation base.

The increase in depreciation of property, plant and equipment in the 2005 financial year compared with the 2004 financial year by EUR 0.4 billion resulted primarily from an increase in depreciation in connection with the networks in California, Nevada and New York acquired in the first quarter of 2005.

The following table provides a breakdown of impairment losses:

millions of €	2006	2005	2004
Intangible assets	**123**	**1,958**	**3,710**
Of which: goodwill	10	1,920	2,434
Of which: U.S. mobile communications licenses	33	30	1,250
Property, plant and equipment	**287**	**248**	**158**
Land and buildings	228	233	106
Technical equipment and machinery	13	7	45
Other equipment, operating and office equipment	26	5	5
Advance payments and construction in progress	20	3	2
	410	**2,206**	**3,868**

The impairment losses on land and buildings mainly result from the fair value measurement of land and buildings held for sale and are reported in other operating expenses.

Notes to the consolidated balance sheet.

17 Cash and cash equivalents.

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

In the reporting period, cash and cash equivalents decreased by EUR 2.2 billion to EUR 2.8 billion. This was primarily due to outgoing payments for the purchase of additional FCC licenses (EUR 3.3 billion), the distribution of dividends for the 2005 financial year (EUR 3 billion), the acquisitions of tele.ring (EUR 1.3 billion), PTC (EUR 0.6 billion) and gedas (EUR 0.3 billion), and the share buy-backs (EUR 0.7 billion). This was partly offset by free cash flow and an increased volume of bonds and medium-term notes issued compared with the prior year.

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

18 Trade and other receivables.

millions of €	Dec. 31, 2006	Dec. 31, 2005
Trade receivables	7,577	7,328
Receivables from construction contracts	176	184
	7,753	7,512

Of the total amount of trade receivables and receivables from construction contracts, EUR 7,749 million (December 31, 2005: EUR 7,509 million) is due within one year.

millions of €	Carrying amount	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
			less than 30 days	between 30 and 60 days	between 61 and 90 days	between 91 and 180 days	between 181 and 360 days	more than 360 days
	as of Dec. 31, 2006							
Trade receivables	7,577	4,445	872	130	89	69	131	28
	as of Dec. 31, 2005							
Trade receivables	7,328	4,330	705	107	63	55	161	31

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

Deutsche Telekom has sold trade receivables to special-purpose entities in asset-backed securitization (ABS) transactions. These entities finance the purchase of assets by issuing securities on the capital market. The asset-backed securities transactions do not reduce the Group's receivables because the special-purpose entities are part of the consolidated group.

Trade and other receivables amounting to EUR 1,165 million (December 31, 2005: EUR 1,324 million) were pledged in connection with ABS transactions and other sales of receivables, and collateral in the form of cash deposits amounting to EUR 125 million (December 31, 2005: EUR 154 million) was pledged to third parties outside the Group. The latter have been recognized as receivables under other financial assets (see Note 24).

In 2006, Deutsche Telekom accepted cash collateral of EUR 7 million (2005: EUR 6 million) as securities for receivables arising from the marketing of mobile communications services and EUR 25 million as securities for the payment of outstanding other invoices. By the reporting date this cash collateral had neither been sold nor transferred as collateral.

The following table shows the development of allowances on trade receivables:

millions of €	2006	2005
Allowances as of January 1	**1,108**	**1,045**
Currency translation adjustments	(29)	23
Additions (allowances recognized as expense)	534	541
Use	(425)	(396)
Reversal	(40)	(105)
Allowances as of December 31	**1,148**	**1,108**

The total additions of EUR 534 million (2005: EUR 541 million) relate to allowances for individual impairments of EUR 152 million (2005: EUR 208 million) and allowances for collective impairments of EUR 382 million (2005: EUR 333 million). The reversals include reversals of allowances for individual impairments of EUR 44 million (2005: EUR 65 million) and reversals of allowances for collective impairments of EUR 62 million (2005: EUR 58 million).

The following table presents expenses for the full write-off of trade receivables as well as income from recoveries on trade receivables written off:

millions of €	2006	2005
Expenses for full write-off of receivables	380	367
Income from recoveries on receivables written off	93	133

All income and expenses relating to allowances and write-offs of trade receivables are reported under selling expenses.

19 Inventories.

millions of €	Dec. 31, 2006	Dec. 31, 2005
Raw materials and supplies	106	105
Work in process	79	93
Finished goods and merchandise	937	873
Advance payments	7	26
	1,129	**1,097**

Of the inventories reported as of December 31, 2006, EUR 280 million (December 31, 2005: EUR 139 million) were recognized at their net realizable value. Write-downs of EUR 43 million (2005: EUR 150 million) on the net realizable value were recognized in profit or loss.

The carrying amount of inventories recognized as expense amounted to EUR 5,667 million (2005: EUR 5,744 million).

20 Non-current assets held for sale.

The non-current assets held for sale in the amount of EUR 907 million were reclassified as current assets in the reporting year. In addition to assets related to the acquisition of the tele.ring group (EUR 87 million), these assets include in particular FCC licenses of T-Mobile USA (EUR 248 million) and real estate at Deutsche Telekom AG (EUR 469 million).

As part of the tele.ring acquisition, T-Mobile must fulfill the regulatory requirement of selling nearly all cell sites necessary for mobile communications operations as well as the frequency spectrum of the UMTS license of the tele.ring group to competitors. These assets are scheduled to be sold in the first half of 2007.

As part of the purchase of the Cingular network in 2005, T-Mobile USA contractually agreed to transfer 10 Mhz of the mobile communications spectrum for the New York market to Cingular. In the fourth quarter of 2006, T-Mobile USA decided to use its own spectrum resources to make these FCC licenses available to Cingular. The FCC licenses were transferred on January 5, 2007.

Real estate held for sale at Group Headquarters & Shared Services relates to land and buildings not required for operations. These properties are scheduled to be sold within 12 months. The properties will be advertised for sale on the Internet, in newspapers and by contacting investors directly.

21 Intangible assets.

millions of €	Internally generated intangible assets	Acquired intangible assets					
		Total	Acquired concessions, industrial and similar rights and assets	UMTS licenses	GSM licenses	FCC licenses (T-Mobile USA)	Other acquired intangible assets
Cost							
At December 31, 2004	**1,056**	**36,859**	**1,020**	**15,029**	**846**	**15,609**	**4,355**
Currency translation	15	2,740	8	163	7	2,404	158
Changes in the composition of the Group	0	70	22	0	4	0	44
Additions	233	1,571	104	2	0	336	1,129
Disposals	133	655	22	0	0	6	627
Reclassifications	228	201	(401)	0	0	0	602
At December 31, 2005	**1,399**	**40,786**	**731**	**15,194**	**857**	**18,343**	**5,661**
Currency translation	(32)	(1,769)	34	149	12	(1,924)	(40)
Changes in the composition of the Group	0	2,520	247	250	278	0	1,745
Additions	287	4,177	26	0	0	3,245	906
Disposals	111	2,314	51	0	1	1,488	774
Reclassifications	202	680	25	0	0	0	655
At December 31, 2006	**1,745**	**44,080**	**1,012**	**15,593**	**1,146**	**18,176**	**8,153**
Accumulated amortization							
At December 31, 2004	**511**	**5,463**	**482**	**714**	**336**	**1,108**	**2,823**
Currency translation	8	253	0	3	2	158	90
Changes in the composition of the Group	0	26	0	0	1	0	25
Additions (amortization)	351	2,118	97	864	57	0	1,100
Additions (impairment)	0	38	0	0	0	30	8
Disposals	132	622	19	0	0	0	603
Reclassifications	(13)	24	(354)	0	0	0	378
At December 31, 2005	**725**	**7,300**	**206**	**1,581**	**396**	**1,296**	**3,821**
Currency translation	(15)	(114)	6	18	5	(115)	(28)
Changes in the composition of the Group	0	29	0	0	0	0	29
Additions (amortization)	414	2,303	147	893	68	0	1,195
Additions (impairment)	7	106	4	0	0	33	69
Disposals	120	1,982	39	0	1	1,214	728
Reclassifications	(2)	240	14	0	0	0	226
At December 31, 2006	**1,009**	**7,882**	**338**	**2,492**	**468**	**0**	**4,584**
Net carrying amounts							
At December 31, 2005	674	33,486	525	13,613	461	17,047	1,840
At December 31, 2006	736	36,198	674	13,101	678	18,176	3,569

Goodwill	Advance payments	Total
26,651	99	64,665
1,467	1	4,223
(15)	(1)	54
866	158	2,828
14	8	810
1	(109)	321
28,956	140	71,281
(677)	2	(2,476)
265	0	2,785
1,453	204	6,121
2	17	2,444
1,156	(204)	1,834
31,151	125	77,101
7,946	0	13,920
743	0	1,004
(20)	0	6
0	0	2,469
1,920	0	1,958
8	0	762
0	0	11
10,581	0	18,606
(398)	0	(527)
0	0	29
0	0	2,717
10	0	123
(3)	0	2,099
0	0	238
10,196	0	19,087
18,375	140	52,675
20,955	125	58,014

The net carrying amount of the UMTS licenses of EUR 13,101 million mainly comprises EUR 7,175 million for the license of T-Mobile Deutschland (December 31, 2005: EUR 7,687 million) and EUR 5,113 million for the T-Mobile UK license (December 31, 2005: EUR 5,328 million).

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

millions of €	Dec. 31, 2006	Dec. 31, 2005
T-Mobile USA	3,883	4,325
T-Systems International – Enterprise Services	4,434	4,196
T-Mobile UK	2,954	2,886
PTC	1,721	0
T-Mobile Austria	1,377	717
T-Mobile Netherlands	1,144	1,144
Other	5,442	5,107
Total	**20,955**	**18,375**

The increase in the goodwill allocated to the T-Systems International – Enterprise Services cash-generating unit is attributable to the acquisition of gedas in the 2006 financial year. By acquiring 48.0 percent of the voting rights in PTC, Deutsche Telekom obtained control of the entity. Since, in the previous year, the interest in PTC had been included in the consolidated financial statements using the equity method, goodwill was not disclosed here. The business combination achieved in stages in the 2006 financial year resulted in goodwill attributable to the PTC cash-generating unit. The increase in the goodwill allocated to the T-Mobile Austria cash-generating unit is attributable to the acquisition of tele.ring in 2006.

22 Property, plant and equipment.

millions of €	Land and equivalent rights, and buildings including buildings on land owned by third parties	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and construction in progress	Total
Cost					
At December 31, 2004	**17,400**	**82,266**	**6,776**	**1,989**	**108,431**
Currency translation	105	1,175	112	196	1,588
Changes in the composition of the Group	21	196	27	24	268
Additions	134	3,793	733	3,612	8,272
Disposals	801	1,661	596	46	3,104
Reclassifications	287	3,075	337	(3,110)	589
At December 31, 2005	**17,146**	**88,844**	**7,389**	**2,665**	**116,044**
Currency translation	(68)	(654)	(87)	(82)	(891)
Changes in the composition of the Group	171	508	223	62	964
Additions	192	2,940	569	3,595	7,296
Disposals	1,275	2,640	568	70	4,553
Reclassifications	287	2,776	(385)	(3,357)	(679)
At December 31, 2006	**16,453**	**91,774**	**7,141**	**2,813**	**118,181**
Accumulated depreciation					
At December 31, 2004	**5,641**	**51,926**	**4,565**	**5**	**62,137**
Currency translation	33	387	65	0	485
Changes in the composition of the Group	0	67	18	0	85
Additions (depreciation)	649	6,369	786	18	7,822
Additions (impairment)	233	7	5	3	248
Disposals	427	1,555	530	11	2,523
Reclassifications	11	(46)	12	20	(3)
Reversal of impairment losses	(12)	0	0	(1)	(13)
At December 31, 2005	**6,128**	**57,155**	**4,921**	**34**	**68,238**
Currency translation	(25)	(129)	(62)	1	(215)
Changes in the composition of the Group	8	8	109	0	125
Additions (depreciation)	642	6,493	761	10	7,906
Additions (impairment)	207	13	26	20	266
Disposals	720	2,495	530	16	3,761
Reclassifications	13	250	(502)	0	(239)
Reversal of impairment losses	(8)	0	0	0	(8)
At December 31, 2006	**6,245**	**61,295**	**4,723**	**49**	**72,312**
Net carrying amounts					
At December 31, 2005	11,018	31,689	2,468	2,631	47,806
At December 31, 2006	10,208	30,479	2,418	2,764	45,869

Restoration obligations of EUR 177 million were recognized as of December 31, 2006 (December 31, 2005: EUR 277 million).

23 Investments accounted for using the equity method.

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

Name	Dec. 31, 2006 Deutsche Telekom share %	Dec. 31, 2006 Net carrying amount millions of €	Dec. 31, 2006 Goodwill millions of €	Dec. 31, 2005 Deutsche Telekom share %	Dec. 31, 2005 Net carrying amount millions of €	Dec. 31, 2005 Goodwill millions of €
PTC [a]	n.a.	0	0	49.00	1,693	1,163
CTDI Nethouse Services GmbH	49.00	10	0	49.00	8	0
DETECON AL SAUDIA CO. Ltd.	46.50	11	0	46.50	10	0
Toll Collect [b]	45.00	4	0	45.00	0	0
Immobilien Scout GmbH	33.11	24	20	33.11	26	20
Bild.T-Online.de AG & Co. KG	37.00	44	36	37.00	41	36
t-info	25.10	56	0	n.a.	0	0
Other		40	2		47	2
		189	58		1,825	1,221

[a] PTC fully consolidated since November 1, 2006.
[b] Joint venture.

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

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

billions of €	Dec. 31, 2006	Dec. 31, 2005
Total assets	0.8	2.5
Total liabilities	0.4	1.0
	2006	2005
Net revenue	0.7	2.2
Profit	0.0	0.3

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

Aggregated key financial figures for the joint ventures accounted for using the equity method.

billions of €	Dec. 31, 2006	Dec. 31, 2005
Total assets	**0.4**	**0.4**
Current	0.2	0.2
Non-current	0.2	0.2
Total liabilities	**0.4**	**0.8**
Current	0.2	0.2
Non-current	0.2	0.6
	2006	2005
Net revenue	0.2	0.2
Loss	0.0	(0.1)

24 Other financial assets.

millions of €	Dec. 31, 2006 Total	Dec. 31, 2006 Of which: current	Dec. 31, 2005 Total	Dec. 31, 2005 Of which: current
Originated loans and receivables	1,710	1,340	1,284	831
Available-for-sale financial assets	345	121	317	129
Derivatives	359	301	445	315
Miscellaneous assets	68	63	95	87
	2,482	**1,825**	**2,141**	**1,362**

millions of €	Carrying amount	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods: less than 30 days	between 30 and 60 days	between 61 and 90 days	between 91 and 180 days	between 181 and 360 days	more than 360 days
	as of Dec. 31, 2006							
Originated loans and receivables								
due within one year	1,340	1,264	12	21			42	1
due after more than one year	370	369						1
	as of Dec. 31, 2005							
Originated loans and receivables								
due within one year	831	672	7	2	1	81	28	33
due after more than one year	453	453						

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

Receivables totaling EUR 52 million (December 31, 2005: EUR 102 million) were used in connection with collateral agreements as surety for potential credit risks arising from derivative transactions. Collateral agreements are used to stipulate that a contracting party must transfer collateral in the form of cash to the other contracting party if the fair values of the derivatives between the two parties exceed a certain limit, the so-called allowance. In these collateral agreements, allowances and, in some cases, also the calculation frequency depend on the counterparty's rating. If the rating of one of the counterparties deteriorates, its allowance decreases, which means that this counterparty may have to provide higher collateral if required. In addition, a lower rating of a counterparty shortens the calculation frequency, in some cases down to daily calculation.

The available-for-sale financial assets include unquoted equity instruments whose fair values could not be reliably measured, and which were therefore recognized at cost in the amount of EUR 214 million as of December 31, 2006 (December 31, 2005: EUR 163 million).

In the 2006 financial year, EUR 10 million (2005: EUR 9 million) in impairment losses on available-for-sale financial assets were recognized in profit or loss because the impairment was permanent or material.

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

millions of €	Dec. 31, 2006	Dec. 31, 2005
T-Mobile Venture Fund GmbH & Co. KG	73	63
Beach Holding Co. (SBS International Puerto Rico, Inc.)	24	26

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

The investment in MMBG Multimedia Betriebs GmbH & Co. KG i.L., which had been carried at cost, was liquidated in the 2006 financial year. The carrying amount of this investment at the time of liquidation was EUR 10 million; a gain on disposal of EUR 1 million was recorded.

25 Financial liabilities.

millions of €	Dec. 31, 2006			
	Total	due within 1 year	due > 1 year < 5 years	due > 5 years
Bonds and other securitized liabilities				
Convertible bonds	0	0	0	0
Nonconvertible bonds	25,033	2,488	11,497	11,048
Commercial papers, medium-term notes, and similar liabilities	11,255	1,108	6,346	3,801
Liabilities to banks	2,348	295	1,188	865
	38,636	**3,891**	**19,031**	**15,714**
Lease liabilities	2,293	213	420	1,660
Liabilities arising from ABS transactions	1,139	271	868	0
Promissory notes	680	0	0	680
Other interest-bearing liabilities	373	87	131	155
Other non-interest-bearing liabilities	2,799	2,724	66	9
Derivative financial liabilities	562	497	35	30
	7,846	**3,792**	**1,520**	**2,534**
Financial liabilities	**46,482**	**7,683**	**20,551**	**18,248**

millions of €	Dec. 31, 2005			
	Total	due within 1 year	due > 1 year < 5 years	due > 5 years
Bonds and other securitized liabilities				
Convertible bonds	2,296	2,296	0	0
Nonconvertible bonds	27,099	4,682	9,724	12,693
Commercial papers, medium-term notes, and similar liabilities	7,860	222	5,219	2,419
Liabilities to banks	2,227	284	1,394	549
	39,482	**7,484**	**16,337**	**15,661**
Lease liabilities	2,373	200	455	1,718
Liabilities arising from ABS transactions	1,363	274	1,089	0
Promissory notes	645	0	0	645
Other interest-bearing liabilities	129	71	58	0
Other non-interest-bearing liabilities	2,051	1,690	352	9
Derivative financial liabilities	678	655	22	1
	7,239	**2,890**	**1,976**	**2,373**
Financial liabilities	**46,721**	**10,374**	**18,313**	**18,034**

A liquidity reserve in the form of credit lines and, where necessary, cash is maintained to guarantee the solvency and financial flexibility of Deutsche Telekom at all times. For this purpose, the Company entered into standardized bilateral credit agreements with 29 banks amounting to a total of EUR 17.4 billion. The Company currently pays a commitment fee of 0.075 percent (2005: 0.075 percent) for credit lines not drawn and Euribor + 0.15 percent (2005: + 0.15 percent) for credit lines drawn. The terms and conditions depend on Deutsche Telekom's credit rating. The bilateral credit agreements have a maturity of 36 months and can, after each period of 12 months, be extended by a further 12 months to renew the maturity of 36 months.

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

millions of €		Cash flows 2007		
	Carrying amount Dec. 31, 2006	Fixed interest rate	Variable interest rate	Repayment
Non-derivative financial liabilities:				
Bonds, other securitized liabilities, liabilities to banks, promissory notes and similar liabilities	(39,316)	(2,073)	(222)	(3,732)
Finance lease liabilities	(1,783)	(137)		(226)
Liabilities arising from ABS transactions	(1,139)		(46)	(641)
Other interest-bearing liabilities	(883)	(2)		(158)
Other non-interest-bearing liabilities	(2,799)			(2,974)
Derivative financial liabilities and assets:				
Derivative financial liabilities				
– Currency derivatives without a hedging relationship	(20)			(20)
– Currency derivatives in connection with cash flow hedges	(58)			(52)
– Interest rate derivatives without a hedging relationship	(399)	19	51	(29)
– Interest rate derivatives in connection with fair value hedges	(65)	252	(221)	
Derivative financial assets				
– Currency derivatives without a hedging relationship	3			4
– Currency derivatives in connection with cash flow hedges	3			
– Interest rate derivatives without a hedging relationship	276	(54)	(45)	48
– Interest rate derivatives in connection with fair value hedges	64	256	(259)	
– Interest rate derivatives in connection with cash flow hedges	13		31	

All instruments held at December 31, 2006 and for which payments were already contractually agreed were included. Planning data for future, new liabilities is not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2006. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period.

In accordance with Postreform II (§ 2 (4) of the Stock Corporation Transformation Act – Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were outstanding at January 1, 1995. At December 31, 2006, the nominal figure was EUR 2.0 billion.

	Cash flows 2008			Cash flows 2009–2011			Cash flows 2012–2016			Cash flows 2017 and thereafter		
	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
	(1,823)	(209)	(4,471)	(4,508)	(255)	(14,740)	(3,421)	(38)	(10,668)	(5,051)		(7,035)
	(121)		(124)	(323)		(237)	(465)		(591)	(297)		(605)
		(20)	(497)									
	(3)		(36)	(16)		(84)	(68)		(149)	(133)		(456)
			(34)			(4)			(1)			(1)
			4									
	81	(12)	(40)	138	17	8	8	86	(24)			(52)
	239	(224)		297	(301)		41	(36)				
			7									
	(54)	12	63	(1)	(70)	12	61	(65)	21	112	(155)	
	211	(199)		380	(409)		438	(439)		297	(314)	
	(40)	41		(40)	33							

26 Trade and other payables.

millions of €	Dec. 31, 2006	Dec. 31, 2005
Trade payables	7,121	6,889
Liabilities from construction contracts	39	13
	7,160	**6,902**

Of the total of trade and other payables, EUR 7,157 million (December 31, 2005: EUR 6,901 million) is due within one year.

27 Additional disclosures on financial instruments.

Carrying amounts, amounts recognized, and fair values by category.

millions of €	Category in accordance with IAS 39	Carrying amount Dec. 31, 2006	Amounts recognized in balance sheet according to IAS 39			
			Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
Assets						
Cash and cash equivalents	LaR	2,765	2,765			
Trade receivables	LaR	7,577	7,577			
Other receivables	LaR/n.a.	1,710	1,429			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	66	66			
Available-for-sale financial assets	AfS	345		214	131	
Financial assets held for trading	FAHfT	2				2
Derivative financial assets						
Derivatives without a hedging relationship	FAHfT	280				280
Derivatives with a hedging relationship	n.a.	79			14	65
Liabilities						
Trade payables	FLAC	7,121	7,121			
Bonds and other securitized liabilities	FLAC	36,288	36,288			
Liabilities to banks	FLAC	2,348	2,348			
Liabilities arising from ABS transactions	FLAC	1,139	1,139			
Promissory notes	FLAC	680	680			
Other interest-bearing liabilities	FLAC	883	883			
Other non-interest-bearing liabilities	FLAC	2,799	2,799			
Finance lease liabilities	n.a.	1,783				
Derivative financial liabilities						
Derivatives without a hedging relationship (held for trading)	FLHfT	439				439
Derivatives with a hedging relationship (hedge accounting)	n.a.	123			58	65
Of which: aggregated by category in accordance with IAS 39						
Loans and receivables (LaR)		11,771	11,771			
Held-to-maturity investments (HtM)		66	66			
Available-for-sale financial assets (AfS)		345		214	131	
Financial assets held for trading (FAHfT)		282				282
Financial liabilities measured at amortized cost (FLAC)		51,258	51,258			
Financial liabilities held for trading (FLHfT)		439				439

* For details, please refer to Note 24.

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

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

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

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

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

Amounts recognized in balance sheet according to IAS 17	Fair value Dec. 31, 2006	Category in accordance with IAS 39	Carrying amount Dec. 31, 2005	Amounts recognized in balance sheet according to IAS 39				Amounts recognized in balance sheet according to IAS 17	Fair value Dec. 31, 2005
				Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss		
	2,765	LaR	4,975	4,975					4,975
	7,577	LaR	7,328	7,328					7,328
281	1,710	LaR/n.a.	1,284	971				313	1,284
	66	HtM	86	86					86
	131*	AfS	317		163	154			154*
	2	FAHfT	9				9		9
	280	FAHfT	294				294		294
	79	n.a.	151				151		151
	7,121	FLAC	6,889	6,889					6,889
	39,060	FLAC	37,255	37,255					41,332
	2,474	FLAC	2,227	2,227					2,429
	1,139	FLAC	1,363	1,363					1,363
	768	FLAC	645	645					765
	883	FLAC	646	646					646
	2,799	FLAC	2,051	2,051					2,051
1,783	2,000	n.a.	1,856					1,856	2,384
	439	FLHfT	644				644		644
	123	n.a.	34			32	2		34
	11,771		13,274	13,274					13,274
	66		86	86					86
	131*		317		163	154			154*
	282		303				303		303
	54,244		51,076	51,076					55,475
	439		644				644		644

Net gain/loss by category.

millions of €	From interest	From subsequent measurement			From derecognition	Net gain (loss)	
		At fair value	Currency translation	Impairment/ reversal of impairment		2006	2005
Loans and receivables (LaR)	202		(1,144)	(714)		(1,656)	(728)
Held-to-maturity investments (HtM)	14					14	3
Available-for-sale financial assets (AfS)	27			(10)	203	220	1,022
Financial instruments held for trading (FAHfT and FLHfT)	n.a.	(17)	n.a.			(17)	15
Financial liabilities measured at amortized cost (FLAC)	(2,652)		1,147			(1,505)	(2,599)
Total	**(2,409)**	**(17)**	**3**	**(724)**	**203**	**(2,944)**	**(2,287)**

Interest from financial instruments is recognized in finance costs (see Note 7).

Deutsche Telekom recognizes the other components of net gain/loss in other financial income/expense, except for impairments/reversal of impairments of trade receivables that are classified as “loans and receivables” which are reported under selling expenses (see Note 3).

The net loss from the subsequent measurement for financial instruments held for trading (EUR 17 million) also includes interest and currency translation effects.

The currency translation losses on financial assets classified as “loans and receivables” (EUR 1,144 million) are primarily attributable to the intragroup transfer of foreign-currency loans taken out by Deutsche Telekom’s financing company, Deutsche Telekom International Finance B.V., on the capital market. These were offset by corresponding currency translation gains on capital market liabilities of EUR 1,147 million.

Interest expenses from financial liabilities measured at amortized cost (EUR 2,652 million) primarily consist of interest expense on bonds and other (securitized) financial liabilities. The item also includes interest income from interest added back and discounted from trade payables. However, not included are interest expense and interest income from interest rate derivatives Deutsche Telekom used in the reporting period to hedge the fair value risk of financial liabilities (see Note 7).

Net losses of EUR 1 million (2005: net gains of EUR 126 million) were recognized in shareholders’ equity in 2006 as a result of the recognition of changes in the fair values of available-for-sale financial assets. Of the amounts recorded in shareholders’ equity, losses totaling EUR 3 million (2005: profits of EUR 984 million) were reclassified to the income statement in the 2006 financial year.

28 Other liabilities.

millions of €	Dec. 31, 2006	Dec. 31, 2005
Deferred revenues	2,082	2,529
Other liabilities	3,713	2,204
Total	**5,795**	**4,733**

The increase in other liabilities is primarily attributable to higher liabilities related to voluntary redundancy and severance payments (EUR 0.8 billion) for employees and, for the first time, to early retirement arrangements for civil servants (EUR 0.4 billion).

In addition, other liabilities encompass liabilities from other taxes and social security liabilities.

29 Provisions for pensions and other employee benefits.

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

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

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

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

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

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

Calculation of pension provisions:

millions of €	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Present value of funded obligations	1,515	1,410	2,073
Plan assets at fair value	(966)	(901)	(623)
Projected benefit obligation in excess of plan assets	549	509	1,450
Present value of non-funded obligations	5,619	5,606	3,238
Unrecognized past service cost	(1)	0	0
Net defined benefit liability (+)/defined benefit asset (–)	**6,167**	**6,115**	**4,688**

Pension provisions break down into defined benefit liability and defined benefit asset as follows:

millions of €	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Defined benefit asset presented on the balance sheet	0	(52)	0
Defined benefit liability presented on the balance sheet	6,167	6,167	4,688
Net defined benefit liability (+)/defined benefit asset (–)	**6,167**	**6,115**	**4,688**

The defined benefit asset is recognized under other assets in the consolidated balance sheet.

The following table shows the composition of pension obligations:

millions of €	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Pension obligations			
– Direct	5,615	5,601	3,232
– Indirect	548	509	1,450
Obligations in accordance with Article 131 GG	4	5	6
Net defined benefit liability (+)/ defined benefit asset (-)	**6,167**	**6,115**	**4,688**

The amount of the pension obligations was determined using actuarial principles that are consistent with IAS 19.

The calculations were based on the following assumptions at the respective balance sheet dates:

Assumptions for the measurement of defined benefit obligations as of December 31.

%	2006	2005	2004
Discount rate	4.45 3.25 [b] 4.80 [c]	4.10 3.25 [b] 4.75 [c]	5.25 3.25 [b] 5.30 [c]
Projected salary increase	2.50 3.25 [a] 1.50 [b] 4.00 [c]	2.75 3.50 [a] 1.00 [b] 3.90 [c]	2.75 3.50 [a] 1.00 [b] 3.80 [c]
Projected pension increase	1.00 1.50 0.60 [b] 3.00 [c]	1.00 1.50 1.00 [b] 2.90 [c]	1.00 1.50 1.00 [b] 2.80 [c]

[a] For non-civil servants not covered by collective agreements.
[b] Switzerland.
[c] United Kingdom.

For calculating the present value of pension obligations, taking into account future salary increases (defined benefit obligation), Deutsche Telekom used a rate of 4.45 percent as of December 31, 2006. This interest rate was determined based on a weighted average term of the obligation of approximately 15 years. As the obligations are denominated in euros, the discount rate is based on the rate of return of high-quality European corporate bonds with AA rating for which a yield curve is prepared based on spot rates.

Assumptions for determining the pension expense for years ending December 31.

%	2006	2005	2004
Discount rate	4.10 3.25 [b] 4.75 [c]	5.25 3.25 [b] 5.30 [c]	5.25
Projected salary increase	2.75 3.50 [a] 1.00 [b] 3.90 [c]	2.75 3.50 [a] 1.00 [b] 3.80 [c]	2.75 3.50 [a]
Return on plan assets	4.00 4.50 [b] 6.60 [c]	5.00 4.50 [b] 7.25 [c]	5.50
Projected pension increase	1.00 1.50 1.00 [b] 2.90 [c]	1.00 1.50 1.00 [b] 2.80 [c]	1.50

[a] For non-civil servants not covered by collective agreements.
[b] Switzerland.
[c] United Kingdom.

Development of the projected benefit obligations in the reporting year:

millions of €	2006	2005
Present value of the defined benefit obligations as of January 1	**7,016**	**5,311**
Current service cost	389	223
Interest cost	285	289
Contributions by plan participants	7	12
Change in obligations	40	297
Actuarial (gains) losses	(303)	1,155
Total benefits actually paid	(289)	(274)
Plan amendments	(18)	0
Exchange rate fluctuations for foreign-currency plans	7	3
Present value of the defined benefit obligations as of December 31	**7,134**	**7,016**

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

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

millions of €	2006	2005
Plan assets at fair value, as of January 1	**901**	**623**
Expected return on plan assets	46	47
Actuarial gains (losses)	11	54
Contributions by employer	37	29
Contributions by plan participants	7	12
Benefits actually paid through pension funds	(61)	(69)
Change in obligations	21	205
Exchange rate fluctuations for foreign-currency plans	4	0
Plan assets at fair value, as of December 31	**966**	**901**

Breakdown of plan assets at fair value by investment category:

%	Dec. 31, 2006	Dec. 31, 2005
Equity securities	36	37
Debt securities	50	50
Real estate	11	10
Other	3	3

The plan assets include shares amounting to EUR 1.6 million (December 31, 2005: EUR 1.8 million), which were issued by Deutsche Telekom. No own financial instruments were included in the years shown.

Determination of the expected return on plan assets.
The expected return on the plan assets for the year 2007 is 4.0 percent (VAP and DTBS), 4.5 percent (Switzerland) and 6.47 percent (United Kingdom).

These expectations are based on consensus forecasts for each asset class as well as on banks' estimates. The forecasts draw on historical values and economic data. In addition, they are based on interest rate forecasts and anticipated capital market performance.

The pension expense for each period is composed of the following items and is reported in the indicated accounts of the income statement:

millions of €	Income statement account	2006	2005	2004
Current service cost	Personnel costs (pension benefit costs)	389	223	171
Interest cost	Other financial income (expense)	285	289	255
Expected return on plan assets	Other financial income (expense)	(46)	(47)	(27)
Past service cost	Personnel costs (pension benefit costs)	(18)	0	(104)
Pension expense		**610**	**465**	**295**
Actual return on plan assets		57	101	30

Change from the corridor method to the recognition of actuarial gains and losses when they occur outside profit or loss (IAS 19.93A). As of December 31, 2006, Deutsche Telekom changed its accounting policies concerning provisions for pensions and adopted the third option available under IAS 19.93A, which allows for actuarial gains and losses to be recognized directly in retained earnings in equity. This step is a voluntary change in accounting policies (IAS 8.14). Deutsche Telekom believes that fully recognizing actuarial gains and losses when they occur results in a better presentation of the financial position in the balance sheet, since hidden reserves and liabilities are realized and the financial statements thus provide more relevant information. The corresponding prior-year comparatives have been adjusted accordingly.

The following tables highlight the impact of the change in accounting policies on profit after income taxes, consolidated shareholders' equity, and provisions for pensions in prior years.

Profit after income taxes.

millions of €	2005	2004	2003
Profit before change in accounting policies	6,016	2,017	2,517
Reversal of actuarial (gains) losses previously recognized in other financial income/expense	7	1	0
Adjustment of income taxes	(2)	0	0
Profit after change in accounting policies	**6,021**	**2,018**	**2,517**

The change in accounting policies has no impact on the presentation of basic and diluted earnings per share in prior years.

Consolidated shareholders' equity.

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Shareholders' equity before change in accounting policies	49,582	45,803	43,738
Allocation of unrecognized actuarial gains (losses) to retained earnings	(1,571)	(479)	(368)
Reversal of actuarial (gains) losses recognized in profit/loss	8	1	0
Allocation of actuarial gains (losses) recognized in profit/loss to retained earnings	(8)	(1)	0
Increase in deferred tax assets	588	188	144
Shareholders' equity after change in accounting policies	**48,599**	**45,512**	**43,514**

Provisions for pensions.

millions of €	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Provisions for pensions before change in accounting policies	4,596	4,209	4,175
Defined benefit asset	(52)	0	0
Cumulative actuarial (gains) losses	1,571	479	368
Provisions for pensions after change in accounting policies	**6,115**	**4,688**	**4,543**

The statement of recognized income and expense includes the following amounts:

millions of €	2006	2005	2004
Cumulative losses (gains) recognized directly in equity as of January 1	1,579	480	368
Recognition directly in equity of actuarial (gains) losses in the reporting period	(314)	1,099	112
Cumulative losses (gains) recognized directly in equity as of December 31	**1,265**	**1,579**	**480**

Expected employer contributions for the subsequent year are estimated as follows:

millions of €	2007	2006	2005
Expected contributions by employer	41	28	68

Expected pension payments for subsequent years:

millions of €	2007	2008	2009	2010	2011	2012 – 2016
Expected pension payments	263	278	293	297	304	1,511

Amounts for the current year and three preceding years of pension obligations, plan assets, assets in excess of benefit obligations, and experience-based adjustments.

millions of €	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Defined benefit obligations	7,134	7,016	5,311	5,032
Plan assets at fair value	(966)	(901)	(623)	(489)
Projected benefit obligations in excess of plan assets	**6,168**	**6,115**	**4,688**	**4,543**

Adjustment in %	2006	2005	2004
Experience-based increase (+)/decrease (–) of pension obligations	(0.4)	2.2	2.6
Experience-based increase (+)/decrease (–) of plan assets	1.1	6.5	0.6

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

In accordance with the provisions of the German Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz – PTNeuOG), BPS-PT makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil servant status. The level of Deutsche Telekom's payment obligations to its special pension fund is defined under § 16 of the Act Concerning the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz – PostPersRG). Since 2000, Deutsche Telekom AG has been legally obliged to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. This contribution is recognized as an ongoing expense in the respective year, and amounted to EUR 842 million in the reporting year (2005: EUR 862 million; 2004: EUR 911 million) (please refer to explanations under Note 40).

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.

30 Other provisions.

millions of €	Personnel	Restoration obligations	Investment risks	Litigation risks	Reimburse-ments	Other	**Total**
At December 31, 2004	**3,393**	**543**	**454**	**381**	**170**	**1,488**	**6,429**
Of which: current	1,633	9	454	228	169	1,053	3,546
Changes in the composition of the Group	3	0	0	0	(3)	3	3
Currency translation adjustments	20	8	0	3	6	31	68
Addition	2,514	181	0	78	143	838	3,754
Use	(2,028)	(40)	(143)	(171)	(150)	(545)	(3,077)
Reversal	(871)	(10)	0	(46)	(12)	(403)	(1,342)
Interest effect	27	33	0	0	0	12	72
Other changes	(45)	(73)	0	(7)	(1)	(124)	(250)
At December 31, 2005	**3,013**	**642**	**311**	**238**	**153**	**1,300**	**5,657**
Of which: current	2,097	6	311	88	152	967	3,621
Changes in the composition of the Group	70	53	0	4	4	46	177
Currency translation adjustments	(12)	(1)	0	2	(4)	(17)	(32)
Addition	3,283	90	0	150	132	794	4,449
Use	(2,269)	(35)	(311)	(51)	(110)	(644)	(3,420)
Reversal	(243)	(37)	0	(31)	(13)	(200)	(524)
Interest effect	41	31	0	0	0	2	74
Other changes	6	(30)	0	18	(7)	(101)	(114)
At December 31, 2006	**3,889**	**713**	**0**	**330**	**155**	**1,180**	**6,267**
Of which: current	1,954	6	0	113	149	871	3,093

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

As announced in 2005, Deutsche Telekom launched the necessary staff restructuring program. Under this program, a total of 32,000 employees in Germany are expected to leave the Group between 2006 and 2008. At the heart of staff restructuring is the provision of socially responsible staff restructuring tools such as partial retirement arrangements, voluntary redundancy and severance payments, and early retirement. By the end of 2006, Deutsche Telekom had implemented around one-third of the planned workforce reduction within the overall plan, which runs until 2008. Civil servants are also included in the staff restructuring process. The Second Act to Amend the Act for the Improvement of the Staff Structure at the Residual Special Asset of the Federal Railways and the Successor Companies of the Former Deutsche Bundespost (Zweites Gesetz zur Änderung des Gesetzes zur Verbesserung der personellen Struktur beim Bundeseisenbahnvermögen und in den Unternehmen der Deutschen Bundespost) came into effect on November 16, 2006. Among other aims, the Act is intended to help correct the negative consequences of a structural feature of the successor companies to Deutsche Bundespost. These companies employ a high proportion of civil servants in Western Germany, while staff covered by collective agreements make up the majority of the workforce in Eastern Germany. The Act allows Deutsche Telekom to include its civil servants in the staff restructuring process in a socially responsible manner. According to this law, civil servants of all service grades who are working in areas where there is a surplus of staff and for whom employment in another area is not possible or cannot reasonably be expected in line with civil service legislation will be able to apply for early retirement from the age of 55. Within the framework of the staff restructuring program, provisions for voluntary redundancy and severance payments for employees (EUR 0.4 billion) and provisions in connection with the early retirement arrangements for civil servants (EUR 1.7 billion) were recognized in the 2006 financial year.

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

millions of €	Jan. 1, 2006	Addition	Use	Reversal	Other changes	Dec. 31, 2006
Broadband/Fixed Network	767	1,276	(904)	0	(2)	1,137
Mobile Communications	22	34	(27)	(2)	0	27
Business Customers	194	570	(218)	(7)	(1)	538
Group Headquarters & Shared Services	313	432	(193)	(4)	3	551
	1,296	**2,312**	**(1,342)**	**(13)**	**0**	**2,253**

In the 2006 financial year provisions for staff-related measures in the amount of EUR 1.3 billion were utilized. Part of these utilized provisions had an impact on cash flow, while others did not effect a disbursement in the reporting period although their volume and utilization date was already known. Accordingly, the latter amounts are no longer recognized as provisions but as liabilities. Total provisions for staff-related measures at December 31, 2006 amounted to approximately EUR 2.3 billion. This amount includes EUR 0.5 billion for provisions for voluntary redundancy and severance payments together with EUR 1.3 billion for provisions in connection with the civil servants' early retirement scheme.

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

As part of the refinancing of the Toll Collect group (Toll Collect GbR and Toll Collect GmbH), the consortium agreed to contribute a further amount of EUR 0.8 billion (Deutsche Telekom AG share: EUR 0.4 billion) and in the course of this measure, the previous provision for investment risks (EUR 0.3 billion) was utilized in full. The excess amount (EUR 0.1 billion) was recognized as an expense under the share of profit/loss of associates and joint ventures accounted for using the equity method for the purpose of continuing the equity-accounted investment in the Toll Collect group. The net carrying amount is EUR 4 million as of December 31, 2006.

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

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

Other provisions include provisions for environmental damage and risks, other taxes, warranties, advertising cost allowances, premiums and commissions as well as a variety of other items for which the individually recognized amounts are not material.

31 Shareholders' equity – Overview.

Statement of changes in shareholders' equity from January 1, 2004 to December 31, 2006:

Changes in shareholders' equity	Equity attributable to equity holders of the parent				
	Equity contributed			Consolidated shareholders' equity generated	
	Number of shares	Issued capital	Capital reserves	Retained earnings incl. carryforwards	Net profit (loss)
	thousands	millions of €	millions of €	millions of €	millions of €
Balance at January 1, 2004	**4,197,752**	**10,746**	**49,500**	**(19,829)**	**2,063**
Adjustment				(224)	
Balance at January 1, 2004 adjusted	**4,197,752**	**10,746**	**49,500**	**(20,053)**	**2,063**
Changes in the composition of the Group					
Profit after income taxes					1,594
Unappropriated net profit (loss) carried forward				2,063	(2,063)
Dividends					
Proceeds from the exercise of option and conversion rights	102	1	28		
Actuarial gains and losses				(68)	
Change in other comprehensive income (not recognized in income statement)					
Recognition of other comprehensive income in income statement					
Balance at December 31, 2004	**4,197,854**	**10,747**	**49,528**	**(18,058)**	**1,594**
Balance at January 1, 2005	**4,197,854**	**10,747**	**49,528**	**(18,058)**	**1,594**
Changes in the composition of the Group				(6)	
Profit after income taxes					5,589
Unappropriated net profit (loss) carried forward				1,594	(1,594)
Dividends				(2,586)	
Proceeds from the exercise of stock options	224		33		
Actuarial gains and losses				(697)	
Change in other comprehensive income (not recognized in income statement)				5	
Recognition of other comprehensive income in income statement					
Sale of treasury shares (anniversary campaign)					
Balance at December 31, 2005	**4,198,078**	**10,747**	**49,561**	**(19,748)**	**5,589**
Balance at January 1, 2006	**4,198,078**	**10,747**	**49,561**	**(19,748)**	**5,589**
Changes in the composition of the Group					
Profit after income taxes					3,165
Unappropriated net profit (loss) carried forward				5,589	(5,589)
Dividends				(3,005)	
Mandatory convertible bond	162,988	417	1,793	(71)	
T-Online merger	62,730	161	631		
Share buy-back	(62,730)	(161)	(548)		
Sale of treasury shares			(1)		
Proceeds from the exercise of stock options	53		62		
Actuarial gains and losses				187	
Change in other comprehensive income (not recognized in income statement)				71	
Recognition of other comprehensive income in income statement					
Balance at December 31, 2006	**4,361,119**	**11,164**	**51,498**	**(16,977)**	**3,165**

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

			Minority interests			
Other comprehensive income	Treasury shares	**Total** (equity attributable to equity holders of the parent)	Minority interest capital	Other comprehensive income	**Total** (minority interest in shareholders' equity)	**Total (consolidated shareholders' equity)***
millions of €	millions of €	**millions of €**	millions of €	millions of €	**millions of €**	**millions of €**
(2,954)	(8)	39,518	4,316	(96)	4,220	43,738
		(224)			0	(224)
(2,954)	(8)	39,294	4,316	(96)	4,220	43,514
		0	(14)		(14)	(14)
		1,594	424		424	2,018
		0			0	0
		0	(394)		(394)	(394)
		29			0	29
		(68)			0	(68)
479		479		151	151	630
(203)		(203)			0	(203)
(2,678)	(8)	41,125	4,332	55	4,387	45,512
(2,678)	(8)	41,125	4,332	55	4,387	45,512
		(6)	(1,009)	4	(1,005)	(1,011)
		5,589	432		432	6,021
		0			0	0
		(2,586)	(351)		(351)	(2,937)
		33			0	33
		(697)			0	(697)
2,589		2,594	4	44	48	2,642
(966)		(966)			0	(966)
	2	2			0	2
(1,055)	(6)	45,088	3,408	103	3,511	48,599
(1,055)	(6)	45,088	3,408	103	3,511	48,599
		0	(44)		(44)	(44)
		3,165	409		409	3,574
		0			0	0
		(3,005)	(277)		(277)	(3,282)
		2,139			0	2,139
		792	(607)		(607)	185
		(709)			0	(709)
	1	0			0	0
		62			0	62
		187	(3)		(3)	184
(1,214)		(1,143)	9	102	111	(1,032)
(6)		(6)			0	(6)
(2,275)	(5)	46,570	2,895	205	3,100	49,670

32 Issued capital.

As of December 31, 2006, the share capital of Deutsche Telekom totaled EUR 11,164 million. The share capital is divided into 4,361,119,250 no par value 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 14.83 percent at December 31, 2006 (December 31, 2005: 15.40 percent), while KfW's shareholding at December 31, 2006 was 16.87 percent (December 31, 2005: 22.09 percent) and The Blackstone Group's 4.39 percent (December 31, 2005: 0.00 percent). This means that 646,575,126 no par value shares (EUR 1,655 million) of the share capital were held by the Federal Republic at December 31, 2006, 735,667,390 (EUR 1,883 million) by KfW and 191,700,000 (EUR 491 million) by The Blackstone Group. The remaining shares are in free float.

In the course of the acquisition of T-Mobile USA Inc., Bellevue (United States)/Powertel Inc., Bellevue (United States), Deutsche Telekom granted options on shares of Deutsche Telekom AG in exchange for the outstanding warrants between Deutsche Telekom and T-Mobile USA/Powertel at the time of the acquisition. As of December 31, 2006, the number of Deutsche Telekom shares reserved for the stock options granted to T-Mobile USA/Powertel employees and still outstanding was 10,235,269.

Authorized capital.

Deutsche Telekom had the following components of authorized capital as of December 31, 2006:

2004 Authorized capital:
The Board of Management is authorized, with the approval of the Supervisory Board, to increase the share capital by up to a amount of EUR 2,399,410,734.08 by issuing up to 937,269,818 no par value registered shares against non-cash capital contributions in the period up to May 17, 2009. This authorization may be exercised in full or in one or several partial amounts. The Board of Management is authorized, with the approval of the Supervisory Board, to exclude the shareholders' preemptive rights when issuing new shares for business combinations or for the acquisition of companies, parts thereof or equity interests in companies, including increasing an existing investment, or other assets eligible for contribution for such acquisitions, including receivables from the Company. The Board of Management is authorized, with the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares.

The Board of Management exercised the authority originally amounting to EUR 2,560,000,000 with the approval of the Supervisory Board in August 2005 and resolved to increase the share capital in the amount of EUR 160,589,265.92 (62,730,182 no par value shares) for the purpose of the merger of T-Online into Deutsche Telekom. The implementation of this capital increase was entered in the commercial register on September 12, 2005; it took effect together with the entry of the merger in the commercial register on June 6, 2006.

When the merger took effect, existing shares in T-Online were exchanged at the ratio agreed in the merger agreement of 25 T-Online shares to 13 Deutsche Telekom shares. This resulted in an increase of issued capital by a total of EUR 161 million. To prevent the merger from increasing the number of shares of Deutsche Telekom AG permanently, the Board of Management of Deutsche Telekom resolved on August 10, 2006 in accordance with the authorizing resolution of the shareholders' meeting on May 3, 2006 to buy back and retire 62,730,182 shares of the Company (corresponding to the number of new shares issued as a result of the merger of T-Online into Deutsche Telekom). The Supervisory Board approved this share retirement. Between August 14 and August 25, 2006, a total of 62,730,182 shares with a proportionate amount of the share capital of EUR 160,589,269.92, i.e., approximately 1.4 percent of the share capital at that time, were repurchased by the Company at an average price of EUR 11.29 for a total consideration of EUR 708,334,785.39.

2006 Authorized capital:
The Board of Management is authorized, with the approval of the Supervisory Board, to increase the share capital by up to EUR 38,400,000 by issuing up to 15,000,000 no par value registered shares against cash and/or non-cash contributions in the period up to May 2, 2011. This authorization may be exercised in full or in one or several partial amounts. Shareholders' preemptive rights are disapplied. The new shares may only be issued to grant shares to employees of Deutsche Telekom AG and of lower-tier companies (employee shares). The new shares can also be issued to a bank or some other company meeting the requirements of § 186 (5), sentence 1 AktG that assumes the obligation to use these shares for the sole purpose of granting employee shares. The shares to be issued as employee shares can also be acquired in the form of a securities loan from a bank or some other company meeting the requirements of § 186 (5), sentence 1 AktG and the new shares used to repay this securities loan. The Board of Management is authorized, with the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares.

Contingent capital.
Deutsche Telekom had the following components of contingent capital as of December 31, 2006:

Contingent capital I:
The share capital has been contingently increased by up to EUR 82,733,936.64, composed of up to 32,317,944 shares. 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.

The mandatory convertible bond issued in February 2003 on the basis of the Board of Management's authority to issue convertible bonds and/or bonds with warrants as resolved by the shareholders' meeting on May 29, 2001 was converted into shares of Deutsche Telekom AG on June 1, 2006. As a result, contingent capital amounting to EUR 499,982,504.96 (as of December 31, 2005) in 2006 decreased by EUR 417,248,568.32 to EUR 82,733,936.64 (as of December 31, 2006). The share capital rose accordingly in the 2006 financial year. 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 percent. As of June 1, 2006, the bonds were converted into shares of Deutsche Telekom AG at the ratio of 3,810.97561 shares per bond (par value: EUR 50,000).

Contingent capital II:
The share capital has been contingently increased by up to EUR 32,326,991.36, composed of up to 12,627,731 new no par value registered shares. The contingent capital increase is exclusively for the purpose of meeting preemptive rights to shares from stock options granted in the period until December 31, 2003 to members of the Board of Management of the Company, to members of second-tier management, and to other executives, managers, and specialists of the Company and to members of the boards of management, members of management, and other executives, managers, and specialists at lower-tier Group entities in Germany and other countries, on the basis of the authorization for a 2001 Stock Option Plan granted by resolution of the shareholders' meeting on May 29, 2001. It will be implemented only to the extent that the holders of stock options exercise these options. The new shares shall participate in the profit from the start 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.

53,625 stock options granted under the 2001 Stock Option Plan were exercised in the 2006 financial year. As a result, contingent capital II amounting to EUR 32,464,271.36 (as of December 31, 2005) decreased in 2006 by EUR 137,280.00 (53,625 no par value shares) to EUR 32,326,991.36 (as of December 31, 2006). The share capital rose accordingly in the 2006 financial year.

Contingent capital III:
The share capital has been contingently increased by up to EUR 2,621,237.76, composed of up to 1,023,921 shares. The contingent capital increase serves exclusively to grant subscription rights to members of the board of management and executives of the Company, as well as board of management members, managing board members and other executives of second- and lower-tier subsidiaries as part of a stock option plan established on the basis of a resolution by the shareholders' meeting of May 25, 2000. It shall be implemented only to such extent as use is made of those subscription rights. The new shares shall participate in the profit from the start of the financial year in which they are issued. If new shares are issued after the end of a financial year but before the Company's shareholders' meeting that resolves the appropriation of net income for the preceding financial year, the new shares carry dividend rights from the beginning of the preceding financial year. No stock options granted under the 2000 Stock Option Plan had been exercised as of the expiration date of July 20, 2005.

Contingent capital IV:
The share capital has been contingently increased by EUR 600,000,000, composed of 234,375,000 no par value shares. The contingent capital increase will be implemented only to the extent that

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

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

33 Capital reserves.

The capital reserves of the Group primarily encompass the capital reserves of Deutsche Telekom AG. Differences result from the recognition at fair value of the Deutsche Telekom AG shares newly issued in the course of the acquisition of VoiceStream/Powertel instead of at their par value, which is permissible in the consolidated financial statements, and from the related treatment of the issuing costs. Furthermore, there were additional allocations to capital reserves in 2006 from the exercise of conversion rights by former shareholders of T-Mobile USA/Powertel.

34 Retained earnings including carryforwards.

Retained earnings were impacted in particular by the appropriation of an amount of EUR 5.6 billion in net profit for the prior year, the payment of EUR 3.0 billion in dividends for the 2005 financial year, and the actuarial losses of EUR 0.2 billion.

35 Other comprehensive income.

Other comprehensive income declined year-on-year by EUR 1.2 billion to EUR – 2.3 billion. While the translation of foreign Group entities generated negative exchange rate effects, the remeasurement of the former shareholdings in PTC and the gains from cash flow and net investment hedges had a positive impact.

36 Treasury shares.

Through a resolution by the shareholders' meeting on May 3, 2006, the Board of Management of Deutsche Telekom AG was authorized to acquire up to 419,807,790 treasury shares, i.e., up to almost 10 percent of the share capital, until November 2, 2007. This authorization may be exercised in full or in part. The shares can be acquired in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. The treasury shares acquired on the basis of this authorization may be resold on the stock exchange, used, with the approval of the Supervisory Board, to list the Company's shares on foreign stock exchanges, granted, with the approval of the Supervisory Board, to third parties in the course of business combinations or for the acquisition of companies, parts of companies, or equity interests in companies, including increasing an existing investment, retired with the approval of the Supervisory Board, tendered to shareholders on the basis of a subscription offer extended to all shareholders, or, with the approval of the Supervisory Board, disposed of in a manner other than on the stock exchange or tender to all shareholders, used, with the approval of the Supervisory Board, for the fulfillment of conversion or option rights/obligations arising from convertible bonds or bonds with warrants issued by the Company based on the authority resolved by the shareholders' meeting on April 26, 2005 under item 9 of the agenda or used, with the approval of the Supervisory Board, to service stock options to which holders of T-Online stock options are entitled on the basis of the 2001 Stock Option Plan and which are to be granted to them as a result of the merger of T-Online into Deutsche Telekom, in accordance with the merger agreement dated March 8, 2005. The authorizations described above may be exercised once or repeatedly, individually or in combination, in full or in relation to lesser quantities of shares purchased. The authorization granted to the Board of Management by the shareholders' meeting on April 26, 2005, to acquire treasury shares, ended when this new authorization took effect on May 3, 2006; the authorizations granted by the shareholders' meeting resolution of April 26, 2005, on the use of treasury shares acquired remain unaffected.

The 14,630 shares acquired by KfW in 2000 were sold by Deutsche Telekom in February 2006. The amount of the share capital attributable to these shares is EUR 37,452.80, which corresponds to 0.0003 percent of the share capital. The issue price was EUR 13.26 per share.

At 1,881,508 shares, the holding of treasury shares, having changed from last year's balance sheet date, breaks down as follows:

	Number
1999 Employee Stock Purchase Plan	5,185,278
Decrease as a result of the 2000 Employee Stock Purchase Plan	(2,988,980)
Decrease as a result of the 2005 Employee Stock Purchase Plan	(314,790)
Shares acquired from KfW, not yet issued	14,630
Decrease following 2006 sale	(14,630)
	1,881,508

Treasury shares are generally carried at cost.

Treasury shares amount to a total of approximately EUR 5 million or 0.04 percent of issued capital.

All treasury shares are held by Deutsche Telekom AG.

37 Minority interest.

Minority interest declined year-on-year by EUR 0.4 billion to EUR 3.1 billion. This was primarily attributable to the minority derecognition as part of the merger of T-Online International AG into Deutsche Telekom AG.

Other disclosures.

38 Notes to the consolidated cash flow statement.

Net cash from operating activities.
Net cash from operating activities amounted to EUR 14.2 billion in the reporting period, compared with EUR 15.0 billion in the prior year. This decrease is predominantly due to the decline in profit from operations. This effect was partially offset by lower net interest payments and changes in working capital.

Net cash used in investing activities.
Net cash used in investing activities totaled EUR 14.3 billion as compared with EUR 10.1 billion in the same period in the previous year. This increase was mainly caused by cash outflows for intangible assets which increased by EUR 2.8 billion and relate primarily to the purchase of FCC licenses at T-Mobile USA for EUR 3.3 billion. In addition, cash inflows from non-current financial assets (disposal of shares) decreased by EUR 1.4 billion. While inflows of EUR 1.6 billion were recorded in 2005 from the sale of shares in MTS, comdirect, Intelsat and DeASat, inflows of only EUR 0.2 billion were recorded in 2006 for the prior sale of shares in Celcom.

Net cash used in financing activities.
Net cash used in financing activities amounted to EUR 2.1 billion in the reporting period, compared with EUR 8.0 billion in the prior year. This development is mainly attributable to an increase in proceeds from the issue of financial liabilities of EUR 1.4 billion and to a reduction in repayments of current as well as non-current financial liabilities of EUR 5.5 billion; this was partly offset by an increase in dividend payments of EUR 0.3 billion and the share buy-back amounting to EUR 0.7 billion following the merger of T-Online International AG into Deutsche Telekom AG.

Neither the conversion of the mandatory convertible bond (EUR 2.1 billion increase in Deutsche Telekom AG's issued capital and capital reserves) nor the merger of T-Online International AG into Deutsche Telekom AG (EUR 0.8 billion increase in Deutsche Telekom AG's issued capital and capital reserves) led to a change in cash levels (non-cash transactions). For more detailed information, please refer to the statement of changes in shareholders' equity and the notes on shareholders' equity (see Notes 31 to 37).

39 Segment reporting.

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

The **Mobile Communications** strategic business area comprises all activities of T-Mobile International AG & Co. KG as well as other mobile communications activities of Deutsche Telekom in Central and Eastern Europe. T-Mobile is represented in Germany, the United States, the United Kingdom, the Netherlands, Austria, the Czech Republic, Hungary, Slovakia, Croatia, Macedonia, and Montenegro. The business area also has a subsidiary in Poland (PTC), which has been fully consolidated since November 2006. All T-Mobile companies offer digital mobile voice and data services to consumers and business customers. T-Mobile also sells hardware and other terminal devices in connection with the services offered. In addition, T-Mobile services are sold to resellers and other companies that buy network services and market them independently to third parties (mobile virtual network operators, or MVNOs).

The **Broadband/Fixed Network** strategic business area offers consumers and small business customers state-of-the-art infrastructure for traditional fixed-network services, broadband Internet access, and multimedia services. Broadband/Fixed Network also does business with national and international network operators and with resellers (wholesale including resale), and provides upstream telecommunications services for Deutsche Telekom's other strategic business areas. When the merger of T-Online International AG into Deutsche Telekom AG became effective on June 6, 2006, T-Online ceased to report as a separate unit; it is now managed as a product brand. For reporting purposes, Broadband/Fixed Network has been broken down into its domestic and international segments since the end of the first six months of 2006. Outside Germany, Broadband/Fixed Network has a presence in both Western and Eastern Europe: In Western Europe, it is represented by subsidiaries in France, Spain, Portugal, Austria, and Switzerland. In Eastern Europe's markets, the business area has operations primarily in Hungary including Macedonia, Montenegro, Bulgaria and Romania (Magyar Telekom), Croatia (T-Hrvatski Telekom), and Slovakia (Slovak Telekom).

The **Business Customers** strategic business area is divided into two business units: T-Systems Enterprise Services, which supports around 60 multinational corporations and large public authorities, and T-Systems Business Services, which serves around 160,000 large and medium-sized enterprises. T-Systems is represented in over 20 countries by subsidiaries, primarily in Germany and France, Spain, Italy, the United Kingdom, Austria, Switzerland, Belgium, and the Netherlands. The service provider offers its customers a full range of information and communication technology (ICT). T-Systems develops integrated ICT solutions on the basis of its extensive expertise in these two areas. For its key accounts, T-Systems develops and operates infrastructure and industry solutions. The business area also offers international outsourcing and takes over responsibility for entire business processes (business process outsourcing), such as payroll accounting. Its offering for small and medium-sized enterprises ranges from low-cost standard products through to high-performance IP-based networks and the development of complete ICT solutions.

Group units and subsidiaries that are not directly allocated to one of the strategic business areas are included in **Group Headquarters & Shared Services**. Group Headquarters is responsible for strategic management functions across the business areas. All other operating functions not directly related to the strategic business areas' core business are the responsibility of Shared Services. These consist of the Real Estate Services unit, whose activities include the management and administration of Deutsche Telekom AG's real estate portfolio; DeTeFleetServices GmbH, a full-service provider of fleet management and mobility services; and Vivento, which is responsible for managing surplus staff and employee placement and for creating employment opportunities, including in its own business lines. Shared Services primarily have activities in Germany. Real Estate Services also has operations in Hungary and, since June 2006, in Slovakia offering facility management services. The main Shared Services subsidiaries include DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, GMG Generalmietgesellschaft mbH, DFMG Deutsche

Funkturm GmbH, PASM Power and Air Condition Solution Management GmbH & Co. KG, DeTeFleetServices GmbH, Vivento Customer Services GmbH, and Vivento Technical Services GmbH.

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

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

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

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

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

millions of €		Net revenue	Intersegment revenue	Total revenue	Profit (loss) from operations (EBIT)	Interest income	Interest expense	Share of profit (loss) of associates and joint ventures accounted for using the equity method
Mobile Communications	**2006**	**31,308**	**732**	**32,040**	**4,504**	**236**	**(922)**	**80**
	2005*	28,531	921	29,452	3,005	178	(802)	133
	2004*	25,450	1,077	26,527	1,524	111	(1,153)	1,177
Broadband/ Fixed Network	**2006**	**20,635**	**4,050**	**24,685**	**3,307**	**285**	**(155)**	**31**
	2005*	21,731	4,304	26,035	5,142	451	(182)	53
	2004*	22,397	4,615	27,012	5,551	436	(209)	25
Business Customers	**2006**	**9,061**	**3,560**	**12,621**	**(881)**	**61**	**(99)**	**(86)**
	2005*	9,058	3,792	12,850	409	45	(107)	3
	2004*	9,246	3,716	12,962	554	75	(124)	(298)
Group Headquarters & Shared Services	**2006**	**343**	**3,331**	**3,674**	**(2,043)**	**1,107**	**(3,012)**	**(2)**
	2005*	284	3,221	3,505	(840)	1,092	(3,032)	(1)
	2004*	260	3,266	3,526	(1,441)	1,489	(4,006)	27
Reconciliation	**2006**	**–**	**(11,673)**	**(11,673)**	**400**	**(1,392)**	**1,351**	**1**
	2005*	–	(12,238)	(12,238)	(94)	(1,368)	1,324	26
	2004*	–	(12,674)	(12,674)	77	(1,734)	1,835	14
Group	**2006**	**61,347**	**–**	**61,347**	**5,287**	**297**	**(2,837)**	**24**
	2005*	59,604	–	59,604	7,622	398	(2,799)	214
	2004*	57,353	–	57,353	6,265	377	(3,657)	945

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

		Segment assets millions of €	Segment liabilities millions of €	Segment investments millions of €	Investments accounted for using the equity method millions of €	Depreciation and amortization millions of €	Impairment losses millions of €	Employees [a] number
Mobile Communications	**2006**	**70,087**	**8,233**	**8,432**	**6**	**(5,300)**	**(58)**	**54,124**
	2005 [b]	64,984	7,558	6,288	1,599	(4,745)	(1,951)	49,479
	2004 [b]	59,359	6,461	3,014	2,260	(3,379)	(3,564)	47,417
Broadband/ Fixed Network	**2006**	**27,323**	**8,202**	**3,292**	**172**	**(3,762)**	**(107)**	**108,956**
	2005 [b]	27,757	7,163	3,430	110	(4,026)	(8)	112,872
	2004 [b]	28,266	7,942	2,088	269	(4,199)	(200)	115,292
Business Customers	**2006**	**9,088**	**4,761**	**1,199**	**23**	**(925)**	**(7)**	**55,687**
	2005 [b]	8,720	3,943	966	18	(885)	(11)	51,744
	2004 [b]	8,849	3,730	889	8	(953)	(2)	51,978
Group Headquarters & Shared Services	**2006**	**11,620**	**7,499**	**569**	**2**	**(695)**	**(237)**	**29,713**
	2005 [b]	11,125	6,294	600	3	(695)	(233)	29,931
	2004 [b]	12,074	5,637	673	67	(784)	(101)	32,872
Reconciliation	**2006**	**(2,841)**	**(2,997)**	**(77)**	**(14)**	**58**	**(1)**	**–**
	2005 [b]	(1,675)	(1,597)	(184)	95	60	(3)	–
	2004 [b]	(1,757)	(2,154)	(85)	63	56	(1)	–
Group	**2006**	**115,277**	**25,698**	**13,415**	**189**	**(10,624)**	**(410)**	**248,480**
	2005 [b]	110,911	23,361	11,100	1,825	(10,291)	(2,206)	244,026
	2004 [b]	106,791	21,616	6,579	2,667	(9,259)	(3,868)	247,559

[a] Annual average.
[b] Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

millions of €		Net cash from (used in) operating activities	Net cash from (used in) investing activities	Of which: cash outflows for investments in intangible assets and property, plant and equipment	Net cash from (used in) financing activities
Mobile Communications	**2006**	**8,269**	**(8,457)**	**(8,457)**	**(1,145)**
	2005*	8,117	(4,537)	(5,669)	(3,957)
	2004*	7,543	(2,227)	(3,197)	(2,998)
Broadband/ Fixed Network	**2006**	**8,662**	**(2,398)**	**(3,289)**	**(4,795)**
	2005*	9,289	(2,025)	(3,274)	(5,903)
	2004*	11,600	(2,021)	(2,226)	(5,797)
Business Customers	**2006**	**738**	**(1,446)**	**(1,010)**	**511**
	2005*	1,420	(951)	(786)	(824)
	2004*	1,400	(921)	(763)	(769)
Group Headquarters & Shared Services	**2006**	**3,207**	**(3,888)**	**(483)**	**(1,825)**
	2005*	4,014	(1,414)	(456)	(6,589)
	2004*	3,652	1,135	(518)	(11,161)
Reconciliation	**2006**	**(6,681)**	**1,911**	**(20)**	**5,193**
	2005*	(7,842)	(1,131)	50	9,234
	2004*	(7,475)	(467)	67	7,844
Group	**2006**	**14,195**	**(14,278)**	**(13,259)**	**(2,061)**
	2005*	14,998	(10,058)	(10,135)	(8,039)
	2004*	16,720	(4,501)	(6,637)	(12,881)

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

Reconciliation of profit from operations.

millions of €	2006	2005*	2004*
Profit from operations (EBIT)	**5,287**	**7,622**	**6,265**
Loss from financial activities	(2,683)	(1,403)	(2,695)
Income taxes	970	(198)	(1,552)
Profit after income taxes	**3,574**	**6,021**	**2,018**

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

Reconciliation of segment assets and segment liabilities.

millions of €	Dec. 31, 2006	Dec. 31, 2005*	Dec. 31, 2004*
Segment assets	**115,277**	**110,911**	**106,791**
Cash and cash equivalents	2,765	4,975	8,005
Current recoverable income taxes	643	613	317
Other current financial assets (excluding receivables from suppliers)	1,677	1,225	1,150
Investments accounted for using the equity method	189	1,825	2,667
Other non-current financial assets (excluding receivables from suppliers)	657	779	1,636
Deferred tax assets	8,952	8,140	4,912
Assets in accordance with the consolidated balance sheet	**130,160**	**128,468**	**125,478**
Segment liabilities	**25,698**	**23,361**	**21,616**
Current financial liabilities	7,374	10,139	12,385
Income tax liabilities	536	1,358	1,049
Non-current financial liabilities	38,799	36,347	38,498
Deferred tax liabilities	8,083	8,331	5,948
Other liabilities	0	333	470
Liabilities in accordance with the consolidated balance sheet	**80,490**	**79,869**	**79,966**

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

Segments by geographic area.

millions of €	Segment assets			Segment investments			Net revenue		
	2006	2005*	2004*	2006	2005*	2004*	2006	2005*	2004*
Germany	52,408	53,517	55,843	5,383	4,618	3,431	32,460	34,183	34,741
Europe (excluding Germany)	29,620	24,228	25,865	2,806	1,983	1,756	14,823	13,272	12,952
North America	33,205	33,116	25,035	5,216	4,488	1,373	13,700	11,858	9,301
Other countries	44	50	48	10	11	19	364	291	359
Group	**115,277**	**110,911**	**106,791**	**13,415**	**11,100**	**6,579**	**61,347**	**59,604**	**57,353**

* Prior-year comparatives adjusted due to adoption of IAS 19.93A. For further explanations, please refer to Note 29.

40 Contingencies and other financial obligations.

Contingencies.

millions of €	Dec. 31, 2006	Dec. 31, 2005
Contingent liabilities relating to lawsuits and other proceedings	178	6
Contingent liabilities relating to guarantees and bills issued	0	36
Other contingent liabilities	6	6
	184	48

Contingent liabilities relating to lawsuits and other proceedings include liabilities that on the basis of the information and estimates available, do not fulfill the requirements for recognition as liabilities in the balance sheet. Deutsche Telekom is involved in a number of court and arbitration proceedings in connection with its regular business activities. Litigation provisions include legal counsel services and any probable losses. Deutsche Telekom does not believe that any additional costs arising from legal counsel services or the results of proceedings will have a material adverse effect on the financial position and results of operations of the Group.

Other financial obligations.

millions of €	Dec. 31, 2006	Dec. 31, 2005
Obligations arising from rental agreements and leases, including non-cancelable operating leases	20,247	20,335
Present value of payments to special pension fund	8,300	7,900
Purchase commitments and similar obligations	3,501	3,507
Purchase commitments for interests in other companies	94	1,802
Miscellaneous other obligations	125	144
	32,267	33,688

The year-on-year decrease of EUR 88 million in obligations arising from rental agreements and leases, including non-cancelable operating leases, is mainly the result of two offsetting effects: On the one hand, the obligations declined as a result of the negative exchange rate trend of the U.S. dollar; on the other, additional leasing obligations were entered into, in particular at T-Mobile USA relating to telecommunications networks.

The present value of payments to be made by Deutsche Telekom to the special pension fund or its successors pursuant to the provisions of the PTNeuOG amounted to EUR 8.3 billion at December 31, 2006 (please refer to explanations under Note 29).

The purchase commitments primarily relate to obligations from firm purchase contracts and similar obligations.

The decrease in purchase commitments for interests in other companies is attributable in particular to the payment of purchase commitments for the acquisition of tele.ring (EUR 1.3 billion) and gedas (EUR 0.4 billion), both of which were acquired in 2006.

41 Disclosures on leases.

Deutsche Telekom as lessee.
Finance leases.
Beneficial ownership of leased assets is attributed to the lessee provided that this is the party to which all the substantial risks and rewards incidental to ownership of the asset are transferred. The finance lease transactions of the Deutsche Telekom Group are mainly related to long-term rental and lease agreements for office buildings. In this context, the lease term is usually up to 25 years. The agreements include extension and purchase options. The following table shows the net carrying amounts of leased assets capitalized in connection with a finance lease as of the reporting date:

millions of €	Dec. 31, 2006	Of which: sale and leaseback transactions	Dec. 31, 2005	Of which: sale and leaseback transactions
Intangible assets	1	0	4	0
Land and buildings	1,283	740	1,318	788
Technical equipment and machinery	171	0	246	0
Other equipment, operating and office equipment	41	21	36	29
Net carrying amounts of leased assets capitalized	**1,496**	**761**	**1,604**	**817**

Payment obligations arising from finance leases as of the reporting date are recognized as liabilities at the present value of future minimum lease payments. In subsequent years, the liability decreases by the amount of lease payments made to the lessors. The interest component of the payments is recognized in the income statement.

The following table provides a breakdown of these amounts:

millions of €	December 31, 2006					
	Minimum lease payments		Interest component		Present values	
	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback
Maturity						
Within 1 year	337	119	131	74	206	45
In 1 to 3 years	452	221	235	137	217	84
In 3 to 5 years	376	208	212	125	164	83
After 5 years	1,959	1,173	763	494	1,196	679
Total	**3,124**	**1,721**	**1,341**	**830**	**1,783**	**891**

millions of €	December 31, 2005					
	Minimum lease payments		Interest component		Present values	
	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback
Maturity						
Within 1 year	338	105	144	74	194	31
In 1 to 3 years	576	231	298	141	278	90
In 3 to 5 years	352	203	209	130	143	73
After 5 years	2,054	1,270	813	551	1,241	719
Total	**3,320**	**1,809**	**1,464**	**896**	**1,856**	**913**

Operating leases.
Beneficial ownership of a lease is attributed to the lessor if this is the party to which all the substantial risks and rewards incidental to ownership of the asset are transferred. Deutsche Telekom's obligations arising from non-cancelable operating leases are mainly related to long-term rental or lease agreements for network infrastructure, radio towers and real estate. Some leases include extension options and provide for stepped rents. The operating lease expenses recognized in profit or loss amount to EUR 1.6 billion as of the end of 2006 (2005: EUR 1.6 billion; 2004: EUR 1.4 billion). The following table provides a breakdown of the amounts of future operating lease liabilities:

millions of €	Dec. 31, 2006	Dec. 31, 2005
Maturity		
Within 1 year	2,158	1,738
In 1 to 3 years	3,643	3,195
In 3 to 5 years	2,695	2,665
After 5 years	11,751	12,737
Total	**20,247**	**20,335**

For detailed explanations, please refer to Note 40.

Deutsche Telekom as lessor.
Finance leases.
Deutsche Telekom acts as lessor in connection with finance leases. Essentially, these relate to the leasing of routers which Deutsche Telekom provides to its customers for data and telephone network solutions. A receivable is recognized in the amount of the present value of the minimum lease payments. The present value of minimum lease payments from finance leases is determined as shown in the following table:

millions of €	Dec. 31, 2006	Dec. 31, 2005
Total gross investment	308	349
Unearned finance income	(27)	(36)
Net investment in the lease	281	313
Present value of the residual value	0	0
Present value of the minimum lease payments	**281**	**313**

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

millions of €	Dec. 31, 2006		Dec. 31, 2005	
	Total gross investment	Present value of the minimum lease payments	Total gross investment	Present value of the minimum lease payments
Maturity				
Within 1 year	114	102	162	143
In 1 to 3 years	135	124	156	141
In 3 to 5 years	32	29	29	27
After 5 years	27	26	2	2
Total	**308**	**281**	**349**	**313**

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

Operating leases.
Deutsche Telekom acts as lessor in connection with operating leases, which mainly relate to the rental of building space and radio towers. The leases have an average term of ten years. The following table provides a breakdown of future minimum lease payments arising from non-cancelable operating leases:

millions of €	Dec. 31, 2006	Dec. 31, 2005
Maturity		
Within 1 year	161	147
In 1 to 3 years	202	167
In 3 to 5 years	135	108
After 5 years	340	257
Total	**838**	**679**

Agreements that are not leases in substance.
In 2002, T-Mobile Deutschland GmbH concluded so-called lease-in/lease-out agreements (QTE lease agreements) for substantial parts of its GSM mobile communications network (amounting to USD 0.8 billion). These agreements were concluded with a total of seven U.S. trusts, each backed by U.S. investors. Under the terms of the principal lease agreements, T-Mobile is obliged to grant the respective U.S. trust unhindered use of the leased objects for a period of 30 years. After expiry of the principal lease agreements, the U.S. trusts have the right to acquire the network components for a purchase price of USD 1.00 each. In return, T-Mobile has leased the network components back for 16 years by means of sub-lease agreements. After around 13 years, T-Mobile has the option of acquiring the rights of the respective U.S. trust arising from the principal lease agreements (call option). Upon exercise of this call option, all the rights of the U.S. trust in question to the leased objects arising from the principal lease agreement are transferred to T-Mobile Deutschland. In this case, T-Mobile would be both parties to the principal lease agreement, meaning that this agreement would expire as a result of a confusion of rights.

42 Stock-based compensation plans.

Stock option plans.
The following table provides an overview of all existing stock option plans of Deutsche Telekom AG, T-Online International AG (prior to its merger into Deutsche Telekom AG), T-Mobile USA and Magyar Telekom:

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

During the 2006 exercise period, the average share price of Deutsche Telekom AG shares was EUR 13.01 and the average share price of Magyar Telekom shares was HUF 927.97.

Supplemental information on the stock option plans.
Deutsche Telekom AG.
In May 2001, the shareholders' meeting approved the introduction of the 2001 Stock Option Plan, resulting in the granting of stock options in August 2001 and July 2002. Furthermore, in 2001 und 2002, Deutsche Telekom also granted stock appreciation rights (SARs) to employees in countries where it was not legally possible to issue stock options.

For the 2001 Stock Option Plan, the shareholders' meeting in May 2001 resolved to increase the 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 was 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 its subsidiaries as part of the Deutsche Telekom 2001 Stock Option Plan.

50 percent of the options granted to each beneficiary may only be exercised following the end of a vesting period of two years, starting from the day on which the options are granted. The remaining 50 percent of the options granted to each beneficiary may be exercised at the earliest following the end of a vesting period of three years, starting from the day on which the options are granted. All options are vested. The options may not legally be sold, transferred, pledged, or otherwise disposed of except in the event of death, in which case the options are transferred to the beneficiary's heirs.

The exercise price payable upon exercise of the options granted serves as the performance target. The exercise price per share is 120 percent of the reference price, which corresponds to the higher of the non-weighted average closing prices of Deutsche Telekom shares in Xetra trading at the Frankfurt Stock Exchange (Deutsche Börse AG; or a successor system to the Xetra system) over the last 30 trading days before the grant date of the options and the closing price of Deutsche Telekom shares on the grant date of the options.

Deutsche Telekom AG reserved the right, at its election, to settle the options through the payment of a cash amount 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, 2006, 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 (based on a reference price of EUR 25.00) to the beneficiaries of the stock option plan on the basis of a resolution adopted by the shareholders' meeting in May 2001. The Xetra closing price of Deutsche Telekom's common stock quoted at the Frankfurt Stock Exchange on the grant date was EUR 19.10 per share. The 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 a resolution adopted by the shareholders' meeting in May 2001. The Xetra closing price of Deutsche Telekom's common stock quoted at the Frankfurt Stock Exchange on the grant date, based upon which the exercise price was calculated, was EUR 10.30 per share. The term of the options runs until July 14, 2012.

At the time they were granted, the options of the 2001 and 2002 tranches of the stock option plan had a fair value of EUR 4.87 and EUR 3.79 respectively.

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.

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

Deutsche Telekom AG	SOP 2001		SARs	
	Stock options (thousands)	Weighted average exercise price (€)	SARs	Weighted average exercise price (€)
Stock options outstanding at Jan. 1, 2006	**11,096**	**24.59**	**150,785**	**29.78**
Of which: exercisable	11,096	24.59	150,785	29.78
Granted	0	–	0	–
Exercised	53	12.36	0	–
Forfeited	253	25.98	2,145	30.00
Stock options outstanding at Dec. 31, 2006	**10,790**	**24.62**	**148,640**	**29.78**
Of which: exercisable	10,790	24.62	148,640	29.78
Supplemental information for 2006				
Remaining contractual life of options outstanding at end of period (years, weighted)	4.9		4.6	
Expected remaining life of options outstanding at end of period (years, weighted)	4.9		4.6	

The characteristics of the options outstanding and exercisable as of the reporting date (December 31, 2006) are as follows:

Deutsche Telekom AG	Options outstanding as of Dec. 31, 2006			Options exercisable as of Dec. 31, 2006	
Range of exercise prices (€)	Number (thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (€)	Number (thousands)	Weighted average exercise price (€)
10 – 20	3,290	5.5	12.36	3,290	12.36
21 – 40	7,500	4.6	30.00	7,500	30.00
10 – 40	**10,790**	**4.9**	**24.62**	**10,790**	**24.62**

T-Online International AG
(prior to the merger into Deutsche Telekom AG).
In May 2001, the shareholders' meeting approved the introduction of the 2001 Stock Option Plan, resulting in the granting of stock options in August 2001 and July 2002. The shareholders' meeting on May 30, 2001 contingently increased the share capital 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 included directors, senior managers, selected specialists at T-Online International AG, and members of the board of management, members of the management and other directors, senior managers, and selected specialists at Group entities within and outside Germany in which T-Online International AG directly or indirectly held a majority shareholding.

The stock option plan was structured as a premium-priced plan with the exercise price serving as a performance target. The exercise price per share was 125 percent of the reference price, which corresponded to the non-weighted average closing price of T-Online shares in Xetra trading at the Frankfurt Stock Exchange (Deutsche Börse AG; or a successor system to the Xetra system) over the last 30 trading days before the grant date.

The exercise rules specified that 50 percent of the options granted were only exercisable after a vesting period of two years - calculated from the grant date of the options. The remaining 50 percent of the options granted to each beneficiary could be exercised at the earliest following the end of a vesting period of three years, starting from the day on which the options were granted. The options had a life of ten years from the date on which they were granted. All options had been vested. The options may not legally be sold, transferred, pledged, or otherwise disposed of except in the event of death, in which case the options are transferred to the beneficiary's heirs.

Preemptive rights were issued in annual tranches for the years 2001 and 2002. On August 13, 2001, 2,369,655 options were granted in the first tranche on the basis of a resolution adopted by the shareholders' meeting in May 2001 at an exercise price of EUR 10.35. The options are forfeited without replacement or compensation on August 12, 2011 at the latest. A further 2,067,460 options were granted in the second tranche on July 15, 2002 at an exercise price of EUR 10.26. The options granted in the second tranche are forfeited without replacement or compensation on July 14, 2012 at the latest.

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.

The merger of T-Online International AG into Deutsche Telekom AG became effective upon entry in the commercial register on June 6, 2006. Under the merger agreement, as of this date Deutsche Telekom AG granted rights equivalent to the stock options awarded by T-Online International AG. The Board of Management of Deutsche Telekom AG has made use of the possibility of a future cash compensation provided for under the merger agreement and the option terms and conditions.

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

T-Online International AG	**SOP 2001**	
	Stock options (thousands)	Weighted average exercise price (€)
Stock options outstanding at Jan. 1, 2006	**3,551**	**10.30**
Of which: exercisable	3,518	10.31
Granted	0	–
Exercised	0	–
Forfeited	159	10.31
Stock options outstanding at Dec. 31, 2006	**3,392**	**10.30**
Of which: exercisable	3,374	10.30

T-Mobile USA.
Before its acquisition on May 31, 2001, T-Mobile USA (formerly Voice-Stream) had granted stock options to its employees under the 1999 Management Incentive Stock Option Plan (MISOP). On May 31, 2001, 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 option. The Deutsche Telekom shares linked to these options are administered in a trust deposit account that has been established for the benefit of holders of T-Mobile USA stock options. The exercise price for each Deutsche Telekom ordinary share corresponds to the applicable exercise price per T-Mobile USA ordinary share divided by 3.7647.

The MISOP provides for the issue of up to 8 million Deutsche Telekom ordinary shares, either as non-qualified stock options or as incentive stock options, plus the number of ordinary shares deliverable upon the exercise of the T-Mobile USA rollover options in accordance with the Agreement and Plan of Merger between Deutsche Telekom and T-Mobile USA. The vesting period and option terms relating to the option plan are determined by the MISOP administrator. The options typically vest for a period of four years and have a term of up to ten years.

The plan has now expired and no more options can be issued. A total of 10,234,000 were still outstanding at December 31, 2006.

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 outstanding Powertel options were converted into Deutsche Telekom options at a conversion rate of 2.6353. The Deutsche Telekom AG shares linked to these options are administered in a trust deposit account established for the benefit of holders of Powertel stock options. The exercise price for each Deutsche Telekom ordinary share corresponds to the applicable exercise price per Powertel ordinary share divided by 2.6353. No further options were granted under any other Powertel stock option plans. The plan was combined with the T-Mobile USA plan on January 1, 2004. At December 31, 2006, 7,233,000 shares were available for outstanding options of the converted stock option plans of T-Mobile USA.

In addition, T-Mobile USA issued performance options to certain executives in 2003.

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

T-Mobile USA	Stock options (thousands)	Weighted average exercise price (USD)
Stock options outstanding at Jan. 1, 2006	**13,848**	**20.36**
Of which: exercisable	12,455	21.15
Granted	0	–
Exercised	1,486	16.71
Forfeited	2,128	27.89
Expired	0	–
Stock options outstanding at Dec. 31, 2006	**10,234**	**20.39**
Of which: exercisable	10,073	20.50
Supplemental information for 2006		
Remaining contractual life of options outstanding at end of period (years, weighted)	4.0	
Expected remaining life of options outstanding at end of period (years, weighted)	2.8	

The characteristics of the options outstanding and exercisable as of the reporting date (December 31, 2006) are as follows:

T-Mobile USA					
	Options outstanding as of Dec. 31, 2006			Options exercisable as of Dec. 31, 2006	
Range of exercise prices (USD)	Number (thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (USD)	Number (thousands)	Weighted average exercise price (USD)
0.02 – 3.79	405	2.6	2.41	405	2.41
3.80 – 7.59	311	2.8	4.96	311	4.96
7.60 – 11.39	560	1.6	8.24	550	8.19
11.40 – 15.19	2,840	5.2	13.29	2,714	13.32
15.20 – 18.99	34	2.7	17.15	34	17.15
19.00 – 22.79	59	6.4	19.30	34	19.36
22.80 – 26.59	2,904	4.2	23.25	2,904	23.25
26.60 – 30.39	2,058	3.4	29.46	2,058	29.46
30.40 – 34.19	903	3.5	31.02	903	31.02
34.20 – 38.00	160	3.1	36.99	160	36.99
0.02 – 38.00	**10,234**	**4.0**	**20.39**	**10,073**	**20.50**

Magyar Telekom (formerly MATÁV).
2002 Stock Option Plan.
On April 26, 2002, the shareholders' meeting of Magyar Telekom approved the introduction of a new management stock option plan.

In order to satisfy the exercise of options granted, the annual shareholders' meeting of Magyar Telekom authorized Magyar Telekom'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, Magyar Telekom granted 3,964,600 stock options to participants in its stock option plan implemented on the basis of a shareholders' resolution adopted in April 2002. The options of the first of three equal tranches were granted at an exercise price of HUF 933 (exercisable between July 1, 2003 and the forfeiture date of the options) and the options of the second and third tranches at an exercise price of HUF 950 (exercisable between July 1, 2004 or July 1, 2005 and the forfeiture date of the options). The closing price of Magyar Telekom 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 options may not be sold, transferred, assigned, charged, pledged, or otherwise encumbered or disposed of to any third person.

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

The following table provides an overview of the development of Magyar Telekom stock options:

Magyar Telekom	SOP 2002	
	Stock options (thousands)	Weighted average exercise price (HUF)
Stock options outstanding at Jan. 1, 2006	**1,929**	**944.00**
Of which: exercisable	1,929	944.00
Granted	0	–
Exercised	539	944.00
Forfeited	83	944.00
Stock options outstanding at Dec. 31, 2006	**1,307**	**944.00**
Of which: exercisable	1,307	944.00
Supplemental information for 2006		
Remaining contractual life of options outstanding at end of period (years, weighted)	0.5	
Expected remaining life of options outstanding at end of period (years, weighted)	0.5	

The characteristics of the options outstanding and exercisable as of the reporting date (December 31, 2006) are as follows:

Magyar Telekom					
	Options outstanding as of Dec. 31, 2006			Options exercisable as of Dec. 31, 2006	
Range of exercise prices (HUF)	Number (thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (HUF)	Number (thousands)	Weighted average exercise price (HUF)
933 – 950	1,307	0.5	944.00	1,307	944.00

Mid-Term Incentive Plan (MTIP) / Long-Term Incentive Plan (LTIP).
Deutsche Telekom AG.
Mid-Term Incentive Plan 2004/2005/2006.
In the 2004 financial year, Deutsche Telekom AG introduced its first Mid-Term Incentive Plan (MTIP) to ensure competitive total compensation for members of the Board of Management, senior executives of the Deutsche Telekom Group, and other beneficiaries mainly from the United States and the United Kingdom. The MTIP is a global, Group-wide compensation instrument for Deutsche Telekom AG and other participating Group entities that promotes mid- and long-term value creation in the Group, and therefore aligns the interests of management and shareholders.

The MTIP as a revolving plan launched annually for five years takes the form of a compensation component with long-term incentives. A decision will be made each year on whether to re-launch the plan, as well as on the specific terms of the plan, in particular the performance targets.

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.

The MTIP is a cash-based plan pegged to two equally weighted, share-based performance parameters – one absolute and one relative. If both performance targets are achieved, then the total amount earmarked as an award to the beneficiaries by the respective employers is paid out; if one performance target is achieved, 50 percent of the amount is paid out, and if neither performance target is achieved, no payment is made.

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.

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

The relative performance target is achieved if the total return of the Deutsche Telekom share has outperformed the Dow Jones EURO STOXX Total Return Index on a percentage basis during the term of the individual plan. The benchmark is the non-weighted average of Deutsche Telekom shares (based on the Xetra closing prices of Deutsche Telekom shares) plus the value of dividends paid and reinvested in Deutsche Telekom shares, bonus shares etc., and the non-weighted average of the Dow Jones EURO STOXX Total Return Index during the last 20 trading days prior to the beginning and end of the plan.

The annual reviews of performance targets referred to above have not brought about any changes. The aforementioned targets have therefore been applied to all plans issued to date.

The MTIP 2004 came into effect in 2004; the MTIP 2005 came into effect in 2005. The plans each have a term of three years. The plans have maximum budgets of EUR 80 million and EUR 83 million, respectively. The proportionate amount to be expensed and recognized as a provision is calculated based on a Monte Carlo simulation.

The starting price for the absolute performance target of the MTIP 2004 is EUR 14.08 per Deutsche Telekom share. Consequently, the absolute 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. For the MTIP 2005, the relevant starting price is EUR 16.43, and the absolute performance target EUR 21.36. The starting value of the index for the relative performance target is 317.95 points for the MTIP 2004 and 358.99 points for the MTIP 2005. The starting value of the total return of Deutsche Telekom shares corresponds to the share price prior to the beginning of the plan (EUR 14.08 for the MTIP 2004, and EUR 16.43 for the MTIP 2005).

The MTIP 2006 became effective on January 1, 2006. The plan has a term of three years. The plan has a maximum budget of EUR 85.5 million.

The starting price for the absolute performance target of the MTIP 2006 is EUR 14.00 per Deutsche Telekom share. Consequently, the absolute performance target is achieved if an average share price of at least EUR 18.20 is reached during the defined period before the end of the plan.

The starting value of the index for the relative performance target of the MTIP 2006 is 452.02 points and the starting value of the total return of the Deutsche Telekom share is EUR 14.00.

T-Online International AG
(prior to the merger into Deutsche Telekom AG).
Mid-Term Incentive Plan 2004/2005/2006.
T-Online's MTIP was also based on the same conditions as Deutsche Telekom AG's MTIP, with the exception that performance was measured in terms of the development of T-Online's shares and the TecDAX share index.

As a result of the merger and the consequent delisting of T-Online shares, it is no longer possible to measure the performance targets of the individual MTIPs. These plans were adjusted to those of Deutsche Telekom AG.

T-Mobile USA.
Mid-Term Incentive Plan 2004/2005/2006.
T-Mobile USA's MTIP is based on the same terms and conditions as Deutsche Telekom AG's MTIP.

Long-Term Incentive Plan 2004/2005/2006.
In addition to the MTIP, T-Mobile USA has established a performance cash plan as a Long-Term Incentive Plan (LTIP) on a revolving basis for the years 2004 through 2006, which is aimed at the top management from vice presidents upwards. Additional customer growth and profit targets have been agreed for this group of persons. The LTIP set up in 2006 takes into consideration customer growth and the development of the company's performance, based on certain defined financial criteria.

T-Mobile UK.
Mid-Term Incentive Plan 2004/2005/2006.
The MTIP (2004 – 2006) set up by T-Mobile UK (T-Mobile UK Ltd./T-Mobile International UK Ltd.) is also based on the same terms and conditions as Deutsche Telekom AG's MTIP. In addition to the two performance targets of Deutsche Telekom AG, however, this plan introduced a third target for a defined group of participants in the years 2004 and 2005, which is based on the cash contribution (EBITDA less investments in intangible assets and property, plant and equipment). The third performance target can only be achieved after the two other performance targets have been met.

In 2006, T-Mobile UK (T-Mobile UK Ltd. /T-Mobile International UK Ltd.) established a non-recurring incentive scheme (cash plan) with a term of two years (January 1, 2006 through December 31, 2007).

This scheme is open to all members of staff employed with one of the aforementioned companies during the term of the plan.

Upon achievement of certain targets (at the end of 2006/2007) for service revenue and EBITDA (at T-Mobile UK Ltd.) or total costs and EBITDA (at T-Mobile International UK Ltd.), amounts are paid into a bonus fund in accordance with a given matrix. The bonus fund built up over the two years of the plan, 2006 and 2007, will be paid out to the employees after the end of the plan (December 31, 2007) in line with the defined allocation ratios (as a percentage of basic salary).

Magyar Telekom (formerly MATÁV).
Mid-Term Incentive Plan 2004/2005/2006.
Magyar Telekom's MTIP is also based on the same terms and conditions as Deutsche Telekom AG's MTIP, with the exception that performance is measured in terms of the development of Magyar Telekom's shares and the Dow Jones EURO STOXX Total Return Index. In addition, the absolute performance target is achieved if, at the end of the individual plans, Magyar Telekom's share price has risen by at least 35 percent compared with Magyar Telekom's share price at the beginning of the plan.

Polska Telefonia Cyfrowa (PTC).
Long-Term Incentive Plan 2004/2005/2006.
As of November 1, 2006, Deutsche Telekom included the Polish mobile services provider Polska Telefonia Cyfrowa Sp.z o.o. (PTC) in the consolidated financial statements for the first time.

PTC has established a performance cash plan program with long-term incentive plans (LTIPs). The program provides for additional pay in the form of deferred compensation under the terms and conditions of the LTIP and is aimed at employees whose performance is of outstanding significance for the company's shareholder value. The LTIP is generally open to high-performers at management levels I through III. Participants in the plans are selected individually by the management of PTC.

Each plan encompasses three consecutive cycles, each running from January 1 through December 31. Participants receive payments from the plan after three years, provided the defined EBITDA target has been achieved (EBITDA hurdle). In addition, a bonus is paid at the end of each cycle. The amount of the bonus is determined for each cycle individually and depends on the level of target achievement. The plans for 2004 – 2006 and 2005 – 2007 are currently running; the 2006 – 2008 plan is subject to approval by the company's supervisory board.

The following table provides an overview of the effects of all MTIPs and LTIPs in the 2006, 2005 and 2004 financial years:

millions of €	2006	2005	2004
Provisions (at end of period)	43	39	18
Personnel costs	15	30	24

43 Risk management and financial derivatives.

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

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

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

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

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

Foreign-currency risks in the financing area are caused by financial liabilities in foreign currency and loans in foreign currency that are extended to Group entities for financing purposes. Treasury hedges these risks in full. Cross-currency swaps and currency derivatives are used to convert financial obligations and intragroup loans denominated in foreign currencies into the Group entities' functional currencies.

At the reporting date, the foreign-currency liabilities for which currency risks were hedged mainly consisted of bonds and medium-term notes in Japanese yen, sterling, U.S. dollars and Polish zlotys. On account of these hedging activities, Deutsche Telekom was not exposed to any significant currency risks in the area of financing at the reporting date.

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

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

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

The currency sensitivity analysis is based on the following assumptions:

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

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

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

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

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

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

If the euro had gained (lost) 10 percent against the U.S. dollar at December 31, 2006, the hedging reserve in shareholders' equity and the fair value of the hedging instruments would have been EUR 125 million lower (higher) (December 31, 2005: EUR 68 million higher (lower)).

If the euro had gained (lost) 10 percent against all currencies at December 31, 2006, other financial income and the fair value of the hedging instruments would have been EUR 29 million higher (lower) (December 31, 2005: EUR 3 million lower (higher)). The hypothetical effect on profit or loss of EUR +29 million results from the currency sensitivities EUR/USD: EUR –14 million; EUR /AED: EUR +1 million; EUR/GBP: EUR +8 million; EUR/HUF: EUR +8 million; EUR/PLN: EUR +22 million; EUR/SKK: EUR +4 million.

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

Due to the derivative hedges, an average of 66 percent (2005: 67 percent) of the net financial liabilities in 2006 denominated in euros, 60 percent (2005: 80 percent) of those denominated in sterling, and 61 percent (2005: 85 percent) of those denominated in U.S. dollars had a fixed rate of interest. The average value is representative for the year as a whole.

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

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

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

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

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

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

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

If the market interest rates had been 100 basis points higher (lower) at December 31, 2006, profit or loss would have been EUR 254 million (December 31, 2005: EUR 158 million) lower (higher). The hypothetical effect of EUR -254 million on income results from the potential effects of EUR -206 million from interest rate derivatives and EUR -48 million from non-derivative, variable-interest financial liabilities. If the market interest rates had been 100 basis points higher (lower) at December 31, 2006, shareholders' equity would have been EUR 27 million higher (lower).

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

As of December 31, 2006, Deutsche Telekom did not hold any material investments to be classified as "available-for-sale."

Credit risks.
Deutsche Telekom is exposed to credit risk from its operating activities and certain financing activities. With regard to financing activities, transactions are only concluded with counterparties that have at least a credit rating of BBB+/Baa1, in connection with an operational management system. At the level of operations, the outstanding debts are continuously monitored in each area, i.e., locally. Credit risks must be taken into account through individual and collective impairments.

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

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

The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets that are carried in the balance sheet, including derivatives with positive market values. Except for the collateral agreements mentioned in Note 24, no significant agreements reducing the maximum exposure to credit risk (such as contractual netting) had been concluded as of the reporting date. In addition, Deutsche Telekom is exposed to credit risk through the granting of financial guarantees. Guarantees amounting to a nominal total of EUR 216 million had been pledged as of the reporting date.

Liquidity risks.
See Note 25.

Hedge accounting.
Fair value hedges.
To hedge the fair value risk of fixed-interest liabilities, Deutsche Telekom used interest rate swaps and forward interest rate swaps (receive fixed, pay variable) denominated in EUR, GBP, and USD in the 2006 and 2005 financial years. Fixed-income bonds denominated in EUR, USD, and GBP were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the Euribor, USDLibor, or GBPLibor swap rate are offset against the changes in the value of the interest rate swaps. The aim of this hedging is to transform the fixed-income bonds into variable-interest debt, thus hedging the fair value of the financial liabilities. Credit risks are not part of the hedging.

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

As the list of the fair values of derivatives shows (see table in the Derivatives section), Deutsche Telekom had designated interest rate derivatives in a net amount of EUR – 1 million (2005: EUR +149 million) as fair value hedges as of December 31, 2006. The remeasurement of the hedged items results in gains of EUR 124 million being recorded in other financial income in the 2006 financial year (2005: EUR 68 million); the changes in the fair values of the hedging transactions result in losses of EUR 126 million (2005: EUR 67 million) being recorded in other financial income.

Cash flow hedges – interest rate risks.
In the 2006 financial year, Deutsche Telekom entered into a variable-interest EUR bond EUR forward payer interest rate swap (receive variable, pay fixed) to hedge the cash flow risk. Variable-interest bonds denominated in EUR were designated as the hedged items. The changes in the cash flows of the hedged items resulting from changes in the Euribor swap rate are offset against the changes in the cash flows of the interest rate swaps. The aim of this hedging is to transform the variable-interest bonds into fixed-income debt, thus hedging the cash flows of the financial liabilities. Credit risks are not part of the hedging.

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

Start	End	Nominal volume millions of €	Reference rate
January 5, 2007	March 5, 2009	100	3-month Euribor
January 8, 2007	December 8, 2009	500	3-month Euribor
January 17, 2007	August 17, 2009	500	3-month Euribor

The effectiveness of the hedging relationship is prospectively tested using the critical terms match method set out in IAS 39.AG108. An effectiveness test is carried out retrospectively at each balance sheet date using statistical methods in the form of a regression analysis. This involves defining the performance of the hedged item as the independent variable and the performance of the hedging transaction as the dependent variable. The hedged item used is a hypothetical derivative in accordance with IAS 39.IG F.5.5. A hedging relationship is classified as effective when $R^2 > 0.96$ and, depending on the actual realization of R^2, factor b has a value between – 0.85 and – 1.17. All hedging relationships of this nature were effective as of the reporting date.

As the list of the fair values of derivatives shows (see table in the Derivatives section), Deutsche Telekom had designated interest rate derivatives amounting to EUR 13 million as hedging instruments in cash flow hedges as of December 31, 2006. The recognition directly in equity of the change in the fair value of the hedging transactions resulted in gains of EUR 13 million being recorded in the revaluation reserve in the 2006 financial year.

Cash flow hedges – currency risks.
In 2006 and 2005, Deutsche Telekom designated "forward purchase U.S. dollar/sell in EUR" currency derivatives as cash flow hedges to hedge the amount translated into EUR payable for contractually fixed payments denominated in U.S. dollars.

These are hedges of unrecognized firm commitments against foreign-currency risks arising from spot rate changes. The hedged items designated in 2006 and 2005 were highly probable U.S. dollar payments for software licenses.

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

Nominal amount (millions of USD)	Maturity
10	January 15, 2007
8	February 1, 2007
10	January 15, 2008
8	February 1, 2008
36	

Additionally, the Company in 2006 and 2005 entered into hedges of future interest payments denominated in U.S. dollars resulting from recognized liabilities against foreign-currency risks arising from spot rate changes. The hedged items designated were interest payments from bonds denominated in U.S. dollars.

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

Nominal amount (millions of USD)	Maturity
115	2007 – 2009
100	2010 – 2015
74	2016 – 2020
74	2021 – 2025
67	2026 – 2030
430	

In 2006, the Company also entered into hedges of other future interest payments denominated in U.S. dollars resulting from recognized liabilities against foreign-currency risks arising from spot rate changes. The hedged items designated were interest payments from bonds denominated in U.S. dollars.

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

Nominal amount (millions of USD)	Maturity
164	2007 – 2009
360	2010 – 2015
271	2016 – 2020
271	2021 – 2025
280	2026 – 2032
1,346	

The objective of this hedging is to eliminate the risk from U.S. dollar interest payments as a result of exchange rate movements. Any unused amounts will be rolled forward to the next interest payment date.

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

In the 2006 financial year, losses totaling EUR 66 million (2005: gains of EUR 106 million) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve). These changes constitute the effective portion of the hedging relationship. Gains amounting to EUR 7 million (2005: gains of EUR 29 million; losses of EUR 1 million) recognized in shareholders' equity in 2005 were transferred to other financial income/expense in the 2006 financial year. Deutsche Telekom expects that, within the next twelve months, gains recognized in equity (hedging reserve) in the amount of EUR 1 million will be transferred to the income statement when payments are made. There was no material ineffectiveness of these hedges recorded as of the balance sheet date.

As the list of the fair values of derivatives shows (see table in the Derivatives section), Deutsche Telekom had currency forwards in a net amount of EUR – 55 million (2005: EUR – 32 million) designated as hedging instruments for cash flow hedges as of December 31, 2006.

Net investment hedge.
Deutsche Telekom hedged repayable preferred stock of T-Mobile USA amounting to USD 5,000 million against foreign-currency risks in 2006 and 2005 using fixed-income U.S. dollar bonds and currency derivatives. The interests in T-Mobile USA (hedged item) constitute a net investment in a foreign operation. The aim of the hedging was to eliminate the risk from a potential repayment of the interests resulting from exchange rate fluctuations.

The effectiveness of the hedging relationship was tested using prospective and retrospective effectiveness tests. In a retrospective effectiveness test, the changes in the fair value of the U.S. dollar bonds since the inception of the hedge resulting from spot rate changes are compared with the proportionate changes in the value of the interests due to changes in the spot rate. The prospective effectiveness test is carried out using the critical terms match method set out in IAS 39.AG108. As both the nominal volumes and currencies of the hedged item and the hedging transaction were the same, a high level of effectiveness was expected from the hedging relationship.

In 2006, gains from spot rate changes of the U.S. dollar bonds amounting to EUR 432 million (2005: losses of EUR 584 million) were taken directly to equity (hedging reserve). The U.S. dollar bonds designated as hedging instruments for net investment hedges had a market value of EUR 5,232 million as of December 29, 2006 (market value as of December 31, 2005: EUR 4,945 million). On December 29, 2006, the repayable preferred stock was converted into ordinary shares and the hedging relationship de-designated at the same time. In accordance with IAS 39.102, the amount of EUR 1,292 million recorded in shareholders' equity (hedging reserve) as of December 31, 2006 will not be reclassified to the income statement until the investment in T-Mobile USA is sold.

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

Derivatives.
The following table shows the fair values of the various derivatives carried. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, cash flow hedge, net investment hedge) or not. Other derivatives can also be embedded (i.e., a component of a hybrid instrument that contains a non-derivative host contract).

millions of €	Net carrying amounts Dec. 31, 2006	Net carrying amounts Dec. 31, 2005
Assets		
Interest rate swaps		
– Held for trading	100	205
– In connection with fair value hedges	64	151
– In connection with cash flow hedges	13	0
Currency forwards/currency swaps		
– Held for trading	3	18
– In connection with cash flow hedges	3	0
Cross-currency swaps held for trading	176	53
Embedded derivatives	0	18
Liabilities and shareholders' equity		
Interest rate swaps		
– Held for trading	154	311
– In connection with fair value hedges	65	2
Currency forwards/currency swaps		
– Held for trading	20	14
– In connection with cash flow hedges	58	32
Cross-currency swaps held for trading	245	308
Embedded derivatives	20	11

44 Related party disclosures.

The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds 31.70 percent (2005: 37.49 percent) of the share capital of Deutsche Telekom AG. The Federal Republic represents a solid majority at the shareholders' meeting despite its minority shareholding due to the average attendance at the latter. The Federal Republic of Germany has a significant influence on Deutsche Telekom AG, and is thus deemed to be a related party to Deutsche Telekom AG.

Federal Republic of Germany.
The Federal Posts and Telecommunications Agency (Federal Agency) has been assigned certain tasks by law that affect cross-company issues at Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The Federal Agency also carries on the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the recreation service (Erholungswerk), the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost – VAP), and the welfare service (Betreuungswerk) for Deutsche Telekom AG, Deutsche Post AG, Deutsche Postbank AG, and the Federal Agency. The coordination and administrative tasks are performed on the basis of agency agreements. For the 2006 financial year, Deutsche Telekom made payments in the amount of EUR 53 million (2005: EUR 49 million; 2004: EUR 55 million).

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

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

Deutsche Post World Net.
In the 2006 financial year, Deutsche Telekom purchased goods and services amounting to EUR 0.6 billion (2005: EUR 0.7 billion; 2004: EUR 0.7 billion) from Deutsche Post World Net. These mainly relate to postage charges for letters and packages. In the same period, the Deutsche Post World Net group of companies purchased goods and services totaling EUR 0.3 billion (2005: EUR 0.4 billion; 2004: EUR 0.4 billion) from Deutsche Telekom. This amount primarily comprises IT products and services.

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

Furthermore, Deutsche Telekom AG made cash investments with Deutsche Postbank in 2006 at normal market rates of interests and maturities. On December 31, 2006, the cash investments totaled EUR 0.4 billion.

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

In 2006, Deutsche Telekom generated revenues from its joint venture Toll Collect amounting to EUR 0.1 billion (2005: EUR 0.2 billion; 2004: EUR 0.2 billion).

At December 31, 2006, the total amount of trade receivables from related companies was EUR 0.1 billion (2005: EUR 0.2 billion; 2004: EUR 0.3 billion). At the same date, trade payables due to related companies amounted to EUR 0.1 billion (2005: EUR 0.1 billion; 2004: EUR 0.1 billion).

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

45 Compensation of the Board of Management and the Supervisory Board in accordance with § 314 HGB.

Compensation of the Board of Management.
The following information concerning the compensation of the Board of Management comprises notes required by law under the German Commercial Code (see § 314 HGB) as well as information specified in the guidelines set out in the German Corporate Governance Code.

The Board of Management of Deutsche Telekom AG is currently comprised of five members. René Obermann was appointed Chairman of the Board of Management on November 13, 2006. On December 5, 2006, Hamid Akhavan and Timotheus Höttges were appointed new members of the Board of Management. Three members of the Board of Management left during the course of the financial year: Kai-Uwe Ricke on expiration of November 12, 2006, Walter Raizner on expiration of December 4, 2006, and Dr. Heinz Klinkhammer on expiration of December 31, 2006.

Board of Management compensation system and review.
The compensation of Board of Management members is comprised of various components. Under the terms of their service agreements, members of the Board of Management are entitled to fixed and annual variable remuneration, a long-term variable remuneration component (Mid-Term Incentive Plan), and fringe benefits and deferred benefits based on a company pension commitment. The structure of the compensation system and the appropriateness of compensation for the Board of Management are reviewed and established by the General Committee of the Supervisory Board at regular intervals.

Fixed remuneration, variable incentive-based remuneration and fringe benefits.
Total compensation is generally about two-thirds variable and about one-third fixed if targets are achieved in full. The non-performance-based components are comprised of a fixed salary, fringe benefits and pension commitments, while the performance-based components are split into variable performance-based remuneration and a long-term incentive component.

Fixed remuneration is determined for all Board of Management members based on market conditions in accordance with the requirements of stock corporation law (for individual figures, please refer to the table “Total remuneration and expense in 2006”).

The annual variable remuneration of Board of Management members is based on the achievement of targets set by the General Committee of the Supervisory Board of Deutsche Telekom AG for each member of the Board of Management prior to commencement of the financial year. The level of target achievement is set by the General Committee of the Supervisory Board for the respective financial year (for detailed information, please refer to the table “Total remuneration and expense in 2006”).

At its discretion and after due consideration, the Supervisory Board of the Company may also reward extraordinary performance by individual or all Board of Management members in the form of a special bonus.

According to market-oriented and corporate standards, the Company grants all members of the Board of Management additional benefits under the terms of their service contracts, some of which are viewed as non-cash benefits and taxed accordingly. This mainly includes being furnished with a company car and accident and liability insurance and being reimbursed in connection with business trips and maintaining a second household (for specific details regarding individual components of compensation, please refer to the column “Other compensation” in the table “Total remuneration and expense in 2006”).

Sideline employment generally requires prior approval. No additional compensation is paid for being a member of the Board of Management or Supervisory Board of other Group companies.

Arrangements in the event of termination of a position on the Board of Management.
Linking of appointment as a Board of Management member and the Board of Management service agreement/severance arrangement.
The terms of the agreements of the Board of Management members are linked to the term of appointment as a member of the Board of Management. If the Company is entitled to terminate the appointment as a Board of Management member without this also constituting cause for the simultaneous termination of the service agreement under civil law, the Board of Management member shall be entitled to a contractually determined severance payment. This is calculated (subject to being discounted) on the basis of the imputed remaining term of appointment in the current term of office of the Board of Management (up to a maximum of 36 months) on the basis of 100 percent of the fixed annual salary and 75 percent of the variable remuneration based on an assumed 100 percent achievement of targets.

Post-contractual prohibition of competition.
Board of Management member agreements stipulate a post-contractual prohibition of competition. Unless otherwise agreed, members of the Board of Management are prohibited from rendering services to or on behalf of a competitor for the duration of one year following their departure. As compensation for this restricted period, they receive a payment in the amount of the annual fixed compensation last received.

Company pension entitlement.
The members of the Board of Management are entitled to a company pension conforming to market standards. The amount is based on the final salary, which means that Board of Management members receive a company pension based on a fixed percentage of their last fixed annual salary for each year of service rendered prior to their date of retirement. The key features of the pension plan for Board of Management members active in 2006 are described below:

(a) Board of Management members are entitled to pension payments in the form of a life-long retirement pension upon reaching the age of 62, a disability pension or in the form of an early retirement pension upon reaching the age of 60 (subject to the usual actuarial deductions). The vested rights of Messrs. Obermann, Raizner, Pauly and Höttges are generally based on the statutory regulations provided in § 1b (1) of the German Act for the Improvement of Company Pension Plans (Gesetz zur Verbesserung der betrieblichen Altersversorgung – BetrAVG); the rights of the other members of the Board of Management are already vested. The amount of the company pension is calculated on the basis of the eligible period of service rendered as a Board of Management member until the date of departure.
(b) The annual retirement pension is comprised of a base percentage (5 percent for Messrs. Pauly and Höttges, or 6 percent for the remaining Board of Management members) of the fixed annual salary upon termination of the service relationship multiplied by the eligible service period expressed in years. After ten years of Board of Management membership, the maximum percentage of the pension level is achieved (50 percent or 60 percent, respectively). Pension payments are subject to a standard annual adjustment (1 percent for Messrs. Pauly and Höttges, or 3 percent for the remaining Board of Management members). In the event of a permanent inability to work (invalidity), the respective period of service through the scheduled end of the current period of appointment serves as the basis for the period of service eligible for calculating the pension. Since he joined the Company, Mr. Raizner had a vested right to an additional old-age pension in the form of a pension payment (one-time payment at the age of 62, or alternatively at an earlier age subject to discounting). This pension component corresponded to a pension level of approximately 60 percent within the meaning of the plan described above. Due to his U.S. citizenship, a “pension substitute” was agreed with Mr. Akhavan in lieu of such a pension commitment. For each full year of service rendered as a Board of Management member, he accordingly receives a compensation payment corresponding to the pension contribution for one year. The pro rata amount payable for the 2006 financial year as a result of this agreement is also individually recorded in the table “Total remuneration and expense in 2006.”
(c) In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In specifically provided exceptional cases, entitlement to a widow’s pension is excluded. Finally, the standard criteria for eligibility in the pension arrangements are in line with market levels.
(d) In addition, the Company makes contributions, including the related taxes, for term life insurance with standard coverage (EUR 1.3 million) for several of its Board of Management members. The related expenses are included in the figures for non-cash benefits.

Components with mid- and long-term incentives.
Mid-Term Incentive Plan.
Members of the Board of Management participate in the Deutsche Telekom AG Mid-Term Incentive Plan (MTIP) introduced in the 2004 financial year (please refer to the explanations regarding MTIP under Note 42). Messrs. Akhavan and Höttges participate in the 2005 and 2006 MTIPs based on their prior activities as members of the Board of Management of T-Mobile International AG.

The targets for the 2004 MTIP were not achieved according to the results determined by the General Committee of the Supervisory Board on February 6, 2007. Therefore, no incentive was awarded to the Board of Management from this tranche of the plan.

Compensation from the Mid-Term Incentive Plans.

€ [a]	2006 MTIP Maximum award amount	2006 MTIP Fair value as of Dec. 31, 2006	2005 MTIP Maximum award amount	2005 MTIP Fair value as of Dec. 31, 2006
Kai-Uwe Ricke [b]	0.00	0.00	0.00	0.00
René Obermann	504,000.00	20,969.11	450,000.00	3,925.97
Dr. Karl-Gerhard Eick	596,250.00	24,807.20	562,500.00	4,907.46
Hamid Akhavan	300,000.00	12,481.61	240,000.00	2,093.85
Timotheus Höttges	240,000.00	9,985.29	195,000.00	1,701.25
Dr. Heinz Klinkhammer [b]	0.00	0.00	300,000.00	2,617.31
Lothar Pauly	450,000.00	18,722.41	337,500.00	2,944.48
Walter Raizner	390,625.00	16,252.10	562,500.00	4,907.46
	2,480,875.00	103,217.72	2,647,500.00	23,097.78

[a] Fair value calculated using the so-called Monte Carlo model.
[b] There are no MTIP entitlements for Mr. Ricke for 2005 and 2006 and for Dr. Klinkhammer for 2006.

2001 Stock Option Plan.
The Company's 2001 Stock Option Plan was terminated by resolution of the shareholders' meeting of May 18, 2004. As of the 2002 financial year, no more stock options were issued for members of the respective Group Boards of Management.

Dr. Eick, Dr. Klinkhammer and Mr. Ricke participated in the 2001 tranche. The stock options issued for the 2000 financial year from the previous 2000 Stock Option Plan forfeited as of July 20, 2005 without replacement due to expiry.

Dr. Eick, Dr. Klinkhammer and Mr. Ricke participated only in the 2001 tranche. Mr. Akhavan, Mr. Höttges and Mr. Obermann continue to participate in the 2002 tranche of the 2001 Stock Option Plan based on their prior activities for T-Mobile. In addition, Mr. Obermann also participates in the 2001 tranche.

The stock options that have been granted can be exercised under the terms of the stock option plans. However, no options have yet been exercised.

Incentive-based compensation from stock option plans.

	Number of options 2001 SOP tranche 2001	Value of options on issue (2001) (€)	Number of options 2001 SOP tranche 2002	Value of options on issue (2002) (€)
Kai-Uwe Ricke *	0	0.00	0	0.00
René Obermann	48,195	4.87	28,830	3.79
Dr. Karl-Gerhard Eick	163,891	4.87	0	0.00
Hamid Akhavan	0	0.00	19,840	3.79
Timotheus Höttges	0	0.00	17,050	3.79
Dr. Heinz Klinkhammer	163,891	4.87	0	0.00
Lothar Pauly	0	0.00	0	0.00
Walter Raizner	0	0.00	0	0.00
	375,977	**4.87**	**65,720**	**3.79**

* Mr. Ricke no longer has any entitlement.

Please also refer to the explanations regarding stock option plans under Note 42.

Board of Management compensation for the 2006 financial year.
In reliance on legal requirements and other guidelines, a total of EUR 15,328,555.72 is reported in the following table as compensation for the 2006 financial year for the current and former members who left the Board of Management in 2006. This amount comprises the fixed annual salary, other benefits, non-cash benefits, remuneration in kind, variable remuneration for the 2006 financial year, the fair value of the 2006 MTIP as of the balance sheet date of December 31, 2006 and the 2006 pension expense. The addition to company pensions is recorded under personnel costs (referred to as "service costs – SCOs").

Total remuneration and expense in 2006.

€	Fixed annual 2006 salary	Other compensation in 2006	Variable 2006 remuneration	Total	2006 MTIP (fair value as of Dec. 31, 2006)	2006 pension expense (SCOs)
Kai-Uwe Ricke (until Nov. 12, 2006)	1,083,333.37	41,589.71	1,298,630.14	2,423,553.22	0.00	662,447.00
René Obermann	894,666.66	28,730.71	805,537.00	1,728,934.37	20,969.11	378,979.00
Dr. Karl-Gerhard Eick	993,750.00	88,962.04	894,375.00	1,977,087.04	24,807.20	747,257.00
Hamid Akhavan (from Dec. 5, 2006)	58,064.52	27,566.84	53,260.27	138,891.63	12,481.61	15,671.23 [a]
Timotheus Höttges (from Dec. 5, 2006)	54,435.48	949.44	49,931.51	105,316.43	9,985.29	28,315.00 [b]
Dr. Heinz Klinkhammer	840,000.00	67,350.47	840,000.00	1,747,350.47	0.00	908,955.00
Lothar Pauly	750,000.00	77,131.26	600,000.00	1,427,131.26	18,722.41	283,286.00
Walter Raizner (until Dec. 4, 2006)	869,455.65	135,670.02	868,150.68	1,873,276.35	16,252.10	778,887.00
	5,543,705.68	**467,950.49**	**5,409,884.60**	**11,421,540.77**	**103,217.72**	**3,803,797.23**

[a] The amount indicated for Mr. Akhavan is based on a pro rata calculation from December 5, 2006 for the aforementioned lump-sum annual compensation payment (pension substitute).
[b] Due to his brief membership of the Board of Management, no service costs are reported for Mr. Höttges. For informational purposes, the PBO/DBO expense is stated for the period from December 5, 2006.

No member of the Board of Management received benefits or corresponding commitments from a third party for his activity as a Board of Management member during the past financial year.

Former members of the Board of Management.
A total of EUR 11,852,133.15 was recorded for payments to and additions to provisions for former members of the Board of Management and their surviving dependents. Due to the departure of members of the Board of Management, there were also one-time special effects related to the calculation of pension provisions in the amount of EUR 4,257,493.00 – DBO/PBO – under IAS 19/FAS 87.

The provisions set up for current pensions and vested rights to pensions for this group of persons and their surviving dependents amounted to EUR 89,309,072.00 depending on the respectively applicable accounting principles and regulations – DBO/PBO – under IAS 19/FAS 87.

Several former Board of Management members are entitled to a civil servant pension from the civil service pension fund (BPS-PT). In the 2006 financial year, there was no expense incurred in this regard. The present value of the estimated pensions of these Board of Management members amounts to EUR 4,295,871.00 (DBO/PBO) as of December 31, 2006 (indirect pension obligations).

Other.
The Company has not extended any loans to current or former Board of Management members.

Compensation of the Supervisory Board.
The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation of Deutsche Telekom AG. The members of the Supervisory Board receive fixed annual remuneration of EUR 20,000.00 plus variable, performance-related remuneration with short-term and long-term components, depending on the development of net profit per share.

The short-term performance-related remuneration amounts to EUR 300.00 per full EUR 0.01 by which the net profit per no par value share exceeds EUR 0.50 in the financial year for which the remuneration is being paid.

The long-term performance-related remuneration amounts to EUR 300.00 for every 4.0 percent by which the net profit per no par value share in the second financial year following the financial year in question (reference year) exceeds the net profit per no par value share in the financial year preceding the financial year in question. The long-term performance-related remuneration is limited, however, to the amount of the long-term performance-related remuneration for the financial year preceding the financial year in question, insofar as the net revenue in the reference year does not exceed the net revenue in the financial year preceding the financial year in question.

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

Moreover, the short-term performance-related remuneration may not exceed a total of 0.02 percent of the Company's unappropriated net income reported in the approved annual financial statements of the financial year in question, reduced by an amount of 4.0 percent of the contributions made on the lowest issue price of the shares at the end of the financial year.

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 of a Supervisory Board committee (with the exception of the Mediation Committee) and by a further half for each Supervisory Board committee chaired; total remuneration shall not exceed double the annual remuneration, however. Members of the Supervisory Board who were not in office for the entire financial year receive one twelfth of the remuneration for each month or part thereof that they held a seat.

Members of the Supervisory Board receive an attendance fee amounting to EUR 200.00 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 2006 amounted to EUR 952,387.10 (plus VAT). In addition, members became entitled to long-term remuneration of EUR 121,176.00 in the 2004 financial year which will be paid out after the 2007 shareholders' meeting.

The long-term remuneration earmarked in the 2004 financial year will be paid out after the 2007 shareholders' meeting. A provision of EUR 645,624.00 had been recognized for this purpose. Provided performance targets are met, a total amount of EUR 121,176.00 (plus VAT) will be paid out.

No loans were granted to the members of the Supervisory Board.

The **compensation of the individual members of the Supervisory Board** for 2006 is as follows:

€	Fixed remuneration plus attendance fee	Short-term variable	Total (net)	Imputed long-term remuneration entitlement [a]
Member of the Supervisory Board				
Brandl, Monika	21,000.00	6,900.00	27,900.00	0.00
Dr. Döpfner, Mathias [b]	10,000.00	3,450.00	13,450.00	0.00
Falbisoner, Josef	21,000.00	6,900.00	27,900.00	0.00
Dr. von Grünberg, Hubertus	41,400.00	13,248.00	54,648.00	0.00
Guffey, Lawrence H. [c]	19,516.67	6,319.25	25,835.92	0.00
Halsch, Volker [d]	4,166.68	1,437.50	5,604.18	0.00
Hocker, Ulrich [e]	5,400.00	1,725.00	7,125.00	0.00
Holzwarth, Lothar [f]	20,800.00	6,900.00	27,700.00	0.00
Dr. Hundt, Dieter [g]	12,900.00	4,312.50	17,212.50	0.00
Litzenberger, Waltraud	21,000.00	6,900.00	27,900.00	0.00
Löffler, Michael	21,000.00	6,900.00	27,900.00	0.00
Matthäus-Maier, Ingrid [h]	13,733.33	4,600.00	18,333.33	0.00
Dr. Mirow, Thomas [i]	33,200.00	10,074.00	43,274.00	0.00
Reich, Hans W. [j]	8,733.33	2,875.00	11,608.33	0.00
Prof. Dr. Reitzle, Wolfgang	20,800.00	6,900.00	27,700.00	0.00
Prof. Dr. von Schimmelmann, Wulf [k]	13,933.33	4,600.00	18,533.33	0.00
Dr. Schinzler, Hans-Jürgen [l]	8,733.33	2,875.00	11,608.33	0.00
Dr. Schlede, Klaus G.	63,200.00	20,700.00	83,900.00	0.00
Schmitt, Wolfgang	43,200.00	13,800.00	57,000.00	0.00
Schröder, Lothar [m]	44,433.35	14,087.50	58,520.85	0.00
Sommer, Michael	20,800.00	6,900.00	27,700.00	0.00
Steinke, Ursula	21,000.00	6,900.00	27,900.00	0.00
Prof. Dr. Stolte, Dieter [n]	8,733.33	2,875.00	11,608.33	0.00
Treml, Franz [o]	37,200.00	12,075.00	49,275.00	0.00
Walter, Bernhard	43,400.00	13,800.00	57,200.00	0.00
Wegner, Wilhelm	65,600.00	20,700.00	86,300.00	0.00
Dr. Zumwinkel, Klaus	74,600.00	24,150.00	98,750.00	0.00
	719,483.35	**232,903.75**	**952,387.10**	**0.00**

[a] In determining the amount to be recognized as provision it was assumed that net profit per no par value share in 2008 would equal that in 2006. Based on this assumption, members were not entitled to long-term variable remuneration for the period 2005 to 2008, so the provision was set at EUR 0.00.
[b] Member from May 3, 2006 until October 13, 2006.
[c] Member since June 1, 2006.
[d] Member until January 16, 2006.
[e] Member since October 14, 2006.
[f] Mr. Holzwarth received compensation of EUR 3,466.67 from T-Systems Business Services, Bonn, a wholly-owned subsidiary of Deutsche Telekom AG, for the 2006 financial year for a mandate as member of the supervisory board of this company.
[g] Member until May 3, 2006.
[h] Member since May 3, 2006.
[i] Member since January 17, 2006.
[j] Member until May 3, 2006.
[k] Member since May 3, 2006.
[l] Member until May 31, 2006.
[m] Member since June 22, 2006. Mr. Schröder received compensation of EUR 17,000 from T-Mobile Deutschland GmbH, Bonn, and EUR 10,600 from T-Mobile International AG, Bonn, both wholly-owned subsidiaries of Deutsche Telekom AG, for the 2006 financial year for a mandate as member of the supervisory boards of both these companies.
[n] Member until May 3, 2006.
[o] Member until June 21, 2006. Mr. Treml received compensation of EUR 3,068 from DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, a wholly-owned subsidiary of Deutsche Telekom AG, for the 2006 financial year for a mandate as a member of the supervisory board of this company.

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

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

The merger of T-Online International AG into Deutsche Telekom AG became effective on June 6, 2006. T-Online International AG, which was included in the consolidated financial statements until June 6, 2006, submitted the mandatory declaration of conformity pursuant to § 161 AktG and made it available to its shareholders.

47 Events after the balance sheet date.

Further sites of Vivento Customer Services GmbH sold.
Vivento Customer Services GmbH sold two more sites – Suhl and Cottbus – with around 480 employees to the walter TeleMedien Group on January 26, 2007. The transfer of operations is scheduled for April 1, 2007. This transfer of operations is accompanied by a contract commitment and therefore safeguards the jobs of the staff concerned until the end of 2012.

PTC: Deutsche Telekom's legal position unchanged.
On January 18, 2007, the Polish Supreme Court overturned two rulings by courts of lower instance which had acknowledged the validity of the verdict of the Vienna arbitrational court of November 2004 in Poland. The case was sent back to the first instance to be heard anew. This decision was solely the result of a procedural error by the court of first instance and, in relation to the case itself, affects neither the content nor the validity of the Vienna arbitrational verdict of November 2004. Furthermore, with this decision, the Polish Supreme Court has not ruled in favor of Vivendi's claimed ownership of the disputed 48-percent stake in PTC. Deutsche Telekom's legal position concerning the ownership of the stake in PTC thus remains unchanged.

48 Auditors' fees and services in accordance with § 314 HGB.

The following table provides a breakdown of auditing fees recognized as expenses in the 2006 financial year:

PricewaterhouseCoopers Aktiengesellschaft.

millions of €	2006
Professional fees for audits	14.3
Professional fees for other accounting services	10.3
Tax consulting fees	0.2
Other professional fees	4.1

Ernst & Young AG.

millions of €	2006
Professional fees for audits	13.8
Professional fees for other accounting services	9.6
Tax consulting fees	0.3
Other professional fees	0.3

Professional fees for audits include in particular fees for the statutory auditing of annual and consolidated financial statements as well as fees for other auditing services provided, in particular in connection with the audit of internal controls over financial reporting in accordance with Section 404 of the Sarbanes Oxley Act.

Professional fees for other accounting services primarily relate to fees for the review of the interim financial statements as well as auditing activities in connection with the documentation of internal controls over financial reporting in accordance with Section 404 of the Sarbanes Oxley Act.

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

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

Bonn, February 13, 2007

Deutsche Telekom AG
Board of Management

René Obermann

Dr. Karl-Gerhard Eick

Hamid Akhavan

Timotheus Höttges

Lothar Pauly

Auditors' report.

We have audited the consolidated financial statements of Deutsche Telekom AG, Bonn, comprising the income statement, balance sheet, cash flow statement, statement of recognized income and expense, and the notes to the consolidated financial statements, together with the Group management report for the financial year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart/Frankfurt (Main), February 13, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft
Stuttgart

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

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Frankfurt (Main)

(Frings) Wirtschaftsprüfer	(Menke) Wirtschaftsprüfer