DEUTSCHE TELEKOM AG
Form 6-K
May 17, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of May 2006

Commission file number 001-14540

Deutsche Telekom AG

(Translation of Registrant s Name into English)

Friedrich-Ebert-Allee 140, 53113 Bonn, Germany

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

This Report on Form 6-K is incorporated by reference into the registration statement on Form F-3, File No. 333-118932, and the registration statement on Form S-8, File No. 333-106591, and into each respective prospectus that forms a part of those registration statements.

Defined Terms and Contact Information

The term Report refers to this Report on Form 6-K for the three-month period ended March 31, 2006. Deutsche Telekom AG is a stock corporation organized under the laws of the Federal Republic of Germany. As used in this Report, unless the context otherwise requires, the term Deutsche Telekom refers to Deutsche Telekom AG and the terms we, us, our, Group and the Company refer to Deutsche Telekom and, as applicable, Deutsche Telekom and its direct and indirect subsidiaries as a group. Our registered office is at Friedrich-Ebert-Allee 140, 53113 Bonn, Germany, telephone number +49-228-181-0. Our agent for service of process in the United States is Deutsche Telekom, Inc., 600 Lexington Avenue, New York, N.Y. 10022.

Forward-Looking Statements

This Report contains forward-looking statements that reflect the current views of our management with respect to future events. Forward-looking statements generally are identified by the words expects, anticipates, believes, intends, estimates, aims, plans, will, continue, seeks and similar expressions. Forward-looking statements are based on current plans, estimates and projections, and therefore you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events, although we intend to continue to meet our ongoing disclosure obligations under the U.S. securities laws (such as our obligations to file annual reports on Form 20-F and periodic and other reports on Form 6-K) and under other applicable laws. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. These factors include, among other factors: the development of demand for our fixed and mobile telecommunications services, particularly for new, higher value service offerings; competitive forces, including pricing pressures, technological changes and alternative routing developments; regulatory actions and the outcome of disputes in which the company is involved or may become involved; the pace and cost of the rollout of new services, such as UMTS, which may be affected by the ability of suppliers to deliver equipment and other circumstances beyond our control; public concerns over health risks putatively associated with wireless frequency transmissions; risks associated with integrating our acquisitions; the development of asset values in Germany and elsewhere, the progress of our debt reduction and liquidity improvement initiatives; the development of our cost control and efficiency enhancement initiatives, including in the areas of procurement optimization, personnel reductions and our Excellence program; risks and uncertainties relating to benefits anticipated from our international expansion, particularly in the United States; the progress of our domestic and international investments, joint ventures and alliances; our ability to gain or retain market share in the face of competition; our ability to secure and retain the licenses needed to offer services; the effects of price reduction measures and our customer acquisition and retention initiatives; the availability, term and deployment of capital, particularly in view of our debt refinancing needs, actions of the rating agencies and the impact of regulatory and competitive developments on our capital outlays; delays in the planned merger of T-Online into Deutsche Telekom AG; the progress of our workforce adjustment initiative described in this Report and changes in currency exchange rates and interest rates. If these or other risks and uncertainties (including those described in Forward-Looking Statements, Item 3. Key Information Risk Factors and elsewhere in our most recent Annual Report on Form 20-F for the year ended December 31, 2005 filed with the U.S. Securities and Exchange Commission) materialize, or if the assumptions underlying any of these statements prove incorrect, our actual results may be materially different from those expressed or implied by such statements.

World Wide Web addresses contained in this Report are for explanatory purposes only and they (and the content contained therein) do not form a part of, and are not incorporated by reference into, this Report.

Statement of Compliance

Accounting in Accordance with IFRS

The unaudited condensed consolidated financial statements contained in this Report, have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. All IFRSs issued by the International Accounting Standards Board (IASB) that were effective at the time of the preparation of these financial statements, and that were applied by Deutsche Telekom, have been adopted by the E.U. Commission for use within the European Union. Our financial statements for the period ended March 31, 2006, were prepared in compliance with IAS 34.

Please refer to the notes to the consolidated financial statements as of December 31, 2005, for the accounting policies applied to the Group s financial reporting.

Exchange Rates

Unless otherwise indicated, all amounts in this Report have been expressed in euros.

As used in this document, euro, EUR or means the single unified currency that was introduced in the Federal Republic of Germany (the Federa Republic) and ten other participating Member States of the European Union on January 1, 1999. U.S. dollar, USD or $ means the lawful currency of the United States. As used in this document, the term noon buying rate refers to the rate of exchange for euros, expressed in U.S. dollars per euro, in the City of New York for cable transfers payable in foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes, as required by Section 522 of the U.S. Tariff Act of 1930, as amended. Unless otherwise stated, conversions of euros into U.S. dollars have been made at the rate of EUR 1.00 to USD 1.2139, which was the noon buying rate on March 31, 2006.

Amounts appearing in this Report that have been translated into euros from other currencies were translated in accordance with the principles described in the notes to the unaudited condensed consolidated financial statements contained in this Report.

DEUTSCHE TELEKOM AT A GLANCE

(Unaudited)

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Total net revenues (total revenues excluding intersegment reveunes)	14,842	14,288	554	3.9	59,604
Domestic	8,208	8,511	(303)	(3.6)	34,183
International	6,634	5,777	857	14.8	25,421
Profit from operations	2,318	2,287	31	1.4	7,622
Loss from financial activities	(568)	(715)	147	20.6	(1,410)
Profit before income taxes	1,750	1,572	178	11.3	6,212
Depreciation, amortization and impairment losses	(2,570)	(2,534)	(36)	(1.4)	(12,497)
of which : property, plant and equipment	(1,953)	(1,921)	(32)	(1.7)	(8,070)
of which : intangible assets	(617)	(613)	(4)	(0.7)	(4,427)
Net profit	1,079	984	95	9.7	5,584
Earnings per share/ADS(1) Basic/ Diluted( )	0.25	0.23	0.02	8.7	1.31
Equity ratio(2) (%)	38.5	35.8	n.m	n.m	36.4
Total financial liabalities(3)	49,400	54,139	(4,739)	(8.8)	46,721

	As of March 31, 2006	As of December 31, 2005	Change March 31, 2006/ December 31, 2005 %	As of March 31, 2005	Change March 31, 2006/ March 31, 2005 %
Number of employees at balance sheet date					
Deutsche Telekom Group	248,982	243,695	2.2	243,784	2.1
Non-civil servants	204,818	197,741	3.6	197,123	3.9
Civil servants	44,164	45,954	(3.9)	46,661	(5.4)
Number of fixed-network and mobile customers					
Telephone lines(4) (millions)	53.9	54.8	(1.6)	56.6	(4.8)
Broadband lines (in operation)(4) (millions)	9.2	8.5	8.2	6.7	37.3
Mobile customers(5) (millions)	87.7	86.6	1.3	79.0	11.0

n.m. not meaningful

(1) One ADS (American Depositary Share) corresponds in economic terms to one ordinary share of Deutsche Telekom AG.

(2) The ratio equals total stockholders equity divided by total assets. Amounts proposed as dividends are treated as short-term debt rather than as equity for purposes of the calculation of this ratio.

(3) Includes current and noncurrent financial liabilities (see Condensed Consolidated Balance Sheets) at the balance sheet date.

(4) Number of telephone lines (including those used within the Group) as of the balance sheet date.

(5) The number of customers of the consolidated subsidiaries included within our Mobile Communications strategic business area.

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DEUTSCHE TELEKOM AG
Condensed Consolidated Financial Statements as of March 31, 2006 and 2005 and for the year ended December 31, 2005

(Unaudited)

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DEUTSCHE TELEKOM AG

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Net revenue	**14,842**	**14,288**	**554**	**3.9**	**59,604**
Cost of sales	(7,821)	(7,525)	(296)	(3.9)	(31,862)
Gross profit	**7,021**	**6,763**	**258**	**3.8**	**27,742**
Selling expenses	(3,774)	(3,435)	(339)	(9.9)	(14,683)
General and administrative expenses	(1,077)	(1,026)	(51)	(5.0)	(4,210)
Other operating income	350	279	71	25.4	2,408
Other operating expenses	(202)	(294)	92	31.3	(3,635)
Profit from operations	**2,318**	**2,287**	**31**	**1.4**	**7,622**
Finance costs	(658)	(707)	49	6.9	(2,401)
Interest income	73	99	(26)	(26.3)	398
Interest expense	(731)	(806)	75	9.3	(2,799)
Share of profit of associates and joint ventures accounted for using the equity method	32	36	(4)	(11.1)	214
Other financial income (expense)	58	(44)	102	n.m.	777
Loss from financial activities	**(568)**	**(715)**	**147**	**20.6**	**(1,410)**
Profit before income taxes	**1,750**	**1,572**	**178**	**11.3**	**6,212**
Income taxes	(563)	(466)	(97)	(20.8)	(196)
Profit after income taxes	**1,187**	**1,106**	**81**	**7.3**	**6,016**
Profit attributable to minority interests	108	122	(14)	(11.5)	432
Net profit (profit (loss) attributable to equity holders of the parent)	1,079	984	95	9.7	5,584
Earnings per share(1) /ADS(2)					
Basic ( )	0.25	0.23	0.02	8.7	1.31
Diluted ( )	0.25	0.23	0.02	8.7	1.31

n.m. not meaningful

(1) Earnings per share for each period are calculated by dividing net profit by the weighted average number of outstanding shares. For more information, see Note 10.

(2) One ADS corresponds in economic terms to one ordinary share of Deutsche Telekom AG.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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DEUTSCHE TELEKOM AG

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	As of March 31, 2006 (millions of , except where indicated)	As of December 31, 2005	Change	Change %	As of March 31, 2005
Assets					
Current assets	**21,025**	**16,668**	**4,357**	**26.1**	**19,233**
Cash and cash equivalents	8,343	4,975	3,368	67.7	6,260
Trade and other receivables	7,147	7,512	(365)	(4.9)	7,051
Current recoverable income taxes	595	613	(18)	(2.9)	441
Other financial assets	1,453	1,362	91	6.7	2,216
Inventories	1,094	1,097	(3)	(0.3)	1,082
Other assets	2,393	1,109	1,284	n.m.	2,183
Non-current assets	**109,315**	**111,212**	**(1,897)**	**(1.7)**	**109,699**
Intangible assets	51,985	52,675	(690)	(1.3)	53,014
Property, plant and equipment	46,837	47,806	(969)	(2.0)	48,203
Investments accounted for using the equity method	1,864	1,825	39	2.1	1,751
Other financial assets	778	779	(1)	(0.1)	1,676
Deferred tax assets	7,263	7,552	(289)	(3.8)	4,727
Other assets	588	575	13	2.3	328
Total assets	**130,340**	**127,880**	**2,460**	**1.9**	**128,932**
Liabilities and shareholders equity					
Current liabilities	**24,469**	**24,958**	**(489)**	**(2.0)**	**25,229**
Financial liabilities	10,581	10,374	207	2.0	12,388
Trade and other payables	5,724	6,902	(1,178)	(17.1)	5,184
Income tax liabilities	1,565	1,358	207	15.2	1,072
Provisions	3,487	3,621	(134)	(3.7)	3,491
Other liabilities	3,112	2,703	409	15.1	3,094
Non-current liabilities	**55,735**	**53,340**	**2,395**	**4.5**	**56,777**
Financial liabilities	38,819	36,347	2,472	6.8	41,751
Provisions for pensions and other employee benefits	4,668	4,596	72	1.6	4,256
Other provisions	1,955	2,036	(81)	(4.0)	2,923
Deferred tax liabilities	8,278	8,331	(53)	(0.6)	6,302
Other liabilities	2,015	2,030	(15)	(0.7)	1,545
Liabilities	**80,204**	**78,298**	**1,906**	**2.4**	**82,006**
Shareholders equity	**50,136**	**49,582**	**554**	**1.1**	**46,926**
Issued capital	10,747	10,747	0		10,747
Capital reserves	49,565	49,561	4	0.01	49,536
Retained earnings including carryforwards	(13,175)	(18,760)	5,585	29.8	(16,171)
Other comprehensive income	(1,639)	(1,055)	(584)	(55.4)	(1,699)
Net profit	1,079	5,584	(4,505)	(80.7)	984
Treasury shares	(5)	(6)	1	16.7	(8)
Equity attributable to equity holders of the parent	46,572	46,071	501	1.1	43,389
Minority interests	3,564	3,511	53	1.5	3,537
Total liabilities and shareholders equity	**130,340**	**127,880**	**2,460**	**1.9**	**128,932**

n.m. not meaningful

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

DEUTSCHE TELEKOM AG

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY(Unaudited)

	Equity attributable to equity holders of the parent					
	Equity contributed		**Consolidated shareholders equity generated**			
	Issued capital (millions of)	**Capital reserves**	**Retained earnings**	**Carry-forwards**	**Net profit (loss)**	**Total**
Balance at January 1, 2005	**10,747**	**49,528**	**(19,829)**	**2,063**	**1,593**	**(16,173)**
Changes in the composition of the Group						
Profit (loss) after income taxes					984	984
Unappropriated net profit (loss) carried forward				1,593	(1,593)	0
Dividends						
Proceeds from the exercise of stock options		8				
Proceeds from the exercise of option and conversion rights						
Change in other comprehensive income (not recognized in income statement)			2			2
Recognition of other comprehensive income in income statement						
Balance at March 31, 2005	**10,747**	**49,536**	**(19,827)**	**3,656**	**984**	**(15,187)**
Balance at January 1, 2006	**10,747**	**49,561**	**(22,416)**	**3,656**	**5,584**	**(13,176)**
Changes in the composition of the Group						
Profit (loss) after income taxes					1,079	1,079
Unappropriated net profit (loss) carried forward				5,584	(5,584)	0
Dividends						
Sale of 2005 anniversary shares		(1)				
Proceeds from the exercise of stock options		5				
Change in other comprehensive income (not recognized in income statement)			1			1
Recognition of other comprehensive income in income statement						
Balance at March 31, 2006	**10,747**	**49,565**	**(22,415)**	**9,240**	**1,079**	**(12,096)**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

	Equity attributable to equity holders of the parent Other comprehensive income Fair value measurement of available-for-sale financial assets (millions of)	Fair value measurement of hedging instruments	Revaluation due to business combinations	Deferred taxes	Difference from currency translation	Total
Balance at January 1, 2005	**860**	**1,429**	**63**	**(556)**	**(4,474)**	**(2,678)**
Changes in the composition of the Group						
Profit (loss) after income taxes						
Unappropriated net profit (loss) carried forward						
Dividends						
Proceeds from the exercise of stock options						
Proceeds from the exercise of option and conversion rights						
Change in other comprehensive income (not recognized in income statement)	95	(227)	(2)	84	1,074	1,024
Recognition of other comprehensive income in income statement	(46)	1				(45)
Balance at March 31, 2005	**909**	**1,203**	**61**	**(472)**	**(3,400)**	**(1,699)**
Balance at January 1, 2006	**2**	**864**	**58**	**(335)**	**(1,644)**	**(1,055)**
Changes in the composition of the Group						
Profit (loss) after income taxes						
Unappropriated net profit (loss) carried forward						
Dividends						
Sale of 2005 anniversary shares						
Proceeds from the exercise of stock options						
Change in other comprehensive income (not recognized in income statement)	(1)	88	(1)	(32)	(637)	(583)
Recognition of other comprehensive income in income statement		(1)				(1)
Balance at March 31, 2006	**1**	**951**	**57**	**(367)**	**(2,281)**	**(1,639)**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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	Equity attributable to equity holders of the parent		
	Treasury shares (millions of)	**Total equity attributable to equity holders of the parent**	**Minority interest capital**
Balance at January 1, 2005	**(8)**	**41,416**	**4,332**
Changes in the composition of the Group			(1,002)
Profit (loss) after income taxes		984	122
Unappropriated net profit (loss) carried forward			
Dividends			
Proceeds from the exercise of stock options		8	
Proceeds from the exercise of option and conversion rights			
Change in other comprehensive income (not recognized in income statement)		1,026	2
Recognition of other comprehensive income in income statement		(45)	
Balance at March 31, 2005	**(8)**	**43,389**	**3,454**
Balance at January 1, 2006	**(6)**	**46,071**	**3,408**
Changes in the composition of the Group			2
Profit (loss) after income taxes		1,079	108
Unappropriated net profit (loss) carried forward			
Dividends			(54)
Sale of 2005 anniversary shares	1		
Proceeds from the exercise of stock options		5	
Change in other comprehensive income (not recognized in income statement)		(582)	1
Recognition of other comprehensive income in income statement		(1)	
Balance at March 31, 2006	**(5)**	**46,572**	**3,465**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

	Minority interests Other comprehensive income Revaluation due to business combinations (millions of)	**Deferred taxes**	**Difference from currency translation**	**Other**	**Total**	**Total (minority interest in equity)**	**Total consolidated shareholders equity**
Balance at January 1, 2005	**61**	**0**	**(7)**	**1**	**55**	**4,387**	**45,803**
Changes in the composition of the Group			(2)		(2)	(1,004)	(1,004)
Profit (loss) after income taxes						122	1,106
Unappropriated net profit (loss) carried forward							
Dividends							
Proceeds from the exercise of stock options							8
Proceeds from the exercise of option and conversion rights							
Change in other comprehensive income (not recognized in income statement)	(2)		32		30	32	1,058
Recognition of other comprehensive income in income statement							(45)
Balance at March 31, 2005	**59**	**0**	**23**	**1**	**83**	**3,537**	**46,926**
Balance at January 1, 2006	**63**	**0**	**39**	**1**	**103**	**3,511**	**49,582**
Changes in the composition of the Group	5	(2)			3	5	5
Profit (loss) after income taxes						108	1,187
Unappropriated net profit (loss) carried forward							
Dividends						(54)	(54)
Sale of 2005 anniversary shares							0
Proceeds from the exercise of stock options							5
Change in other comprehensive income (not recognized in income statement)	(1)		(6)		(7)	(6)	(588)
Recognition of other comprehensive income in income statement							(1)
Balance at March 31, 2006	**67**	**(2)**	**33**	**1**	**99**	**3,564**	**50,136**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

DEUTSCHE TELEKOM AG
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the three months ended March 31, 2006 (millions of)	2005	For the year ended December 31, 2005
Profit after income taxes	**1,187**	**1,106**	**6,016**
Depreciation, amortization and impairment losses	2,570	2,534	12,497
Income tax expense (refund)	563	466	196
Interest income and interest expenses	658	707	2,401
(Gain) loss from the disposal of non-current assets	(279)	(22)	(1,058)
Share of (profit) loss of associates and joint ventures accounted for using the equity method	(32)	(36)	(152)
Other non-cash transactions	67	(18)	(111)
Change in assets carried as working capital	(806)	(758)	(360)
Change in provisions	(180)	25	(230)
Change in other liabilities carried as working capital	(237)	(1,015)	(130)
Income taxes received (paid)	(212)	(424)	(1,200)
Dividends received	6	11	60
Cash generated from operations	3,305	2,576	17,929
Net interest paid	(509)	(400)	(2,931)
Net cash from operating activities	**2,796**	**2,176**	**14,998**
Cash outflows for investments in			
Intangible assets	(228)	(623)	(1,868)
Property, plant and equipment	(1,816)	(2,468)	(7,401)
Non-current financial assets	(115)	(39)	(604)
Investments in fully consolidated subsidiaries	(290)	(2,003)	(2,051)
Proceeds from disposal of			
Intangible assets	0	2	33
Property, plant and equipment	291	107	333
Non-current financial assets	200	157	1,648
Net change in short-term investments and marketable securities	(139)	(856)	(148)
Other	(63)	0	0
Net cash used in investing activities	**(2,160)**	**(5,723)**	**(10,058)**
Proceeds from issue of current financial liabilities	174	434	5,304
Repayment of current financial liabilities	(565)	(1,464)	(14,747)
Proceeds from issue of non-current financial liabilities	3,317	3,019	4,944
Repayment of non-current financial liabilities	(83)	(169)	(443)
Dividend payments	(64)	0	(2,931)
Proceeds from the exercise of stock options	4	8	34
Repayment of lease liabilities	(56)	(56)	(200)
Net cash from (used in) financing activities	**2,727**	**1,772**	**(8,039)**
Effect of foreign exchange rate changes on cash and cash equivalents	5	30	69
Net increase (decrease) in cash and cash equivalents	3,368	(1,745)	(3,030)
Cash and cash equivalents, at the beginning of the period	4,975	8,005	8,005
Cash and cash equivalents, at end of the period	8,343	6,260	4,975

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Note (1) Changes within the consolidated Group

In the past year, we acquired interests in various companies that were not, or were only partially, included in our consolidated financial statements as of March 31, 2005, primarily the Telekom Montenegro group. In addition, T-Systems DSS was sold in the second quarter of 2005 and was no longer included in our quarterly financial statements as of March 31, 2006. In the first quarter of 2006, within the Business Customers strategic business area, T-Systems acquired gedas AG (gedas), which was fully consolidated for the first time as of March 31, 2006.

The table below shows the effects of changes in the composition of the Group on our consolidated statement of income for the first quarter of 2006:

	Broadband/Fixed Network (millions of)	**Mobile Communications**	**Business Customers**	**Total**
Net revenue	18	6	(27)	(3)
Cost of sales	(10)	(2)	24	12
Gross profit	**8**	**4**	**(3)**	**9**
Selling expenses	(2)	(1)	2	(1)
General and administrative expenses	(1)	(1)	(1)	(3)
Other operating income	0	0	4	4
Other operating expenses	(1)	(1)	1	(1)
Profit (loss) from operations	**4**	**1**	**3**	**8**
Finance costs	0	0	0	0
Interest income	0	0	0	0
Interest expense	0	0	0	0
Share of profit (loss) of associates and joint ventures accounted for using the equity method	0	0	0	0
Other financial income (expense)	0	0	0	0
Profit (loss) from financial activities	**0**	**0**	**0**	**0**
Profit (loss) before income taxes	**4**	**1**	**3**	**8**
Income taxes	0	0	0	0
Profit after income taxes	**4**	**1**	**3**	**8**
Profit (loss) attributable to minority interests	0	1	0	1
Net profit (loss)	4	0	3	7

Business combinations

Effective March 31, 2006, T-Systems acquired IT service provider gedas from Volkswagen AG for a purchase price of approximately EUR 0.3 billion. On the basis of a preliminary purchase price allocation, this 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, which reported a loss of EUR 11 million for the first quarter of 2006 on revenues of EUR 144 million.

	Fair value at date of first-time consolidation (millions of)	**Carrying amounts immediately prior to business combination**
Current assets	236	236
Non-current assets	199	93
of which: intangible assets	126	20
Current liabilities	283	279
Non-current liabilities	39	6

Note (2) Loss from financial activities

Loss from financial activities consists of the following:

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Loss from financial activities	(568)	(715)	147	20.6	(1,410)
Finance costs	(658)	(707)	49	6.9	(2,401)
Interest income	73	99	(26)	(26.3)	398
Interest expense	(731)	(806)	75	9.3	(2,799)
Share of (profit) loss of associates and joint ventures accounted for using the equity method	32	36	(4)	(11.1)	214
Other financial income (expense)	58	(44)	102	n.m.	777

n.m. not meaningful

The reduction in loss from financial activities was primarily due to the proportion of the proceeds from the sale of Celcom (EUR 196 million) from 2003 that was not received until the first quarter of 2006, and is now recognized as other financial income. In addition, finance costs were reduced, due to our, on average, lower financial liabilities, as well as to a reduction in the average level of interest rates.

Note (3) Personnel

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Personnel costs	(3,439)	(3,342)	(97)	(2.9)	(14,254)

Our personnel costs increased, despite an overall decrease in the average number of employees, primarily due to contractually agreed increases in wages and salaries and, at T-Mobile USA, to personnel increases and exchange-rate effects.

Our personnel-cost ratio (personnel costs divided by net revenues) for the first quarter of 2006 was 23.2% of net revenue, an improvement of 0.2 percentage points year-on-year.

Average number of employees

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
Deutsche Telekom Group	243,424	243,967	(543)	(0.2)	244,026
Non-civil servants	199,203	197,166	2,037	1.0	197,501
Civil servants	44,221	46,801	(2,580)	(5.5)	46,525
Trainees and student interns	10,447	10,621	(174)	(1.6)	10,019

Number of employees as of the balance sheet date

	As of March 31, 2006	As of December 31, 2005	Change	Change %	As of March 31, 2005
Deutsche Telekom Group	248,982	243,695	5,287	2.2	243,784
Non-civil servants	204,818	197,741	7,077	3.6	197,123
Civil servants	44,164	45,954	(1,790)	(3.9)	46,661
Trainees and student interns	10,468	11,481	(1,013)	(8.8)	10,568

The increase in our number of employees at March 31, 2006, was mainly due to the first-time consolidation of gedas.

Note (4) Depreciation, amortization and impairment losses

	For the three months ended March 31, 2006	2005	Change	Change %	As of December 31, 2005
	(millions of , except where indicated)				
Amortization and impairment of intangible assets	617	613	4	0.7	4,427
of which: UMTS licenses	222	213	9	4.2	864
of which: U.S. mobile communications licenses		23	(23)	n.m.	30
of which: goodwill	10		10	n.m.	1,920
Depreciation and impairment of property, plant and equipment	1,953	1,921	32	1.7	8,070
Total depreciation, amortization and impairment losses	2,570	2,534	36	1.4	12,497

n.m. not meaningful

The increase in depreciation, amortization and impairment losses was primarily due to increased depreciation of property, plant and equipment, especially technical equipment and machinery, as a result of additions to assets during the previous year, which resulted in a higher depreciation base, particularly at T-Mobile USA.

Note (5) Intangible assets and property, plant and equipment

The components of intangible assets and property, plant and equipment as of March 31, 2006 and 2005, and December 31, 2005, are as follows:

	As of March 31, 2006	As of December 31, 2005	Change	Change %	As of March 31, 2005
	(millions of , except where indicated)				
Intangible assets	51,985	52,675	(690)	(1.3)	53,014
of which: UMTS licenses	13,318	13,613	(295)	(2.2)	14,246
of which: U.S. mobile communications licenses	16,677	17,047	(370)	(2.2)	15,378
of which: goodwill	18,415	18,375	40	0.2	19,903
Property, plant and equipment	46,837	47,806	(969)	(2.0)	48,203

The decrease in the total value of intangible assets and property, plant and equipment in the first quarter of 2006 was primarily due to exchange-rate effects totaling EUR 0.9 billion, as well as to a volume of amortization, depreciation and impairment losses that exceeded the level of investment.

The additions to assets for the three months ended March 31, 2006 and 2005, and the twelve months ended December 31, 2005, were as follows:

	For the three months ended March 31, 2006	2005	Change	Change %	As of December 31, 2005
	(millions of , except where indicated)				
Additions to assets	2,005	4,138	(2,133)	(51.5)	11,100
Intangible assets	517	1,523	(1,006)	(66.1)	2,828
Property, plant and equipment	1,488	2,615	(1,127)	(43.1)	8,272

Additions to assets in the first quarter of 2006 primarily included goodwill from the acquisition of the gedas group and the roll-out of the high-speed network in the Broadband/Fixed Network strategic business area. The much higher level of investment in the first quarter of the previous year primarily consisted of the goodwill relating to the acquisition of additional shares in T-Online International AG and the purchase of networks in California and Nevada.

Note (6) Stock-based compensation plans

Deutsche Telekom AG, T-Online International AG, T-Mobile USA, T-Mobile UK and Magyar Telekom all have stock-based compensation plans. The significant stock-based compensation plans are described below.

Stock option plans (SOP).

Deutsche Telekom AG stock option plans

In 2000, we granted stock options to certain employees for the first time. This plan expired in mid-2005. Since neither of the performance targets was achieved during the term of the 2000 Stock Option Plan, the options granted were forfeited on July 20, 2005, without compensation.

In addition, at the shareholders meeting in May 2001, the shareholders approved the 2001 Stock Option Plan, resulting in the granting of stock options in August 2001 and July 2002.

The following table provides an overview of the development of the total stock options held under the 2001 plan:

	SOP 2001 Stock options (thousands)	Weighted average exercise price ( )
Outstanding stock options at January 1, 2006	11,096	24.59
Granted	0	
Exercised	20	12.36
Forfeited	55	24.35
Outstanding at March 31, 2006	11,021	24.62
Exercisable as of March 31, 2006	11,021	24.62

T-Online International AG stock option plans

In 2000, T-Online International AG adopted the 2000 Stock Option Plan for the Board of Management, specialists and executives of T-Online and its subsidiaries. Since neither of the performance targets were achieved during the term of the 2000 Stock Option Plan, the options granted were forfeited on July 6, 2005. At the 2001 shareholders meeting, the shareholders approved a new stock option plan, structured as a premium-priced plan, to enhance the company s competitiveness.

The following table provides an overview of the development of the total stock options held under the plan adopted in 2001:

	SOP 2001 Stock options (thousands)	Weighted average exercise price ( )
Outstanding stock options at January 1, 2006	3,551	10.30
Granted	0	
Exercised	0	
Forfeited	32	10.27
Outstanding at March, 31, 2006	3,519	10.31
Exercisable as of March 31, 2006	3,493	10.31

T-Mobile USA (VoiceStream/ Powertel) stock option plan

Before its acquisition on May 31, 2001, VoiceStream (now T-Mobile USA) had granted stock options to its employees. On May 31, 2001, these were converted into options to purchase shares of Deutsche Telekom at a rate of 3.7647 per unvested, outstanding T-Mobile USA option.

At March 31, 2006, 13.1 million shares were available for outstanding options for the 1999 Management Incentive Stock Option Plan (MISOP). The vesting period and option terms relating to the option plan are determined by the MISOP administrator. The options typically vest for a period of four years and have a term of up to 10 years. The plan has now expired and no more options can be issued.

Before its acquisition on May 31, 2001, Powertel had granted stock options to its employees. On May 31, 2001, as a consequence of the acquisition, all unvested, outstanding Powertel options were converted into Deutsche Telekom options at a conversion rate of 2.6353.

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

The following table provides an overview of the development of the total stock options issued by T-Mobile USA, including performance options and Powertel options, which were combined in 2004:

	Stock options (thousands)	Weighted average exercise price (USD)
Outstanding stock options at January 1, 2006	13,848	20.36
Granted	0	
Exercised	474	9.55
Forfeited	27	32.62
Expired	237	27.75
Outstanding at March 31, 2006	13,110	20.59
Exercisable as of March 31, 2006	12,864	20.73

Magyar Telekom stock option plan

On April 26, 2002, the shareholders of Magyar Telekom approved the introduction of a management stock option plan.

On July 1, 2002, Magyar Telekom used its authority under the shareholders resolutions adopted in April 2002 to grant these options for the first tranche (exercisable from 2003) and for the second and third tranches (exercisable from 2004 and 2005, respectively).

The following table provides an overview of the development of the total stock options held:

	Stock options (thousands)	Weighted average exercise price (HUF)
Outstanding stock options at January 1, 2006	1,929	944
Granted	0	
Exercised	0	
Forfeited	46	944
Outstanding at March 31, 2006	1,883	944
Exercisable as of March 31, 2006	1,883	944

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Mid-Term Incentive Plan (MTIP).

Deutsche Telekom AG MTIP

In 2004, Deutsche Telekom AG introduced its first Mid-Term Incentive Plan (MTIP) to ensure competitive total compensation for members of the Board of Management and senior executives of the Deutsche Telekom Group, and other beneficiaries mainly in the United States and the United Kingdom. The MTIP is a global, Group-wide compensation instrument for Deutsche Telekom AG and other participating Group entities that promotes mid- and long-term value creation in the Group, and therefore combines the interests of management and shareholders. The intention is to launch the plan annually on a revolving basis for five years, with each tranche of the plan to run for three years. 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 MTIP 2004 came into effect on January 1, 2004, and will end upon the expiration of its three-year term on December 31, 2006. The MTIP 2005 came into effect on January 1, 2005, and will end upon the expiration of its three-year term on December 31, 2007.

The MTIP is a cash-based plan. A certain amount is established as an award to the beneficiaries by the respective employer, and this amount is paid out to the beneficiaries at the end of the plan, subject to the achievement of the two previously defined performance targets.

The first, absolute performance target is reached if, at the end of the term of the plan, *i.e.*, after three years, Deutsche Telekom s share price has risen by at least 30% since the beginning of the plan.

The second, relative, performance target is achieved if the total return of the T-Share has outperformed the Dow Jones Euro STOXX Total Return Index on a percentage basis during the term of the plan.

If both performance targets are achieved, then the total amount of the award is paid out; if only one performance target is achieved, 50% of the amount is paid out; and if neither performance target is achieved, no payment is made.

T-Mobile USA MTIP

T-Mobile USA s MTIP is based on the same conditions as Deutsche Telekom AG s MTIP.

T-Mobile USA LTIP

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.

T-Mobile UK MTIP

T-Mobile UK s MTIP is also based on the same terms and conditions as Deutsche Telekom AG s MTIP. In addition to the two performance targets in that plan, however, T-Mobile UK has introduced a third performance target for a defined group of participants, which is based on 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 achieved.

T-Online International AG MTIP

T-Online s MTIP is also based on the same conditions as Deutsche Telekom AG s MTIP, with the exception that performance is measured in terms of the development of T-Online s shares and the TecDAX share index.

Magyar Telekom MTIP

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 EuroSTOXX Total Return Index.

A provision in the amount of EUR 25 million for the MTIPs linked to the development of the T-Share was reversed in the first quarter of 2006, due to a sustained shortfall in the performance of the T-Share, relative to the defined performance targets. Expenditures for the 2005 and 2006

LTIP at T-Mobile USA amounted to approximately EUR 10 million.

Note (7) Total financial liabilities

The components of total financial liabilities (which includes current and noncurrent financial liabilities) as of March 31, 2006 and 2005, and December 31, 2005, were as follows:

	As of March 31, 2006 (millions of)	As of December 31, 2005	As of March 31, 2005
Bonds	39,696	37,255	42,275
Liabilities to banks	2,447	2,227	3,121
Liabilities to non-banks from promissory notes	641	645	656
Liabilities from derivatives	549	678	1,143
Lease liabilities	2,374	2,373	2,459
Liabilities arising from ABS transactions	1,331	1,363	1,487
Other financial liabilities	2,362	2,180	2,998
Total financial liabilities	**49,400**	**46,721**	**54,139**

Note (8) Contingencies and other financial obligations

Contingencies and other financial obligations increased slightly during the first quarter of 2006, by EUR 0.3 billion to EUR 34 billion, compared to December 31, 2005. This increase was mainly a result of an increase in the level of purchase commitments. This was offset by a reduction in purchase commitments for interests in other companies in connection with the acquisition of gedas.

Note (9) Segment information

The following tables provide a financial summary of Deutsche Telekom s strategic business areas, and Group Headquarters and Shared Services, for 2005, as well as for the first quarters of 2006 and 2005. In addition to the details of the segments, there is also a reconciliation line.

For the year ended December 31, 2005	Net revenue (millions of)	Inter-segment revenue	Total revenue	Profit (loss) from operations (EBIT)	Share of profit (loss) of equity-accounted investments	Depreciation and amortization	Impairment losses
Group	59,604		59,604	7,622	214	(10,291)	(2,206)
Mobile Communications	28,531	921	29,452	3,005	133	(4,745)	(1,951)
Broadband/ Fixed Network	21,731	4,304	26,035	5,142	53	(4,026)	(8)
Business Customers	9,058	3,792	12,850	409	3	(885)	(11)
Group Headquarters & Shared Services	284	3,221	3,505	(840)	(1)	(695)	(233)
Reconciliation		(12,238)	(12,238)	(94)	26	60	(3)

For the three months ended March 31, 2006 For the three months ended March 31, 2005	Net revenue (millions of)	Inter-segment revenue	Total revenue	Profit (loss) from operations (EBIT)	Share of profit (loss) of equity-accounted investments	Depreciation and amortization	Impairment losses
Group	**14,842**		**14,842**	**2,318**	**32**	**(2,551)**	**(19)**
	14,288		14,288	2,287	36	(2,486)	(48)
Mobile Communications	**7,405**	**170**	**7,575**	**1,055**	**28**	**(1,222)**	**(3)**
	6,531	215	6,746	966	30	(1,112)	(24)
Broadband/ Fixed Network	**5,207**	**949**	**6,156**	**1,262**	**3**	**(959)**	**(10)**
	5,458	1,097	6,555	1,434	3	(1,010)	0
Business Customers	**2,152**	**859**	**3,011**	**99**	**1**	**(214)**	**0**
	2,234	872	3,106	174	1	(217)	0
Group Headquarters & Shared Services	**78**	**793**	**871**	**(94)**	**0**	**(168)**	**(6)**

	65	788	853	(267)	0	(161)	(23)
Reconciliation		**(2,771)**	**(2,771)**	**(4)**	**0**	**12**	**0**
		(2,972)	(2,972)	(20)	2	14	(1)

Note (10) Earnings per share

		For the three months ended March 31, 2006	2005	For the year ended December 31, 2005
Calculation of basic earnings per share				
Net profit	(millions of)	1,079	984	5,584
Adjustment for the financing costs of the mandatory convertible bond (after taxes)	(millions of)	25	25	98
Adjusted net profit (basic)	(millions of)	1,104	1,009	5,682
Number of ordinary shares issued	(millions)	4,198	4,198	4,198
Treasury shares held by Deutsche Telekom AG	(millions)	(2)	(3)	(2)
Shares reserved for outstanding options granted to T-Mobile USA and Powertel	(millions)	(23)	(25)	(24)
Effect from the potential conversion of the mandatory convertible bond	(millions)	163	156	163
Adjusted weighted average number of ordinary shares outstanding (basic)	(millions)	4,336	4,326	4,335
Basic earnings per share/ADS	( )	**0.25**	**0.23**	**1.31**
Calculation of diluted earnings per share				
Adjusted net profit (basic)	(millions of)	1,104	1,009	5,682
Dilutive effects on profit from stock options (after taxes)	(millions of)	0	0	0
Net profit (diluted)	(millions of)	1,104	1,009	5,682
Adjusted weighted average number of ordinary shares outstanding (basic)	(millions)	4,336	4,326	4,335
Dilutive potential ordinary shares from stock options and warrants	(millions)	2	5	3
Weighted average number of ordinary shares outstanding (diluted)	(millions)	4,338	4,331	4,338
Diluted earnings per share/ADS	( )	**0.25**	**0.23**	**1.31**

Note (11) Subsequent events

According to published reports, on April 24, 2006, KfW (*Kreditanstalt für Wiederaufbau*) sold approximately 192 million shares of Deutsche Telekom AG, approximately 4.5% of its Deutsche Telekom AG share capital, to the Blackstone Group, a U.S.-based private equity investment firm, for approximately EUR 2.68 billion. As a result, KfW s stake in Deutsche Telekom AG has been reduced to 17.5%, with the total stake in Deutsche Telekom AG held by KfW, together with the Federal Republic, now aggregating approximately 33%. It was also reported that Blackstone has agreed not to dispose of its holdings in Deutsche Telekom AG for a two-year period, and that KfW will not sell any additional shares in Deutsche Telekom AG for one year.

In May 2006, we agreed with the German tax authorities on the application of a trade tax law provision regarding certain capital losses incurred in 2002 and 2003. We expect to release an accrual for trade taxes as a result of this agreement, which will have the effect of increasing net income in the second quarter of 2006. The amount of such expected increase has not yet been determined, but may be significant.

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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion, which has been prepared on the basis of IFRS, in conjunction with the annual consolidated financial statements, including the notes to those financial statements, contained in our Annual Report on Form 20-F filed with the Securities and Exchange Commission. However, those financial statements have been prepared in accordance with the requirements of IFRS, which differ in certain significant respects from U.S. generally accepted accounting principles (U.S. GAAP). For a discussion of the principal differences between IFRS and U.S. GAAP as they relate to us, see Reconciling Differences between IFRS and U.S. GAAP and notes 48 and 49 to the consolidated financial statements contained in our Annual Report on Form 20-F.

The strategies and expectations referred to in the following discussions under the headings Introduction, Recent Developments and Outlook contain forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives we implement and other factors. We cannot provide assurance that the strategies and expectations referred to in these discussions will come to fruition. Forward-looking statements are based on current plans, estimates and projections, and, therefore, you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statements in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to materially differ from those expressed in, or implied by, the forward-looking statements. Factors that may affect the forward-looking statements include delays in the planned merger of T-Online into Deutsche Telekom AG and the progress of our workforce-adjustment initiative, described below. In addition, stronger than expected competition, technological change or regulatory developments, among other factors, may have a material adverse effect on our rates of revenue growth. Please refer to Forward-Looking Statements contained in this Report, and Forward-Looking Statements and Item 3. Key Information Risk Factors contained in our Annual Report on Form 20-F, for descriptions of some of the factors relevant to these discussions and other forward-looking statements in this Report.

INTRODUCTION

Excellence Program.

Following the success of our debt-reduction and restructuring efforts from 2002 through 2005, we entered a new stage of development in 2006, focusing on growth and value enhancement. With the Excellence Program, launched in 2005, we began to transform the Group s organic strategy. This program consists of three core elements that play a critical role in the achievement of our goals:

- Growth programs for the three strategic business areas, Mobile Communications, Broadband/Fixed Network and Business Customers;
- Group-wide initiatives to tap the potential of intelligent integration; and
- Long-term changes in our corporate culture toward a stronger focus on customers needs.

Growth programs.

Mobile Communications focuses on maintaining its level of growth through simple, attractive calling plans, specific options and services tailored to various customer groups. For example, the T-Mobile@Home option, which was launched in early 2006, enables customers to make mobile calls to German fixed-network lines at low rates within a radius of up to 2 km from a pre-selected address. More than 500,000 customers chose to take advantage of this option in the first quarter of 2006. The further expansion of mobile data services is also supporting continued growth. In total, T-Mobile has already sold more than 400,000 web n walk-compatible devices, which supports our view that the future of mobile Internet lies in completely mobile access. Moreover, the Save for Growth program (long-term cost savings to create flexibility for further investments in growth), which was launched in 2005, will be continued in 2006.

In the **Broadband/Fixed Network** strategic business area, T-Com has set the goals of defending its core business and stabilizing its market share in terms of call minutes. Rate innovations and a highly simplified product range will be significant factors in achieving these objectives. In addition, growth in the number of broadband lines will be further developed with the help of the Conquer the home initiative. We are currently building a high-speed network of up to 50 Mbit/s in 10 major German cities, which will lay the foundation for new combined, high-bandwidth products that bundle communications services, high-speed Internet access and entertainment offerings (triple-play services). In furtherance of this strategy, for example, we have secured a basis for offering highly attractive content by acquiring the IP transmission rights to Bundesliga soccer games.

The measures undertaken in the **Business Customers** strategic business area affect both the telecommunications and information technology (IT) businesses. With respect to telecommunication services, an important goal is to regain market share among large and medium-sized business customers. In the European IT market, Business Customers intends to generate long-term growth by offering standardized IT services and solutions for small- and medium-sized business customers and by expanding its IT outsourcing business among new and existing key accounts. To further develop its portfolio, T-Systems Enterprise Services GmbH acquired the IT services provider, gedas AG, from Volkswagen AG, which will ensure a stronger presence in the global automotive market.

Group-wide initiatives.

As an integrated telecommunications provider, the Deutsche Telekom Group is developing convergent solutions designed to meet customers needs for simplicity and service. In this regard, T-One, an integrated terminal device that enables both fixed-network and mobile telephony, was unveiled at the CeBIT information and communications technology trade show in March 2006.

Following the completion of our planned merger with T-Online International AG, we intend to implement a Group-wide customer relationship management (CRM) system, with the aim of increasing customer satisfaction and better utilizing the potential of cross-selling.

Further increasing efficiency is another goal that the entire Group is steadfastly pursuing, including measures undertaken in the areas of IT network infrastructure and real estate-related costs, as well as steps to improve the personnel-cost ratio (personnel costs divided by net reveunes). Implementation of our previously announced staff-restructuring program began on schedule. In addition, as part of the optimization of our central corporate functions, Group Headquarters staff will be reduced to 850 persons.

Performance and service culture.

Improved customer orientation is the focus of the cultural changes taking place within the Group. The Five days with the customer program, which was launched in 2005 and under which all of the Group s top managers must spend at least five days in direct contact with customers, will continue in 2006. The STEP up! program, an executive development program that defines and realizes competency profiles and performance management processes for all executives throughout the Group, was developed in recognition of the distinctive function of executives as role models. In addition, all newly hired employees complete an introductory program that will also bring them into direct contact with customers.

Code of Conduct.

We introduced a Code of Conduct on April 19, 2006. Not only is the Code of Conduct a bridge between T-Spirit, relevant legislation and Group policies, it also complies with the requirements placed on us as a listed company. Moreover, the Code is the Company s way to link value management and ethical management with compliance and anti-fraud management.

RECENT DEVELOPMENTS

Lufthansa and Deutsche Telekom agree on future worldwide cooperation.

Deutsche Lufthansa AG and Deutsche Telekom AG have entered into a strategic partnership, with the aim of intensifying the use of the products and services of both companies, to the benefit of their respective customers. A major part of this partnership is the marketing cooperation between Lufthansa s Miles & More program and the companies in the Deutsche Telekom Group. From July 2006, T-Mobile customers will be able to earn bonus miles for their mobile phone calls and receive attractive bonus miles packages when they choose certain calling plan or data options.

Staff restructuring at Deutsche Telekom AG gets underway.

As previously announced, we launched our personnel-restructuring program in 2005. We have set a target of reducing the number of jobs at Deutsche Telekom AG by 19,000 net by 2008. The heart of this program is the implementation of downsizing measures that avoid compulsory redundancies and are based on the principle of voluntary action by employees. A total of approximately EUR 3.3 billion is available for this purpose. To reduce personnel, we introduced a special redundancy payment program limited to the period from March 1 through August 31, 2006. Under this program, employees whose pay is regulated by a collective bargaining agreement, and who are between 40 and 55 years of age, can receive a voluntary redundancy payment of up to EUR 225,000. Another program enables employees who have already reached retirement age, or will do so within the next two years, to leave the Group early and receive voluntary redundancy pay. Both DeTeImmobilien and T-Systems are promoting workforce restructuring throughout the Group in Germany with their own limited-time severance models. To further promote workforce re-balancing within the Group, we are offering our employees special benefits for switching jobs, such as income-protection provisions, for a limited time through August 31, 2006.

In the second quarter of 2006, Deutsche Telekom AG plans to negotiate with the trade unions and implement its workforce restructuring plans, which will involve some personnel reductions. In late March 2006, representatives of T-Com agreed with the trade unions to reorganize T-Com s call center structure, which will result in a cut in the number of T-Com call centers in the Consumer Sales area from the current level of 96 to 60. The employees affected by these cuts will be offered alternative employment within Deutsche Telekom AG. The first voluntary workforce reductions were set in motion within T-Com on April 1, 2006, affecting 3,680 jobs. In accordance with the collective agreement with the trade unions, the staff restructuring measures will not lead to any compulsory redundancies at Deutsche Telekom AG until at least the end of 2008. With respect to civil servants working at Deutsche Telekom AG, we are coordinating closely with the relevant ministries and anticipate a decision in the second quarter of 2006.

Successful issue in U.S. dollars and euros.

We took advantage of the favorable market environment in the first quarter of 2006 to issue a series of bonds, which included medium-term notes amounting to EUR 1 billion, and to issue three tranches of U.S. dollar bonds in the amount of USD 2.5 billion.

Celcom pays USD 0.2 billion to Deutsche Telekom.

In February 2006, Celcom (Malaysia) Berhad, Telekom Malaysia Bhd. s mobile communications division, fulfilled its financial obligations arising from the arbitration proceedings brought before the ICC International Court of Arbitration in Paris by DeTeAsia Holding GmbH, our wholly owned subsidiary, against Celcom in March 2003. This involved a payment of USD 233 million (EUR 196 million), including additional interest.

Deutsche Telekom AG anticipates tough collective bargaining talks.

The collective wage agreement with united services union ver.di terminated on March 31, 2006. New negotiations began with various demands from the union, including a wage increase of 6% and a special bonus of EUR 250 for ver.di union members. We have rejected these demands on the grounds that they are excessive. We intend to achieve a moderate wage agreement that will not jeopardize plans to implement a sustainable reduction in the personnel-cost ratio. Negotiations with the trade unions will continue in May 2006. We anticipate that the union may initiate industrial action in the second quarter of 2006.

Merger of T-Online International AG into Deutsche Telekom AG.

On April 29, 2005, the shareholders meeting of T-Online International AG approved the agreement signed with Deutsche Telekom on March 8, 2005, relating to the merger of T-Online into Deutsche Telekom. Due to lawsuits filed by several T-Online shareholders against the legality of this approval, the merger can only be entered in the commercial registers of the two companies, and therefore completed, as soon as the responsible court issues a legally binding ruling in a judicial release proceeding, such that the lawsuits do not stand in the way of the recording of the merger in the commercial registers (a release ruling), or the lawsuits are dismissed or dropped. The Frankfurt am Main Higher Regional Court, as the court of second instance, issued a release decision in February 2006. This decision is not yet final and legally binding, however, and various opponents of the judicial release proceedings T-Online shareholders who have filed complaints have filed for appeal with the Federal Court of Justice.

Mobile Communications

T-Mobile brings FIFA World Cup to mobile phones.

T -Mobile is bringing the soccer event of the year directly to mobile phones as a TV program. When the opening game of the FIFA World Cup 2006 kicks off on June 9, 2006, in Munich, T-Mobile customers will be able to watch the exciting event live via the MobileTV service. Throughout the four weeks of the FIFA World Cup, customers will be able to follow numerous events live on their mobile phones via a mobile TV channel offered by T-Mobile. To receive the live broadcasts, customers must have UMTS network coverage plus a UMTS-enabled mobile phone that supports this service. The Mobile TV service will use streaming to transmit images and sound.

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T-Mobile@home: Calling from home at attractive fixed-network rates.

On January 16, 2006, T-Mobile launched yet another attractive option for mobile voice communications. With T-Mobile@home, T-Mobile customers in Germany can make mobile calls from their home or office to fixed-network lines in Germany at low rates. What makes this option so special is that this rate is not limited to the confines of the customer s home or office, but applies within a 2-kilometer radius of the chosen location. Customers also receive a fixed-network telephone number with a local area code for T-Mobile@home. They can be reached at this number within the defined T-Mobile@home area at customary fixed-network rates and conditions.

HSDPA launched.

Since March 2006, highspeed UMTS (Universal Mobile Telecommunication System), based on HSDPA (High Speed Downlink Packet Access) technology, has been speeding mobile data transmissions in large parts of T-Mobile s UMTS network at up to 1.8 megabits per second (Mbit/s). Additionally, EDGE (Enhanced Data rates for GSM Evolution) technology will enable mobile data transfers at up to four times the speed of ISDN throughout Germany s nationwide GPRS (General Packet Radio Service) network.

Go-ahead for acquisition of tele.ring by T-Mobile in Austria.

On April 26, 2006, the Competition Directorate-General of the European Commission and the Austrian telecommunications authorities cleared T-Mobile Austria s acquisition of Austrian mobile communications provider, tele.ring, for a purchase price of approximately EUR 1.3 billion. The transaction closed on April 28, 2006, and the company will be consolidated as of May 2, 2006. Following the acquisition, T-Mobile Austria now has approximately 3.3 million customers and a market share of 37%.

Internet access on high-speed ICE trains: First test phase a success.

T-Mobile and Deutsche Bahn have completed the test phase of an online Internet service on selected high-speed trains. Evaluation of whether to expand the service to other Deutsche Bahn routes and train types is ongoing. Additionally, more than 20 train stations have now been equipped as T-Mobile HotSpots.

Broadband/Fixed Network

Cooperation with Microsoft on development of IPTV.

The Group will in the future offer its customers television via VDSL, plus supplementary interactive services and comprehensive entertainment services, using Microsoft TV IPTV edition software as a technical platform. This platform facilitates new interactive services, such as digital personal video recording, in addition to reception of TV channels in both standard and HDTV quality. Viewers will also be able to access attractive content packages that include selected feature films, television programming and documentaries. IPTV will be launched on the basis of the new VDSL network, which is currently being developed by T-Com to enable bandwidths of up to 50 Mbit/s.

DualPhone solution T-One.

T-One is scheduled to be launched in mid-2006. T-One is a simple, convenient solution for both T-DSL and T-Net customers to use voice and data services in the German fixed and mobile network. Whether at home, on the move or using one of T-Com and T-Mobile s German HotSpots, customers can now talk and send text and multimedia messages using just one device. The DSL version of the device supports both W-LAN technology and the transmission technologies used in digital mobile networks.

Business Customers

Acquisition of gedas completed.

On March 31, 2006, T-Systems Enterprise Services GmbH completed the acquisition of the shares of gedas AG from Volkswagen AG. By acquiring gedas, Business Customers is expanding its core expertise as a service provider for information and communication technology (ICT) in the automotive sector. With some 5,500 employees, two-thirds of whom are located outside of Germany, gedas will strengthen Business Customers expertise in the automotive industry and support its internationalization strategy. The gedas brand will be absorbed into the T-Systems brand by January 1, 2007. With the acquisition, T-Systems has also gained the VW group as a corporate customer, with a framework agreement that runs for seven years and covers IT services valued at EUR 2.5 billion.

DaimlerChrysler extends framework agreement through 2008.

The automotive group, DaimlerChrysler AG, has extended its global framework agreement with T-Systems through the end of 2008. This framework agreement brings together seven service agreements and forms the framework for all information and communications technology services provided by T-Systems. T-Systems operates mainframe computers and client-server architectures for the German-American automotive group. In addition, it develops and maintains business-critical applications in areas such as customer support, vehicle development, production, sales and corporate management. T-Systems also manages the automotive group s corporate network in Germany as well as its contingency network in Asia.

Federal Network Agency Actions.

Reduction in interconnection charges

On April 13, 2006, the Federal Network Agency set new interconnection charges for the telecommunications market, which lowered interconnection charges by an average of 10%. The new charges will apply from June 1, 2006, to November 30, 2008.

DSL resale Ex post rates regulation by Federal Network Agency.

On April 6, 2006, the Federal Network Agency initiated rate regulation of DSL resale rates, which is intended to clarify whether the wholesale terms and conditions for DSL resale products are distorting competition to the detriment of other providers. The Federal Network Agency is expected to issue its findings by June 6, 2006.

Bitstream access draft regulatory order.

On April 26, 2006, the Federal Network Agency published its draft regulatory order for bitstream access at the IP level. This proposed action is intended to require Deutsche Telekom AG to make bitstream access available to competitors, as well as to obtain prior approval of its proposed bitstream access rates. The draft order is open to comments from competitors and from us until May 26, 2006. After that time, the Federal Network Agency will review the regulatory order, taking into consideration the comments received, and submit it to the commission for final determination. The resulting regulatory order is not expected to become binding before July 2006.

OUTLOOK

Development of revenue and profit.

Group-wide measures are helping to secure sustained profitable growth and value enhancement. Deutsche Telekom is investing more heavily in revenue growth in 2006 and anticipates average annual revenue growth of approximately 5% in the Group over the next two years.

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

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

RESULTS OF OPERATIONS

The following table shows information concerning our condensed consolidated statements of income for the periods indicated

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Net revenue	**14,842**	**14,288**	**554**	**3.9**	**59,604**
Cost of sales	(7,821)	(7,525)	(296)	(3.9)	(31,862)
Gross profit	**7,021**	**6,763**	**258**	**3.8**	**27,742**
Selling expenses	(3,774)	(3,435)	(339)	(9.9)	(14,683)
General and administrative expenses	(1,077)	(1,026)	(51)	(5.0)	(4,210)
Other operating income	350	279	71	25.4	2,408
Other operating expenses	(202)	(294)	92	31.3	(3,635)
Profit from operations	**2,318**	**2,287**	**31**	**1.4**	**7,622**
Finance costs	(658)	(707)	49	6.9	(2,401)
Interest income	73	99	(26)	(26.3)	398

Interest expense	(731)	(806)	75	9.3	(2,799)
Share of profit of associates and joint ventures accounted for using the equity method	32	36	(4)	(11.1)	214
Other financial income (expense)	58	(44)	102	n.m.	777
Loss from financial activities	**(568)**	**(715)**	**147**	**20.6**	**(1,410)**
Profit before income taxes	**1,750**	**1,572**	**178**	**11.3**	**6,212**
Income taxes	(563)	(466)	(97)	(20.8)	(196)
Profit after income taxes	**1,187**	**1,106**	**81**	**7.3**	**6,016**
Profit attributable to minority interests	108	122	(14)	(11.5)	432
Net profit (profit (loss) attributable to equity holders of the parent)	1,079	984	95	9.7	5,584
Earnings per share(1) /ADS(2) (Basic and Diluted)	0.25	0.23	0.02	8.7	1.31

n.m. not meaningful

(1) Earnings per share for each period are calculated by dividing net profit by the weighted average number of outstanding shares.

(2) One ADS corresponds in economic terms to one ordinary share of Deutsche Telekom AG.

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Net revenue

We continued our growth in the first quarter of 2006 with net revenue increasing to EUR 14.8 billion. This represents an increase of EUR 0.6 billion or 3.9% compared with the same period in the previous year. Exchange rate effects, primarily from the translation of U.S. dollars (USD), accounted for EUR 0.3 billion of this revenue growth.

The Mobile Communications strategic business area continues to be the main revenue driver in the Group in the first quarter of 2006. Continued customer growth at T-Mobile USA resulted in revenue gains of more than 12% for the Mobile Communications strategic business area as compared with the first quarter of 2005.

Despite the positive development at T-Online, net revenue in the Broadband/Fixed Network strategic business area decreased in the first quarter of 2006 as compared with the first quarter of 2005. T-Online recorded revenue growth primarily as a result of marketing a package consisting of DSL access and rates. T-Com, on the other hand, recorded a decrease in revenue due mainly to lower call revenues and a decrease in narrowband lines.

Revenue in the Business Customers strategic business area also declined. The slight revenue growth in the Business Services unit, which was partly attributable to the successful implementation of the IT strategy for small and medium-sized enterprises, was offset by a decrease in revenue in the Enterprise Services unit.

The following table shows the contributions of our strategic business areas to our total revenue before elimination of inter-segment revenue.

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Net revenue	14,842	14,288	554	3.9	59,604
Mobile Communications(1)	7,575	6,746	829	12.3	29,452
Broadband/Fixed Network(1)	6,156	6,555	(399)	(6.1)	26,035
Business Customers(1)	3,011	3,106	(95)	(3.1)	12,850
Group Headquarters & Shared Services(1)	871	853	18	2.1	3,505
Inter-segment revenue(2)	(2,771)	(2,972)	201	6.8	(12,238)

(1) Total revenue (including revenue between strategic business areas).

(2) Elimination of revenue between strategic business areas.

Net revenue (total revenue excluding inter-segment revenue)

The contribution of the strategic business areas to Group net revenue (after elimination of inter-segment revenue) is presented below:

	For the three months ended March 31, 2006	Proportion of net revenue of the Group %	For the three months ended March 31, 2005	Proportion of net revenue of the Group %	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)						
Net revenue	14,842	100.0	14,288	100.0	554	3.9	59,604
Mobile Communications	7,405	49.9	6,531	45.7	874	13.4	28,531
Broadband/Fixed Network	5,207	35.1	5,458	38.2	(251)	(4.6)	21,731
Business Customers	2,152	14.5	2,234	15.6	(82)	(3.7)	9,058
Group Headquarters & Shared Services	78	0.5	65	0.5	13	20.0	284

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The Mobile Communications strategic business area now accounts for almost 50% of the Group s net revenue and has again increased this proportion substantially. The proportion of net revenue generated by the Broadband/Fixed Network and Business Customers strategic business areas decreased to approximately 35% and almost 15%, respectively.

Boosted by sustained revenue growth at T-Mobile USA, international revenue in the first quarter of 2006 was up almost 15% as compared with the same period in the previous year. The proportion generated outside Germany rose by more than 4 percentage points from the first quarter of 2005 to approximately 45%.

Net revenue by geographic area

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Net revenue	14,842	14,288	554	3.9	59,604
Domestic	8,208	8,511	(303)	(3.6)	34,183
International	6,634	5,777	857	14.8	25,421
Proportion generated internationally (%)	44.7	40.4	-	-	42.6
Europe (excluding Germany)	3,234	3,115	119	3.8	13,272
North America	3,332	2,592	740	28.5	11,858
Other	68	70	(2)	(2.9)	291

Cost of sales

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Total Group	(7,821)	(7,525)	(296)	(3.9)	(31,862)

The increase in cost of sales as a whole was proportional to the growth of revenues, with a positive cost trend in the Mobile Communications strategic business area offsetting a slightly less than proportional decrease in costs in the Broadband/Fixed Network strategic business area.

Selling expenses

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Total Group	(3,774)	(3,435)	(339)	(9.9)	(14,683)

The increase in selling expenses was predominantly attributable to higher commission and marketing expenses in the Broadband/Fixed Network and Mobile Communications strategic business areas. Higher costs at T-Mobile USA were primarily exchange-rate driven.

General and administrative expenses

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Total Group	(1,077)	(1,026)	(51)	(5.0)	(4,210)

Besides Business Customers and Group Headquarters & Shared Services, the increase in general and administrative expenses related primarily to Mobile Communications. The increase at Mobile Communications was attributable to exchange rates as well as higher personnel costs.

Profit from operations

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Total Group	2,318	2,287	31	1.4	7,622

Profit from operations was up slightly year-on-year in the first quarter of 2006, boosted in particular by the contributions made by Mobile Communications and Group Headquarters & Shared Services. By contrast, profit from operations in the Broadband/Fixed Network and Business Customers strategic business areas fell, mainly due to the decline in revenue.

Loss from financial activities

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Loss from financial activities	(568)	(715)	147	20.6	(1,410)
Finance costs	(658)	(707)	49	6.9	(2,401)
Interest income	73	99	(26)	(26.3)	398
Interest expense	(731)	(806)	75	9.3	(2,799)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	32	36	(4)	(11.1)	214
Other financial income (expense)	58	(44)	102	n.m.	777

n.m. not meaningful

The reduction in loss from financial activities was primarily due to the proportion of proceeds from the sale of Celcom (EUR 196 million) from 2003 that was not received until the first quarter of 2006, and is now recognized as other financial income. In addition, finance costs were reduced, due to, on average, lower financial liabilities as well as to a decrease in the average level of interest rates.

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Personnel costs

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Total Group	(3,439)	(3,342)	(97)	(2.9)	(14,254)

Despite an overall decrease in the average number of employees, personnel costs increased, primarily due to collectively agreed increases in wages and salaries and, at T-Mobile USA, to personnel increases and exchange-rate effects.

The personnel-cost ratio (personnel costs divided by net revenues) for the first quarter of 2006 was 23.2% of revenues, an improvement of 0.2 percentage points year-on-year.

Depreciation, amortization and impairment losses

	For the three months ended March 31, 2006	2005	Change	Change %	As of December 31, 2005
	(millions of , except where indicated)				
Amortization and impairment of intangible assets	617	613	4	0.7	4,427
of which: UMTS licenses	222	213	9	4.2	864
of which: U.S. mobile communications licenses		23	(23)	n.m.	30
of which: goodwill	10		10	n.m.	1,920
Depreciation and impairment of property, plant and equipment	1,953	1,921	32	1.7	8,070
Total depreciation, amortization and impairment losses	2,570	2,534	36	1.4	12,497

n.m. not meaningful

The increase in depreciation, amortization and impairment losses was primarily due to higher depreciation of property, plant and equipment, especially technical equipment and machinery, as a result of additions to assets in the prior year, which resulted in a higher depreciation base, particularly at T-Mobile USA.

Profit (loss) before income taxes

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Total Group	1,750	1,572	178	11.3	6,212

The Group increased its profit before income taxes by EUR 0.2 billion year-on-year to EUR 1.8 billion in the first quarter of 2006. This equates to growth of over 11%. The main factor in this increase, besides the improvement in finance costs, was the positive development of profit from financial activities, which was largely attributable to the enforcement of an arbitral award in connection with the sale of Celcom interests in 2003. The sale proceeds of EUR 0.2 billion were ultimately received in the first quarter of 2006.

Income tax expense

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Total Group	(563)	(466)	(97)	(20.8)	(196)

The increase income tax expense for the period ended March 31, 2006 is primariy due to improved operating results. The effective tax rate increase was also due to the improved operating results for the period ended March 31, 2006.

Net profit

	For the three months ended March 31, 2006	2005	Change	Change %	For the year ended December 31, 2005
	(millions of , except where indicated)				
Total Group	1,079	984	95	9.7	5,584

Net profit increased by EUR 0.1 billion in the first quarter of 2006 to EUR 1.1 billion. This represents an increase of just under 10%, compared to the previous year. The improvement was mainly attributable to higher profit before income taxes, despite an increase in tax expense.

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SEGMENT ANALYSIS

The following tables give an overall summary of our segments for 2005, as well as for the first quarters of 2006 and 2005.

For the year ended December 31, 2005	Net revenue (millions of)	Inter-segment revenue	Total revenue	Profit (loss) from operations (EBIT)	Share of profit (loss) of equity-accounted investments	Depreciation and amortization	Impairment losses
Group	59,604		59,604	7,622	214	(10,291)	(2,206)
Mobile Communications	28,531	921	29,452	3,005	133	(4,745)	(1,951)
Broadband/ Fixed Network	21,731	4,304	26,035	5,142	53	(4,026)	(8)
Business Customers	9,058	3,792	12,850	409	3	(885)	(11)
Group Headquarters & Shared Services	284	3,221	3,505	(840)	(1)	(695)	(233)
Reconciliation		(12,238)	(12,238)	(94)	26	60	(3)

For the three month ended March 31, 2006 For the three months ended March 31, 2005	Net revenue (millions of)	Inter-segment revenue	Total revenue	Profit (loss) from operations (EBIT)	Share of profit (loss) of equity-accounted investments	Depreciation and amortization	Impairment losses
Group	**14,842**		**14,842**	**2,318**	**32**	**(2,551)**	**(19)**
	14,288		14,288	2,287	36	(2,486)	(48)
Mobile Communications	**7,405**	**170**	**7,575**	**1,055**	**28**	**(1,222)**	**(3)**
	6,531	215	6,746	966	30	(1,112)	(24)
Broadband/ Fixed Network	**5,207**	**949**	**6,156**	**1,262**	**3**	**(959)**	**(10)**
	5,458	1,097	6,555	1,434	3	(1,010)	0
Business Customers	**2,152**	**859**	**3,011**	**99**	**1**		