DEUTSCHE TELEKOM AG
Form 20-F
March 15, 2005

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As filed with the Securities and Exchange Commission on March 15, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Form 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the fiscal year ended December 31, 2004

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-14540

Deutsche Telekom AG

(Exact Name of Registrant as Specified in its Charter)

Germany

(Jurisdiction of Incorporation or Organization)

Friedrich-Ebert-Allee 140, 53113 Bonn, Germany

(Address of Registrant's Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one Ordinary Share	New York Stock Exchange
Ordinary Shares, no par value	New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act.

NONE

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, no par value: 4,195,081,597 (as of December 31, 2004)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark which financial statement item the registrant has elected.

Item 17 o Item 18 ý

* Not for trading, but only in connection with the registration of American Depositary Shares.

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DEFINED TERMS

Deutsche Telekom AG is a corporation organized under the laws of the Federal Republic of Germany. As used in this Annual Report, unless the context otherwise requires, the term "Deutsche Telekom" refers to Deutsche Telekom AG and the terms "we," "us," "our" and "group" refer to Deutsche Telekom and, as applicable, Deutsche Telekom and its direct and indirect subsidiaries as a group.

GERMAN GAAP

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with the requirements of the German Commercial Code (*Handelsgesetzbuch*, "HGB"), the accounting standards issued by the German Accounting Standards Board ("GASB") and the German Stock Corporation Act (*Aktiengesetz*), collectively known as "German GAAP". See notes (41) through (44) to our consolidated financial statements for the years ended December 31, 2004, 2003 and 2002, included in this Annual Report for a description of the principal differences between German GAAP and U.S. generally accepted accounting principles ("U.S. GAAP"), as they relate to us and our consolidated subsidiaries, and a reconciliation of net income and shareholders' equity to U.S. GAAP.

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. Forward-looking statements are statements that are not historical facts. Examples of forward-looking statements include:

- financial projections and estimates and their underlying assumptions;
- statements regarding plans, objectives and expectations relating to future operations, products and services;
- statements regarding the potential consequences of our debt reduction and liquidity improvement initiatives;
- statements regarding the potential impact of regulatory actions on our financial condition and operations;
- statements regarding our prospective share of new and existing markets;
- statements regarding the possible effects of adverse determinations in litigation, investigations, contested regulatory proceedings and other disputes;
- statements regarding general industry and macroeconomic growth rates and our performance relative to them; and
- statements regarding our future performance.

Forward-looking statements generally are identified by the words "expect," "anticipate," "believe," "intend," "estimate," "aim," "plan," "will," "will continue," "seek" and similar expressions. The "Risk Factors" discussion in Item 3, the "Strategy" discussion in Item 4, the "Management Overview" discussion in Item 5 and the "Quantitative and Qualitative Disclosures About Market Risk" discussion in Item 11, in particular, contain numerous forward-looking statements, although such statements also appear elsewhere in this Annual Report.

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 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:

- risks and uncertainties relating to the benefits anticipated from our international expansion, particularly in the United States;
- risks and costs associated with integrating our acquired businesses and with selling or combining businesses or other assets;
- the progress of our domestic and international investments, joint ventures and alliances;
- the level of demand for telecommunications services, particularly for wireless telecommunications services, access lines, traffic and new higher-value products and services;
- competitive forces, including pricing pressures, technological developments and alternative routing developments;
- our ability to gain or retain market share in the face of competition from existing and new market entrants;
- our ability to secure and retain the licenses needed to offer new and existing services and the cost of these licenses and related network infrastructure build-outs, particularly with respect to our Universal Mobile Telecommunications System ("UMTS" or "3G") and other advanced services;
- the effects of price reduction measures and our customer acquisition and retention initiatives, particularly in the fixed-line voice telephony business, the mobile telecommunications business and our other interconnection businesses;
- regulatory developments and changes, including with respect to the levels of tariffs, terms of interconnection, customer access and international settlement arrangements;
- the outcome of litigation, disputes and investigations in which we are involved or may become involved;
- the success of new business, operating and financial initiatives, many of which involve substantial start-up costs and are untested, and of new systems and applications, particularly with regard to the integration of service offerings;
- concerns over health risks associated with the use of wireless mobile devices and other health and safety risks related to radio frequency emissions;
- the effects of industry consolidation on the markets in which we operate, particularly with respect to our mobile and leased lines businesses;
- the progress and degree of success of our debt reduction and liquidity improvement initiatives;
- the availability, terms 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;

the level of demand in the market for our debt obligations, and for the debt obligations of our subsidiaries and associated companies, and our shares, as well as for assets which we may decide to sell, which may affect our financing and acquisition strategies;

- our ability to achieve cost savings and realize productivity improvements;
- our ability to attract and retain qualified personnel, particularly in light of our cost reduction efforts;
- risks of infrastructure failures or damage due to external factors, including natural disasters, intentional wrongdoing, sabotage, acts of terrorism or similar events;
- the effects of foreign exchange rate fluctuations, particularly in connection with subsidiaries operating outside the euro zone; and
- changes in general economic conditions, government and regulatory policies, new legislation and business conditions in the markets in which we and our subsidiaries and associated companies operate.

Certain of these factors are discussed in more detail elsewhere in this Annual Report, including, without limitation, in Item 3, Item 4 and Item 5. We caution investors that the foregoing list of important factors is not exhaustive. When reviewing forward-looking statements contained in this document, investors and others should carefully consider the foregoing factors as well as other uncertainties and events and their potential impact on our operations and businesses.

Certain information in this Annual Report was provided by external sources. Due to the rapid changes in our industry, it is possible that some of this information is no longer accurate. Assessments of market share in particular involve the use of information released or estimated by regulatory authorities, our competitors, third parties or us.

World Wide Web addresses contained in this Annual 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 Annual Report.

PART I

ITEM 1. Identity of Directors, Senior Management and Advisors

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable

Not applicable.

ITEM 3. Key Information

SELECTED FINANCIAL DATA

The following table presents selected consolidated financial and operating information. This selected consolidated financial and operating information should be read together with "Item 5. Operating and Financial Review and Prospects" and our consolidated financial statements and the notes thereto that are included elsewhere in this Annual Report. Unless otherwise indicated, all amounts are provided in accordance with German GAAP.

The selected consolidated financial information as of and for each of the five years ended December 31, 2000, through 2004, are extracted or derived from our consolidated financial statements and the notes thereto, which have been audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft and PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, for the periods ended and at December 31, 2004, 2003, 2002 and 2001, and by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft for the period ended and at December 31, 2000.

Selected Consolidated Financial Data of the Deutsche Telekom Group

	% Change 2004/2003[1][2]	2004	2003	2002	2001	2000
		(billions of €, except as otherwise indicated)				
Income Statement Data						
Net revenue	3.7	57.9	55.8	53.7	48.3	40.9
Results from ordinary business activities	n.m.	6.5	1.4	(27.1)	(2.5)	6.4
Net income (loss)	n.m.	4.6	1.3	(24.6)	(3.5)	5.9
Balance Sheet Data						
Total assets	(7.1)	107.8	116.1	125.8	164.5	124.2
Debt (in accordance with the consolidated balance sheet)	(23.0)	42.7	55.4	63.0	67.0	60.4
Shareholders' equity	12.2	37.9	33.8	35.4	66.3	42.7
Cash Flow Data[3]						
Net cash provided by operating activities	13.9	16.3	14.3	12.5	11.9	10.0
Net cash used for investing activities	n.m.	(4.3)	(2.1)	(10.0)	(5.4)	(27.7)
Net cash provided by (used for) financing activities	n.m.	(12.7)	(5.2)	(3.4)	(4.8)	17.9
U.S. GAAP Data						
Net income (loss)	(20.7)	2.3	2.9	(22.0)	0.5	9.3
Shareholders' equity	5.6	47.5	45.0	45.4	73.7	46.1
Total assets	(6.0)	137.2	145.9	149.4	180.7	135.2
Ratios and Selected Data						
Investment in intangible assets (excluding goodwill) and property, plant and equipment	(4.8)	(5.9)	(6.2)	(7.9)	(11.2)	(23.5)
Capital expenditures	1.6	(6.1)	(6.0)	(7.6)	(10.9)	(23.5)
Equity ratio (%)[4]	13.8	33	29	28	39	33
Number of employees averaged over the year (full-time employees excluding trainees) (thousands)	(1.5)	248	251	256	242	205
Revenue per employee (thousands of euro)[5]	5.2	234	222	210	199	201
Earnings (loss) per share/ADS in accordance with German GAAP basic and diluted (euro)[6]	n.m.	1.10	0.30	(5.86)	(0.93)	1.96
Earnings (loss) per share/ADS in accordance with U.S. GAAP basic (euro)[6]	(21.4)	0.56	0.70	(5.30)	0.14	3.06
Dividend per share/ADS (euro)[7]	n.m.	0.62			0.37	0.62
Dividend per share/ADS (U.S. dollar)[7][8]	n.m.	0.85			0.34	0.53

n.m. not meaningful

(1) Change from 2003 to 2004 on the basis of figures expressed in millions.

(2) In this Annual Report, increases in the size of negative numbers are expressed in percentage terms with negative percentage amounts, and decreases in the size of negative numbers are expressed with positive percentage amounts.

(3) In accordance with the statement of cash flows.

(4) 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.

(5) Calculated on the basis of the average number of employees for the year, excluding trainees, apprentices and student interns.

(6) Based on dividing net income (loss) by the weighted average number of ordinary shares outstanding. The ratio of shares to ADS's (as defined below) is 1:1. Diluted earnings per share in 2004 was EUR 0.55.

(7)

Dividends per share are presented on the basis of the year in respect of which they are declared, not the year in which they are paid. The proposed 2004 dividend per share amounts are subject to approval by the shareholders at the shareholders' meeting.

(8) Dividend amounts have been translated into U.S. dollars (using Moneyline Telerate) for the relevant dividend payment date, which occured during the second quarter of the following year, except for the 2004 amount, which has been translated using the applicable rate on December 31, 2004.

Exchange Rates

Unless otherwise indicated, all amounts in this Annual Report are expressed in euros. Amounts stated in euros appearing in this document for periods prior to December 31, 1998, have been converted from Deutsche marks at the official fixed conversion rate of EUR 1.00 = DM 1.95583.

As used in this document, "euro," "EUR" or "€" means the single unified currency that was introduced in the Federal Republic of Germany (the "Federal Republic") and ten other participating member states (the "Member States") of the European Union (the "E.U.") on January 1, 1999. "Deutsche mark" or "DM" means the currency that was the lawful currency of the Federal Republic before it was replaced by the euro. "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 1.3538, which was the noon buying rate on December 31, 2004.

Amounts appearing in this report that were translated into euros from other currencies were translated in accordance with the principles described in Item 18 in the notes to the consolidated financial statements under "Consolidation Principles Foreign Currency Translation."

So that you may ascertain how the trends in our financial results might have appeared had they been expressed in U.S. dollars, the following table shows, for the periods indicated, the average, high, low and period-end, noon buying rates for euros, expressed in U.S. dollars per EUR 1.00:

Year or Month	Average(1)	High	Low	Period-End
		(in $ per €)		
2000	0.9207	1.0335	0.8270	0.9388
2001	0.8909	0.9535	0.8370	0.8901
2002	0.9495	1.0485	0.8594	1.0485
2003	1.1411	1.2597	1.0361	1.2597
2004	1.2478	1.3625	1.1801	1.3538
2004				
September		1.2417	1.2052	1.2417
October		1.2783	1.2271	1.2746
November		1.3288	1.2703	1.3259
December		1.3625	1.3224	1.3538
2005				
January		1.3476	1.2954	1.3049
February		1.3274	1.2773	1.3274
March (through March 11, 2005)		1.3465	1.3127	1.3465

(1) The average of the noon buying rates on the last business day of each month during the relevant period.

On March 11, 2005, the noon buying rate was USD 1.3465 per EUR 1.00.

Since January 4, 1999, our shares have traded on the German stock exchanges, including the Frankfurt Stock Exchange, in euros. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the shares on the German stock exchanges and, as a result, are likely to affect the market price of the Deutsche Telekom American Depositary Shares ("ADSs") on the New York Stock Exchange ("NYSE"). When we declare cash dividends, they are declared in euros, and exchange rate fluctuations affect the U.S. dollar amounts you would receive if you are a holder of American Depositary Receipts ("ADRs") evidencing ADSs upon conversion of cash dividends on the shares represented by your ADSs.

RISK FACTORS

In addition to the other information contained in this Annual Report, investors in our securities should consider carefully the risks described below. Our financial condition or results of operations, or the trading prices of our securities, could be materially adversely affected by any of these risks.

The following discussion contains a number of forward-looking statements. Please refer to the "Forward-Looking Statements" discussion at the front of this Annual Report for cautionary information.

An economic downturn, a substantial slowdown in economic growth or a deterioration in consumer spending could adversely affect our customers' purchases of our products and services, which would have a negative impact on the overall operating results and financial condition in each of our divisions.

Our business depends on the general economic conditions in Germany, other European countries and the United States. The economic forecasts for Germany for 2005 were revised downward. Following a rise in gross domestic product of 1.6% in 2004, most economic research institutes expect that the growth rate will decline below last year's rate. In all probability, the increase in Germany's gross domestic product will be significantly lower than the average for the euro zone. Although economic growth is expected to slow slightly in the United States, the growth rate should still remain above that of the euro zone. If economic growth proves to be lower than expected, this could have an adverse effect on the level of demand by our individual customers and the willingness of our key business customers to invest in information and communications technology ("ICT"). This could, in turn, jeopardize our growth targets for example, those relating to multimedia services in mobile communications or additional advanced fixed-network lines, such as DSL ("Digital Subscriber Line") products.

Because we operate in heavily regulated environments, decisions by regulatory authorities may impose significant limits on our flexibility to manage our business and may force us to offer services to competitors as well as reduce the prices we can charge for our products and services, which could have a material negative impact on our revenues and our market shares.

Unlike many of our competitors, we are subject to strict regulation in many market segments in Germany, particularly in many areas of the fixed network business of our T-Com division. Government agencies have in the past, and will continue in the future to, regularly intervene in the offerings of our products and the pricing of our products. Such regulation places enormous pricing and competitive pressures on us and our ability to generate revenues, as discussed below.

On June 26, 2004, amendments to the German Telecommunications Act (*Telekommunikationsgesetz*, the "Telecommunications Act") became effective. Although several changes have been made to the regulatory framework, the precise effects of the amendments to the Telecommunications Act will not be clear until the new regulatory framework and related regulations are issued and interpreted by the German Regulatory Authority for Telecommunications and Post (*Regulierungsbehörde für Telekommunikation und Post*, the "German telecommunications regulator"). The amendments to the Telecommunications Act include, among others, provisions granting rights to competitors to petition the German telecommunications regulator to compel the commencement of proceedings against us as an "entity with significant market power," and sanctions for violations of the Telecommunications Act, including the disgorgement of profits in certain circumstances.

Pursuant to the amendments to the Telecommunications Act, the German government approved a draft bill on consumer protection, which will be incorporated into the Telecommunications Act as an Amending Act *(Artikelgesetz).* Also, the German Federal Ministry of Economics and Labor (*Bundesministerium für Wirtschaft und Arbeit,* the "Ministry of Economics and Labor") has published draft ordinances on numbering, interception and emergency calls. Certain provisions of current drafts ordinances exceed the objectives stated in the European Union's Universal Service Directive and the recent amendments to the Telecommunications Act and, if they became law, would lead to considerable compliance and other costs for us.

In addition, discussions are currently taking place at the European Union to establish an E.U.-wide regime of data retention for law enforcement purposes. According to a draft framework decision, the proposed data storage period would be 12 months. The data retention obligation would apply to communications traffic data, including customer user data and location data, in the areas of traditional telephony (fixed-line and mobile communications) and the Internet (including e-mail, Voice over Internet Protocol ("VoIP") and the World Wide Web). Depending on the final scope and storage period, compliance with this data retention requirement would entail considerable initial investment and recurring annual operating costs for us.

T-Com (fixed-line telephony networks)

The German telecommunications regulator considers us, through our T-Com division, to be an "entity with significant market power" in several markets, especially in the fixed-line market. In 2003 and 2004, many decisions of the German telecommunications regulator were implemented to increase competition in the market for local calls and for narrowband and broadband access to the T-Com fixed-line telecommunications network. These regulatory decisions have had a significant effect on the level of competition in the markets for local calls and local access to our fixed-line network, and will continue to have a negative impact on T-Com's market shares, revenues and margins in these markets. T-Com's market share in these markets is expected to continue to decline.

In addition, the German telecommunications regulator intends to address other markets that are not currently subject to regulatory approval (*e.g*., virtual private networks) or are currently emerging (*e.g*., VoIP). VoIP is an emerging market for nomadic voice telephony services that are based on the Internet and are no longer depend on specific customer telephone lines. Nevertheless, the German telecommunications regulator is considering including VoIP in the market for telephone services at fixed locations, and therefore treating it in the same way as conventional telephone services for the purpose of regulation (*e.g*., price regulation).

Additional market regulation is expected to intensify competition on the German market and will therefore put pressure on our revenues and the cost structure of our fixed network business. In particular, if regulatory measures allow DSL lines to be "unbundled" (separated) from telephone lines, this could substantially increase the price pressure on, and competition faced by, our fixed network business.

We are also subject to the laws and regulations of other countries where we or our affiliates have fixed-line network operations, primarily in Central and Eastern Europe. The business impact of increased regulation on our subsidiaries in Central and Eastern Europe will depend on the way in which national regulatory authorities use their newly acquired powers and the extent to which our competitors take advantage of regulatory decisions designed to foster increased competition.

With their entry into the European Union on May 1, 2004, Hungary and Slovakia have had to implement the new E.U. regulatory framework for electronic communications. In Macedonia, a new telecommunications act is expected to be adopted during 2005. Secondary telecommunications legislation (*i.e*., regulations and administrative decisions) will also be adopted in Croatia and Slovakia in 2005. Furthermore, most of the E.U. market analysis procedures being undertaken in Hungary and Slovakia are expected to be concluded during 2005, with additional regulations likely.

These legal and regulatory developments could have the effect of reducing the prices we can charge our customers, both for wholesale and retail services. Such developments could also contribute to a loss of market share for us in these countries. In particular, as a result of the market analysis procedures in Hungary and Slovakia, we expect we will be required to decrease our interconnection prices, leading to the development of competition in the fixed network and, thus, adding to the downward pressure on prices in these countries.

T-Mobile (mobile communications)

Our mobile communications operations in the United States, Germany, the United Kingdom, the Netherlands, the Czech Republic, Austria, Croatia, Hungary, Slovakia and other countries, are supervised by regulatory authorities in each of these countries. We also expect tightening of regulatory control in the area of mobile communications, with a probable negative effect on pricing and on revenues as a result of a reduction in international roaming and call termination charges. International wholesale roaming, call termination and access, and origination, are defined as separate markets in the regulatory framework. On this basis, national regulatory authorities are required to carry out market investigations and, if necessary, define regulatory remedies in those markets in accordance with E.U. directives. Since termination charges in other countries have been reduced by administrative action, T-Mobile Deutschland and T-Mobile Netherlands have decided to voluntarily lower their termination charges. These voluntary and administrative actions have led, and may continue to lead, to lower revenues for our mobile communications operations in the future.

On February 10, 2005, the E.U. Commission opened formal proceedings against, among others, T-Mobile Deutschland. The E.U. Commission alleges that T-Mobile Deutschland has been charging excessive wholesale roaming tariffs for calls of foreign visitors in its network during the period from 1997 to 2003. T-Mobile has yet to respond to these allegations. Should the E.U. Commission decide to uphold its preliminary findings, it may impose significant fines on T-Mobile.

Our telecommunications systems and operations in the United States are regulated primarily by the U.S. Federal Communications Commission ("FCC") and by various other federal, state and local governmental bodies. These and other governmental agencies may also exercise jurisdiction over mobile communications operators. Some U.S. states, through their public utility commissions ("PUCs"), or through other means, have taken actions to regulate various aspects of wireless operations including, for example, customer billing, termination of service arrangements, and advertising. Any of those agencies could adopt regulations or take other actions that could adversely affect our business (for example, the passing of extensive regulations on consumer protection and privacy by the California PUC). If we fail to comply with applicable regulations, we may be subject to sanctions, which may have an adverse effect on our mobile telecommunications business in the United States.

T-Online (Internet access)

Although the new E.U. regulatory framework for electronic communications does not provide for an extension of sector-specific regulation to the online communications market, there are some indications that the German telecommunications regulator may change its legal approach to the regulation of prices for access to online services in the future. We cannot yet determine what effect, if any, such regulation may have on our T-Online division. Additionally, Internet subscribers are indirectly affected by the regulation of access tariffs, as wholesale costs include charges for telecommunications services that are regulated by the Telecommunications Act.

For further information regarding the matters discussed above and other aspects of the regulatory environments to which our businesses are subject, see "Item 4. Information on the Company Regulation" and "Item 8. Financial Information Litigation."

We face intense competition in all areas of our business, which could lead to reduced prices for our products and services and a decrease in market share in certain service areas, thereby having an adverse effect on our revenues and net income.

T-Com (fixed-line networks)

In our domestic German market, fixed-line network voice telephony service revenues have been declining in recent years, due to price reductions imposed by the German telecommunications regulator to increase competition, and also due to customers' substitution of mobile communications for fixed-line usage.

Although we expect the trends towards broadband and digital access line usage and more valuable access line package tariffs (which include higher fixed monthly payments) to continue to increase, such trends could be adversely affected by the entry of new competitors and by the saturation of existing markets.

Competition became more intense in 2004, resulting in our continued loss of market share, in particular in the market for local calls. The increase in competition from mobile operators and other fixed-line carriers is expected to continue for the foreseeable future, due to a further decrease in prices, the offering of attractive product bundles for telephone and DSL lines, which include a flat rate for Internet (and in some cases telephone) use by competitors, and other effects, including the increasing acceptance of VoIP services and regulatory actions by the German telecommunications regulator. In addition, some local and regional network operators are expanding their presence to include other major cities and regions. In the future, we could face even tougher competition and lose further market share if our competitors were to consolidate their businesses. Additional substitution effects from mobile communications in particular could also have an adverse effect on our fixed network revenues.

Each of these developments is expected to continue to erode our market shares and to decrease our revenues and profit margins. For more information, see "Item 4. Information on the Company Description of Business and Divisions T-Com" and "Item 4. Information on the Company Regulation."

T-Mobile (mobile communications)

Despite its strong growth in terms of net customer additions, T-Mobile USA still maintains a relatively small market share in the United States compared to other national mobile operators. T-Mobile USA risks a slowing growth rate if it fails to offer a combination of high quality services and value that is superior to that offered by its competitors. The U.S. market has recently witnessed two significant mobile telecommunications mergers, the acquisition by Cingular Wireless LLC ("Cingular Wireless") of AT&T Wireless and Sprint's announcement of its merger with Nextel Communications. Assuming the merger of Sprint and Nextel Communications, the number of T-Mobile USA's nationwide competitors will be reduced to three, all of which are substantially larger than T-Mobile USA, which represents a long-term challenge for T-Mobile USA to effectively compete in pricing, products, coverage and introduction of new technologies and services. Intense competition also exists with respect to various regional operators. T-Mobile USA has agreed with Cingular Wireless to end their network sharing joint venture and to acquire the GSM ("Global System for Mobile Communications") network in California and Nevada.

In most of our European markets, competition based on handset subsidies has diminished, but competition based on price, subscription options offered, application offerings, coverage and service quality remains intense. As European markets have become increasingly saturated, the focus of competition has been shifting from customer acquisition to customer retention and increasing the quality and value of existing customers. Accordingly, if we are unable to offer increased quality and services, our market share and revenues may not increase as expected in our growth plans. In addition, competition in the European mobile telecommunication market has been intensified by the introduction of Europe-wide services. In the past, competition was primarily on a national level. Globally, the mobile telecommunications industry has been undergoing consolidation in recent years, which may also increase competitive pressure.

For more information, see "Item 4. Information on the Company Description of Business and Divisions T-Mobile."

T-Systems (information and communication technology)

In its capacity as a provider of solutions covering the entire value chain of information and communications technology, T-Systems is subject to risks associated with the general and regional economies of its customers and the willingness and ability of its customers to invest in information and communications technology services and products. Additionally, the current economic climate has resulted in a decrease in prices and longer sales cycles, which for T-Systems has resulted in lower revenues, lower margins and less predictability of revenue growth.

In addition, the growth potential of our T-Systems division may be constrained by its limited international presence in terms of brand recognition in certain specific countries compared to some of our other competitors who may be more established in such markets, especially as this relates to maintaining and increasing business with multinational companies outside of Germany. For more information, see "Item 4. Information on the Company Description of Business and Divisions T-Systems."

T-Online (Internet access)

In addition to the risk of more intense competition as a result of possible decisions by the German telecommunications regulator with regard to broadband access, T-Online's competitive position will be affected by pricing, network speed and reliability, services offered, customer support and its ability to be technologically adept and innovative. In addition, we expect that T-Online's competitors will pursue new broadband customers aggressively. In the market for portal services and content, competition is also intense due to low barriers to entry. Increased competition may have the effect of reducing T-Online's market share and revenues. For more information, see "Item 4. Information on the Company Description of Business and Divisions T-Online" and "Item 4. Information on the Company Regulation."

Spectrum capacity may become a limiting factor to T-Mobile USA's growth in the United States.

T-Mobile USA's capacity and coverage expansion is dependent on its ability to acquire additional spectrum licenses, which are granted by the FCC or otherwise regulated by the FCC if acquired from third-party operators. The failure to obtain sufficient capacity and spectrum coverage would have a material adverse impact on the quality of services in the United States, and on T-Mobile USA's ability to provide future services in some markets. T-Mobile USA could experience negative operational effects, *e.g.,* reduced growth in customers and revenues, due to a lack of capacity in specific markets. The recent sale of mobile spectrum by Nextwave has shown that spectrum is becoming more expensive in the United States, which can result in increased capital expenditures beyond currently anticipated levels.

We may realize neither the expected level of demand for our products and services, nor the expected level or timing of revenues generated by those products and services, as a result of lack of market acceptance, technological change or delays from suppliers, which could adversely affect our cash flows.

As a result of rapid technological progress and the trends towards technological convergence, there is a danger that new and established technologies or products may not only complement one another, but in some cases they may even substitute for one another. An example of this is VoIP, a technology that is already established in the business customer market. VoIP has now reached the consumer market as well and has the potential to reduce our market share and revenues in the fixed-line business.

In Europe, the acquisition of UMTS licences is the basis for the introduction of "third-generation" mobile communications. Return on these investments is very much dependent on increased usage and revenues, especially in mobile data applications, by customers. Services and applications are being developed directly by T-Mobile or in cooperation with third parties. As a consequence of the uncertainties surrounding T-Mobile's ability to timely introduce new products and services and the market's acceptance thereof, T-Mobile's revenues and return on investment may be negatively affected, including possible write-downs of the value of UMTS or other licenses.

In addition, there is a risk that we will not succeed in making customers sufficiently aware of existing and future value-added services or creating customer acceptance of these services. These risks exist, in particular, with respect to our anticipated future growth drivers in the mobile communications area (*e.g.,* mobile data services provided via UMTS or other technologies) and in the fixed-line communications area (*e.g.,* broadband and DSL).

T-Systems' business model is focused on implementing major projects in the telecommunications, media & utilities, manufacturing, services, finance and public industry sectors. These projects are subject to contractual agreements that could give rise to extensive customer claims with respect to warranties, damages or contractual penalties where the service provided by T-Systems is deemed to be unsatisfactory. For more information, see "Item 4. Information on the Company Description of Business and Divisions T-Systems."

A shareholder lawsuit could delay the merger of T-Online International AG and Deutsche Telekom AG; A court valuation proceeding could lead to further cash payments by Deutsche Telekom AG.

Our planned merger with T-Online International AG will become effective once the merger is entered into the commercial register for Deutsche Telekom at the local court in Bonn, which may take place only after the entry of the merger into the commercial register for T-Online at the local court in Darmstadt and the entry of the implementation of the capital increase for purposes of the Merger in the commercial register for Deutsche Telekom.

The effectiveness of the merger could be delayed if a shareholder lawsuit is brought against any of the requisite shareholder resolutions approving the merger. After the merger of Deutsche Telekom and T-Online has become effective, former T-Online shareholders who have received Deutsche Telekom shares in the merger may bring a court valuation proceeding to examine the merger exchange ratio set forth in the merger agreement. If the court concludes that the merger exchange ratio was too low from the point of view of former T-Online shareholders, we would be obliged to make supplementary cash payments to all shareholders entitled to initiate a valuation proceeding.

In addition, T-Online investors who do not wish to hold Deutsche Telekom shares may sell the Deutsche Telekom shares they receive or expect to receive in the merger, which could put downward pressure on the market price of our shares.

For more information, see "Item 5. Operating and Financial Review and Prospects Management Overview."

Our involvement in the Toll Collect consortium in Germany entails a range of risks for us, which could have a considerable negative impact on our net worth, financial position and results of operations.

Toll Collect, a consortium consisting of Deutsche Telekom AG, DaimlerChrysler Services AG, and Compagnie Financiere et Industrielle des Autoroutes S.A. ("Cofiroute"), has developed an innovative system for the collection of toll charges for the use of the German highway system by heavy vehicles.

Although the Toll Collect system successfully began operations on January 1, 2005, there is still a risk that the system will be subject to operational difficulties, including the timely addition of further system features for the next phase of development or otherwise, which could have a negative impact on our net worth, financial position and results of operations. Our maximum exposure to loss as a result of our interest in Toll Collect could extend beyond the amounts we have invested because of risks associated with the financial guarantees we have issued in relation to Toll Collect. These risks include the possibility of contractual penalties due to disruptions in operations, claims for damages and losses of revenue from the project, as well as unanticipated expenses. Additionally, our involvement in the Toll Collect project could have a negative effect on our image if certain of these risks materialize.

Due to the significant delay of the start of operations, which was initially scheduled for August 31, 2003, the Federal Republic (on September 8, 2004) provided us with notice that it had initiated arbitration proceedings, asserting claims for damages against DaimlerChrysler Services AG and Deutsche Telekom AG, and against the consortium through the joint venture partnership, Toll Collect GbR. Although the outcome of arbitration proceedings is difficult to predict with certainty, we have not established a reserve with respect to damages or any additional contractual penalties claimed by the Federal Republic (except with respect to certain legal expenses), including with respect to claims relating to subcontractor agreements and delays in the construction of infrastructure, because we believe the claims presented in the arbitration notice are unsustainable. However, an adverse deceision in the arbitration proceeding could result in the payment by us of substantial penalties and damages.

For more information, see "Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Expenditures and Investments Guarantees and Commitments" and "Item 8. Financial Information Litigation."

Failures in our planned reduction and restructuring of staff levels could negatively affect our financial objectives and profitability.

In 2004, we established a service center and an installation company as subsidiaries of Vivento (the group's internal service provider for human resources and business). Large-scale projects are being developed as a supplementary measure to create temporary employment opportunities for employees transferred to Vivento, and to open up additional placement opportunities. Where possible, employees who are to be transferred out of existing positions are to be employed productively in other business areas rather than being transferred to Vivento. The success of these measures is crucial for progress in staff restructuring within the Deutsche Telekom group.

A considerable proportion of our staff in Germany is protected against dismissal as a result of the status of certain employees as civil servants or under statutory provisions and collective bargaining agreements. As part of recently concluded employment negotiations, Deutsche Telekom AG and ver.di, the service industry employees' union, agreed on a moratorium that no further measures to reduce staffing levels would be implemented in 2005. Additional discussions must occur prior to any determinations with respect to reduction of staffing levels in 2006. These general conditions pose a major challenge for the implementation of staff downsizing measures.

Future workforce adjustment measures may be taken throughout our group companies, for example, the recently announced "Save for Growth" program in the mobile communications sector, in the business customer sector (T-Systems Business Services) and in certain of our Central and Eastern European subsidiaries.

There is still a risk that our planned staff reductions and workforce management goals may not be achieved, which might jeopardize our targets to reduce personnel costs and other operating expenses and thus negatively affect our financial objectives.

For more information, see "Item 4. Information on the Company Description of Business and Divisions Group Headquarters and Shared Services" and "Item 6. Directors, Senior Management and Employees Employees and Labor Relations Other Employees."

Alleged health risks of wireless communications devices have led to litigation affecting T-Mobile, and could lead to decreased wireless communications usage or increased difficulty in obtaining sites for base stations and, thus, adversely affect the financial condition and results of operations of our mobile communications services business.

Media reports have suggested that radio frequency emissions from wireless mobile devices and cell sites may raise various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. The World Health Organization (WHO) has declared that, on the basis of current scientific knowledge, there are no known adverse effects on health below the international threshold standards, nor is it expecting any serious dangers to arise in the future although it does recommend continued research due to the ongoing scientific uncertainty.

Whether or not such research or studies conclude there is a link between radio frequency emissions and health, popular concerns about radio frequency emissions may discourage the use of wireless mobile devices and may result in significant restrictions on both the location and operation of cell sites, either or both of which could have a material adverse effect on our or T-Mobile USA's results of operations.

T-Mobile USA is subject to current, and potential, litigation relating to these health concerns. Several amended class action lawsuits have been filed in the United States against T-Mobile USA and several other wireless service operators and wireless telephone manufacturers, asserting products liability, breach of warranty and other claims relating to radio frequency transmissions to and from wireless mobile devices. The complaints seek substantial money damages as well as injunctive relief. The defense of these lawsuits may divert management's attention, and T-Mobile USA may be required to pay significant awards or settlements and incur significant expenses in defending these lawsuits.

We do not know whether legislators, regulators or private litigants will refrain from taking other actions adverse to our business, based on the purported health-related risks associated with radio frequency emissions, which may result in significant costs and may adversely affect the financial condition and results of operations of our mobile communications services businesses.

In addition, T-Mobile could be subject to potential litigation, legislation or adverse publicity relating to damage caused by persons who use mobile telephones while driving. Any such litigation, legislation or adverse publicity may result in additional costs and loss of revenues in our T-Mobile division.

For more information, see "Item 8. Financial Information Litigation."

System failures due to natural or man-made disruptions could result in reduced user traffic and reduced revenues and could harm our reputation and results.

Our technical infrastructure (including our network infrastructure for fixed-line network services and mobile telecommunications services) may be damaged or disrupted by fire, lightning, flooding and other calamities, technology failures, human error, terrorist attacks, hacker attacks and malicious actions, and other similar events. Although we believe we have taken certain measures to guard against such problems, we cannot be certain they will be effective under all circumstances. Damage or disruption to our infrastructure may result in reduced user traffic and reduced revenues, increased costs, and damage to our reputation.

Although we attempt to minimize these risks by employing a large number of measures, including backup systems and protective systems such as firewalls, virus scanners, and building security, we cannot be certain that these measures are fail-safe and that disruptions or damage will not occur that may materially impact our operations.

We are continuously involved in disputes and litigation with regulators, competitors and private parties. The ultimate outcome of such legal proceedings is uncertain. When finally concluded, they may have a material adverse effect on our results of operations and financial condition.

We are subject to numerous risks relating to legal and regulatory proceedings, in which we are currently a party or which could develop in the future. We cannot guarantee that the ultimate outcome of such legal proceedings will not have a material adverse effect on our results of operations or financial condition.

For information concerning some of the litigation in which we are involved, see "Item 8. Financial Information Litigation." For information concerning our regulatory environment, see "Item 4. Information on the Company Regulation."

Future sales of our shares by the Federal Republic or the KfW-Bankengruppe (formerly *Kreditanstalt für Wiederaufbau*) may adversely affect the trading prices of our shares and ADSs.

Continuing its policy of privatization, the Federal Republic (which owns, together with the KfW-Bankengruppe ("KfW"), approximately 38% of our outstanding shares) has announced that it intends to further reduce its holdings of equity interests in 2005, including shares in Deutsche Telekom AG, in a manner that does not disrupt capital markets and with the involvement of KfW. For shareholders, there is a danger that the sale of a significant volume of our shares by either the Federal Republic or KfW, or speculation to this effect on the markets, could have a negative short-term impact on the price of our shares.

Exchange rate and interest rate risks have had, and may continue to have, an adverse effect on our revenue development.

We are exposed to currency risks related to our international business activities. Generally, our treasury department hedges currency risks that may have a negative impact on our cash flows. However, such currency risks may have a negative impact on our results of operations when amounts in local currencies are translated into euro, particularly in connection with U.S. dollar- and British pound sterling-denominated results.

For more information with respect to the impact of exchange rate and currency translation, see "Item 5 Operating and Financial Review and Prospects Consolidated Results of Operations."

We are also exposed to interest rate risks, primarily in the euro, U.S. dollar and British pound sterling currencies. Interest rate risks arise as a result of fluctuations in interest rates affecting the level of interest payments due on indebtedness in each of these currencies. Once per year, our Management Board (*Vorstand*) specifies ratios of fixed and variable debt in these three currencies. Our treasury department then takes appropriate measures, using derivative instruments and other measures, to implement the interest-risk management decisions of the Management Board.

For more information about our hedging activities and interest rate and market risks, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

Developments in the telecommunications sector have resulted, and may in the future result, in substantial writedowns of the carrying value of certain of our assets.

We review on a regular basis the value of each of our subsidiaries and their assets. In addition to our regular annual valuations, whenever indications exist (due to changes in the economic, regulatory, business or political environment) that goodwill, intangible assets or fixed assets may be impaired, we consider the necessity of performing certain valuation tests, which may result in impairment charges. Additionally, the conversion to International Financial Reporting Standards ("IFRS") will result in the cessation of scheduled amortization of goodwill and licenses, which may increase the risk of volatility in our earnings as a result of possible unscheduled write-downs. The recognition of impairments of tangible, intangible and financial assets could cause us to take large, non-cash charges against net income, which could lead to a reduction in the trading price of our shares and ADSs.

For more information, please see "Item 5. Operating and Financial Review and Prospects Critical Accounting Estimates."

Identification of significant deficiencies or material weaknesses as a result of our implementation of procedures designed to comply with Section 404 of the Sarbanes-Oxley Act of 2002 relating to evaluation of our internal control over financial reporting may have an adverse impact on our financial condition and results of operations and the trading price of our securities.

Commencing with our annual report for the year ending December 31, 2006, we will include a report from our management relating to its evaluation of our internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404.") As a consequence of systems and procedures currently being implemented in order to comply with these requirements, we may uncover circumstances that may be determined to be significant deficiencies, material weaknesses or other reportable conditions. Although we intend to take prompt measures to remediate any such identified significant deficiencies or material weaknesses in our internal control structure, which may involve significant effort and expense, we may also be required to disclose such situations in our public reports prior to the effectiveness of our obligations under Section 404 and whether or not such situation has been remediated. Additionally, depending on the nature and extent of any identified significant deficiency or material weakness, we may also be required to restate previously issued financial statements. Each of such actions may have an adverse impact on our financial condition and results of operations and the trading price of our securities.

ITEM 4. Information on the Company

INTRODUCTION

The legal and commercial name of our company is Deutsche Telekom AG. We are a private stock corporation organized under the laws of the Federal Republic of Germany. 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.

HISTORICAL BACKGROUND

Historically, the provision of public telecommunications services in Germany has been a state monopoly, as formerly provided in the constitution of the Federal Republic. In 1989, the Federal Republic began to transform the postal, telephone and telegraph services administered by the former monopoly provider into market-oriented businesses and divided the former monopoly into three distinct entities along their lines of business, one of which was our predecessor, Deutsche Bundespost Telekom. At the same time, the Federal Republic also began the liberalization of the German telecommunications market. We were transformed into a private stock corporation at the beginning of 1995.

The operation of networks (including cable networks) for all telecommunications services, other than public fixed-line voice telephony, was opened to competition in Germany on August 1, 1996, when the new legal framework for the regulation of the telecommunications sector in Germany the Telecommunications Act became effective, which was amended in June 2004. As required by the Telecommunications Act, and mandated by the directives of the E.U. Commission, the telecommunications sector in Germany was further liberalized on January 1, 1998, through the opening of the public fixed-line voice telephony services to competition.

Since then, we have faced intense competition and have been required, among other things, to offer competitors access to our fixed-line network at regulated interconnection rates. For more information on the regulatory effects on competition in our fixed-line business, see " Regulation."

Other important events in the development of our business have included:

- the expansion and modernization of the telecommunications infrastructure in the former East Germany in the 1990s;
- the complete digitalization of our German telecommunications network in 1997;
- the expansion of our business into Central and Eastern Europe, through the acquisition in 1993 of a substantial interest in Magyar Tavkoezlesi Rt. ("Matáv"), the Hungarian national telecommunications company, and the acquisition of telecommunications subsidiaries in Slovakia, Macedonia, the Czech Republic and Croatia during 2000 and 2001;
- a joint venture with France Télécom and Sprint from 1996 through 2000, and a cooperation agreement with France Télécom from 1998 through 2000;
- the acquisition of One 2 One (now "T-Mobile UK") in 1999;
- disengagement from our former strategic alliance with France Télécom and Sprint, commencing in 1999;
- the acquisition of debis Systemhaus (now T-Systems' IT Services) in 2000 and 2002;
- the initial public offering of T-Online International AG in 2000;

the purchase of licenses allowing T-Mobile to operate UMTS wireless networks in Germany, the United Kingdom, Austria and the Netherlands in 2000, and in the Czech Republic in 2001;

the divestment of our cable television businesses in 2001 and 2003;

the acquisition of VoiceStream Wireless Corporation ("VoiceStream") and Powertel, Inc. ("Powertel") in 2001 (now "T-Mobile USA");

the acquisition of Ben Nederland Holding B.V. ("Ben") in 2000 and 2002 (now T-Mobile Netherlands);

the refocusing of our business on our core divisions and on debt reduction in 2002, 2003 and 2004;

the acquisition of the remaining 49% of EuroTel Bratislava, a.s. ("EuroTel Bratislava"), through Slovak Telecom, in 2004;

the proposed statutory merger of T-Online with Deutsche Telekom under the German Transformation Act (*Umwandlungsgesetz*, the "Transformation Act");

the full-divestment of shareholdings in European satellite operator SES Global in 2004;

the reduction of shareholdings in Mobile TeleSystems OJSC ("MTS") in 2003 and 2004; and

the formation, as of January 1, 2005, of the new strategic business areas, Broadband/Fixed-Network, Business Customers and Mobile Communications, as an evolution from our previous structure, to better serve evolving customer needs; and

the closing, in January 2005, of the acquisition by T-Mobile USA from Cingular Wireless of certain GSM networks in California and Nevada for USD 2.5 billion, and the related dissolution of the network-sharing joint venture with Cingular Wireless.

For more information regarding our new strategic business areas ("SBAs"), see " Strategy Strategic Realignment." Additional information regarding the foregoing events and developments is contained throughout "Item 4. Information on the Company."

STRATEGY

General Overview

Our key strategic goal is to become the leading services company in the telecommunications and information technology industry. We intend to build on our position as one of the world's leading connectivity providers of fixed and mobile telecommunications services and we also want to capitalize on our online portal and information technology businesses.

In 2004, we further reduced debt, increased cash flows and improved our liquidity position. We also accomplished the goals of our "Agenda 2004" program consisting of six cross-divisional initiatives:

Broadband we expanded T-DSL penetration in Germany.

Personnel we reduced overall headcount and managed to improve placement and employment opportunities through Vivento (our internal personnel services agency).

Innovation we generated revenues from new services such as Managed Desktop Services, e-Government solutions and new ICT infrastructure services.

Quality we delivered high quality to our customers as confirmed by several customer satisfaction awards won in 2004.

Efficiency we further tightened cost controls and realized efficiencies.

Corporate Customers we focused on the growth potential for us in the market for serving domestic small and medium sized firms, as well as global accounts.

Although debt reduction remains an important part of our planning, the measures we took in 2004 provide us now with additional flexibility to make capital expenditures and pursue acquisitions, joint ventures or combinations of businesses on a selective basis, where we perceive real opportunity for profitable growth. Transactions may be conducted using newly issued shares of Deutsche Telekom or shares of our affiliates, cash or a combination of cash and shares, and may individually or in the aggregate be material to us. Discussions with third parties may be commenced, on-going or discontinued at any time or from time to time. For more information, see "Item 5. Operating and Financial Review and Prospects."

Strategic Realignment

In 2004, we started to execute "DT2005" as an evolutionary development of our strategy. As a key step, as of January 1, 2005, we created three strategic business areas: "Broadband/Fixed Network," "Mobile Communications" and "Business Customers." These changes have been implemented as a result of technological developments, changing industry landscape (including competition) and changing customer needs.

The formation of these three strategic business areas has resulted in certain internal reorganizations, including, among others:

Broadband/Fixed Network: Certain T-Systems units specifically wholesale ("ICSS") and related platforms have been transferred to the new Broadband/Fixed Network SBA, which includes the operations of T-Com and T-Online. Further, the proposed statutory merger of T-Online International AG into Deutsche Telekom AG is intended to accelerate our broadband strategy. We believe that the "double-play" (access/communications) and "triple-play" (access/communication/entertainment services) approaches are essential to reinforce broadband growth in Germany, particularly in the retail market, and that the integration of our T-Com and T-Online divisions will contribute to the successful growth in this market.

Mobile Communications: There are no changes in the mobile communications SBA, except that the activities of our Central and Eastern European mobile operations will now be reported in this SBA.

Business Customers: Business customer activities and certain units of T-Com have been combined with relevant business units from T-Systems. These business units deliver services to small, medium and large business customers and have been transferred to the Business Customers SBA to better serve the continued demand for integrated solutions. T-Systems will be responsible for our Business Customers SBA and has been reorganized into two business units:

(i) "T-Systems Enterprise Services" for global business accounts; and

(ii) "T-Systems Business Services" for small, medium-sized, and large entities.

Further, the International Carrier Sales and Solutions unit, formerly reported under T-Systems, has been transferred to the Broadband/Fixed Network SBA. Several smaller units have also been transferred between T-Com and T-Systems.

We believe that this reorganization will support our continued growth and reinforces our goal of continuing to be a leading integrated telecommunications company. This new strategic focus emphasizes the needs of the customer. We believe our new business focus will enable us to respond flexibly to constantly changing market conditions.

SIGNIFICANT SUBSIDIARIES

The following table shows significant subsidiaries, in terms of revenues, we owned, directly or indirectly, as of December 31, 2004:

Name of Company	Percent Held
T-Mobile Deutschland GmbH ("T-Mobile Deutschland")(1)	100.00
T-Mobile USA, Inc. ("T-Mobile USA")(1)	100.00
T-Mobile Holdings Ltd. ("T-Mobile UK")(2)	100.00
T-Mobile Austria GmbH ("T-Mobile Austria")(3)	100.00
T-Mobile Netherlands B.V. ("T-Mobile Netherlands")(2)	100.00
T-Mobile Czech Republic a.s. ("T-Mobile Czech Republic")(4)	60.77
T-Systems International GmbH ("T-Systems International")	100.00
T-Online International AG ("T-Online International")(6)	73.93
Deutsche Telekom Immobilien und Service GmbH ("DeTeImmobilien")	100.00
GMG Generalmietgesellschaft mbH ("GMG")	100.00
Deutsche Telekom Network Projects and Services GmbH	100.00
Magyar Tavkoezlesi Rt. (Matáv)(7)	59.49
Slovak Telecom, a.s. ("Slovak Telecom")	51.00
HT-Hrvatske telekomunikacije d.d. ("T-Hrvatski Telekom").	51.00

(1) Indirect shareholding via T-Mobile International AG & Co. KG ("T-Mobile International") (Deutsche Telekom share: 100%).

(2) Indirect shareholding via T-Mobile Global Holding GmbH (Deutsche Telekom indirect share via T-Mobile International: 100%).

(3) Indirect shareholding via T-Mobile Global Holding Nr. 2 GmbH (Deutsche Telekom indirect share via T-Mobile International: 100%).

(4) Indirect shareholding via CMobil B.V. (Deutsche Telekom indirect share via T-Mobile International: 92.14%). CMobil B.V. direct share in T-Mobile Czech Republic: 60.77%.

(5) Indirect shareholding via T-Systems International GmbH (Deutsche Telekom share: 100%).

(6) We are currently seeking to acquire 100% ownership of T-Online International. As of March 11, 2005, we held approximately 90.14% of the outstanding shares of T-Online. For more information, see "Item 5. Operating and Financial Review and Prospects Management Overview."

(7) Indirect shareholding via MagyarCom Holding GmbH (Deutsche Telekom share: 100%).

Please refer to our consolidated financial statements for a list of our principal subsidiaries. A list of our subsidiaries as of December 31, 2004 is filed as Exhibit 8.1 to this Annual Report.

SEGMENT REVENUE BREAKDOWN

The following table presents total revenues (the sum of external (net) revenues and inter-segment revenues), net revenues and inter-segment revenues of our segments for the years indicated. For more information regarding revenues on a segment basis, see "Item 5. Operating and Financial Review and Prospects Segment Analysis."

	For the years ended December 31,											
	2004				2003				2002			
	Net Revenues	%	Inter-Segment Revenues	Total Revenues	Net Revenues	%	Inter-Segment Revenues	Total Revenues	Net Revenues	%	Inter-Segment Revenues	Total Revenues
	(millions of € except percentages)											
T-Com	24,425	42.2	3,389	27,814	25,116	45.0	4,090	29,206	26,491	49.3	4,068	30,559
T-Mobile	24,088	41.6	907	24,995	21,572	38.6	1,206	22,778	18,339	34.2	1,396	19,735
T-Systems	7,238	12.5	3,299	10,537	7,184	12.9	3,430	10,614	6,895	12.8	3,594	10,489
T-Online	1,793	3.1	186	1,979	1,662	3.0	189	1,851	1,391	2.6	193	1,584
Group Headquarters and Shared Services	336	0.6	4,165	4,501	304	0.5	3,964	4,268	573	1.1	3,838	4,411
Reconciliation			(11,946)	(11,946)			(12,879)	(12,879)			(13,089)	(13,089)
Group	57,880	100.0		57,880	55,838	100.0		55,838	53,689	100.0		53,689

DESCRIPTION OF BUSINESS AND DIVISIONS

T-Com

Principal Activities

T-Com operates one of the largest fixed-line networks in Europe in terms of channels (defined below). T-Com's principal activities include:

- Network communication services consisting of network access products and calling services;
- Value-added services (special purpose telephony services);
- Data communications services and solutions provided to small- and medium-sized enterprises, including wireless local area networks ("W-LAN") and Internet Protocol ("IP")-based products, such as intranet and extranet solutions, Telecom Design Network ("TDN") and "Company Connect;"
- Terminal equipment, including the distribution of T-Com's own-brand as well as leading IT manufacturers' products;
- Other fixed-line network services, including installation and maintenance services;
- Wholesale services, including interconnection services to other domestic network operators and service providers and "Online Connect" (narrowband and broadband);
- Systems integration, including local area network ("LAN") and communications services, and e-business solutions;
- Other domestic services, including publishing services, customer retention programs and sales channels; and
- Network communications, mobile, wholesale services and online services to certain countries in Central and Eastern Europe, through its subsidiaries: Matáv (Hungary), Slovak Telecom (Slovakia) and T-Hrvatski Telekom (Croatia).

Most of T-Com's revenues in 2004 were derived from fixed-line network communication services (in the form of access and calling services revenues) provided within Germany. For more information, see "Item 5. Operating and Financial Review and Prospects Segment Analysis T-Com."

Strategic Realignment

We have recently decided to realign our divisions in light of our view of changing market and technology conditions. In order to better respond to the growth areas in our telecommunications markets, as of January 1, 2005, we have transformed our T-Com business division into a new strategic business area, which integrates the T-Online business unit and the T-Com business unit into a single division. We believe this new strategic focus emphasizes the needs of the individual and small business customer. This concentration of our national and international business and infrastructure management in fixed network is intended to promote the expansion of DSL lines in the mass market. In this context, the introduction of an integrated broadband strategy will include new offerings for voice, Internet and TV services (the "triple-play strategy"). Additionally, in furtherance of this integrated broadband strategy, we have announced the statutory merger of T-Online International AG into Deutsche Telekom AG. For more information relating to this merger, see "Item 5. Operating and Financial Review and Prospects Management Overview." In addition, the international carrier sales and solutions business of T-Systems has been transferred to T-Com to create an integrated wholesale unit for both domestic and international business.

For further information, see " Strategy Strategic Realignment" and "Item 5. Operating and Financial Review and Prospects Management Overview."

Germany

Network Infrastructure

Access Network

T-Com offers ICT (information and communication technology) access for individual customers and business customers. Typically, T-Com customers have access to its network by means of a copper cable that runs from its transmission network into the home or office of the customer. Additionally, T-Com offers its customers access via a fiber-optic network, capable of higher bit rates, and thus increases broadband capacity. The portion of the access network that runs through copper or fiber-optic cables from the transmission network to the customer is commonly referred as the "last mile" or "local loop."

Transmission Network

T-Com's transmission network consists of fiber-optic cables enhanced with Wavelength Digital Multiplexing ("WDM") and Synchronous Digital Hierarchy ("SDH") technologies, as well as other network components. WDM uses wavelengths of light to increase the capacity of fiber-optic cables, thereby allowing multiple communication channels. This allows T-Com to increase the capacity of its transmission network without having the need to expanding existing fiber-optic cable. SDH is an international high-speed transmission standard, which improves network management and increases the reliability of fiber-optic networks.

The following table provides information regarding the length of the copper and fiber-optic cables contained in T-Com's access and transmission networks in Germany at the end of each of the last three years:

Length in km	Copper Cable	Fiber-Optic Cable
2002	1.461 million	0.176 million
2003	1.474 million	0.195 million
2004	1.485 million	0.197 million

During 2004, T-Com continued to expand its SDH infrastructure. T-Com plans to further extend its use of WDM and SDH and similar technologies in line with the demands of its customers.

Service Platforms

T-Com uses its service platforms to enable the provision of voice, data and other value-added services to its customers. IP platforms have recently evolved as important delivery platforms, because they allow T-Com to offer multiple and varied products and services to its individual customers (*e.g.*, browser access to the World Wide Web) and business customers (*e.g.*, Virtual Private Networks ("VPNs") and server connections to the World Wide Web). T-Com also uses asynchronous transfer mode ("ATM") technology, which permits the high-quality transmission of large amounts of data (*e.g.*, VoIP, text, audio and video).

Network Communication Services

Network Access Products

T-Com offers network access to its individual and business customers through a variety of access line packages, which generally include a fixed monthly payment and a variable component based on traffic volume. These access lines can either be standard analog access lines or digital access lines. Digital access lines are also called "ISDN" access lines. In addition, both access line types can be enhanced by increasing broadband capacity through DSL technology, which T-Com markets under the brand name "T-DSL." The different T-DSL products are described below.

With the exception of T-DSL, since February 1, 2003, regulatory price cap provisions have governed the prices T-Com may charge for its network access products to its customers.

For more information regarding network access regulation and price cap provisions, see " Regulation Regulation in Germany Network Access" and " Regulation Regulation in Germany Pricing."

Narrowband Access

"Narrowband" access customarily signifies a dial-up connection with transmission rates of up to 128 kilobits per second ("kbit/s"), and up to 512 kbit/s using primary multiplexing, which is achieved using ISDN with channel bundling. ISDN and ISDN channels are described below under "T-ISDN Access."

T-Net Access

T-Com's standard access voice products are marketed under the brand name "T-Net" and permit the customer to use a single telecommunications channel for voice, data or facsimile transmission at up to 56 kbit/s.

The following table shows the number of T-Net access lines in operation for the periods presented:

Year	**T-Net Access Lines**
2002	28.9 million
2003	27.5 million
2004	26.5 million

The number of T-Net access lines in operation decreased in the period from 2002 to 2004. T-Com expects this trend to continue in the future, primarily due to increased competition and the substitution effect of mobile telephones.

T-ISDN Access

T-Com's ISDN access products are marketed under the brand name "T-ISDN" and permit a single customer access line to be used simultaneously to provide multiple products and services, including voice, data and facsimile transmission at 64 kbit/s, which can be increased to 128 kbit/s using channel bundling. Compared to regular voice telephone lines, ISDN technology provides connections with faster transmission rates and increases T-Com's network usage rate.

T-Com offers two types of T-ISDN access lines: basic and primary. Basic T-ISDN access lines provide two telecommunications channels per access line and are offered to individual as well as business customers. Primary T-ISDN access lines provide 30 telecommunications channels per access line and are offered mainly to business customers.

The following table shows the number of ISDN access lines and channels in operation for the periods presented:

	ISDN Access Lines		
Year	**Basic**	**Primary**	**Total ISDN Channels[1]**
2002	9.7 million	102,000	22.4 million
2003	10.3 million	98,000	23.6 million
2004	10.5 million	97,000	23.9 million

(1) Calculations based on actual figures.

Basic T-ISDN access lines increased slightly in 2004 compared to 2003. However, during the second half of 2004, the total number of T-ISDN access lines decreased because of the increasing saturation of the ISDN market and increased competition. Another factor in the decrease in T-ISDN access lines is the T-Com customer migration from ISDN access with DSL to T-Net access with DSL, which ocurred after T-Com harmonized its pricing for DSL. T-Com expects this trend to continue in the future.

Broadband Access

"Broadband" access refers to a connection with transmission rates in excess of 128 kbit/s, and which is generally faster than can be achieved with ISDN and channel bundling.

T-DSL Access

T-Com offers T-Net and ISDN access lines, enhanced by means of DSL technology, to its individual and business customers at a fixed monthly fee.

T-DSL connections provide data transfer at a rate of up to three megabits per second ("mbit/s") and is a technical prerequisite for increasing the number of online products and services. In April 2004, T-Com began offering its individual and business T-DSL customers download capacity of 1, 2 or 3 mbit/s as part of its current "1/2/3 Strategy," which is focused on increasing bandwidth connectivity through increasing the number of DSL lines in operation. On April 1, 2004, as part of its T-DSL price harmonization, T-Com increased the price of DSL in combination with T-ISDN and reduced the price of T-DSL in combination with T-Net for existing and new individual customers. In addition, T-Com reduced the prices for its "T-DSL Business" product offerings at the beginning of June 2004.

The following table provides information on the number of T-DSL lines in operation for the periods presented:

Year	T-DSL Lines
2002	2.8 million
2003	4.0 million
2004	5.8 million(1)

(1) Includes approximately 246,000 DSL lines provided to wholesale customers for resale.

For more information regarding DSL resale, see " Regulation Regulation in Germany Network Access Resale."

The number of T-DSL lines increased in 2004, and T-Com expects that the number of T-DSL lines will continue to grow with increased Internet usage. Accordingly, T-Com believes that the expected increased demand for high-bandwidth services will result in continued growth in the number of T-DSL lines in operation. Part of this growth is the migration trend from narrowband services to broadband services.

T-Com offers Asynchronous DSL ("ADSL") technology, which combines a high-speed data download transmission speed with a lower upload transmission speed. T-Com also offers Synchronous DSL ("SDSL") technology to its business customers, which permits high-speed data transmission speeds in both directions. Beginning in 2003, SDSL has been available throughout Germany under the T-DSL Business brand name.

In addition to obtaining DSL access, individual T-DSL customers have to sign a contract with an Internet Service Provider ("ISP"), such as T-Online, in order to access the Internet. For its business customers using T-DSL, T-Com not only offers DSL access, but also tailor-made ISP services. T-Com, in conjunction with T-Online, has from time to time offered promotional rate plans.

Calling Services

Through its network access product offerings described above, T-Com provides comprehensive local and regional calling services, as well as national and international long-distance calling services as well as online access, for individual and business customers who have access to T-Com's fixed-line network. With the exception of the standard T-Net connection, T-Net and T-ISDN offer customers many of the same services, such as three-way calling, call-waiting and caller ID. T-ISDN also offers several features not available to T-Net customers, like a second connection channel, which allows the customer to have three separate telephone numbers and to use the telephone, send or receive faxes and use the Internet all at the same time.

However, since 1998, T-Com's individual and business customers have been able to choose alternative providers for long-distance and international calls through "carrier pre-selection" (selecting one carrier) and "call-by-call" (selecting a carrier each time a call is made by dialing the carrier's numeric prefix before dialing the telephone number). T-Com's competitors have made considerable inroads into the calling services market. Initially, competitors that did not have their own infrastrucuture benefited from T-Com's infrastructure investments. Since the introduction of element-based pricing however, which began in 2002, T-Com's competitors investing in networks and interconnection points ("ICPs") with T-Com have been able to benefit from favorable pricing conditions. There are currently approximately 100 interconnection agreements with carriers in the long distance and international markets. In addition, carrier pre-selection and call-by-call for the local calling services market in Germany were introduced in April and July 2003, respectively, which has led to a reduction in T-Com's market share in the local calling services market.

To counter these challenges, T-Com has introduced several new rate plans that are designed to provide customers with reduced rates for an additional monthly fee. For example, in 2004, T-Com introduced the "Call-time 120" rate plan, which allows customers to place calls within T-Com's German fixed-line network for a flat rate for up to 120 minutes. In September 2004, T-Com also introduced the "CountrySelect" rate plan, which provides customers attractive rates for calls to specific international destinations.

For more information regarding carrier selection regulation, see " Regulation Regulation in Germany Network Access Carrier Selection."

Simliar to 2003, additional regulatorily mandated price reductions occurred in 2004. The effects of the most significant pricing measure, which became effective in September 2003, and continued throughout 2004, included a price reduction in the local calling services market.

On March 1, 2005, T-Com introduced lower prices, higher service levels and simple cost transparency. T-Com's customers can now choose from four flat-rate tariffs: "Call Plus" for infrequent callers, "Call Time" for the average caller, "XXL" for frequent callers and "XXL Freetime" for extra frequent callers. With the CountrySelect option, international calls can be charged per minute. Many extra services, such as "call waiting" and "number suppression" are also available at no charge. The new tariffs are part of T-Com's customer focused marketing strategy.

For more information about certain of T-Com's new rate plans, see " Regulation" and "Item 8. Financial Information Litigation."

Value-Added Services

T-Com also offers a range of value-added telephone services for its individual and business customers. These services include: toll-free numbers and shared-cost numbers for customer relationship management, directory-assistance numbers, the provision and administration of directory files, and public payphones.

Furthermore, T-Com provides contact-routing solutions, primarily to large call center operators and media broadcasting companies. Through its product, "T-Vote Call," T-Com provides media broadcasting companies (largely television and radio stations) the ability to catalogue and switch customer calls to pre-defined locations. This service enables media broadcasters to increase customer participation in their program offerings as well as to measure audience loyalty.

In the entertainment sector, T-Com's premium-rate services (which use the (0190) and (0900) exchanges) enable information and entertainment packages to be sold and billed automatically by telephone or via the Internet.

T-Com's new products in the directory-assistance sector include a telephone number search service via Short Message Service ("SMS") text and a directory search service based on telephone numbers.

Data Communications

T-Com offers its business customers (including T-Systems) a full portfolio of data communications solutions, which includes the following services:

Leased lines, which are trunk lines offering high levels of security and pre-defined bandwidths, for the construction and operation of corporate networks. T-Com offers leased lines under the brand names "SFV" and "DDV."

Telekom Design Networks, which combine data and voice communications products to meet the specific needs of individual and business customers. A wide range of additional services (*e.g*., consulting, project management, design and re-design of customer networks) are integrated into TDN contracts. These components are the basis for a customized system solution, which can be adjusted based on changing client requirements and new technologies.

Virtual Private Network products, which connect customer sites within a closed network and include standard solutions as well as individually tailored services for ATM- or IP-based networks. VPN products provide high-speed transmission rates and increased security standards. T-Com has offered VoIP solutions as part of its data communication products (*e.g*., as part of an

IP network) to its business customers since 2003. Although T-Com does not currently plan to offer VoIP to its individual customers, it is analyzing the effects of the increase in new ISP VoIP offerings on future data communications and calling services.

Ethernet products, primarily under the brand names "DDV-M Ethernet 100" and "High Speed Ethernet," which provide T-Com's business customers with innovative, low-priced "plug-and-play" solutions that interconnect customer sites using worldwide Ethernet standards and feature high transmission rates (up to 1 gigabit per second ("gbit/s")).

Internet solutions, primarily provided through its Company Connect and "IP-Transit" products:

Company Connect provides a broadband Internet connection and is mainly targeted at mid-sized and large companies. This product includes guaranteed bandwidths from 256 kbit/s to 155 mbit/s and fixed IP addresses.

IP-Transit offers bandwidths from 2 mbit/s to 2.5 gbit/s and provides worldwide Internet connectivity using multiple connections to different providers simultaneously. Based on this technology, customers achieve very high system stability and independence from a single ISP. IP-Transit is mainly marketed by T-Com, in cooperation with T-Systems, to wholesale services customers and large companies.

W-LANs, which are an important element of T-Com's broadband strategy. T-Com is increasing the number of W-LAN "HotSpots" in Germany in an effort to enhance the attractiveness of T-DSL by offering Internet access points in public locations. These efforts, which we expect to have a moderate effect on our direct revenue growth in the short- to mid-term, are part of a longer-term effort to increase the penetration of T-DSL products and services. At the end of 2004, T-Com, in conjunction with T-Mobile, had contracts for just over 4,000 HotSpots in Germany, of which approximately 3,500 were already in operation.

Dedicated customer lines: T-Com's dedicated customer line product offers business customers connections between two customer networks (located up to 50 kilometers apart) with transmission rates of up to 1 gbit/s.

As of January 1, 2005, T-Com no longer services large business customers. These customers are now serviced by T-Systems. Accordingly, T-Com's data communications product portfolio will be reduced.

Terminal Equipment

Through its terminal equipment business, T-Com distributes, for purchase or rent, an extensive range of third-party and T-Com's own-brand telecommunications equipment. Products range from individual telephone sets and facsimile machines, targeted at individual customers, to more complex telephones, private branch exchanges ("PBXs") and complex network systems (including DSL access devices), targeted at business customers.

Other Fixed-Line Network Services

T-Com also provides installation, maintenance, hotline, customer consulting, education, software installation and network management services. These services are provided on a standardized basis and, for business customers, on a customized basis.

T-Com had previously included cable television services in "Other Fixed-Line Network Services." However, in March 2003, T-Com sold its interests in its six regional cable businesses located in

Hamburg/Schleswig-Holstein/Mecklenburg-Western Pomerania, Lower Saxony/Bremen, Berlin/Brandenburg, Rhineland-Palatinate/Saarland, Bavaria and Saxony/Saxony-Anhalt/Thuringia. In July 2003, T-Com also sold its remaining 40% interest in the regional cable business in Baden-Wuerttemberg.

Wholesale Services

Subject to the constraints imposed by the German telecommunications regulator, T-Com's wholesale services business provides products and services to third-party operators as well as other divisions within the Deutsche Telekom group. The German telecommunications regulator requires that services provided by T-Com to other group companies are not provided at prices lower than those T-Com charges third-party operators (*i.e*., its competitors).

T-Com's wholesale services business with other telecommunications carriers involves domestic network operations and service providers. In 2004, the Board of Deutsche Telekom decided to transfer the international carrier sales and solutions business of T-Systems to T-Com. This transfer will have retroactive effect from January 1, 2005, and is currently subject to the approval of the German tax authorities. For information regarding international carrier sales and solutions, see " T-Systems."

The wholesale products and services provided to third-party and group customers include:

Access services: Access to the local loop enables third-party operators to supply their customers with services, for example, telephone or DSL services, using T-Com's infrastructure. These operators lease the access lines running to their end-customers' premises from T-Com. T-Com has set up comprehensive reseller agreements with third-party operators that provide an integrated service combining access and IP services for the end-customers. T-Com's new product, "Resale DSL," has been offered in three speeds since August 2004.

IP services: T-Com provides Internet transport services for broadband and narrowband service providers ("virtual ISP services") as well as transport services for carrier interconnection. In addition, T-Com offers nationwide access (through its IP backbone) and regional IP access to broadband IP providers with its "ZISP" product (Access for Internet Service Providers). T-Com provides scalable narrowband and broadband Internet transport services to ISPs ("Online Connect"), which allow ISPs to expand their internet platforms based on customer demand.

Interconnection services: T-Com's interconnection services primarily consist of call origination, and the transit and termination of switched voice traffic. The terms under which T-Com interconnects its telephone network with the networks of other national network operators and service providers are either bilaterally negotiated or imposed by the German telecommunications regulator. At December 31, 2004, T-Com had approximately 100 interconnection carriers; bilateral interconnection agreements existed with a majority of these carriers, while the remaining carrier interconnections were implemented on the basis of an interconnection order from the German telecommunications regulator. During the fourth quarter of 2003, price reductions of an average of 9.5% were ordered by the German telecommunications regulator.

Leased lines: T-Com offers leased lines with transmission rates ranging from 64 kbit/s to 2.5 gbit/s, which are tailored to fit the needs of specific carrier and mobile service providers. These leased lines may be used for both the transmission of data as well as voice traffic.

Carrier Service Networks ("CSN"): T-Com offers carriers transmission paths designed to meet their specific needs. These transmission paths generally include transmission rates from 2 mbit/s to 10 gbit/s.

For more information, see " Regulation."

System Integration

T-LAN

Systems Integration consists of implementation and support in the area of telecommunications applications, and also includes service solutions for T-LAN and communications networking, wiring and network expansion, as well as E-Business Solutions. In conjunction with the planning and operation of customer computer networks, T-Com also offers LAN and communications services for its customers. In addition, T-Com offers Web hosting products and solutions designed to provide customers with an Internet presence (Web sites) and facilitate e-business transactions.

E-business products and solutions provided by T-Com are modular in structure, which affords flexibility and ease of use. These products include:

- "eHealthConnect" (connecting doctors and hospitals);
- "eHealthNet" (patient records management);
- "eGovernment" (an electronic process management solution for local and state governments targeted at public administration); and
- "eTraffic" (a solution targeted at integrated traffic control for freight carriers).

Other Domestic Services

Publishing Services

T-Com's activities with respect to publishing services include the sale of marketing and advertising services to small-and medium-sized companies via T-Com's telephone directories. These telephone directories (*e.g.*, *DasTelefonbuch*, *GelbeSeiten*, *DasÖrtliche*) are edited and published in a variety of formats, such as print and CD-ROM, online and mobile devices, in cooperation with local publishers. T-Com receives most of its publishing revenues from advertisements contained in these directories. In recent years, this business has been subject to increasing pressure from competitors and weakness in the German economy. For information regarding legal proceedings relating to directory services, see "Item 8. Financial Information Litigation."

Sales Channels

T-Com offers its products and services through a broad range of sales partners as well as direct and indirect sales channels. T-Com's direct distribution channel includes its "T-Punkt" retail shops, direct sales forces dedicated to either business or retail customers, and online ordering via the Internet. In addition, T-Com provides toll-free numbers that allow customers to obtain information and order products and services.

T-Com has separate sales units for direct sales to individual and businesses, domestic carrier services and services to network operators and service providers.

Most of T-Com's terminal equipment sales occur through its T-Punkt outlets, which offer an extensive product portfolio, including T-ISDN and T-DSL business products, and products from T-Online, T-Mobile and third-party manufacturers. T-Com receives commissions for sales of products provided by other Deutsche Telekom divisions. At December 31, 2004, T-Com had 412 T-Punkt outlets in Germany, of which 102 were business outlets. T-Punkt business outlets offer more products and services targeted to businesses (*e.g.*, tailored telecommunication solutions for combined voice and data usage).

Central and Eastern Europe

Matáv

Matáv offers telecommunication services, including fixed-line services, value-added services, mobile communications services, wholesale services, online services and cable television. Matáv offers its services to individual and business customers throughout most of Hungary. T-Com holds a 59.2% equity interest in Matáv, the leading full-service telecommunications service provider (in terms of customers) in Hungary. Matáv also owns T-Mobile Magyarország (formerly "Westel," prior to its re-branding on May 1, 2004, now "T-Mobile Hungary").

Fixed-Line Services

Matáv offers a broad range of fixed-line services including network access products, narrowband access products, and calling services. In 2004, Matáv's fixed-line network penetration and the total number of access channels remained flat.

The following table shows the number of Matáv's standard access lines and ISDN access lines and channels in operation at December 31 of each year presented:

Year	Standard Access Lines	ISDN Access Lines Basic	ISDN Access Lines Primary	Total ISDN Channels[(1)]
2002	3.0 million	186,000	5,000	537,000
2003	3.0 million	197,000	6,000	565,000
2004	3.0 million	200,000	6,000	572,000

(1) Calculations based on actual figures.

In 2004, new competitors entered the Hungarian fixed-line market, including Tele2 (using Matáv's fixed-line network) and UPC Magyarország Kft (using parts of its own cable television network). In response to these new competitors, and to fixed-mobile substitution effects, Matáv has promoted several flat-rate packages.

Matáv also offers data products such as DSL access lines for residential and business customers. Matáv increased its installed base of DSL lines from 104,000 in 2003 to 204,000 in 2004. Matáv expects a continued increase in the number of DSL access lines as a result of market expansion.

Mobile Services

T-Mobile Hungary maintained its leading position, with a market share of 46.2%, based on customers as of December, 2004, in an expanding mobile market. The mobile market in Hungary is intensely competitive. T-Mobile Hungary had 4 million customers at December 31, 2004, an increase of 7.1%, compared to 2003.

On August 31, 2004, the Hungarian National Communications Authority published an auction tender notice for UMTS frequency licenses. T-Mobile Hungary was awarded one of the three licenses sold, which granted it the exclusive right to use one of the Hungarian UMTS frequency blocks for 15 years. The license fee cost a total of HUF 17 billion (approximately EUR 69 million), of which HUF 5.5 billion (approximately EUR 23 million) was paid in December 2004; the remainder is due in two tranches in 2005. Obligations associated with the license include the launch of the services in central Budapest by December 22, 2005, and a 30% population coverage by December 22, 2007. The fulfillment of the licence's requirements will result in additional infrastructure investments.

Commencing January 1, 2005, results from T-Mobile Hungary will be reported under the T-Mobile division. For more information, see " Strategy Strategic Realignment."

Online Services

Matáv's Internet subsidiary, Axelero, maintained its leading position among ISPs in the Hungarian market, with a market share of approximately 42% in 2004 in the local dial-up market, which represents a decrease of 2% from 2003, based on number of customers. Axelero had 266,000 customers as of December 31, 2004, an increase of 26.3% customers, compared to 211,000 in 2003.

Other Investments of Matáv

Since January 2001, Matáv has held a controlling stake in Stonebridge Communications AD ("Stonebridge"), which owns 51% of the Macedonian telecommunications company, MakTel. MakTel is currently the sole fixed-line operator in Macedonia, with 626,000 access channels, including 14,000 ISDN access lines representing 42,000 ISDN access channels at December 31, 2004. MakTel's exclusive right to offer fixed-line telecommunications services in Macedonia expired at the end of 2004.

MakTel owns 100% of MobiMak, the country's leading mobile operator (in terms of number of customers) with 0.8 million mobile customers. MobiMak's only competitor, Cosmofon (a subsidiary of the Greek OTE Group), has been operating in Macedonia since June 2003. Commencing January 1, 2005, results from MobiMak will be reported under the T-Mobile division. For more information, see " Strategy Strategic Realignment."

Planned Montenegro Acquisition

On October 18, 2004, the government of the Republic of Montenegro announced a public tender for the sale of its 51.12% stake in Telekom Crne Gore ("Telekom Montenegro"). On December 22, 2004, T-Com, through its subsidiary, Matáv, submitted a binding offer for Telekom Montenegro, which was approved by the government of Montenegro on March 11, 2005. The purchase price for the shares was EUR 114 million, as well as certain commitments to invest in telecommunications infrastructure. The purchase is also conditional to T-Com commencing a separate tender offer to the minority shareholders of Telekom Montenegro.

Regulation

For information regarding Hungarian regulatory issues, see " Regulation International Regulation Hungary."

T-Hrvatski Telekom

T-Com owns a 51% equity interest in Hrvatske telekomunikacije d.d., the leading full-service telecommunications service provider in Croatia in terms of revenues, which, on October 1, 2004, was re-branded "T-Hrvatski Telekom," thus emphasizing its connection with the Deutsche Telekom global brand while preserving its local identity. In addition, HT Mobile was re-branded "T-Mobile Hrvatska" ("T-Mobile Croatia").

Fixed-Line Network

T-Hrvatski Telekom operates digitalized fixed-line and mobile networks. T-Hrvatski Telekom pursued restructuring and market-repositioning projects from 2003 to 2004, to increase efficiency and customer focus, continue the outsourcing of its non-core business activities, and implement other strategies designed to counter the possible future erosion of its market share by competitors.

T-Hrvatski Telekom's standard access lines decreased 1.5% in 2004, primarily as a result of a shift of customers from standard access lines to ISDN lines. T-Hrvatski Telekom's DSL customer base also increased in 2004 to 22,000 from 2,000 in 2003.

The following table shows the number of standard access lines and ISDN access lines and channels in operation at December 31 for each year presented:

Year	Standard Access Lines	ISDN Access Lines Basic	ISDN Access Lines Primary	Total ISDN Channels[1]
2002	1.6 million	77,000	2,000	206,000
2003	1.6 million	109,000	2,000	286,000
2004	1.5 million	124,000	3,000	337,000

(1) Calculations based on actual figures.

Mobile Services

In 2003, T-Hrvatski Telekom's mobile business was transferred to its wholly-owned subsidiary, T-Mobile Croatia. T-Mobile Croatia's customer base increased from approximately 1.3 million in 2003 to 1.5 million in 2004, and a mobile market share in terms of customers of 53.7% in 2004, which represents a slight increase over 2003 (52.5%). Due to the entrance of a third mobile operator in 2005, T-Com expects that T-Mobile Croatia's market share will decrease in the future.

In 2004, the government of Croatia called for tenders for UMTS licenses in Croatia. On November 18, 2004, T-Mobile Croatia was granted a 20-year UMTS license in exchange for HRK 132 million (approximately EUR 18 million). In addition, T-Mobile Croatia must pay an annual license fee of HRK 20 million (approximately EUR 3 million). The fulfillment of the licence's requirements will result in additional infrastructure investments.

Commencing January 1, 2005, results from T-Mobile Croatia will be reported under the T-Mobile division. For more information, see "Strategy Strategic Realignment."

Online Services

T-Hrvatski Telekom's online business is the largest Croatian ISP in terms of revenue. T-Hrvatski Telekom's market share based on usage is approximately 70%. T-Hrvatski Telekom's online customers increased to 563,000 in 2004, from 480,000 in 2003. T-Com expects that T-Hrvatski Telekom's online business will be affected by the substitution of standard dial-up access for DSL services, which are expected to increase strongly in the future.

Other Investments

T-Hrvatski Telekom directly and indirectly owns a majority equity interest in ERONET Pokretne komunikacije ("ERONET"), the mobile telecommunications service provider in Bosnia and Herzegovina.

Regulation

For information regarding Croatian regulatory matters, see "Regulation International Regulation Croatia."

Slovak Telecom

In 2000, T-Com acquired a 51% equity interest in the state-owned Slovenské telekomunikácie a.s., the leading full-service telecommunications provider in Slovakia (based on revenues), for a purchase price of EUR 1 billion. On January 15, 2004, Slovenské telekomunikácie a.s. changed its name to "Slovak Telecom a.s.", thus emphasizing its strategic relationship with the Deutsche Telekom global brand. Slovak Telecom offers local, long-distance and international fixed-line telephone services, data communications services, distribution and broadcast of radio and television signals, and through its mobile telecommunications subsidiary, EuroTel Bratislava, mobile services.

Until December 2004, Slovak Telecom had only a 51% economic interest in the profits and net assets of EuroTel Bratislava. On December 31, 2004, EuroTel Bratislava became a fully consolidated subsidiary of Slovak Telecom.

Fixed-line network

Slovak Telecom's fixed-line network penetration and its total number of access channels declined in 2004 due to increased competition from mobile services. Slovak Telecom's number of installed DSL lines increased to approximately 38,000 in 2004 from approximately 4,000 in 2003.

T-Com believes that the growing broadband and data services market will present an opportunity for Slovak Telecom, and therefore form part of its strategy, which may counter the continuing pressure on the traditional voice segment, the erosion of Slovak Telecom's market share by competitors, the substitution of mobile services for fixed-line services, and pressure from the Slovak telecommunications regulatory authority.

Slovak Telecom is currently investing in a Next Generation Technologies ("NGN") network. In 2004, Slovak Telecom began to migrate customers from analog fixed-line access and services to digital NGN. Slovak Telecom is planning to switch portions of its network operation over to the new technology.

The following table shows the number of analog lines and ISDN access lines and channels in operation at December 31 for each year presented:

Year	Standard Access Lines	ISDN Access Lines Basic	ISDN Access Lines Primary	Total ISDN Channels(1)
2002	1.3 million	52,000	1,000	129,000
2003	1.2 million	75,000	1,000	179,000
2004	1.1 million	87,000	1,000	202,000

(1) Calculations based on actual figures.

Mobile Services

Currently, there is one other provider of mobile telephony services in Slovakia. EuroTel Bratislava's mobile subscriber base increased from approximately 1.6 million in 2003 to approximately 1.9 million in 2004.

Commencing January 1, 2005, results from EuroTel Bratislava will be reported under the T-Mobile division. For more information, see " Strategy Strategic Realignment."

Online Services

As of December 31, 2004, Slovak Telecom's ST Online Internet services customer base increased by 10% to approximately 102,000 in 2004. The number of customers using broadband access increased by 19,000 from 2003 to 23,000 as of December 31, 2004.

Regulation

For information regarding Slovakian regulatory matters, see " Regulation International Regulation Slovakia."

Seasonality

The business of the T-Com division is not materially affected by seasonal variations.

Suppliers

The principal types of equipment purchased by the T-Com division are network components, such as switching systems; transmission systems; access network components and customer premises equipment, such as telephones, fax machines, T-DSL modems and similar items. Although we do not believe T-Com is dependent on any single supplier (due to its multiple-supplier strategy), there may be occasions when a particular product from a particular supplier is delayed or back-ordered. Major suppliers of T-Com are Alcatel SEL AG, Cisco Systems International B.V., Corning Cable Systems GmbH & Co. KG, ECI Telecom GmbH, Lucent Technologies Network Systems GmbH and Siemens AG.

Dependence on Patents, Licenses, Customers, Industrial, Commercial or Financial Contracts

We do not believe T-Com is dependent on any patent or other intellectual property right. For a description of patent infringement litigation that is relevant to T-Com's business relating to ATM technology, see "Item 8. Financial Information Litigation Other Proceedings." We also do not believe T-Com is dependent on any individual third-party customer, or on any industrial, commercial or financial contract.

Similar to other fixed-line operators, T-Com is dependent on telecommunications licenses from the governments of the countries in which it operates. For more information, see " Regulation."

Competition

Fixed-Line Network Voice Telephony and Local Access

Since the full liberalization of the German telecommunications market in January 1998, T-Com has faced intense competition, based primarily on price, in the market for fixed-line network voice telephony. During the last three years, this competition has intensified, particularly in the local and broadband markets.

Effect of Regulatory Decisions

In the market for international, domestic long-distance and local calling services, the level of competition is influenced by the fact that we are required to permit other telecommunications companies to interconnect with our fixed-line network at rates that are set by the German telecommunications regulator. As a result, decisions of the German telecommunications regulator regarding the maximum rate that we are permitted to charge for interconnection have a significant impact on the level of competition in the market for fixed-line network voice telephony.

In 2004, T-Com further reduced prices for local calls as a result of regulatorily mandated price-cap reductions. T-Com's fixed-line network market share, measured by call time in minutes, declined from approximately 61.2% in 2002 to 57.6% in 2003, and continued to fall to 54.0% in 2004.

For a more detailed discussion of certain regulatory decisions and other competitive factors, see " Regulation" and "Item 8. Financial Information Litigation."

Effect of Investments by Other Companies

T-Com also faces significant competition in the markets for international and domestic long-distance calls, regional calls and access lines from competitors that have made investments in their own infrastructure, such as Arcor AG & Co., Colt Telecom Group Plc., MCI Worldcom Inc. and BT Group Plc. In addition, national network operators, such as Arcor AG & Co., and local network operators, such as HanseNet Telekommunikation GmbH, KomTel GmbH and NetCologne Gesellschaft fuer Telekommunikation mbH, have made substantial investments in local network infrastructure and compete with T-Com in major urban centers throughout Germany. Furthermore, as prices for mobile telephony decline, local and other calling services, as well as access services, face increasing competition from mobile telephone operators. Additionally, as alternative technologies, such as voice-over-IP, cable broadband and use of the Internet, gain market acceptance, T-Com's fixed-line network telephone usage may be adversely affected.

Other Fields of Business Activity.

Although T-Com does not manufacture its own equipment, it does resell telecommunications equipment under its own label. The terminal equipment sector has been open to full competition since 1990 and is characterized by falling prices, low margins, rapid technological innovation and intense competition. The basis for competition in this field is primarily price. T-Com's most significant competitors in this area are Siemens AG, Alcatel S. A., Philips Electronics N. V. and Tenovis GmbH & Co. KG (formerly Bosch Telecom GmbH/Telenorma AG). Most of these competitors are also suppliers to T-Com.

T-Mobile

Principal Activities

The principal services offered by the T-Mobile division are digital mobile telephony services based on the mobile telecommunications technology known as GSM and non-voice services such as SMS, MMS (Multimedia Messaging Services) and other data services to residential and business customers based on CSD (Circuit Switched Data), GPRS (General Packet Radio Service) and UMTS technologies. T-Mobile also operates HotSpots, which, taken together with T-Com operated HotSpots, can currently be used by customers in more than 11,500 public locations in Germany, Austria, the Czech Republic, the United Kingdom, the Netherlands and the United States. T-Mobile offers international roaming services for GSM, GPRS and UMTS to its customers through a large number of international roaming agreements with third-party operators, which allow customers to access mobile services while outside their home network service area. The T-Mobile division also sells mobile devices to customers in conjunction with its service offerings.

Mobile voice and data services are offered both on a prepay basis and on a contract basis. Customers purchase contract services on the basis of fixed monthly fees and pay time-based airtime, and per-message, fees. Some contract service offerings include a limited amount of airtime, data volume or messages in the monthly fee. Prepay services are purchased on the basis of monetary increments that are recorded on the customers' SIM card (Subscriber Identity Module) and then deducted, based on airtime or messaging usage fees as the cards are used. W-LAN services are sold on both a monthly subscription basis and on various usage-based plans.

Usage fees can vary according to the tariff plan selected by the customer, the day and time when a call is made, the destination of the call, the location where the call originates and, in some cases, other provisions applicable to the tariff plan and whether the called party is also a customer of the same network.

Global Branding, Integration and Alliances

T-Mobile is implementing a strategy intended to make its European national operations function more like a single, integrated business across borders. We call this the "One Company Strategy." In addition to rebranding the division's majority-owned mobile telecommunications subsidiaries with the T-Mobile brand, we have developed a functionally integrated business organization in Europe that features a single, shared approach to marketing, technology and network, and sales and service.

In 2004, our mobile businesses in Hungary and Croatia were re-branded as "T-Mobile Magyarország" and "T-Mobile Hrvatska," respectively.

In July 2003, T-Mobile entered into the "FreeMove" alliance with Telefónica Móviles in Spain, Telecom Italia Mobile ("TIM") in Italy and Orange S.A. in France. The alliance aims to make mobile services more widely available and seamless in all countries in which the alliance members operate, by cooperating in several key areas, including the development of joint services relating to roaming, voice, and data, and the development and purchasing of mobile devices.

New Services

T-Mobile offers services based on a fully integrated network. As an international network operator, T-Mobile has various technologies in place that support the evolution of the network towards the integrated provision of GPRS, UMTS and W-LAN mobile access services. Based on our GSM/GPRS network, which guarantees wide-area coverage, we have added our UMTS and W-LAN services, available today in many major urban centers. The expansion and increased capabilities of our network will enhance existing services and permit the deployment of new services, such as mobile broadband access. Both our UMTS and W-LAN services are constantly being expanded. In the United States we are the leading W-LAN operator, based on the number of operated HotSpots. In addition, T-Mobile has begun to upgrade its GSM/GPRS network to EDGE (Enhanced Data Rates for Global Evolution) technology in particular markets where it is economically justifiable. Besides the United States, this technology is currently being put in place in the Czech Republic.

T-Mobile believes that it has created one of the world's largest high-speed, transatlantic mobile networks, enabling its customers to use our integrated data services with the best available access speed. In order to offer customers easy, single-SIM card access, T-Mobile offers multi-band mobile devices (*i.e.*, UMTS/GPRS/GSM), in combination with all-network tariffs, which permit a pricing structure that is independent of the particular network used by the customer.

T-Mobile has made substantial investments in the "next generation" mobile communications standard, UMTS. T-Mobile invested EUR 8.5 billion in UMTS licenses in Germany, EUR 171 million in Austria, EUR 395 million in the Netherlands, EUR 6.6 billion in the United Kingdom and EUR 103 million in the Czech Republic. These investments in licenses do not include the costs of UMTS network build-out in these countries. Through 2004, T-Mobile has invested approximately EUR 350 million in UMTS networks. T-Mobile expects to invest amounts in excess of its 2004 investments during each of the next three years. These investments should enable T-Mobile to meet the minimum coverage requirements established under its UMTS licenses. To reduce costs and increase efficiency, T-Mobile has entered into network sharing agreements with other operators. To date, T-Mobile has met or exceeded all regulatory obligations with respect to its UMTS licenses in the United Kingdom, Germany and Austria. For more information regarding regulatory obligations, and for further details with respect to roll-out requirements and network sharing, see " Regulation."

Efficiency Program

In January 2005, T-Mobile announced an efficiency program, "Save for Growth," for its operations in Germany, the United Kingdom, Austria, the Czech Republic and the Netherlands. The goal of the program is to allow us to save approximately EUR 1 billion in annual operating costs. Approximately half of the expected savings will be redeployed for strategic-growth initiatives. T-Mobile expects that the main drivers of the efficiency program will be more effective purchasing and reductions in subsidies related to mobile devices. In addition, group synergies are expected to help in achieving these goals. T-Mobile also plans to reduce its workforce in Europe by approximately 10%, and has begun negotiations with employee representatives in the respective countries.

Principal Markets

The T-Mobile division's principal markets include: Germany, the United States, the United Kingdom, Austria, the Czech Republic, the Netherlands and Poland. As of January 1, 2005, our mobile segment now includes the operations and results of T-Mobile Hungary, T-Mobile Croatia, MobiMak in Macedonia and EuroTel Bratislava in Slovakia, each formerly reported under our T-Com division.

T-Mobile counts its customers by the number of SIM cards activated. T-Mobile's mobile communications subsidiaries count contract customers as customers for the length of their contracts, and count prepay customers as customers as long as they continue to use our service, and then for a prescribed period thereafter, which differs according to the particular market. Generally, at the end of this time, or in the case of payment default or voluntary disconnection, the customers are canceled or "churned." The churn rate for any given period represents the number of customers whose service was discontinued during that period, expressed as a percentage of the average number of customers during the period, based on beginning and period-end figures. Our competitors may calculate their churn rates using methods different from ours. In addition, because we use different calculation methodologies in different jurisdictions, our own churn figures are not comparable across all national operations.

Germany

Through T-Mobile Deutschland, we offer mobile communications services to individual and business customers in Germany. At December 31, 2004, T-Mobile Deutschland had approximately 27.5 million customers, compared to approximately 26.3 million customers at December 31, 2003. Of the total customers at December 31, 2004, approximately 13.5 million were contract customers, compared to approximately 12.6 million at December 31, 2003. T-Mobile Deutschland had approximately 14.0 million prepay customers at December 31, 2004, compared to approximately 13.8 million at December 31, 2003.

T-Mobile Deutschland's total average churn rate for 2004 was 1.5% per month, compared to 1.4% per month in 2003, as a result of increased competition in the German mobile market. However, in the contract customer base, customer retention measures resulted in an average churn rate of 1.1% per month in 2004, which was lower than the 1.4% per month average churn rate in 2003. The churn rate in 2004 excludes disconnections due to migration between customer segments However, T-Mobile Deutschland's churn rate for 2003 includes migration, which led to a higher value in 2003. T-Mobile Deutschland's prepay churn policy is as follows: In the 12 months following activation, a customer can originate calls/data traffic and receive data or voice communication ("phone time"). In the three months following the 12-month period following activation, the customer can only receive data and voice communication ("message time"). After these 15 months the prepay customer is churned unless the prepay account was topped-up during the 15-month period. In such case, if EUR 15 credit is added to the account, the customer gets 215 days of phone time and three months of message time; with EUR 30 and EUR 50 top-up credits, the churn period is again 12 months plus three months.

United States

T-Mobile USA represents the U.S. wireless operations that we acquired in May 2001. Through T-Mobile USA, we offer mobile communications services to individual and business customers in the

United States. At December 31, 2004, T-Mobile USA had approximately 17.3 million customers, as compared to approximately 13.1 million at December 31, 2003. Of the total customers at December 31, 2004, approximately 15.3 million, or 89%, were contract customers, as compared to approximately 11.7 million, or 89%, at December 31, 2003, and approximately 2.0 million were prepay customers, compared to approximately 1.4 million at December 31, 2003.

T-Mobile USA's average churn rate for 2004 was 3.0% per month, down slightly from 3.1% per month in 2003. The improvement reflects lower prepay customer churn rate, while the average churn rate for contract customers actually increased slightly to 2.6% in 2004 from 2.5% in 2003. During the later part of 2003, T-Mobile USA introduced a number of changes in its prepay service offering that were successful in extending customer tenure and thereby reduced the prepay churn rate. These changes included the extension of expiry periods for low denomination vouchers by up to 30 days which reduced prepay churn in the fourth quarter of 2003 to 6.8% from the 2003 monthly average of 7.6% In addition, T-Mobile USA changed its churn calculation at the beginning of 2004 to a customer usage-based method from a voucher expiry-based method due to the introduction of promotional vouchers with a one year expiry. The new usage-based method assumes a customer has churned if they have no usage, inbound or outbound, over a 90-day period. The 90-day period of no usage was selected in order to maintain a consistent churn rate with the prior voucher expiry-based method, absent changes in customer behavior. The higher average churn rate of our U.S. operations compared to our European operations is primarily a reflection of a higher average churn rate for the U.S. wireless industry compared to Europe. Competitive differences, differences in features and services due to the use of multiple wireless technologies and general differences in consumer behavior between the United States and Europe factor in to the higher industry churn rate seen in the U.S. The churn rate of our U.S. operations is higher than the U.S. industry average due in part to the higher proportion of prepay customers in T-Mobile USA's customer base relative to its U.S. competitors. Prepay customers in the United States typically churn at substantially higher rates than contract customers.

In May 2004, following the announcement by Cingular Wireless of its pending acquisition of AT&T Wireless Service, Inc., T-Mobile USA and Cingular Wireless agreed to dissolve their wireless network sharing joint venture (GSM Facilities LLC, "GSM Facilities"), formed in 2001, which covered most of California and Nevada as well as the New York City metro area and for T-Mobile USA to acquire the network in California and Nevada from Cingular Wireless. Key elements of the transaction, completed on January 5, 2005, include:

- Upon dissolution of GSM Facilities, the New York City wireless network was distributed to T-Mobile USA and the California and Nevada network to Cingular Wireless;

- T-Mobile USA acquired 100% ownership of the California and Nevada wireless network immediately after the dissolution of GSM Facilities for a net cash payment of approximately USD 2.3 billion;

- T-Mobile USA acquired 10 MHz of spectrum from Cingular Wireless in each of the San Francisco, Sacramento and Las Vegas basic trading areas ("BTAs") for USD 180 million. T-Mobile USA also acquired an option to purchase from Cingular Wireless an additional 10 MHz of spectrum in each of the Los Angeles and San Diego BTAs, effective two years after the closing of the transaction, under certain circumstances;

- T-Mobile USA agreed to provide network services to Cingular Wireless in California, Nevada and the New York City metro area under a wholesale arrangement during a four-year transition period from the dissolution of GSM Facilities. Cingular Wireless is obligated to pay a minimum of USD 1.2 billion over such four-year period for such services based on network usage;

- T-Mobile USA and Cingular Wireless agreed to exchange spectrum previously used in the operation of GSM Facilities such that each party retains 50% of such spectrum in each market.

T-Mobile USA will give up 10 MHz of spectrum in the New York City Market to Cingular Wireless and T-Mobile USA will receive 5 MHz of spectrum from Cingular Wireless in each of nine BTAs in the California/Nevada Market. The actual exchanges will occur after Cingular Wireless transitions its customers off the network in the respective areas, but in the case of the New York spectrum no earlier than January 2007; and

Amendment of the existing roaming agreement between the parties to a nationwide agreement.

T-Mobile USA has an ownership interest in Cook Inlet/VS GSM VII PCS Holdings, LLC, a joint venture which is managed and controlled by Cook Inlet Voice and Data Services, Inc. ("Cook Inlet"), which in turn is the sole member of Cook Inlet/VS GSM VII PCS, LLC ("CIVS VII"). CIVS VII participated in a recently concluded spectrum auction ("Auction 58") conducted by the FCC for certain Personal Communications Service ("PCS") 1900 MHz licenses. Bidding for approximately one-half of the auctioned licenses was restricted to entities with revenues and assets below certain established thresholds ("Designated Entities"), while the remaining licenses were open to all bidders. Although T-Mobile USA does not qualify as a Designated Entity, CIVS VII did so qualify and it bid on both restricted and non-restricted licenses in Auction 58. At the conclusion of Auction 58 on February 15, 2005, CIVS VII was high bidder for 36 licenses in various markets across the United States, including Minneapolis-St. Paul, MN; Seattle-Tacoma, WA; and Cleveland-Akron, OH, for a gross total of USD 255 million (subject to a reduction of up to approximately USD 20 million in bidding credits, which bidding credits may be lost in whole or in part if control of such licenses is transferred before certain predetermined minimum holding periods). These licenses have yet to be granted by the FCC, pending standard FCC application and approval processes. Based on the aggregate of CIVS VII's high bids in Auction 58, if all licenses are granted, T-Mobile USA would hold approximately a 66% indirect equity interest in CIVS VII. Although Cook Inlet manages and controls CIVS VII, T-Mobile USA must consent to certain actions by the joint venture.

United Kingdom

In October 1999, we purchased T-Mobile UK (formerly One 2 One) in the United Kingdom. Through T-Mobile UK, we offer mobile communications services to individual and business customers in the United Kingdom. At December 31, 2004, T-Mobile UK had approximately 15.7 million customers, compared to approximately 13.6 million at December 31, 2003. Of the total customers at December 31, 2004, approximately 3.0 million were contract customers, compared to approximately 2.7 million at December 31, 2003, and approximately 12.7 million were prepay customers, compared to approximately 11.0 million at December 31, 2003.

Of the total number of T-Mobile UK customers at December 31, 2004 and 2003, approximately 5.0 million and 3.6 million respectivley, were customers of Virgin Mobile. Virgin Mobile is a mobile virtual network operator ("MVNO"). As a virtual network operator, Virgin Mobile purchases airtime minutes and basic mobile services from T-Mobile UK and resells these minutes and services under the "Virgin Mobile" brand name. Until January 2004, Virgin Mobile had been a joint venture between T-Mobile UK and the Virgin Group. At that time, T-Mobile UK sold its 50% equity stake in Virgin Mobile to the Virgin Group and received a payment of GBP 50 million (EUR 75 million) in exchange for waiving its right to participate in any initial public offering of Virgin Mobile. Additionally, T-Mobile UK and Virgin Mobile concluded an agreement granting Virgin Mobile use of T-Mobile UK's mobile communications network for a further ten years.

T-Mobile UK has entered into a wholesale agreement to supply its network capacity to the new MVNO, "easyMobile.com," which was established in August 2004 by TDC Mobile International, the Danish telecommunications company, using the "easy" brand owned by easyGroup (UK) Ltd. Upon the expected launch of service in March 2005, easyMobile.com will offer no-frills mobile telecommunications services based on the Telmore concept, which is characterized by affordable pricing and a Web-based customer interface.

T-Mobile UK's average monthly churn rate (not including Virgin Mobile customers) during 2004 was 2.2%, compared to 2.9% per month in 2003. The decrease in churn was predominantly caused by a significant clean up of T-Mobile UK's inactive prepay customer base in 2003, which increased the churn rate in 2003. The contract churn rate was approximately 2.7% in 2004, compared to 2.3% in 2003.

Generally, a prepay customer in the United Kingdom is churned after a period of 180 days if the customer has neither originated nor received a voice or data communication in that period.

Austria

Through T-Mobile Austria, the T-Mobile division offers mobile communications services to individual and business customers in Austria. At December 31, 2004, T-Mobile Austria had approximately 2.0 million mobile communications customers, which was essentially unchanged, compared to the number of customers at December 31, 2003. Of the total customers at December 31, 2004, approximately 1.0 million were contract customers and approximately 1.1 million were prepay customers.

T-Mobile Austria's average churn rate during 2004 was 1.8% per month, compared to 1.7% in 2003. The average churn rate for contract customers during 2004 was 1.4% per month, compared to 1.3% in 2003. The slight increase in the churn rate in 2004 was mainly the result of competitive pressures in the Austrian market. Until December 2004, T-Mobile Austria churned prepay customers 12 months after their last charged data or voice communication or after the last top-up of their prepay accounts. Since the beginning of December 2004, T-Mobile Austria has churned prepay customers if they met the following criteria: 13 months plus two weeks without any charged data or voice communication, and six months without any mobile-terminated calls longer than one minute in duration.

Czech Republic

Through T-Mobile Czech Republic, our T-Mobile division offers mobile communications services to individual and business customers in the Czech Republic. T-Mobile Czech Republic has been fully consolidated in T-Mobile's financial statements since April 1, 2001, and in May 2003, the company (then RadioMobil) was renamed T-Mobile Czech Republic. T-Mobile's equity interest in T-Mobile Czech Republic is held through its approximately 92% equity interest in CMobil B.V., which owns 61% of T-Mobile Czech Republic. In December 2004, T-Mobile agreed to acquire a further 7% stake in CMobil from TIM, which will be effective March 24, 2005, and which will bring T-Mobile's equity interest in CMobil to approximately 99%.

At December 31, 2004, T-Mobile Czech Republic had approximately 4.4 million customers, compared to approximately 3.9 million at December 31, 2003. Of the total customers at December 31, 2004, approximately 1.1 million were contract customers, compared to approximately 0.9 million at December 31, 2003. T-Mobile Czech Republic had approximately 3.3 million prepay customers at December 31, 2004, compared to approximately 3.1 million at December 31, 2003.

While T-Mobile Czech Republic's average churn rate during 2004 was 1.0% per month, essentially unchanged, compared to the average churn rate during 2003, the average contract churn rate increased slightly from 0.5% per month in 2003 to 0.6% per month in 2004. Generally, in the absence of recharging, a prepay customer is churned 30 days after a period of 12 months without charged voice or data communications activity.

The Netherlands

T-Mobile Netherlands (formerly Ben Nederland Holding B.V.) has been fully consolidated since October 1, 2002, when T-Mobile acquired 100% of the Dutch company's outstanding equity, after first acquiring a minority interest in 2000. Through T-Mobile Netherlands, our T-Mobile division offers mobile communications services to individual and business customers in the Netherlands.

At December 31, 2004, T-Mobile Netherlands had approximately 2.3 million customers, compared to approximately 2.0 million at December 31, 2003. At the end of 2004, approximately 1.1 million customers were contract customers and 1.2 million were prepay customers, compared to 0.9 million contract customers and 1.1 million prepay customer at the end of 2003.

The average churn rate for 2004 was 2.4% per month, compared to an average churn rate of 2.6% in 2003, due to improved prepay churn. However, the average contract churn rate increased from 1.6% per month in 2003 to 1.7% per month in 2004. If a T-Mobile Netherlands prepay customer has neither originated nor received a voice or non-voice activity (or received only SMS messages) for a period of 180 days, the customer is churned and removed from the customer base.

Minority Shareholdings

Poland

T-Mobile holds a 49.0% equity interest in Polska Telefonia Cyfrowa Sp. z o.o. ("PTC"). At December 31, 2004, PTC had approximately 8.6 million customers, compared to approximately 6.2 million at December 31, 2003. For a discussion of a dispute concerning our investment in PTC, see "Item 8. Financial Information Litigation."

Russia

T-Mobile currently holds an equity interest of approximately 10% in MTS, a Russian mobile telecommunications company, after selling a portion of its shareholdings in 2003 and 2004.

Seasonality

T-Mobile's business in our markets is affected by seasonal factors, with a general increase in sales of products and services occurring during the fourth calendar quarter, due to holiday purchases. As a result, T-Mobile's performance during the fourth quarter can have a significant influence on its performance for the full year.

Suppliers

T-Mobile purchases IT and network components, as well as mobile devices for purposes of resale, from a number of different suppliers. T-Mobile seeks to address the risk of delays in the supply of equipment and other technologies by using multiple suppliers, where appropriate, and by negotiating contractual penalties to be enforced in the event a supplier does not meet its obligations with respect to timeliness and quality. However, these penalty provisions may not fully mitigate the harm to our business caused by any such contractual breaches.

T-Mobile believes that it has reduced its technological risks by contracting with multiple suppliers having significant market shares in the network infrastructure and mobile device businesses.

Marketing

Each of the principal subsidiaries of our T-Mobile division uses its own combination of distribution channels to market products and services to its customers. In each of T-Mobile's principal markets, third-party distributors, who typically market the products and services of multiple mobile network operators, play a significant role in marketing. Our mobile communications subsidiaries use a variety of incentives to encourage third-party vendors to sell T-Mobile products and services, such as payment of associated marketing expenses and offering special commissions. In addition, T-Mobile markets its products and services to retail customers through direct-sales outlets, particularly in Germany and Austria, and markets products and services to business customers through a direct-sales force. The T-Mobile Web site, which is predominantly used for customer relationship management, is also an access route for sales of T-Mobile products and services.

In Germany, an important distribution channel is our group's T-Punkt retail shops. Mobile telecommunications resellers are also an important distribution channel for T-Mobile products and services. Mobile telecommunications resellers purchase network access at wholesale rates, and mobile devices at a discount from network operators, resell packaged services and mobile devices under their own brands through their own distribution channels, charge their customers at rates that they set independently and provide customer service and technical support.

T-Mobile provides its customers with access to third-party content services. Content provided to customers is either standard content, in which case the customer only has to pay the normal connection charges to view or "surf" the content, or premium content, where a customer pays a specific charge through the customer's mobile telephone bill to access the content.

Dependence on Patents, Licenses, and Industrial, Commercial or Financial Contracts

T-Mobile owns a large number of registered patents and generally has a number of patent applications outstanding for technical innovations in the area of mobile telecommunications applications, as a consequence of its development activities. Patent protection activity is focused on countries with T-Mobile operations. We do not believe that our T-Mobile division is dependent on any one patent or group of patents.

To enable us to offer mobile telecommunications services in the different jurisdictions in which we operate, we require, and therefore are dependent on, telecommunications licenses from the relevant authorities in each of these jurisdictions. For further information, please refer to " Regulation."

We do not believe that our T-Mobile division is dependent on any third party industrial, commercial or financial contracts.

Competition

General

Competition in the mobile telecommunications market is generally intense and conducted on the basis of price, subscription options offered, offers of subsidized mobile devices, coverage, range of services offered, innovation and quality of service.

In the past, competition in the European mobile telecommunications market was conducted at the national level. Increasingly, however, competition in this market is being conducted on a more international basis, as Europe-wide services are being introduced.

In Germany, the United Kingdom, Austria, the Czech Republic and the Netherlands, the rate of mobile telephone penetration is quite high. As a result, T-Mobile expects that the growth in the number of T-Mobile customers in these markets will be significantly lower than in past years, and that the focus of competition will continue to shift from customer acquisition to customer retention, and to increasing average revenues per user by stimulating demand for voice usage and new data products and services. T-Mobile believes that, as competition intensifies in its European markets, customer handset subsidies will be reduced and competition will focus more on the service revenue market rather than on numbers of customers.

The global mobile telecommunications industry has been undergoing consolidation in recent years, which may increase competitive pressure, and we expect that this will continue in the coming years.

In addition, new technologies, whether introduced by us or by others, can be expected to draw customers from existing technologies, including our customers. The competitive dynamics of the mobile telecommunications industry, therefore, could change in ways that we cannot predict, which could adversely affect our results of operations and, thus, our financial position.

Germany

In Germany, T-Mobile Deutschland faces intense competition from network operators Vodafone D2, E-Plus and O2. In 2004, T-Mobile Deutschland maintained its market leadership position in terms of number of customers, but its smaller competitors E-Plus and O2, in particular, gained ground.

T-Mobile believes that T-Mobile Deutschland had a customer market share of approximately 39% at December 31, 2004, while Vodafone D2 had a customer market share of approximately 38%, E-Plus had a customer market share of approximately 13% and O2 had a customer market share of approximately 10%. According to the Commission of the European Communities: Commission Staff Working Paper, Annex to the European Electronic Communications Regulation and Markets (10th report), Brussels, dated December 2, 2004 (the "E.C. Market Report"), the penetration rate, as absolute number of customers divided by total number of population, in the German mobile telecommunications market was approximately 82% at June 30, 2004.

In the retail market, in addition to competition from other network operators, T-Mobile Deutschland faces significant competition from resellers. In the fourth quarter of 2004, German retailer Tchibo entered the mobile market, exclusively selling the mobile services of O2. T-Mobile expects that, in the short term, this cooperation will facilitate O2's customer growth rate. In response, in 2005, T-Mobile Deutschland will begin to sell prepay SIM cards via the approximately 50,000 shops, kiosks, service stations and other branches of the wholesale dealer LEKKERLAND-TOBACCOLAND GmbH & Co. KG.

In August 2000, six UMTS licenses were awarded to the four existing mobile communication network operators, the reseller Mobilcom and Quam, a joint venture of Telefónica Móviles and Sonera. On December 23, 2003, Mobilcom returned its UMTS license to the German telecommunications regulator. We believe that the licence issued to Quam will also be returned to the German telecommunications regulator. For more information, see " Regulation Regulation in Germany."

United States

T-Mobile USA faces intense competition in the United States mobile telecommunications market from the other four national mobile providers, Verizon Wireless, Cingular Wireless, Sprint and Nextel, and from various regional operators. The five national carriers are estimated to represent approximately 80% of the total U.S. mobile telephony customer base. T-Mobile USA's customer market share measured against the other nation-wide operators was approximately 12.1% at December 31, 2004, as compared to 10.3% at December 31, 2003. Most of these competitors had been operating in the U.S. mobile telecommunications market for a considerable time prior to the entry of T-Mobile USA's predecessors into the market.

In October 2004, Cingular Wireless completed its previously announced acquition of AT&T Wireless. In addition, in December 2004, Sprint and Nextel announced plans to merge. The Cingular Wireless acquisition of AT&T Wireless created the largest U.S. wireless provider with approximately

49 million customers at December 31, 2004. A combined Sprint and Nextel would be the third largest U.S wireless carrier with approximately 33 million customers at December 31, 2004 behind the number two carrier, Verizon Wireless, with approximately 44 million customers at December 31, 2004. Although we are not able to judge if and when the Sprint/Nextel transaction will close, the completed transaction would result in the three largest carriers representing approximately 70% of the total U.S. mobile telephony market in terms of customers. A combined Sprint/Nextel, along with Cingular Wireless and Verizon Wireless, have potential advantages of size and scale that could allow them to deliver services in a more cost efficient manner and thereby negatively affect our competitive situation.

The U.S. mobile telecommunications market is quite different in a number of respects from the European mobile telecommunications markets. There is no single communications standard. Licenses to provide wireless services cover numerous localities, rather than the entire nation. It can be difficult for network operators to obtain the spectrum needed in some localities to expand customer bases, upgrade the quality of service and add new services, particularly in densely populated urban areas. Low population density in other areas can cause problems with network efficiency and result in large geographic areas with no or limited coverage. For these and other reasons, including the extremely high penetration level of reliable, low cost, fixed-line telephony services, penetration levels for mobile telephony services in the United States are generally lower than penetration levels in Western European countries, with an estimated 61% mobile penetration rate as of December 31, 2004. As a result, operators in the United States market generally continue to invest heavily in order to encourage and capture growth in customer numbers.

Usage and pricing practices in the U.S. mobile market also differ significantly from those typically seen in European markets. Average voice usage per customer per month is generally much higher in the United States than in Europe.

Contract pricing in the United States is typically in the form of a fixed monthly charge at various price points for specified bundles of features and services which permit usage up to prescribed limits with no incremental charges. Usage in excess of the limits results in incremental charges. Prepay usage is generally priced solely on a usage basis. Typically both inbound and outbound usage counts against the contract usage limits and are subject to incremental charges for excess contract usage and prepaid usage. Average revenue per user is typically higher in the United States. Average revenue per minute of use is substantially lower in the United States than in Europe.

The differences between the U.S. and European mobile telephony markets result in different competitive pressures in the markets. In the United States, coverage is a key competitive factor as is the perceived value of bundles of minutes, features and services at the popular price points. To the extent that the competitive environment requires us to decrease prices or increase service and product offerings, our revenues could decline, our costs could increase and our customer retention could be adversely affected.

United Kingdom

In the United Kingdom, T-Mobile UK faces intense competition, principally from Vodafone, O2 and Orange. In addition, T-Mobile UK faces competition from "3" (a brand name of Hutchison 3G UK Limited), which began operation in 2003, mainly targeted at customers for UMTS services. T-Mobile believes that T-Mobile UK had a customer market share of approximately 25% at December 31, 2004, compared to 25% at the end of 2003. T-Mobile UK's customer base, which includes customers of Virgin Mobile, has a lower proportion of business customers than its competitors. According to the E.C. Market Report, the mobile penetration rate in the British mobile communications market was approximately 91% at June 30, 2004.

In the retail market, in addition to competition from other network operators, T-Mobile UK faces significant competition from resellers as well as from MVNOs.

Austria

In Austria, T-Mobile Austria primarily faces competition from mobilkom austria, ONE, tele.ring, and "3". T-Mobile believes that T-Mobile Austria's customer market share was approximately 26% at September 30, 2004, and the customer market shares of mobilkom austria, ONE and tele.ring at the same point were approximately 42%, 20% and 11%, respectively. According to the E.C. Market Report, the mobile penetration rate in the Austrian mobile telecommunications market was approximately 93% at June 30, 2004.

Czech Republic

In the Czech Republic, T-Mobile Czech Republic faces competition from Eurotel Praha and Oskar Mobil ("Oskar"). T-Mobile believes that T-Mobile Czech Republic's customer market share was approximately 40% at September 30, 2004, compared to approximately 41% in 2003, and Eurotel Praha had approximately 43%, which was the same as in 2003, and Oskar had approximately 17% in 2004, compared to approximately 16% in 2003. According to the E.C. Market Report, the mobile penetration rate in the Czech mobile telecommunications market was approximately 99% at June 30, 2004.

The Netherlands

In the Netherlands, T-Mobile Netherlands faces intense competition from KPN Mobile, Vodafone, Telfort (formerly O2) and Orange (formerly Dutchtone). T-Mobile believes that, at September 30, 2004, the customer market share of T-Mobile Netherlands remained the same at approximately 15%, compared to December 31, 2003, and at September 30, 2004, KPN Mobile and Vodafone had customer market shares of approximately 38% and 23%, respectively. According to the E.C. Market Report, the mobile penetration rate in the Dutch mobile telecommunications market was approximately 86% at June 30, 2004.

In the Dutch retail market, in addition to competition from the network operators mentioned above, T-Mobile Netherlands competes with an increasing number of MVNO's.

T-Systems

T-Systems provides ICT services worldwide to large German and international companies, non-profit organizations and governmental agencies. As a result of the strategic realignment of the Deutsche Telekom Group into three strategic business areas, T-Systems became responsible for servicing all of the Deutsche Telekom group's business customers as of January 1, 2005. This realignment combined certain business customer activities that had previously been split between T-Com and T-Systems. For more information, see " Strategy Strategic Realignment." In this regard, T-Systems, as of January 1, 2005, changed its business model, which is discussed in more detail below under "Revised Business Model." The remainder of the following discussion primarily relates to T-Systems' organizational structure in 2004.

T-Systems officially commenced operations in 2000, through the combination of a number of Deutsche Telekom business units, including the former debis Systemhaus (50.1% of which was acquired in October 2000, with the remaining 49.9% acquired in the first quarter of 2002).

Principal Activities

T-Systems is primarily responsible for providing ICT services to our business customers. T-Systems uses advanced information technology and telecommunications expertise to provide ICT infrastructure and tailored ICT solutions to its customers and, in some instances, takes over complete business processes as part of these solutions. T-Systems provides support for customers through its global telecommunications network and IT infrastructure network in more than twenty countries.

Although the majority of T-Systems' customers are headquartered in Germany, as of December 31, 2004, approximately 23% of T-Systems' 39,506 employees provided services from locations outside Germany. T-Systems' primary markets are in Western, Central and Eastern Europe. T-Systems is also active in North and South America, Asia and South Africa. In 2004, German-based operations contributed approximately 74% of T-Systems' total revenue. For the year ended December 31, 2004, T-Systems' telecommunications services unit ("TC Services") generated approximately 44.5% of T-Systems' total revenues, and its information technology services unit ("IT Services") contributed approximately 55.5% of its total revenues. Total revenues include inter-segment revenues from other Deutsche Telekom divisions and affiliates. For more information, see "Item 5. Operating and Financial Review and Prospects Segment Analysis T-Systems."

In 2003 and 2004, T-Systems' business model organized both its structure and its customer approach into four industry sectors, or Industry Lines ("ILs"): Telecommunications; Services & Finance; Public & Healthcare; and Manufacturing. Under T-Systems' business model in 2003 and 2004, direct sales and service teams were assigned to specific ILs and were responsible for supporting high-value customers, focusing on key account management, and ensuring that customers received specific industry-sector ICT services oriented to their needs. As of January 1, 2005, T-Systems began to further develop its business model, based on the more defined customer- and growth market-focused strategic realignment of the Deutsche Telekom group. For more information, see " Revised Business Model."

TC Services

The TC Services unit is responsible for T-Systems' global network infrastructure for voice and data communications, and for a range of related solutions and consulting services, including Network Services ("NWS"); Hosting Services, Media & Broadcast, International Carrier Sales and Solutions, and Global Network Factory ("GNF").

Other divisions of the Deutsche Telekom group (*i.e.*, other than T-Systems) accounted for approximately 17.1% of the total revenues of TC Services in 2004, 18.3% in 2003 and 25.7% in 2002. For more information, see "Item 5. Operating and Financial Review and Prospects Segment Analysis T-Systems."

Network Services

The Network Services unit is responsible for the installation and operation of customized voice and data communications networks for businesses, non-profit organizations and governmental agencies. Projects for customers are generally realized utilizing T-Systems' Global Network Factory. NWS aims to provide fast, secure and reliable communications solutions for its customers worldwide.

The services offered by NWS include "IP VPN," a VPN solution based on the IP/MPLS (Multi Protocol Label Switching) protocol, "Voice VPN Solutions," based on traditional voice, "Voice over IP" ("VoIP"), and "Hosted Services." These services are provided both as stand-alone and combined solutions.

Network Services' main offerings are:

- "Global Frame Relay/Global ATM": a high-speed communications technology that provides businesses with a cost-effective, flexible way to connect LANs, systems network architecture, and voice- and IP-based applications.

- "Inter Business Link/Global Business Link": an international private leased circuit service with a bandwidth range from 56 kbit/s to 622 mbit/s, which provides high-speed, high-quality leased-line connectivity between two endpoints.

- "IntraSelect MPLS": an MPLS-based VPN solution for "any-to-any connectivity" (one site of the customer is connected to any other sites of the same customer), Internet access, dedicated firewall services, encryption services, remote dial-in services, and VPN core services with different classes of IP VPN solutions based on MPLS backed up with cross-services-level agreements (*i.e.*, one service level agreement for all different services, normally within the contractual framework of TDN). These solutions include IP VPN with additional features to offer technological developments to meet market requirements (such as messaging services and VoIP integration).

- "Global Internet": provides Internet connectivity at a range of access speeds and complements the "IntraSelect MPLS" product, by extending it to provide public Internet services, such as e-mail and file transfer, together with private intranet services within IP VPN.

Network Services also offers customized voice communications networks, and designs complex call center solutions, which assist customers with the management of incoming calls, faxes and e-mails.

Contracts relating to Network Services have an average duration of approximately three years. Voice services are billed on a per-minute basis, while data services are billed in terms of the bandwidth provided. Customers taking advantage of leased-line services pay an initial connection fee, based on the type of line (analog or digital) leased, and thereafter pay monthly subscription charges, based on the type of line, its capacity (bandwidth) and its duration.

Hosting Services

The Hosting Services unit provides the underlying infrastructure that enables a customer's business to operate seamlessly and more efficiently, and enables our customers to employ Internet-related technologies in their businesses.

Hosting Services arranges (or "hosts") customers' Internet presence on the World Wide Web by providing reliable connections to T-Systems' global network, and by managing customers' Web sites. In addition, Hosting Services' ability to host software applications provides the necessary software to maintain an Internet presence. Hosting Services' collaborative services include electronic marketplaces and portals, which enable enterprises to conduct business transactions electronically, either within a single industry or between enterprises from different industries. With these electronic marketplaces and portals, our customers can facilitate their relationships with suppliers ("supply chain management") or with their customers ("customer relationship management"). In 2004, T-Systems expanded its global network "footprint," expanding its hosting solutions beyond Germany into other parts of Europe.

Media & Broadcast

The Media & Broadcast unit has a comprehensive services portfolio, which includes distribution networks, broadcast contribution networks, satellite services, and studio and production solutions. Its customers comprise national public and commercial broadcasters, television production companies and international broadcasters. In Europe, T-Systems is one of the leading providers of broadcast services. As of December 31, 2004, the broadcast network of T-Systems in Germany comprised more than 8,000 analog television and radio transmitters, and more than 100 digital television and radio transmitters. T-Systems has expertise in systems equipment technology and digital broadcasting transmitters.

Many of these services are delivered via T-Systems' own infrastructure. Media & Broadcast's core business unit and its primary revenue driver, distribution network services, includes the planning, installation, monitoring, maintenance, troubleshooting and operation of terrestrial television and radio transmission equipment. Radio broadcast customers are categorized according to their transmission frequency. The TV and radio transmission infrastructure is the basis for the nationwide, wireless provision of television and radio programming. Customers include both commercial and public radio and television organizations, including the two leading German public television channels, ARD and ZDF. Media & Broadcast transmits TV and radio programs within the framework of customer-specific contracts. Contract criteria include effective radiated power, quality, and availability (reliability of operations and downtime). Customers pay for Media & Broadcast services corresponding to their use of the services offered. Most contracts have an average duration of four to six years.

Our "Broadcast Contribution Networks" provide links between multiple TV and radio studios, and recording facilities, enabling the efficient exchange of TV and radio content. Services include temporary transmission lines and outside broadcast units (for live news reporting, sports coverage, open-air concerts, *etc*.) as well as permanent TV and radio transmission links.

Satellite services include the marketing and delivery of satellite capacity, and the provision and operation of uplinks and downlinks. Contractual relationships are generally of a long-term nature (up to 10 years). For satellite capacity, it is normal practice to conclude contracts for the entire useful life of the satellites concerned. Leased satellite capacity is primarily provided to the major European satellite network operators, Eutelsat and SES Astra.

Studio and production solutions represent only a small fraction of the entire portfolio. Services include the planning and implementation of new, digital radio and TV studios. In this unit, Media & Broadcast cooperates closely with other T-Systems units because there is a considerable need for IT services and products, which are provided by these other units.

International Carrier Sales and Solutions

The ICSS unit provides international wholesale customers typically other fixed-line and mobile carriers as well as ISPs, application service providers ("ASPs") and content providers with direct access to T-Systems' global telecommunications network, which includes those networks that T-Systems leases from other carriers. During 2004, ICSS managed total worldwide voice traffic of approximately 13 billion minutes. In addition, ICSS provides innovative solutions, including IP Transit, which provides wholesale customers with a transport medium for worldwide access to Internet content for their customers (end-users) and "City-to-City" (which links major business centers).

Competitive rates and individual leases allow ICSS to provide customized solutions targeted to individual carriers' needs. The primary responsibility of ICSS is T-Systems' bilateral business, in which T-Systems and another carrier agree to terminate international voice traffic going into Germany, and at the same time agree to terminate T-Systems' outgoing international traffic terminating in the other carrier's network. ICSS also provides carrier termination and transit services to other fixed-line and mobile carriers for calls that originate outside of Germany and are routed through T-Systems' network for termination in Germany or a third country. With these arrangements, ICSS is able to provide connections to more than 190 countries.

Supporting ICSS' range of solutions and services is a modern network infrastructure, which connects major international business centers over a worldwide fiber-optic network. This modern network infrastructure allows T-Systems to provide a range of solutions. Network operators can access

T-Systems' global backbone network from all over the world. As T-Systems continues to build its international network infrastructure, ICSS will be able to offer expanding global network coverage.

Certain functions of the Global Synergy, Strategy and Solutions ("GSSS") group that are focused on operator outsourcing were integrated into ICSS in June 2004. Therefore, ICSS is now also responsible for the growing business of telecommunications operator outsourcing.

ICSS services include obtaining and managing outsourcing (*i.e.*, the transfer of the operation of networks and network services to T-Systems) and outtasking (*i.e.*, the transfer of business functions such as international traffic routing to T-Systems) arrangements with telecommunications operators. ICSS also manages the implementation of these arrangements.

Benefits to customers of outsourcing and outtasking usually include reductions of capital expenditures (*i.e.*, decreased investment in infrastructure) and reductions of operating expenses (*i.e.*, decreased personnel, maintenance and network costs). T-Systems benefits through increased utilization rates (*i.e.*, scale effects) of existing capacity and equipment, and improved coverage of its global network.

In 2005, ICSS has been transferred to the T-Com division, as part of the our strategic realignment, in order to combine our national and global carrier businesses into one strategic business unit. For more information, see "Strategy Strategic Realignment."

Global Network Factory

T-Systems' Global Network Factory unit plans, builds and operates its global telecommunications platforms and the national and international corporate networks of many of our customers. GNF is responsible for providing equipment and services relating to the planning, implementation and operation of telecommunications networks and other related telecommunications services. For more information about the T-Systems' Global Network Factory, see "Description of Property, Plant and Equipment Network Infrastructure Cable and Satellite Transmission Infrastructure."

IT Services

T-Systems' IT Services unit has broad expertise relating to computer software and hardware, and information technology systems solutions. The IT Services unit provides information technology services to large and multinational enterprises through its Systems Integration ("SI") unit. In addition, the Computing and Desktop Services ("CDS") unit encompasses three delivery units, called "factories": Global Computing Factory ("GCF"), Desktop Delivery Operations ("DDO") and Remote Factory ("RF"). In 2004, the other divisions of the Deutsche Telekom group accounted for approximately 42.7% of the IT Services unit's total revenues, compared to 45.0% in 2003 and 41.4% in 2002. For more information, see "Item 5. Operating and Financial Review and Prospects Segment Analysis T-Systems."

Systems Integration

T-Systems' Systems Integration unit employs approximately 13,900 employees worldwide, of which approximately 2,800 are employed outside of Germany, and delivers "end-to-end" ICT solutions. Through its ICT solutions, SI increases the flexibility of business processes and seeks to raise the competitiveness of its customers. SI's primary focus is on consulting (*e.g.*, solution design), IT projects (*e.g.*, solution implementation, along with development projects, including software and platform development, re-engineering and migration), and application lifecycle management. In other words, SI provides advice and assistance for an enterprise's entire "plan-build-run" lifecycle.

SI's business has changed substantially over the last few years. New market participants have entered the market and put pressure on pricing. In addition, customers are looking for global solutions in order to more effectively manage their businesses worldwide. After a thorough analysis, SI has developed a new business model that combines the quality, flexibility and cost-effectiveness it believes are needed to succeed in this new environment.

The key criteria of SI's new business model are industrialization, verticalization and internationalization. Industrialization relates to the introduction of uniform processes, methods and tools, and enhancing the re-usability of modular solutions. It is also defined by the maintenance of low cost structures at production sites. For this reason, in 2004, T-Systems established T-Systems India Private Limited in order to provide offshore programming support, and a sourcing platform in St. Petersburg, Russia.

Verticalization refocuses SI's business onto five industries: Telecommunications, Manufacturing, Services, Finance, and Public. This concentration on specific markets enhances the quality of marketing and sales activities and helps to achieve greater market and existing customer penetration. Cross-industry services are provided by a separate unit within SI.

Internationalization, through the International Business & Delivery Network ("IBDN"), is an international network that provides sales and services to international customers by offering them tailored, efficient solutions and service components.

Through its wholly-owned subsidiary, Detecon International GmbH, T-Systems also offers customers comprehensive management consulting services. This unit focuses on providing services to software and hardware suppliers of telecommunication systems, and to the fixed-line and mobile carriers that use such systems, as well as to related sectors, such as the media, regulation and supplier sectors.

Computing and Desktop Services

The CDS Service Line is responsible for the operation of complete and partial customer IT infrastructures. Externally, CDS consists of two units, Computing Services ("CS") and Desktop Services ("DS"). However, both units are internally managed as one because of the overlap and bundling of services between them. CDS manages centralized and distributed information systems, infrastructure components, applications and business software solutions.

CDS is represented in a considerable number of locations throughout Germany and the world. It has a total of approximately 17,400 employees, of whom approximately two-thirds are based in Germany. CDS is organized centrally into four national and four international customer service units and three delivery units. The national customer service units are organized by industry sectors and regions, and the international customer service units are organized by countries.

Computing Services

T-Systems' CS unit provides customers with the ability to outsource their entire IT operations. The services offered include the operation of data centers, application management, user support and network management. Computing Services can also facilitate the transfer of IT assets and personnel from the customer to T-Systems. The primary goal for such outsourcing of complete IT solutions and data centers to T-Systems is the creation of a competitive advantage for customers. Other services offered by CS include the installation, operation and administration of central computer systems (mainframes), open computer systems (*e.g.*, UNIX, Windows NT), billing services, data center infrastructure services and business applications, on behalf of its customers.

Generally, contracts involving computing services have an average duration of four years or more. Customers pay for computing services based on contractually agreed service levels. These agreements describe the quantity, quality and extent of services to be provided. These customer contracts are serviced by CDS' eight national and international customer service units.

Desktop Services

The DS unit provides the services of its delivery units, DDO and RF (described below), to T-Systems' customers. These services include the development and implementation of complete office systems solutions for customers with wide-ranging responsibility for IT infrastructure. Other core services provided by the DS unit include discrete office systems solutions, including desktop operations, call-center and help-desk services, as well as the operation of computing services infrastructures, consulting and IT design. These services may include sales or leasing contracts relating to desktop computer hardware supplied by third parties.

In general, desktop services contracts have an average duration of two years. Customers pay for desktop services based on contractually agreed service levels. These agreements describe quantities of goods (*i.e.*, the number of computers leased and maintained) as well as customer-specific availability and quality requirements for the services provided.

Global Computing Factory

T-Systems operates an extensive global computer network, the Global Computing Factory, which is a platform for the information technology services T-Systems offers to its customers. The primary responsibilities of the GCF include the operation of mainframe computers, open-system servers and storage arrays for outsourcing projects, including operating systems, database software, data communication software and systems automation. The GCF provides the personnel, servers and infrastructure necessary to operate the IT functions of T-Systems' customers. For more information about the Global Computing Factory, see " Description of Property, Plant and Equipment Global Computing Factory."

Desktop Delivery Operations

The DDO unit provides cost-effective desktop services primarily to large customers. Services provided by DDO cover the entire life-cycle of the workstations provided to the customer. DDO also ensures the proper operation of the workstations and services hardware and software products. More than 300,000 workstations in Germany are serviced by DDO.

Remote Factory

In support of DDO, the Remote Factory provides remote services for software on workstations, help-desk and other remote services. The Remote Factory provides help-desk services primarily through its services office platform and call center platform management ("CCPM") services. RF's services office platform supports one of the largest and most sophisticated Microsoft Exchange applications worldwide, with more than 230,000 mailboxes as well as file, fax and SMS services. CCPM includes services that are required for the smooth operation of a call center platform.

Desktop Services also provides product supply and product lifecycle services through RF. In this context, RF is responsible for the logistics of delivery of products (product supply) and for the transportation of desktop hardware and software from the supplier to the customer (product lifecycle). Services offered by RF also include the remote configuration, trouble-shooting and debugging of software running on workstations serviced by DDO.

Revised Business Model

T-Systems' activities are now organized into two business units, with five ILs (Telecommunications, Media & Utilities; Manufacturing; Services; Finance; and Public) included within the T-Systems Enterprise Services business unit, which provides services to approximately 60 multinational corporations and large public institutions. In addition, the T-Systems Enterprise Services business unit also incorporates the Systems Integration and Computing & Desktop Services operation units. T-Systems Business Services business unit provides services to all of T-Systems' other business customers and includes the Network Services, Hosting Services and Global Network Factory operations units. The following graphic illustrates this new business model:

T-Systems' management team consists of representatives from each of the headquarter departments (CEO; Corporate Business Development; Finance & Controlling; Human Resources; and Corporate Marketing & Communications), as well as senior operating management of the T-Systems Enterprise Services and T-Systems Business Services business units.

T-Systems Business Services manages approximately 160,000 large-, medium- and small-sized business customers through its Sales & Service Management and Marketing & Product Management units. Larger customers are serviced directly by the Sales & Service Management unit. Medium- and small-sized business customers are serviced primarily by the Marketing & Product Management unit. Accordingly, Sales & Service Management primarily services customers on a personalized and customized basis, while Marketing & Product Management primarily manages and services customers needing standardized, non-customized products. T-Systems Business Services is responsible for the delivery of telecommunications services, through its TC Services unit, for business customers of both T-Systems Business Services and T-Systems Enterprise Services.

The T-Systems Enterprise Services business unit serves T-Systems' largest customers (approximately 60 multinational corporations and large public institutions) through its own Sales & Service Management unit. In this way, T-Systems Enterprise Services has complete and direct responsibility for these customers. In addition to its own customers, T-Systems Enterprise Services also provides IT services on a "preferred supplier basis" to T-Systems Business Services' business customers. Consequently, T-Systems Enterprise Services is responsible for the delivery of information technology services, through its IT Services unit, for business customers of both T-Systems Enterprise Services and T-Systems Business Services.

T-Systems has structured its service offerings into three increasingly value-enhancing levels:

- ICT Infrastructure Management: customers receive tailored and cost-optimized services through flexible ICT infrastructure management, such as complete SAP applications management, including operating and maintaining mainframe computers and desktop systems.

- Business Solution Design & Implementation: customers are provided with complete ICT solutions for their particular business processes. These applications contribute to enhancing specific processes and enhance the value and cost-effectiveness for the customer, such as providing turn-key applications and systems that permit efficient supply chain operation and management.

- Business Process Management: T-Systems takes responsibility for customers' complete process chains, enabling customers to concentrate on their core businesses, while at the same time allowing them to benefit from improved processes and cost optimization. For example, T-Systems often takes complete responsibility for business processes, such as invoice management and operations, payroll accounting, and management and operations on behalf of the customer including providing all of the necessary equipment and personnel.

Each value-enhancing level consists of several core solutions, which T-Systems has determined to be the primary drivers of the T-Systems solution portfolio, "Focus Solutions." With Focus Solutions, T-Systems concentrates on specific profitable growth areas. Accordingly, Focus Solutions will continue to be managed in a manner that will provide value-enhancing flexible services to T-Systems' customers.

Principal Markets

Until 2005, T-Systems' business model was primarily focused on its larger business customers, generally consisting of German and non-German multinational corporations and international telecommunications carriers and broadcasters (including companies that provide content for broadcast media). During 2004, T-Systems provided services internationally to more than 1,500 such customers. However, as a result of our 2005 strategic realignment, T-Systems now services its key customers through the T-Systems Enterprise Services business unit, which is organized along its five defined ILs:

- Telecommunications, Media & Utilities: Includes other network operators and companies offering fixed-line, mobile and Internet telecommunications services, as well as media, ISP and utility companies. T-Systems provides, among other services, customer relationship management, customer care, call center and billing systems.

- Manufacturing: Includes manufacturers of automobiles, aircraft and electronics, and manufacturers of component parts used by other manufacturers. This covers in total the automotive, aerospace, defense, high-tech, plant and mechanical engineering and process, and consumer goods industries. T-Systems provides electronic supply chain management, product life cycle management and information technology outsourcing services.

Services: Includes the services industry, such as telematics, healthcare, insurance, travel, transport, logistics, professional, wholesale distribution and retail. T-Systems develops a variety of solutions, including sales support systems, billing solutions, shops for direct sales via the Internet, Internet-based reservation and booking systems and data management systems.

Finance: Includes banks and insurance companies. T-Systems develops a variety of solutions, including industry specific sales support systems and electronic banking solutions.

Public: Includes government agencies, state pension funds, the armed forces of the Federal Republic, research and teaching institutions and international organizations. T-Systems enables public entities *e.g.,* federal ministries and state agencies) to establish innovative business processes, such as services to individuals through the Internet and the manaement of data and voice networks.

T-Systems also services approximately 160,000 small, medium and large corporate and enterprise customers, representing all industry segments, through the T-Systems Business Services business unit.

Seasonality

The revenues of the T-Systems division are not materially affected by seasonal variations. However, T-Systems' revenues may be subject to quarterly fluctuations depending on sales cycles (currently ranging between six and 18 months) and the purchasing patterns and resources of its customers, which are subject to general economic conditions and, therefore, difficult to predict. Accordingly, revenues received in a particular quarter may not be indicative of future revenues to be received in any subsequent quarter.

Suppliers

The principal goods and services purchased by the T-Systems division are: computer hardware for client servers and mainframes, operating systems and applications software, network capacity, network services, telecommunications network components and IT consulting services. T-Systems manages the risks in the supplier relationships, as well as the risks associated with quality and cost considerations, on behalf of its customers. T-Systems does not believe that it is dependent on any single supplier.

Dependence on Intellectual Property

T-Systems does not believe that it is dependent on any individual patents, licenses or industrial, commercial or financial contracts. However, T-Systems is subject to third-party software licenses in connection with the services it provides to its customers. Any breach, violation or misuse of third-party software licenses could result in additional costs with respect to the particular projects that are the subject of such licenses.

Dependence on Material Contracts

T-Systems intends to become less dependent on internal customers, *i.e.,* other Deutsche Telekom group companies) and to improve its market position with respect to external customers. In 2004, the other operating divisions of Deutsche Telekom (primarily T-Com and T-Mobile) accounted for approximately 31.3% of T-Systems' total revenues, compared to 32.8% in 2003. No other customer accounted for a significant portion of T-Systems' total revenues in 2004.

Competition

T-Systems operates in markets that are subject to intense competitive pressures. T-Systems faces a significant number of competitors, ranging in size from large IT and telecommunications providers to an increasing number of relatively small, rapidly growing and highly specialized organizations. T-Systems believes that its combination of service, performance, quality, reliability and price are important factors in maintaining a strong competitive position.

The principal competitors of T-Systems in the telecommunications area include AT&T Business Services, MCI, France Télécom/Equant, British Telecom, Cable & Wireless and COLT Telecom. The principal competitors of T-Systems in the IT area include IBM Global Services, EDS, Accenture, CSC, HP Services and Siemens Business Services (Siemens SBS).

T-Systems holds different market positions in different regions of the world (based on total revenues). In Germany, T-Systems is the market leader in the IT and telecommunications areas. In Western Europe, T-Systems is one of the five largest vendors, together with IBM Global Services, EDS, HP Services and Accenture with respect to IT, and one of the four largest companies, together with BT Global Services, France Télécom/Equant and Telefonica in the telecommunications industry. Globally, T-Systems ranks among the top twenty IT and telecommunications companies. T-Systems' global IT competitors include IBM, EDS, CSC, and Accenture. In the telecommunications area, T-Systems competes globally with AT&T Business Services, MCI, NTT, France Télécom/Equant and BT Global Services.

Competition in the relevant telecommunications areas is very intense, both in Germany and globally. The competitive landscape over the past few years has been characterized by suppliers attempting to reduce their indebtedness and increasing their profitability through strategic refocusing and concentrating on their core businesses. T-Systems expects this strategic refocusing to continue in 2005. In addition, IT competitors, including IBM, EDS, CSC and Atos Origin, have entered the telecommunications and network business.

Competition is also intense in the information technology area. The current market is characterized by strong pricing pressures, reduced customer IT budgets and prolonged customer sales cycles. As a result of these competitive pressures, many companies, including T-Systems, are attempting to maintain or expand market share through improved productivity, cost-cutting and efficiency measures, and reliance on IT expertise. This situation has also led to a consolidation in the IT sector, which T-Systems expects to continue for the foreseeable future. T-Systems expects that the global IT services markets will recover during 2005, and that higher market growth rates in some sub-segments will be achieved thereafter (especially in the IT Outsourcing and Business Process Outsourcing markets), but competition will likely remain intense.

We believe that T-Systems can compete effectively, largely due to its strategy of providing comprehensive solutions (planning, building and operating) to its customers' needs across a broad spectrum of IT and telecommunications activities. Offering substantial industry-specific expertise, T-Systems believes it can attain adequate margins and can respond to customers' requirements, acting as a telecommunications and IT provider able to support ICT customers in an effective and efficient manner.

Toll Collect

As previously reported, in September 2002, Deutsche Telekom AG, DaimlerChrysler Services AG ("DaimlerChrysler Services"), and Cofiroute (individually, the "partners" and collectively, the "consortium") entered into an agreement dated September 2002 (the "operating agreement") with the Federal Republic (represented by the German Federal Ministry of Transport, Building and Housing

(Bundesministerium für Verkehr, Bau- und Wohnungswesen, the "Federal Ministry of Transport")) relating to a project to create and operate an innovative system for the collection of toll charges for the use by heavy vehicles of the German high-speed highway system. We refer to this project as the "Toll Collect project." The partners are responsible for the development of the toll collection system, which has been built and operated by the joint venture Toll Collect GmbH ("Toll Collect"). DaimlerChrysler Services and we each hold a 45% stake in Toll Collect, with the remaining 10% being held by Cofiroute. Our investments in the Toll Collect project include our equity interests therein, which are recognized in our consolidated financial statements using the equity method of accounting, and certain financial guarantees. Effective April 1, 2004, responsibility for the investment in Toll Collect has been transferred from T-Com to T-Systems.

The start of operations, initially scheduled for August 31, 2003, commenced on January 1, 2005. On December 2, 2003, the partners paid, under protest, contractual penalties relating to such delay in the amount of EUR 250,000 per day until March 2, 2004, and EUR 500,000 per day thereafter until and including December 31, 2004.

On February 17, 2004, the Federal Ministry of Transport sent us a letter advising that a notice of termination of the operating agreement was imminent. On February 25, 2004, we received such notice of termination of the operating agreement, dated February 19, 2004. On February 29, 2004, the consortium members reached an agreement with the Federal Republic to continue the Toll Collect project. On April 23, 2004, the members of the consortium and the Federal Republic entered into an Implementation Agreement, in which the parties agreed upon the implementation of the terms in the agreement of February 29, 2004, and in which the Federal Republic agreed not to exercise any rights of termination, which it alleged to have resulting from the notice of termination.

The Toll Collect project has been divided into two phases: the first phase commenced on January 1, 2005 (phase 1), and the second is to commence no later than January 1, 2006 (phase 2). Phase 2 operation of the toll collection system will be as specified in the operating agreement. Phase 1 operation of the toll collection system employs certain modified components, which allow for slightly less than full technical performance in accordance with original specifications.

On September 8, 2004, the Federal Republic provided us with notice that it had initiated arbitration proceedings and asserted claims for damages against the partners, DaimlerChrysler Services and Deutsche Telekom AG, and the consortium, through the joint venture partnership, Toll Collect GbR. The Federal Republic alleges various breaches of the operating agreement and breach of duties of care in connection with the negotiation and conclusion of the operating agreement. On this basis, the Federal Republic has alleged initial claims for damages relating to lost toll revenues in the aggregate amount of approximately EUR 3.56 billion, plus interest, contractual penalties (including penalties as a result of the members of the consortium allegedly not seeking the agreement of the Federal Republic before concluding certain subcontractor agreements) in the aggregate amount of approximately EUR 1.03 billion, plus interest. This amount also includes contractual penalties of approximately EUR 790 million relating to the allegation that the agreement of the Federal Republic of Germany was not sought before certain subcontractor agreements were entered into. The amount of the contractual penalties may rise as the Federal Republic is also claiming time-related contractual penalties. Further, the Federal Republic has demanded production of certain documents and compliance with other terms of the operating agreement. On October 7, 2004, we provided a reply to the claims of the Federal Republic indicating, among other things, that we consider the claims of the Federal Republic as presented in the arbitration notice to be unsustainable. We intend to contest the Federal Republic's claims vigorously.

For more information relating to this proceeding, see "Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Expenditures and Investments Contractual Obligations and Other Commitments" and "Item 8. Financial Information Litigation."

T-Online

General

We offer Internet services in Europe for residential customers and for small- and medium- sized business customers through our majority-owned subsidiary, T-Online International AG. T-Online provides its customers with access to the Internet and, through its own Internet portal, an extensive range of products and value-added services, such as e-mail, online chats, Web hosting, Web organizer and international Internet access.

T-Online was first listed on the *Neuer Markt* segment of the Frankfurt Stock Exchange in April 2000 through a public offering of newly issued shares representing approximately 10% of its then equity capitalization and, as of June 2004, has been listed on the Regulated Market (Prime Standard) segment of the Frankfurt Stock Exchange. Our interest was subsequently diluted, through new share issuances, to approximately 81.7%. In December 2002 we sold approximately 9.81% of our T-Online shares, resulting in a controlling ownership interest of approximately 71.9% in T-Online at December 31, 2002. On March 24, 2003, T-Online's stock was incorporated into the TecDAX® index established in the course of segment restructuring by the operator of the Frankfurt Stock Exchange, Deutsche Boerse AG.

On November 12, 2003, we acquired the 2% stake (approximately 24.9 million shares) in T-Online previously held by Commerzbank under the terms of a contractual agreement between Commerzbank and us. In February 2005, we concluded a cash tender offer for shares held by the minority shareholders in T-Online. As a result, as of March 11, 2005, we had a controlling ownership interest in T-Online of approximately 90.14%. We plan to merge T-Online International AG into Deutsche Telekom AG, subject to receipt of requisite shareholder approvals. For more information, see "Item 5. Operating and Financial Review and Prospects Management Overview."

On February 18, 2004, T-Online acquired the Internet portal operator Scout24 ("Scout24") from Beisheim Holding Schweiz for a total purchase price of EUR 180 million, which included the purchase of an existing shareholder loan. By acquiring Scout24, T-Online supplemented its brand and product portfolio and its involvement in non-access businesses within the online-classifieds sector. Scout24 is a leading European network of "online marketplaces" active in Germany, Switzerland and other European countries that provides online marketplaces in the following sectors: automobiles, finance, real estate, employment, dating and travel.

T-Online's business is divided geographically into two parts: Germany and "Rest of Europe." T-Online's operations in Germany represent approximately 88.9% of T-Online's total revenues.

We recently decided to realign our divisions T-Online and T-Com in light of our view of changing market and technology conditions. For further details of our new SBA "Broadband/Fixed Network," see " Strategy Strategic Realignment."

Principal Markets

The principal markets we refer to in this chapter are Germany and Rest of Europe. Broadband services allow customers to access the Internet and Internet-related services at significantly higher speeds than traditional dial-up services are capable of supporting. T-Online uses the term "broadband" to refer to ADSL technology, for which the downstream data rate is greater than 128kbit/s. Broadband access is generally fast enough to support new applications, such as high-quality streaming video. "Narrowband" usually refers to a dial-up connection that offers a transmission rate of up to 128 kbit/s (*e.g.,* ISDN with channel bundling).

T-Online has reported its customers for the whole of Europe, differentiated according to DSL and narrowband tariff plans, as follows:

	At December 31,		
	2004	2003	2002
	(in millions)		
Customers	**13.50**	**13.13**	**12.24**
Germany	**11.43**	**10.79**	**9.96**
Of whom with DSL tariffs	3.23	2.16	1.71
Of whom with narrowband tariffs	4.95	5.56	5.73
Of whom PAYG (usage < 30 days)	0.74	0.81	0.76
Of whom PAYG (usage > 30 days)	2.51	2.26	1.76
Rest of Europe	**2.07**	**2.35**	**2.28**
Of whom with DSL tariffs	0.36	0.26	0.16
Of whom with narrowband tariffs	0.21	0.29	0.31
Of whom PAYG (usage < 30 days)	0.12	0.17	0.19
Of whom PAYG (usage > 30 days)	1.38	1.63	1.62

PAYG = Pay as you go.

With more than 13.50 million customers groupwide as of December 31, 2004, T-Online is one of the largest European ISPs, based on both revenues and number of customers. During 2004, T-Online's customers increased by 0.37 million customers, compared to 2003. The total number of DSL-tariff customers increased from 2.42 million at year-end 2003 to 3.59 million at year-end 2004, an increase of 48.3%.

In Germany, T-Online achieved significant DSL-tariff customer growth, with 1.07 million additional customers at the end of 2004, compared to 2003. This growth was primarily attributable to the success of the various short-term promotional rate plans for new customers that were part of a general broadband initiative involving both T-Online and T-Com. A significant driver of the development of the Internet market is innovation in broadband access and services, including customized entertainment services, such as video-on-demand and music downloading. In addition, the higher bandwidths available following the launch of T-Com's new T-DSL versions (1, 2 or 3 mbit/s) opened up new opportunities for T-Online customers. Since the first quarter of 2004, T-Online's flat-rate customers who have taken advantage of this 1-2-3 strategy have received significantly enhanced technical performance. As of June 1, 2004, T-Online lowered its basic monthly DSL rate ("T-Online DSL flat 2000") by approximately one-third, thereby making its broadband offer even more attractive.

T-Online's DSL broadband business also continued to grow in its other European markets. Compared with the previous year, the DSL-tariff customer base in the Rest of Europe segment increased by approximately 38.5% during 2004.

The number of narrowband customers declined, partly as a consequence of T-Online's promotional efforts in the broadband market that offered attractive access rates and content.

Germany

Key factors for customer growth are broadband access and broadband content/services. T-Online intends to continue expanding its range of offerings, especially for broadband customers.

T-Online believes that the trend in customer content preference is moving towards on-demand entertainment programming. This is reflected, for example, in the area of growing demand for legal music downloads and music content. T-Online offers the music portal "Musicload," which, one year after its launch, is one of Germany's most successful providers of legal music downloads. In December 2004, Musicload users downloaded more than 1.4 million songs, compared to approximately 17,500 songs one year earlier. T-Online cooperates with most of the major record companies as well as independent labels in order to offer over 420,000 titles on Musicload.

T-Online believes that providing online content across various media will be an important means of attracting new customers. For this reason, T-Online is promoting the distribution of "T-Online Vision" broadband services via television. In addition to its existing partnerships with Fujitsu Siemens and Samsung, T-Online has attracted new partners for the development and marketing of set-top boxes. These boxes enable customers of T-Online Vision to use services such as WebMail and video-on-demand. T-Online is cooperating with major Hollywood film studios, Dreamworks, Metro-Goldwyn-Mayer, Universal and Twentieth Century Fox, in connection with its video-on-demand offering.

T-Online's successful development of its Internet markets are also reflected in the increasing use of paid content and services. In addition to pay-per-view and pay-per-use models, T-Online offers a large number of subscription services on its Internet portal, including premium e-mail services, security packages and special-interest topics.

T-Online established its T-Online Shop in December 2002, which offers a range of computer and multimedia products. T-Online will be seeking to increase the value-creation potential of the T-Online Shop by offering products directly in a few selected product categories. In addition, T-Online offers a separate marketplace (shopping portal) for its e-commerce partners to reach their target groups, in exchange for a prearranged fee.

T-Online continues to offer Internet access via W-LANs in specific public places (Hot Spots). In 2004, T-Online co-operated with T-Com and T-Mobile to provide greater W-LAN coverage and combined marketing activities. Using HotSpots provided by T-Com and T-Mobile, T-Online customers can conveniently connect to the Internet at more than 3,500 public W-LAN locations in places such as coffee shops, hotels and airports in Germany

In Germany, T-Online began marketing combined DSL packages featuring DSL connection and DSL tariffs with full package marketing at the end of January 2005. Customers will benefit by having a one-stop contact for all products and services from the moment they place an order instead of having two distinct contracts for the DSL connection and the DSL tariff. In addition, in the first half of 2005, T-Online plans to launch a VoIP offering in Germany. Rapid technological progress has now made very good quality possible on voice calls routed using IP technology. T-Online is continuing to roll out attractive services and content specially tailored for the use of DSL access, and in this way expects to expand its options for future the growth of its business.

Rest of Europe

The T-Online division took a significant step in the development of its international business in March 2000, when it acquired a 99.9% equity interest in Club Internet (now "T-Online France"), the online service business of the French Lagardère group, in exchange for 5.69% of T-Online's shares (after giving effect to the public offering of T-Online shares that took place in April 2000, and to the acquisition for T-Online shares of an interest in comdirect bank AG). In May 2003 T-Online acquired the remaining 0.1% of T-Online France's shares from Lagardère. Through its subsidiaries and associated companies, T-Online also conducts operations in France, Spain, Portugal, Austria and Switzerland.

T-Online France, operating under the name of Club Internet, has continued to develop its Internet business beyond simple Internet access. In November 2004, following the trend of the competitive French broadband market, Club Internet introduced higher-speed DSL offers (up to 6 mbit/s) and "double-play" offers (*i.e.*, Internet and VoIP) at competitive prices.

In addition, in October 2004 Club Internet increased the number of TV and movie channels available on its "Club Internet TV" broadband portal from 5 to 22 channels (including the pay-TV channels Ciné FX, Ciné Polar and others). Club Internet has also enriched the range of security and entertainment-enhancing portal products and paid services available to its customers to include: a security portal (including firewall, anti-spam and anti-virus functionality), an online photo-album service, a multimedia player, 16 broadband radio stations from Music Choice, music downloads in cooperation with E-compil, movie trailers, video-on-demand with Netciné and Allo ciné, online games, SMS and videomail forms.

In October 2000, T-Online acquired Ya.com, one of the three leading broadband ISPs in Spain, in exchange for cash and approximately 1.25% of T-Online's outstanding shares. In addition to providing narrowband and broadband Internet access in Spain, Ya.com also develops content, services and e-commerce offerings for Internet users in both Spain and Portugal. In addition to its main portal (www.ya.com), the Ya.com network in Spain is comprised of several integrated e-commerce portals, such as travel (Viajar.com), finance (Finanzas.com), automotive (Supermotor.com) and computers (TiendaPC.com). During 2004, Ya.com also extended the scope of its paid services, most recently adding digital photo processing to a catalog of services which already included downloadable logos and ring tones for mobile phones, personal contacts, and Web mail.

During 2004 T-Online's European (excluding Germany) broadband customer base increased from approximately 264,000 customers at the end of 2003 to approximately 359,000 at December 31, 2004. T-Online France and Ya.com also capitalized on the expansion of the broadband markets in their respective countries to increase their customer bases.

We plan to substantially increase T-Online's broadband market share in both France and Spain. Both markets are currently dominated by intense competition and rapid growth in the DSL market. To achieve our goal, we plan capital expenditures of up to EUR 1 billion from 2005-2007. This mostly relates to network infrastructure expansion in France and generating new customers in both countries.

Competition

The German and European markets for Internet access and portal services especially within the broadband market have been, and will continue to be, highly competitive. In the market for Internet access services, competition occurs in several areas, including pricing, bundling, brand recognition, network speed and reliability, customer support and timely introduction of new products and services. The regulatory environment can also exert a significant influence on the level of competition. For ISPs, the terms on which they and their customers are able to secure telecommunications network services from carriers are important factors in the development of the market, and these services are generally regulated to promote competition. In the market for portal services, T-Online faces competition from Web sites maintained by ISPs, Internet information retrieval services, online community Web sites, home page services, e-commerce retailers and shopping portals, among others, as well as from traditional media, including newspapers, magazines, radio and television.

Group Headquarters and Shared Services

Group Headquarters and Shared Services ("GHS") focuses on strategic and cross-divisional management functions. Group Headquarters functions include many of the central headquarters departments, such as treasury, legal, accounting, and human resources. All other operating functions not directly related to our divisions' core businesses are the responsibility of Shared Services. In particular, these include, among others, the administration of our real estate portfolio within Germany, domestic billing and collection services, domestic fleet management, and Vivento (formerly known as the Personnel Services Agency). GHS is also responsible for certain of our equity investments. The creation and staffing of GHS was completed as part of our internal reorganization in 2003, and had previously been reported under "Other Activities." Although many of our GHS departments and parts of our T-Com division are legally part of Deutsche Telekom AG, we manage GHS and T-Com as though they were separate legal entities.

Activities in Germany

The real estate unit is, based on total and net revenues, the largest shared service within GHS. The real estate unit is responsible for renting and selling commercial real estate and for providing facility management services for our group in Germany. Our real estate unit was restructured in 2002 by reassigning responsibilities of the unit into four companies. Our real estate operations are carried out on our behalf by the following entities:

- GMG, which is responsible for the internal and external group leasing and rental business;
- DeTeImmobilien, which is responsible for providing facility management services;
- Sireo Real Estate Asset Management GmbH ("Sireo"), a joint venture of Deutsche Telekom AG (51%), Corpus Immobiliengruppe GmbH & CO KG (24.5%) and Morgan Stanley Bank AG (24.5%), which is responsible for the administration and disposition of our real estate interests; and
- DFMG Deutsche Funkturm GmbH, which was established at the beginning of 2002 acts as the service provider for all of our radio towers and transmitter masts in Germany (the towers and transmitter masts are primarily used in mobile, radio, and satellite communications as well as for television broadcasting).

In addition, in 2005, the real estate unit was expanded to include PASM Power and Air Condition Solution Management GmbH & Co. KG. As of January 1, 2005, the power supply and air conditioning solutions business for our telecommunications facilities has been managed separately from GMG. For more information about our real estate management activities and portfolio, see " Description of Property, Plant and Equipment Real Estate."

The billing and collection unit was established in May 2004 through the integration of our accounts receivable department in the former billing services unit with our debt collection business and credit assessment business. It provides billing and receivables management solutions and services for the group companies (except T-Mobile) that offer services to the external market. The billing and collection unit operates as a full service provider with end-to-end capabilities in business process management for billing and management of accounts receivable from credit assessment to debt collection. In 2005, the billing and collection unit is managed by T-Systems' new "Business Customers" SBA to more efficiently provide billing, accounts receivable and collection services as a business process outsource service to the external market.

Our fleet management company, DeTeFleetServices GmbH ("DeTeFleetServices"), was established in July 2002 to capitalize on synergy effects throughout our group. It provides fleet management and mobility services with approximately 41,000 vehicles to our national group companies and affiliates. This company also generates net revenues with third parties by selling used vehicles. In 2005, this unit intends to provide its services to selected Central and Eastern European subsidiaries of our group and selected external customers.

With the goal of efficiently implementing our staff restructuring measures in a socially responsible manner, we established Vivento in the fourth quarter of 2002. In the second half of 2003, Vivento was provided with new management and a new business mandate. Vivento employs displaced workers, and trains and equips them with other employment qualifications for redeployment within the Deutsche Telekom group or with external companies, or for project or temporary assignments. In addition to individual placements, Vivento staffs major projects and workforce-intensive operations and services. In order to create further employment opportunities, Vivento established and operates its own business lines. At the beginning of 2004, Vivento commenced providing call center services for certain of our group companies and to third parties. This new business line consists of a part of the former call center unit operations of T-Com as well as the Vivento Customer Services GmbH & Co KG ("VCS"), which was established in the first quarter of 2004. VCS now provides customer relationship services including call center and back office services within the group and to third parties. VCS expanded its business throughout the year and is now operating 18 sites throughout Germany. At the end of 2004, VCS employed approximately 3,400 people of which 1,300 were temporary staff from Vivento. In July 2004, Vivento set up its second business line by establishing Vivento Technical Services GmbH & Co KG ("VTS"), which includes a transferred T-Com unit with approximately 350 employees. This company offers network infrastructure services within and outside the group. At the end of 2004, VTS had approximately 1,400 employees, of which 1,000 were temporary staff from Vivento. Vivento also staffs major projects, including up to 3,000 civil servants for the support of the Federal Labor Agency (*Bundesagentur für Arbeit*, an agency of the Federal Republic) in connection with the restructuring of benefits for the long-term unemployed. Vivento will continue to review further business prospects to create additional employment opportunities in 2005 and beyond.

In total, approximately 31,100 Deutsche Telekom employees have been transferred to Vivento, of which approximately two-thirds originated from T-Com, and were transferred as part of that division's program to increase efficiency, as well as through transferring T-Com operations into the newly established business lines of Vivento. The remaining part of the transferred employees were from the other segments, as well as apprentices who finished their professional training within the group. Approximately 11,900 Deutsche Telekom employees were transferred to Vivento in 2004. For more information, see "Item 5. Operating and Financial Review and Prospects Segment Analysis Group Headquarters and Shared Services."

At December 31, 2004, almost 12,900 employees had left Vivento, of which 9,200 left during 2004. At the end of 2004, approximately 19,000 employees were in Vivento, of which approximately 700 were permanent staff, 4,600 were employees of the Vivento business lines and approximately 10,000 employees were given temporary employment within or outside the group.

The following table provides information regarding the employees in Vivento.

	2004[1]	2003[1]	2002[1]
Number of employees transferred to Vivento[2]	11,900	17,700	1,600
Number of employees leaving[2]	9,200	3,700	n.m.
Actual number of employees in Vivento as of year end	19,000	16,000	1,700
of which: Operational staff of Vivento	700	400	200
of which: Number of employees in Vivento business lines	4,600		

(1) These figures are rounded to nearest 100.

(2) Operational staff of Vivento not included.

The Telekom Training unit is also included in GHS and is responsible for providing professional training and qualification services for our employees within Germany. This unit trains existing staff and employees of Vivento, and provided training for approximately 11,000 apprentices during 2004. In the second quarter of 2003, the activities of the centrally organized Telekom Training Centre and T-Systems Deutsche Telekom Trainings GmbH were merged and renamed "Telekom Training."

The treasury unit is primarily responsible for cash management, investments in securities, leasing arrangements and the refinancing of indebtedness through a variety of financial arrangements, including, among other things, bank loans and other credit arrangements, as well as the issuance of debt in the capital markets, the handling of payments and clearing transactions, and foreign exchange and hedging activities. For more information, see "Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

T-Venture Holding GmbH ("T-Venture") is also included in GHS. T-Venture's mission is to scout new products, technologies and services and to acquire access to them. Accordingly, a central corporate fund has been established in addition to investments that can be made by our divisions.

GHS also includes the establishment and maintenance of international intellectual property rights for the Deutsche Telekom group, including the T-Com, T-Mobile, T-Online and T-Systems brands.

International Activities

GHS has only limited international activities, as most of our international operations were transferred to our divisions and our non-core assets were sold. In 2004, we sold our interest in SES Global S.A. This sale generated proceeds of approximately EUR 0.6 billion. In 2003, we sold certain of our minority and non-core shareholdings in various entities generating proceeds of approximately EUR 0.7 billion.

INNOVATION MANAGEMENT (RESEARCH AND DEVELOPMENT)

Innovation Strategy

Our innovation strategy focuses on innovation activities with the greatest impact on our company for the coming years. The following four focus fields ("4i" strategy) reflect our strategic innovation portfolio and development priorities:

- Intuitive Usability seeks to make complicated services and functions more user friendly for all customers.

- Intelligent Access offers customers the best service available without requiring the user to select the network services and access manually.

- Integrated Communication promotes the appropriate connection and interaction of many tasks and devices to one another.

- Infrastructure Development will create the technological basis needed to meet bandwidth, mobility and security requirements in a cost-effective manner for our group and its customers.

The "4i" strategy reinforces our commitment to providing increased customer benefits.

Systematic analysis and tracking of future customer needs helps us to focus our research and development ("R&D") efforts on the topics and technologies that are most relevant to our customers. Precise key innovation and performance indicators and processes enable us to evaluate and provide quality assurance throughout the group. Execution strategies and the timing of introduction of products to the market are subject to group-wide contribution and effort.

To implement this strategy, we have developed marketing plans relating to potential market opportunities, particularly in the eHome (networked home applications, such as entertainment), eHealth (ICT to promote cost savings in the health sector) and eLearning (new education applications) markets.

Innovation Partnerships

Peering with other technology innovation leaders will result in increased ability to leverage and improve our R&D efforts. In 2004, we and France Telecom agreed to jointly pursue certain R&D initiatives, such as RFID applications (radio frequency identification, an automatic identification technology where a unique serial number of an object is transmitted wirelessly using radio waves) and home gateways as individual servers for managing communications, entertainment, and household systems.

Additionally, we have taken over management of the "Networked Worlds" (*vernetzte Welten*) project set up by the Federal Republic together with contributors from the business and science sector as part of the government's "Partners for Innovation" campaign. We manage this partnership of industry, research institutions and the government to develop joint projects. The primary objective of this project is to develop standards and new technologies that will support new business applications, including future network security and functionality requirements.

We have established a research laboratory, the "Deutsche Telekom Laboratories," on the campus of Berlin's Technical University, to enhance the effectiveness of R&D efforts and promote the cooperation of the worlds of business and science.

Research & Development

The refocusing of the R&D area in 2003 from technology-oriented development to customer-focused development resulted in the development of a number of innovative applications in 2004, such as "T-Box," an universal messaging center for voice, email, fax, text messages, and multimedia messages that can be operated by voice signals and Web access and can be reached both over fixed and mobile networks. This R&D project from Group Headquarters is currently in the product design phase at T-Com and T-Mobile.

Research and Development Expenditures

In each of 2004, 2003 and 2002, we spent approximately EUR 0.9 billion on our innovation initiatives. As in the preceding years, the majority of such expenditures were invested in the development and upgrading of the necessary software systems and architectures relating to our T-Com and T-Mobile divisions. Additionally, the aggregate amount paid to third parties for R&D on our behalf was approximately EUR 100 million in 2004.

Intellectual Property

In 2004, we submitted 374 patent applications in Germany. At the end of 2004, we held approximately 5,991 intellectual property rights. Many of these intellectual property rights have been strategically implemented within our company and the marketing of others to third parties has been successfully continued.

ACQUISITIONS AND DIVESTITURES

The following list contains each of the principal acquisitions and dispositions made by us in the last three fiscal years.

Year	Segment	Event	Amount
			(billions of €)
2004	T-Com	Purchase of remaining shares in EuroTel Bratislava	(0.3)
2004	T-Mobile	Sale of shares in MTS	1.7
2004	GHS	Sales of real estate	0.3
2004	GHS	Sale of shares in SES Global	0.6
2004	T-Online	Acquisition of the Scout24 group	(0.2)
2004	T-Com	Acquisition of Stonebridge	(0.1)
2003	T-Systems	Sale of shares in TeleCash	0.1
2003	GHS	Sale of shares in Inmarsat	0.1
2003	GHS	Purchase of additional shares of T-Online International AG	(0.2)
2003	GHS	Sales of shares in Celcom	0.1
2003	GHS	Sales of shares in Globe Telecom	0.4
2003	T-Com	Sale of interest in Kabel Baden-Wuerttemberg	0.1
2003	GHS	Sales of shares in Eutelsat and Ukrainian Mobile Communications	0.2
2003	T-Mobile	Sale of receivables in an asset-backed securitization transaction	0.5
2003	T-Mobile	Sale of shares in MTS	0.5
2003	GHS	Sales of real estate	0.8
2003	T-Com	Sale of six regional cable companies	1.7
2002	GHS	Sales of real estate	1.3
2002	GHS	Sale of shares in T-Online International AG to institutional investors	0.7
2002	T-Systems	Sale of receivables in an asset-backed securitization transaction	0.3
2002	GHS	Sale of interest in Satelindo	0.3
2002	GHS	Sale of interest in France Télécom	0.3
2002	T-Mobile	Exercise of call option to acquire 51% of Ben Nederland Holdings B.V	(1.7)
2002	T-Systems	Acquisition of remaining 49.9% of debis Systemhaus	(4.7)

REGULATION

Regulation in Germany

Our T-Com division, in particular, is influenced by the decisions of the German telecommunications regulator, the supervisory body established within the Ministry of Economics and Labor to carry out regulatory functions under the Telecommunications Act. The German telecommunications regulator considers us to be dominant in several markets, especially in fixed-line network calling services. The decisions of the German telecommunications regulator have had, and will continue to have, significant effects on the level of competition in the markets for regional and local calls and access to our fixed-line network.

The divisions and affiliates of the Deutsche Telekom group within Germany are also influenced by the German regulatory regime relating to telephone services and data transmission services, and a number of them are also directly or indirectly subject to the regulatory provisions and decisions of the German telecommunications regulator.

Liberalization

The legal framework for the regulation of the telecommunications sector in Germany was completely transformed through the Telecommunications Act, which became effective on August 1, 1996. The Telecommunications Act required the complete liberalization of the German telecommunications market by January 1, 1998, as mandated by the directives of the E.U. Commission. This represented the final step in a liberalization effort had begun in 1989.

In June 2004, the most recent amendments to the Telecommunications Act became effective. The precise effects of the changes that have been made to the regulatory framework will not be clear until regulations relating to the new regulatory framework have been enacted and interpreted by the German telecommunications regulator. The amended Telecommunications Act takes into account the overall increase in competiton over the last seven years as well as the new E.U. regulatory framework. For more information on the E.U. regulatory framework, see " The E.U. Regulatory Framework The New E.U. Regulatory Framework." The amendments to the Telecommunications Act include, among others, provisions granting rights to competitors to petition the German telecommunications regulator to compel the commencement of proceedings against us, and additional sanctions for violations, including disgorgement of profits in certain circumstances.

The Regulatory Framework

The Telecommunications Act allows virtually unrestricted market access by qualified entrants. The principal objectives of the Telecommunications Act are to promote competition in the telecommunications sector through regulatory measures, to guarantee appropriate and adequate telecommunications services throughout Germany and to provide for the regulation of frequencies. The Telecommunications Act aims to achieve these objectives principally by allocating frequencies, securing universal service and subjecting, in particular telecommunications markets, providers with "significant market power" to a special regulatory framework.

Regulatory Supervision

The German telecommunications regulator has various powers under the Telecommunications Act, including the authority to control network access and interconnection, and to approve or review the tariffs and tariff-related general business terms and conditions of providers with significant market power. It also has the authority to assign and supervise frequencies and to impose universal service obligations.

Licensing and Notification Requirements; Allocation of Frequencies

As of July 25, 2003, the German telecommunications regulator abolished the requirement to obtain special licenses for telecommunications services. However, approvals are still required to obtain scarce telecommunications frequencies.

Any entity operating public telecommunications networks and/or providing public telecommunications services on a commercial basis is required to notify the German telecommunications regulator of its operations. Frequencies are to be allocated upon request on a non-discriminatory basis according to objective and verifiable criteria. Frequencies may be awarded by auction or by competitive bidding, if the German telecommunications regulator determines that frequencies are not available in sufficient quantity for all applicants, or if multiple applications are submitted for the same frequency. The German telecommunications regulator may exclude a company from taking part in an auction or competitive bid for licenses or frequencies if the success of that company in an auction or bid would endanger competition, based on principles of equal opportunity. The German telecommunications regulator may also deny approval of an application to transfer frequencies on the same basis if scarce frequencies are involved.

Payment of an initial frequency fee is required in connection with the grant or allocation of frequencies. In addition, annual contributions to cover the costs incurred by the German telecommunications regulator in planning and administering efficient and interference-free frequency usage are also required.

Pursuant to the 2004 amendments to the Telecommunications Act, new regulatory fees will, in the future, be imposed based on the revenues of telecommunications companies. This provision may have a disproportionate effect on large companies, such as Deutsche Telekom, and may have a material adverse effect on our results of operations. The details on how to calculate the new regulatory fees remain open and will be promulgated in a separate ordinance, which is expected to become effective in mid-2005.

Since 1992, T-Mobile Deutschland has held a mobile (Class 1) license to establish and operate a public digital telecommunications network based on the GSM standard with 2 × 12.4 MHz spectrum in the 900 MHz band. This license was originally awarded to Deutsche Telekom (then, "Deutsche Bundespost Telekom") in 1990. Following an auction in 1999, T-Mobile Deutschland's GSM license was broadened to include 2 × 5 MHz in the 1800 MHz band. The license will expire on December 31, 2009. Procedures relating to the extension of this license beyond its current expiration date have not yet been established.

In 2000, T-Mobile Deutschland acquired a UMTS/IMT-2000 license with a frequency allocation of 2 × 10 MHz paired ("FDD") spectrum and 5 MHz unpaired ("TDD") spectrum in the 2 GHz band. This license will remain in force through the end of 2020, provided that T-Mobile Deutschland complies with the general requirements of the Telecommunications Act and the specific conditions of the license. T-Mobile Deutschland's population coverage obligations under the license are 25% by December 31, 2003, which has been achieved, and 50% by December 31, 2005, which we expect to achieve as well.

The amended Telecommunications Act contains rules relating to spectrum trading. These new rules will not affect the use of spectrum rights under 2G and 3G licenses by us or our competitors, as such rules are restricted to newly allocated spectrum.

One of the six UMTS licenses that were allocated in 2000 was returned to the German telecommunications regulator at the end of 2003. The relevant spectrum (10 MHz paired spectrum and 5 MHz unpaired spectrum) will be reallocated in the future. However, it is not yet known under what timeframe and conditions such reallocation will take place.

Special Requirements Applicable to Providers with Significant Market Power

General

The German telecommunications regulator may subject providers with significant market power ("SMP") and their affiliates to special rules and obligations, including the following:

- The prior approval or retroactive review of tariffs by the German telecommunications regulator, insofar as such tariffs and conditions relate to a market in which the provider holds SMP. For more information, see " Pricing."

- The obligation to offer other companies unbundled special network access (including interconnection) as well as access to certain services and facilities on a non-discriminatory basis. For more information, see " Network Access."

- The obligation to provide "universal services," which may also be imposed on providers with a market share of 4% or more. For more information, see "Network Access Universal Services."

In addition, providers with SMP can be obliged to maintain segregated accounting systems with regard to acess services to allow for transparency with respect to various telecommunications services and between such services and unregulated services in order to prevent, among other things, the cross-subsidization of services. In this regard, the German telecommunications regulator may specify the structure of internal accounting for particular telecommunications services.

Furthermore, under general competition law principles, market-dominant enterprises may not abuse their dominant position. For more information, see " Competition Law."

"Significant market power" under the Telecommunications Act is defined as the ability of a provider to behave independently of its competitors and end users. Such a position is determined in line with a E.U. guideline based on E.U. competition case law. Based on this case law, in general a company will be presumed to have SMP if its share of a particular market exceeds 40%. The determination of the product and geographic markets affected, and the criteria relating to significant market power under the Telecommunications Act, are made by the German telecommunications regulator in agreement with the Federal Cartel Office (*Bundeskartellamt*).

Under the SMP concept, companies affected by these regulations have to look to E.U. law and practice for guidance with respect to the actions likely to be undertaken by the German telecommunications regulator. The question as to which telecommunications markets the stricter regulatory obligations of the Telecommunications Act apply is now decided pursuant to a specific "market analysis procedure." The results of the analysis are then reviewed on a two-year cycle. The starting point for this market analysis is the "E.U. recommendation on relevant markets," which specifies a list of telecommunications markets that are susceptible to sector-specific regulation. The recommendation includes the retail markets for fixed public telephone services and leased lines and the wholesale markets for unbundled local loop, fixed-network interconnection, leased lines, broadband access, mobile termination/access, and origination/international roaming and broadcasting transmission services (for more information, see " The E.U. Regulatory Framework The New E.U. Regulatory Framework"). The German telecommunications regulator is in the process of reviewing these markets. The first final decisions are expected in the second quarter of 2005.

We believe that, for the foreseeable future, the German telecommunications regulator is likely to view us as a provider with SMP in various German markets for certain public voice telephony services in the fixed network and in other markets, including most of those in which we held monopoly rights in the past. As a result, we expect that the stricter regulatory provisions of the Telecommunications Act regulating providers with SMP will be applied to our activities in those markets. Considering that in many markets our competitors are unlikely to gain SMP in the near future, we expect that we will have to compete in significant markets with providers not subject to these stricter regulatory obligations. Therefore, these competitors may have more flexibility than we have in terms of the selection of services offered and customers served, pricing and the granting of network access.

Pricing

Under the Telecommunications Act, tariffs for telecommunications access services offered by providers with SMP and their affiliates can be subjected to price regulation insofar as they relate to a market in which such SMP is determined to exist. Other tariffs are essentially unregulated. The tariffs of all providers in Germany are, however, generally subject to E.U. and German law, including competition and consumer protection laws and ordinances. In addition, tariffs for universal services must be set at an "affordable price." For more information, see " Network Access Universal Services."

The Telecommunications Act distinguishes between tariffs that require prior regulatory approval and those that are subject to retroactive review. In general, wholesale pricing requires prior approval whereas retail pricing does not require such prior approval. Nevertheless, the German telecommunications regulator can require providers with SMP to notify it of new retail pricing measures two months before they become effective. The German telecommunications regulator can also stop pricing measures, either if it becomes aware of facts indicating that the tariffs are abusive, or if an adequately priced wholesale product is not available. All pricing changes will remain subject to retroactive review by the German telecommunications regulator.

Prior Approval of Tariffs

The Telecommunications Act provides for two basic approaches to prior approvals of tariffs: a "price-cap approach" and an approach involving individual approvals based on an assessment of the costs of providing a particular service (the "cost-based approach"). The cost-based approach generally applies to tariffs for services that may not be or are not combined in a "basket" or "bundled" together with other services in accordance with the price-cap approach. The Telecommunications Act does not give priority to either the price-cap approach or the cost-based approach.

Under both approaches, the German telecommunications regulator may not approve tariffs if they (1) exceed the costs of efficient provision of the relevant service, (2) include discounts which prejudice the competitive opportunities of other companies in a telecommunications market, or (3) discriminate among customers for the same or similar services in a telecommunications market, unless such discounts or discriminatory features are objectively justified.

Price-Cap Approach

Under the price-cap approach, the German telecommunications regulator can establish baskets or bundles of services, establish an initial price benchmark for each basket or bundle, and place limitations on tariffs for the blend of services within that basket or bundle through the use of a price-cap formula. This price-cap formula allows for price increases or requires price decreases from the initial benchmark level based on the difference between the general inflation rate and a factor that reflects expected productivity improvements. In establishing the price-cap formula, the German telecommunications regulator is required to consider a range of factors, including the relationship of the initial tariff levels to the costs of efficient service provision and the productivity improvements being achieved by other enterprises in similar markets. The price-cap formula has the effect of requiring the affected company to reduce, or limit the extent to which it can increase, the aggregate tariffs for services within a basket or bundle.

In December 2001, the German telecommunications regulator established the second price-cap regime with respect to baskets for access and calls. This second price-cap regime was applicable from 2002 through 2004. The current approvals for our different access and call tariffs expire on March 31, 2005. Under the Telecommunications Act, we assume that our retail tariffs for access and calls will be subject to retroactive review by the German telecommunications regulator due to the existing dynamic on retail markets and, therefore, we are not expecting the introduction of a new price-cap regime for the time being. The final decision will be known after the German telecommunications regulator finalized its market analysis of the market for access to the public telephone network and telephone services at a fixed location for end customers, which is expected to occur in March 2005 at the earliest. Nevertheless, we cannot exclude the possibility that, after finalization of the market analysis, the German telecommunications regulator will continue to consider prior approval for access to the public telephone network to be necessary.

Cost-Based Approach

The German telecommunications regulator bases its determination of the costs of efficient provision of the relevant service on the long-run incremental costs of providing a particular service, with an additional amount in respect of overhead costs (including an appropriate return on capital employed), to the extent such costs are necessary for the provision of the service. The applicant is required to submit extensive documentation relating to its costs and the methods and parameters on which its determination of costs is based in respect of the service. The German telecommunications regulator has broad discretion in deciding whether to accept an applicant's attribution of costs to a particular service. In recent years, in determining tariffs under the cost-based approach, the German telecommunications regulator has declined to take into account costs that we believe were properly attributed to certain services. Discussions continue concerning the appropriate methodology to be used in the calculation of the long-run incremental costs of the services subject to cost-based pricing.

Retroactive Review of Tariffs

Under the Telecommunications Act, subject to certain exceptions, all retail pricing measures of providers with significant market power are subject to retroactive review. As mentioned above, the German telecommunications regulator can nevertheless require providers with significant market power to notify the regulator of new retail pricing measures two months before they become effective and can even subject these tariffs to prior approval if access and carrier selection obligations are not sufficient to achieve the regulatory objectives. Therefore, on December 14, 2004, the German telecommunications regulator imposed on us, as a preliminary measure, the obligation to notify. This obligation will remain valid until the finalization of the market analysis. This procedure was applied for the first time with the introduction of our new tariff structure, which was launched on March 1, 2005. The German telecommunications regulator is furthermore required to initiate examination proceedings if it becomes aware of facts indicating that tariffs requested by providers with significant market power for access services are abusive. The regulator may object to such tariffs and declare them invalid; it can at the same time mandate "non-abusive" tariffs.

Network Access

The Telecommunications Act authorizes the German telecommunications regulator to impose on network operators with significant market power specific network access obligations. It provides details concerning these obligations and specifies the manner in which network access (including interconnection) is to be accomplished.

General Obligations

Every operator of a public telecommunications network, irrespective of its market position, is obligated, upon request, to make an interconnection offer to other network operators for interconnection to its network. If the parties cannot agree on such interconnection, upon application by one of the parties, the German telecommunications regulator can compel an operator that controls access to end users to allow interconnection to its network and can impose other access obligations.

Provisions Applicable to Providers with Significant Market Power

According to the amended Telecommunications Act, access regulation will now be determined based on the outcome of the market analysis performed by the German telecommunications regulator. This market analysis must take into account the E.U. recommendation that specifies a list of telecommunications markets that are considered to be susceptible to, and may warrant, regulation. At the wholesale level, regulation will probably extend to the unbundled local loop, fixed network interconnection, leased lines, broadband access, mobile termination and access, mobile origination and international roaming, and broadcasting transmission services. The Telecommunications Act also identifies several potential access markets that may be subject to regulation, such as resale, billing services, and unbundled broadband access. The German telecommunications regulator is expected to issue regulatory orders (*Regulierungsverfügung*), which will likely include certain market definitions, the determination of network operators with significant market power and appropriate access obligations. The German telecommunications regulator will likely issue regulatory orders relating to network access obligations, and require us to make such offers to our competitors.

A provider with SMP for telecommunications services to the public in a particular market segment must also grant to competitors active in the same market access to services that it uses internally for the provision of such services to the public. Such access must be provided under the same conditions that the provider with SMP applies to itself, unless the offer of different conditions can be justified.

Fixed-Fixed Interconnection

Since January 2002 there has been an "element-based" interconnection tariff system in Germany, which we believe is the international norm. Under this system, the tariff for transmission of traffic is based on the number and type of network elements used in transmission, and not on the distance over which the traffic is transmitted. The German telecommunications regulator approved our current interconnection pricing levels in November 2003. These tariffs are valid from December 1, 2003, to May 31, 2006. As a result of the implementation of the element-based tariff system, we were required to reduce our interconnection rates by an average of approximately 9.5% per year, which has enabled our competitors that do not invest in their own infrastructure to lower their prices for fixed-line international and domestic long-distance calls. However, we have initiated legal proceedings against the implementation of the element-based tariff system, which are still pending. For more information, see "Item 8. Financial Information Litigation."

We pay termination charges for calls initiated on our networks that terminate on the networks of other carriers. These charges were previously billed on a reciprocal basis, *i.e.*, at the termination rate approved by the German telecommunications regulator for Deutsche Telekom. On September 20, 2004, the German telecommunications regulator stipulated a mark-up of EUR 0.0017/minute on termination charges that Deutsche Telekom has to pay for calls that originate on our networks and terminate on the network of a non-dominant carrier. This mark-up is applicable from October 15, 2004, to May 31, 2006. As a consequence of this action by the German telecommunications regulator, T-Com will, from May 2005 onwards, pass on to its customers the additional costs that it incurs as a result of the higher termination charges.

Fixed-Mobile Interconnection

T-Mobile Deutschland and T-Com have concluded an agreement on the reduction of national termination rates from EUR 0.1432 to EUR 0.132 as of December 15, 2004, and a further reduction from EUR 0.132 to EUR 0.11 as of December 15, 2005. T-Com also agreed on the same terms with Vodafone and slightly higher termination rates with O2 and eplus (EUR 0.179 to EUR 0.149 cent as of December 15, 2004, and a further reduction from EUR 0.149 to EUR 0.124 cent as of December 15, 2005, respectively). Accordingly, T-Mobile Deutschland's termination rates are now among the lowest in Europe. Further price cuts may be required as a result of regulatory procedures and the ongoing market analysis procedure currently being conducted by the German telecommunications regulator. For more information, see " Provisions Applicable to Providers with Significant Market Power." Such regulatory intervention may have a material impact on our termination revenues.

T-Com is required to offer all German fixed-line carriers transit rights to all German mobile operator networks at regulated rates. These rates consist of a charge for transit through Deutsche Telekom's network and the termination charge of the relevant mobile operator. However, only the transit charges are subject to regulation.

Local Loop Access

Providers with significant market power in the German public telecommunications market are generally obligated to "unbundle" their service offerings to the extent demanded by their competitors. Various competitors have asked us to provide unbundled access to our subscriber lines in Germany (*i.e*., the local loop). Deutsche Telekom offers unbundled local loop since 1998. By allowing competitors to connect to customer access lines within local networks, unbundling of the local loop allows competitors to gain direct access to customers without having to build local networks of their own. In this way, competitors are able to use our customer access lines to offer a wide range of local services directly to the customer.

There are currently a number of pending legal proceedings regarding recent decisions of the German telecommunications regulator that concern access charges relating to the local loop, and which have resulted in severe reductions in our charges for such access. We believe that the German telecommunications regulator did not take into account a number of costs that were justifiable costs for these services, and if it had done so, our local loop access charges would have been higher. For more information, see "Item 8. Financial Information Litigation."

On April 29, 2003, the German telecommunications regulator reduced the monthly line rental charges we are allowed to charge our competitors from EUR 12.48 to EUR 11.80. The current charges are valid from May 1, 2003, to March 31, 2005. On February 17, 2005, we applied for new monthly line rental charges in the amount of EUR 17.40. The German telecommunication regulator's decision is expected at the end of April 2005. Furthermore, with effect from July 1, 2004, the German telecommunications regulator decided that the one-time charges that we may collect from competitors with respect to customers switching out of our network (without installation or access work performed at the customer's point of access) will be reduced from EUR 56.60 to EUR 47.97. Also with effect from July 1, 2004, the fee we may charge to competitors terminating their use of the local loop, with no concurrent switch to another carrier, was reduced from EUR 47.09 to EUR 36.65. These new one-time charges are valid until June 30, 2005. We will have to apply in April 2005 for new one-time charges applicable after June 30, 2005.

Since January 2001, we have been offering line sharing (*i.e.*, using a single access line for multiple purposes, including sharing access with competitors) in accordance with E.U. requirements. In June 2004, the German telecommunications regulator approved our application for a monthly line sharing tariff of EUR 2.43. Our application for the reduction in monthly line sharing tariff to this level had become necessary in order to prevent the E.U. Commission from opening formal proceedings against us. The E.U. Commission had previously concluded that there was a negative margin between our wholesale line sharing and our retail T-DSL tariffs. The E.U. Commission considered these to be "abusive," pursuant to Article 82 of the E.C. Treaty, because a negative margin would not allow our line-sharing customers to effectively compete with us in the retail DSL market. The E.U. Commission inquiry has not yet been finally concluded; until 2006 we will have to report the development of our wholesale line sharing and retail DSL tariffs to the E.U. Commission on a regular basis.

In July 2002, the German telecommunications regulator established rules for fair access to the unbundled local loop within our network. Among other things, the German telecommunications regulator assessed penalties on us in order to enforce the time limits set for the provision of local loop access, and required us to give competitors access to certain elements of our electronic information systems. We initiated legal proceedings to prevent certain of these and other regulatory obligations from being imposed on us (including penalties). We obtained injunctive relief from the immediate imposition of such penalties. The proceedings in the main action are currently pending. For more information, see "Item 8. Financial Information Litigation."

Carrier Selection

Carrier selection for long-distance calls was introduced in the German market in 1998. Since April 25, 2003, we have been required to allow our customers to select alternative local carriers on a call-by-call basis. In addition, permanent customer pre-selection of alternative local carriers commenced on July 9, 2003. On June 4, 2003, the German telecommunications regulator approved a one-time fee of EUR 4.40 for the service of pre-selection for local calls, pre-selection for long-distance calls and for a service where pre-selection for local and long-distance calls are ordered together.

Leased Lines

In May and July 2002 the German telecommunications regulator imposed upon us the obligation to modify our contractual conditions for the provision of leased lines to competitors. We were required, among other things, to include in our contracts clauses obliging us to pay penalties in cases of delay, expand wholesale supply and warrant certain delivery periods. In response, we initiated legal proceedings in the Cologne Administrative Court (*Verwaltungsgericht Köln*). The Cologne court granted our request for an injunction, which was later affirmed by the Appellate Administrative Court in Münster. Both courts explicitly confirmed that our leased line provisioning practices are not discriminatory. Proceedings in the main action are still pending. For more information, see "Item 8. Financial Information Litigation."

On June 25, 2004, the German telecommunications regulator approved our application for an extension of our current rates for the provision of analog leased lines. These tariffs are valid until November 31, 2005. On November 30, 2004, the German telecommunications regulator also approved our application for an extension of our current rates for digital leased lines. These tariffs are valid until March 31, 2005. Both decisions contribute to the maintenance of our costs in the leased lines sector at current levels. On November 18, 2004, we applied for new digital leased line tariffs. With its decision of January 27, 2005, the German telecommunications regulator approved our applications for new tariffs and also accepted our new pricing scheme for digital leased lines. The new element-based pricing scheme allows us to offer more individually designed leased line products. This approval is valid from April, 1, 2005, to November, 1, 2006.

Resale

During the last few years, several proceedings before the German telecommunications regulator and before the courts, which were decided under the previous Telecommunications Act, resulted in our obligation to offer access and local call services, including DSL access, for resale by our competitors. On July 18, 2003, the German telecommunications regulator imposed on us the obligation to submit a reference offer to our competitors that would permit telecommunications services resellers in Germany to acquire from us line access services (including DSL), unbundled from transmission conveyance services. Unbundled resale effectively allows our competitors to engage in the risk-free arbitrage of price differentials in a market where Deutsche Telekom and other network operators have made considerable investments in telecommunications access infrastructure.

Under the Telecommunications Act, the German telecommunications regulator is authorized, at its option, to require us to offer to our competitors for purposes of resale the same services that Deutsche Telekom offers its own customers. However, until June 30, 2008, the German telecommunications regulator may only require us to offer resellers of telecommunications services line access services bundled with conveyance services. We believe that the financial consequences of our becoming required to provide such services on an unbundled basis could be significant, because our competitors, without having to build their own networks, could be able to compete with us quickly.

Internet Access

We offer various Internet access services for alternative carriers via our public switched-line telephone network ("PSTN"). The prices of those services are regularly determined by the German telecommunications regulator in a "prior approval of service" procedure, which takes place every other year. In its most recent such decision at the end of January, 2005, the German telecommunications regulator reduced the relevant Internet access charges by an average of approximately 2%. The new tariffs are valid from February 1, 2005, to May 31, 2006.

T-Online is not subject to the regulation of its tariffs under the Telecommunications Act. However, Internet subscribers are indirectly affected by the regulation of tariffs, including wholesale costs and charges for telecommunications services. In June 1999 the German telecommunications regulator ruled that the Internet access charges of T-Online are not subject to price regulation, because the dominant feature of online services is not telecommunications, but "tele-services" (*Teledienste*). Nevertheless, there are some indications that the German telecommunications regulator may change its view of such price regulation in the future. The amended Telecommunications Act, which entered into force in June 2004, considers regulation as technologically neutral, which means that any kind of electronic communication may now fall under the scope of the Telecommunications Act. Therefore, an extension of sector-specific regulation to access to online telecommunications markets cannot be ruled out.

Moreover, our recent organizational changes, in combination with the proposed merger of T-Online into Deutsche Telekom, may lead to increasing regulatory risks which will depend on the ultimate organizational structure of this unit.

Broadband Products

T-Com offers various broadband wholesale products, which provide competitors with several opportunities to construct their own DSL offerings, depending on their particular network structures. Besides unbundled local loop and line sharing, T-Com offers DSL resale products on a voluntarily basis. Since August 1, 2004, several DSL resale agreements have been concluded with competitors without the intervention of the German telecommunications regulator.

T-DSL ZISP is a wholesale broadband access service that T-Com currently offers to ISPs. The service is designed to provide access to T-Com's DSL lines, and to recently launched DSL resale lines, so that the ISP can set up end-to-end data lines to its end-customers. On September 29, 2004, the German telecommunications regulator approved T-DSL ZISP tariffs that are 18% lower than the tariffs previously approved. The new tariff charges EUR 0.52 per 10 kbit/s.

In August 2004, T-Com launched its Bitstream Access ("BSA") unbundled broadband access product on a voluntarily basis, which is a combination of DSL resale products with additional wholesale IP transport services (*e.g.*, ZISP). This product, for which T-Com has already concluded contracts with several major German providers, enables ISPs and network operators without their own infrastructure to transport broadband traffic between end-customers and the IP networks of our competitors.

Under the Telecommunications Act, the German telecommunications regulator can impose on T-Com the obligation to offer unbundled broadband access to its competitors. This could also include the obligation to unbundle a DSL wholesale product from the existing telephone lines. No final decision will be known, however, before the German telecommunications regulator completes its market analysis procedure for the market for broadband access. This market analysis procedure is expected to begin in March 2005 and to be completed in autumn 2005.

Voice over IP

At present VoIP services are not regulated in Germany. In April 2004, the German telecommunications regulator launched a consultation concerning the regulatory treatment of VoIP. The main purpose of this consultation was to investigate whether VoIP should be classified as a "publicly available telephone service" and, thus, whether providers of VoIP should bear the obligations attributable to this classification (*e.g.*, those relating to emergency services, consumer protection and public safety). A second purpose was to investigate whether market regulation is necessary in the VoIP market. The results of this consultation are still under discussion by the German telecommunications regulator. In June 2004, the E.U. Commission also launched its own consultation concerning the same issues. According to the German telecommunications regulator and the E.U. Commission, the results of the national and the E.U.-wide consultations will not be published before late spring 2005. Irrespective of the outcome, we expect that the increasing availability of VoIP services will result in competitive pressure to lower our tariffs for calls.

As a first step in the organization of the VoIP market, in November 2004, the German telecommunications regulator decided to open a new telephone number prefix range (032) for VoIP providers. This number, like mobile telephone numbers, is a non-geographic number dedicated exclusively to addressing VoIP services. Simultaneously, the German telecommunications regulator announced plans to also grant geographic numbers, in order to allow for VoIP services that are not restricted to a fixed location ("nomadic" services). The German telecommunications regulator began a public consultation regarding those plans at the end of November 2004. If the German telecommunications regulator opens up the geographic number range for VoIP services, VoIP providers will have the opportunity to use both number prefix ranges (032) and ordinary geographic prefixes for their services.

Universal Services

The Telecommunications Act includes provisions to ensure the availability of certain basic telecommunications services (referred to as "universal services") throughout Germany. Universal services include public fixed-network voice telephony with certain ISDN features, directory services, telephone books, public pay phones and certain categories of transmission lines. These services must be universally available to all customers at a price determined by the German telecommunications regulator to be an "affordable price."

Under the Telecommunications Act, if a universal service in a particular product and geographic market is not being appropriately and adequately provided, or where there is reason to believe that such provision will not be accomplished, each provider with a share of at least 4% of the product market for such service, or a position of significant market power in the relevant product and geographic market, can be required to contribute to the cost of providing such universal services. Contributions are required if the provider of a universal service proves that the long-term additional costs of providing the service efficiently in the relevant geographic market, including adequate interest on capital employed, exceed the revenues from providing that service at an affordable price.

We currently provide the universal services specified by the Telecommunications Act voluntarily and without compensation. If we decide to stop providing any of the services referred to in the Telecommunications Act, we must give at least one year's advance notice. We expect that we will, for some time to come, be the only provider considered suitable to be subjected to the universal services obligation. Accordingly, it may prove difficult for us to cease providing universal services in some markets, although we may be able to claim special compensation.

If we become formally required to offer universal services, and if the revenues from providing that service are insufficient to cover our additional costs relating thereto, the compensation granted under the Telecommunications Act may be insufficient to cover our full costs of providing that service. This is more likely to be the case because we are required to contribute to the cost of providing these services in proportion to our market share.

Customer Protection Ordinance

The Telecommunications Customer Protection Ordinance (*Telekommunikations-Kundenschutzverordnung*, the "Customer Protection Ordinance") covers the special rights and obligations between providers of telecommunications services to the public and their customers, who may be either end-customers or competitors, to the extent that they have concluded a contract or intend to conclude a contract with the relevant telecommunications provider. As a result, nearly all our products and services, with only a few exceptions, such as the marketing of telephones, are subject to the provisions of the Customer Protection Ordinance.

Pursuant to the Customer Protection Ordiance, market-dominant providers of voice telephony must, upon request, eliminate or repair any malfunction immediately, including at night or on Sundays or holidays. Customers can request a free itemized statement of their calls, which must be detailed enough to allow them to check and monitor the accuracy of their bills. In the event that a customer has made no other arrangements with another provider, the customer will receive a combined bill from his local carrier. In such cases, the charges for all calls that the customer has made via other providers must be listed separately. In addition, as of January 1, 2001, telecommunications service providers have been under an obligation to ensure that any customer who has set a ceiling for its calling charges does not exceed it. The Customer Protection Ordinance also allows for certain limitations on the liability of telecommunications service providers.

The Customer Protection Ordinance is currently under legislative review. In February 2005, the Federal Republic approved a draft bill mainly relating to revised customer protection rights, the provisions of which are expected to become amendments to the Telecomunications Act. Based on this draft bill, it is possible that certain customer rights will be expanded, such as the right to receive free itemized bills for services beyond voice telephony calls, or the right to bar certain calls free of charge. Also included for review in this draft bill are the separate legal requirements that were enacted in 2003 in response to the misuse of certain value-added and premium-rate services by some of our customers, who offer such services under specific prefixes within our network. Such services are currently billed directly to the customer. These requirements give expanded monitoring powers to the German telecommunications regulator and impose strict and potentially costly requirements on network operators and providers. In view of the provisions included in the draft bill, further tightening of these existing legal regulations, especially with respect to expanded obligations regarding transparency of prices for customers, are likely. The draft bill has yet to be approved by the German Federal Parliament (*Bundesrat*) or the Chamber of the Federal States (*Bundestag*), but it is expected to become law in mid-2005.

Billing and Collection

The Telecommunications Act authorizes the German telecommunications regulator to require us to offer to our competitors a specified range of billing and collection services, and to deliver customer data for accounting purposes. However, the Telecommunications Act explicitly excludes an obligation to send and enforce late-payment warnings. In addition, it expands the range of billing services to products that are not themselves telecommunication services, but based on them, and sets upper euro limits for the billing and collection of unmetered services. The German telecommunications regulator may not impose obligations with respect to billing and collection services if the party required to provide these services has entered into agreements concerning these services with the majority of the telecommunications service providers to which its customers have access, and grants other telecommunications servise providers that are not party to such an agreement access to such services at non-discriminatory terms. For information regarding the status of billing and collection- related legal proceedings in which we are involved, see "Item 8. Financial Information Litigation Proceedings Against Decisions of the German Telecommunications Regulator Wholesale Markets Billing and Collection."

Competition Law

The German Act Against Restraints of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*) prohibits the abuse of a market-dominant position as well as the distortion of competition through agreements or collusive behavior by market participants. Mergers, including the creation of joint ventures, must be notified to the Federal Cartel Office before they can be executed if the concerned undertakings' turnover reaches a certain threshold, but remains below the threshold above which mergers must be notified to the E.U. Commission. The Federal Cartel Office is obligated to prohibit a merger if it creates or strengthens a market-dominant position.

The Federal Cartel Office is empowered to enforce these provisions and may impose sanctions if its orders are violated. However, before taking action against abuses of market-dominant position in the telecommunications sector, the Federal Cartel Office must consult with the German telecommunications regulator. Market participants damaged by abusive practices of a market-dominant provider may claim damages under the Telecommunications Act as well as under the Act Against Restraints of Competition.

On August 8, 2003, the Federal Cartel Office and the German telecommunications regulator opened parallel proceedings against us, following a complaint by Vodafone D2 and info.portal concerning the way in which we provided the complainants and other parties with access to our "NDIS" online directory information database. Vodafone D2 and info.portal use this database for providing voice directory services. In June 2003, we installed a filter in NDIS that grants external users access only to data that the Telecommunications Act requires us to make available. Directory information that we do not obtain in our function as a carrier, but from other sources, is currently not being provided to external NDIS users. The complainants assert that this practice limits their possibilities regarding the provision of operator-based voice directory services and, thus, constitutes an abuse of a market-dominant position. Since most companies providing operator-based voice directory services use the NDIS technology, or comparable software available from at least two other companies, we argued that we do not have a market-dominant position in this area. Furthermore, we contend that the filter complies with the relevant provision of the Telecommunications Act. If the complainants succeed, we would be obliged to adapt the filter in accordance with the German telecommunications regulator's and/or the Federal Cartel Office's decision and deliver value-added data to third parties. These proceedings are still pending.

In April 2004, the Federal Cartel Office approached us with the request that we provide certain information in relation to the previous sale of our television cable business, Kabel Deutschland GmbH ("KDG") to a purchaser consortium in 2003. The Federal Cartel Office requested information in order to be able to examine whether KDG and/or the purchaser consortium and Deutsche Telekom agreed on an inappropriate non-compete clause, according to which KDG would be restricted from offering high-speed Internet services over its broadband television cable network in Germany. We do not believe that this investigation by the Federal Cartel Office will result in any further proceedings against us. If, however, the Federal Cartel Office were to establish that any anti-competitive activities had occurred in connection with the sale of KDG, it could impose a fine of up to three times the amount of the additional proceeds we realized as a result of the alleged infringement of the competition rules. In addition, we could be obliged to amend our current service agreements with KDG.

The requirements imposed upon us by German competition law must also be viewed in the context of E.U. competition rules. For more information see " The E.U. Regulatory Framework Competition Law."

The E.U. Regulatory Framework

General

Germany is a member state of the European Union. As such, it is required to enact E.U. legislation in its domestic law and to take E.U. legislation into account in applying its domestic law. European Union legislation can take a number of forms. "Regulations" have general application, are binding in their entirety and are directly applicable in all Member States. "Directives" are also binding, but national authorities may choose the form and method of implementation. "Recommendations" are not binding, but German courts are obligated to take them into consideration.

Over the past 17 years, the E.U. Commission has opened the telecommunications markets to competition through a series of liberalization directives that gradually abolished the monopoly rights of state-owned telecommunications operators. Public voice telephony services became open to full competition in the majority of Member States, including Germany and Austria, with effect from January 1, 1998, and had been open to full competition in the United Kingdom since before 1998.

Between 1989 and 2001, the European Union adopted a number of directives and recommendations regarding open and efficient access to, and the use of, public telecommunications networks and services. These were intended to harmonize technical interfaces, usage conditions, and mandatory minimum service standards for all fixed-line users, and a general framework for tariffs throughout the European Union. Specific measures have been adopted in a number of areas, including licensing and interconnection. Additional obligations in relation to network access, interconnection charging, accounting separation and cost accounting, publication and non-discrimination can be imposed on those operators that are designated by the relevant national regulatory authority (NRA) in the telecommunications sector (*e.g*., in the Federal Republic, the German telecommunications regulator) as having significant market power in an electronic communications market.

The New E.U. Regulatory Framework

At the end of 1999, the E.U. Commission initiated a review of the E.U. telecommunications regulatory framework focusing on the development of competition in the telecommunications sector and the increasing convergence of media, telecommunications and information technology. In February and July 2002, legislative measures were adopted consisting of a general framework directive and four specific directives regarding:

(1) access to and interconnection of electronic communications networks;

(2) mandatory minimum service standards for all users (universal service) and users' rights;

(3) authorization and licensing regimes; and

(4) telecommunications data protection as well as a decision on a regulatory framework for radio spectrum policy in the European Union.

Member States were under an obligation to implement the directives into their domestic law within 15 months of their adoption. So far, the directives have been adopted in 20 out of 25 Member States, including Germany. For more information, see " Provisions Applicable to Providers with Significant Market Power."

The E.U. telecommunications directives are intended to:

Establish the rights, responsibilities, decision-making powers and procedures of the NRAs and the E.U. Commission, including an NRA's obligation to submit to the E.U. Commission as well as the NRAs of other Member States, prior to adoption, proposed regulatory measures relating to market definition and significant market power, and the E.U. Commission's power to require NRAs to withdraw such proposed measures to the extent the E.U. Commission considers such measures to form a barrier to the single European market or to be incompatible with E.U. law.

Identify specific policy objectives that NRAs must achieve in carrying out their responsibilities (*e.g.*, to promote an open and competitive European market for communications services, to promote the interests of European citizens and to consolidate the European Union's internal market in a converging technological environment).

Provide that operators with significant market power in relevant electronic communications markets can be subject to certain obligations, such as obligations relating to the cost-orientation of prices, transparency, non-discrimination between their own subsidiaries and competitors, accounting separation and mandated access to, and use of, network facilities as set out in the directives on universal service and access.

An E.U. regulation on unbundled access to the local loop entered into force in January 2001. It contains the obligations to provide full unbundled access to the copper paired wire lines and at the same time unbundled access to the high frequency spectrum (line-sharing).

The E.U. Commission issued a recommendation on relevant product and services markets in February 2003. The recommendation identifies certain markets having characteristics that may justify the imposition of regulatory obligations. The first recommendation concerns retail markets for fixed public telephone service and leased lines and wholesale markets for the unbundled local loop, fixed network interconnection, broadband access, mobile termination and access, mobile origination and international roaming, and broadcasting transmission services. NRAs are obliged to carry out new market analyses on all communications markets included in the E.U. Commission's recommendation and those that NRAs have decided to include in the scope of sector-specific regulation with the agreement of the E.U. Commission. Under the Directive on a Common Regulatory Framework for Electronic Communications Networks and Services (the "Framework Directive"), the E.U. Commission must regularly review its recommendation. The first review of these recommendations is likely to be performed at the end of 2005. This review may lead to an increase or a decrease in the number and scope of markets subject to sector-specific regulation.

Whether the new regulatory framework will increase or decrease our regulatory burden will largely depend on the manner in which the directives are implemented in the Member States, how the new framework will be applied by the E.U. Commission and NRAs and how the newly established European Regulators Group ("ERG"), a body composed of representatives of NRAs, will influence the NRAs' decisions. Experience so far indicates that this will include continued regulation of prices of wholesale products of operators with significant market power in the areas of fixed telephony and broadband, increasing pressure on price regulation of fixed-to-mobile termination and international roaming charges and slow, if any, lifting of obligations in relevant retail markets for electronic communications.

In the context of the new E.U. regulatory framework, pressure is increasing on the German telecommunications regulator to introduce further regulation of wholesale broadband access in Germany. The E.U. Commission has stated its concern that "bitstream access," which is considered one alternative to the wholesale broadband access market, has not been made available to all market participants in Germany. In April 2004, the ERG published a common position on bitstream access, stating that bitstream access is essential to the development of competition in the wholesale broadband access market, and that the NRAs should make the granting of a bitstream access product to competitors mandatory. The German telecommunications regulator is in the process of reviewing bitstream access, thereby commencing the market analysis procedure in the German broadband access market. The findings of the ERG may result in additional pressure on the German telecommunications regulator to adopt further regulations relating to bitstream access and products. Any such actions would have the effect of allowing competitors to access this portion of the wholesale broadband market at lower rates and without the need to invest in similar infrastructure, which action will likely have negative effects on our operations and market share in this area.

The new E.U. regulatory framework will result in increased co-operation between the E.U. Commission, the ERG and NRAs, with the E.U. Commission taking a lead role in determining key regulatory issues, such as market definition and market power analysis. The ERG has taken the lead in establishing a common position relating to the application of specific regulatory remedies to operators with significant market power. This will, in turn, influence NRA decisions on the imposition of regulatory obligations for specific market failures. The ERG common position, published in April 2004, contains several specific recommendations (including recommendations relating to mobile termination rate regulation and wholesale access regulation) that may lead to a more rigid regulatory regime. The ERG has, furthermore, announced that it intends, in 2005, to address issues relating to VOIP. Any ERG common position or recommendation could result in increased pressure on the regulation of VoIP retail offers by operators with significant market power.

Following the preparatory work of the ERG, in December 2004, the E.U. Commission published a draft recommendation, which establishes principles for the imposition of accounting separation and cost accounting obligations on operators with significant market power. The proposal would allow NRAs to impose wide-ranging information requirements and provides for a consolidation of the separate accounting systems operated for purposes of telecommunications regulation and other statutory accounting obligations in case an accounting separation obligation is issued. These requirements could result in additional costs for regulated operators.

The new telecommunications data protection directive allows Member States to adopt legislative measures concerning traffic data retention where it is proportionate and necessary to, among other things, safeguard national and public security and to prevent and prosecute criminal offences or unauthorized uses of electronic commerce systems. An obligation to retain traffic data could, depending on the scope and duration of the retention, result in significant costs for us. Member States, including Germany, are currently discussing whether to adopt legislation on traffic data retention for law enforcement purposes.

The Ministry of Economics and Labor has published draft ordinances on interception and emergency calls. Some provisions in these draft ordinances exceed the objectives stated in the E.U. Directive on Universal Service and Users' Rights Relating to Electronic Communications Networks and Services (the "Universal Service Directive") and could lead to considerable costs for providers, if appropriate compensation is not provided.

In March 2004, the European Parliament and the Council of the European Union reached a compromise agreement on a directive concerning measures and procedures to ensure the enforcement of intellectual property rights. The proposal contains a number of measures aimed at facilitating the prosecution of copyright infringement in the context of file-sharing of music and video files via peer-to-peer platforms. These measures are to be applied only for breaches committed on a commercial scale (*i.e.*, consumers acting in good faith will be excluded). Although the directive provides for the possibility of wide-ranging claims against third parties, such as ISPs and network operators, no directly binding obligations or liability claims against ISP and network operators were established on the E.U. level. However, regulatory requests to ISP and network operators for data concerning customers who are linked to alleged infringements might increase and result in further costs. The requests for information are, however, constrained as they can only be pursued within a pending court procedure.

The E.U. Commission has carried out a consultation concerning a possible new legal framework for monetary payments in the internal market and is preparing proposals for such a legal framework. Financial regulation was originally designed to deal with high-value payments, person-to-person transactions and higher risks for consumers. Current E.U. legislation already provides for the regulation of e-money but has been interpreted in many different ways by national financial regulators. The purpose of the E.U. Commission's consultation is to harmonize the application of the existing framework. Harmonization could lead to an intensified application of financial regulation in countries in which we are active. As a result, it may become necessary for companies in our group to obtain banking or e-money licences in some or all of the Member States in which we conduct business. Increased regulation could have a detrimental effect on our current business models, such as those involving prepaid mobile services, premium-rate services or micro-payment systems, as well as on future business models. A proposal for a new E.U. directive is expected to be published in June 2005.

Infringement Proceedings Against Germany

The E.U. Commission has launched infringement proceedings against the Federal Republic, which can also affect our regulatory environment. In December 2002, the E.U. Commission commenced a proceeding against Germany, claiming that the Telecommunications Act, with regard to carrier selection, unduly limits the obligation to offer carrier pre-selection and call-by-call selection for local calls, because operators that want to offer local calls on the basis of carrier selection are obliged to connect with the local network operator on a local level. The E.U. Commission is of the view that a network operator connected at any level of the network should be able to offer carrier selection for local calls. In July 2003, the E.U. Commission extended its proceedings relating to the imposition of "access deficit charges" (which relate to the subsidy of low access charges through higher call charges). These proceedings may have a negative impact on the regulatory environment with respect to local competition. Because the 2004 amendments to the Telecommunications Act do not provide for access deficit charges to be levied, we believe that this portion of the proceedings will be closed.

In October 2004, the E.U. Commission launched an infringement procedure against Germany concerning provisions of the Telecommunications Act in connection with wholesale network access, including interconnection. The E.U. Commission's concern was that the German telecommunications regulator lacked the full flexibility required by the Framework Directive with respect to its authority to issue decisions regarding the imposition of obligations on operators found to have SMP in the field of wholesale network access and interconnection. This infringement procedure could slightly increase the risk of an imposition of pre-approval, cost-based price regulation of wholesale mobile network access services, in particular fixed-mobile termination tariffs. However, the infringement procedure could also lead to more flexibility for the German telecommunications regulator to refrain from imposing cost-oriented prices where an access obligation had been imposed on an operator with SMP.

Competition Law

The European Union's competition rules have the force of law in the Member States and are, therefore, applicable to our operations. The main principles of the E.U. competition rules are set forth in Articles 81 and 82 of the E.C. Treaty and in the E.U. Merger Regulation (the "Merger Regulation").

Article 81(1) of the E.C. Treaty prohibits "concerted practices" and all agreements between undertakings that may affect trade between Member States and which restrict, or are intended to restrict, competition within the European Union. Article 82 prohibits any "abuse of a market-dominant position" within the European Union, or any substantial part of it, that may affect trade between Member States. The E.U. Commission enforces these rules in cooperation with the national competition authorities (in Germany, the Federal Cartel Office). The Federal Cartel Office may also directly enforce the competition rules of the E.C. Treaty. In addition, the national courts have jurisdiction over alleged violations of E.U. competition law.

We periodically receive requests for information from the E.U. Commission. Through inquiries of this kind, the E.U. Commission monitors the development of competition in the telecommunications markets in all Member States. Further investigations and other remedial measures of the E.U. Commission, aimed at promoting competition in the European telecommunications sector, may be expected.

The Merger Regulation (amended effective May 1, 2004) requires that all mergers, acquisitions and joint ventures involving participants meeting certain turnover thresholds be submitted to the E.U. Commission for review, rather than to the national competition authorities. Under the amended Merger Regulation, concentrations will be prohibited if they significantly impede effective competition in the common market, or a substantial part of it, in particular as a result of the creation or strengthening of a dominant position.

On July 11, 2001, the E.U. Commission issued a press release confirming that E.U. Commission inspectors and officials from national competition authorities had started carrying out simultaneous inspections at the premises of nine European mobile telephony operators located in the United Kingdom and Germany. Our subsidiaries T-Mobile Deutschland and T-Mobile UK were among the companies inspected. The E.U. Commission asserted that an E.U.-wide sector inquiry had established serious competition concerns regarding pricing practices for mobile roaming services, which warranted further investigations, particularly in the United Kingdom and Germany. The E.U. Commission statement indicated that the inspections in the United Kingdom and Germany were to ascertain whether there had been consumer price-fixing by mobile operators in both countries. The statement further indicated that the inspections intended to verify whether German operators have illegally fixed the wholesale prices they charge to other operators, and whether these prices are excessive or discriminatory. The E.U. Commission has been focusing its inquiry on the U.K. operators, resulting in a number of further requests for information. On July 26, 2004, the E.U. Commission announced that it had sent a statement of objections to Vodafone and O2 in the United Kingdom, but not to T-Mobile UK or Orange UK. We therefore believe that it is unlikely that the E.U. Commission will open formal proceedings against T-Mobile UK. On February 10, 2005, the E.U. Commission opened formal proceedings against, among others, T-Mobile in Germany. The E.U. Commission alleges that T-Mobile Deutschland has been abusing its dominant position in the market for wholesale roaming services by charging excessive tariffs for calls of foreign visitors in its network during the period from 1997 to 2003. T-Mobile has yet to respond to the allegations. Should the E.U. Commission decide to uphold its preliminary findings, it may impose significant fines on T-Mobile. In addition, T-Mobile may be obliged to lower the wholesale roaming tariffs it charges to foreign operators as a result of a market analysis procedure undertaken by the German telecommunications regulator. These activities are being coordinated by the ERG and the E.U. Commission and have resulted in an inquiry being launched by the German telecommunications regulator in February 2005; the results of this inquiry are not expected until later in 2005.

T-Mobile and O2 have concluded an agreement concerning UMTS infrastructure sharing and roaming arrangements for their operations in Germany and the United Kingdom. These arrangements were cleared by the E.U. Commission in 2003, subject to time limits for roaming in the areas where UMTS licenses require licensees to build-out their own network infrastructure. A similar arrangement has been established by T-Mobile Austria. The arrangement, which has a limited scope, is currently not subject to notification with the Austrian national competition authority.

In December 2003, T-Mobile formed an alliance of mobile operators with Telefonica Moviles, Telecom Italia Mobile and Orange. For more information, see " Description of Business and Divisions T-Mobile Global Branding, Integration and Alliances." The alliance has engaged in a number of cooperation projects between the parties, which have been summarized in a notification to the E.U. Commission. The parties believe that their cooperation does not result in a significant restriction of competition. The E.U. Commission is currently reviewing the cooperation projects. Should the E.U. Commission identify significant restrictions of competition, the parties to the alliance may have to alter their cooperation arrangements.

On March 17, 1999, Mannesmann Arcor filed a complaint with the E.U. Commission against the Federal Republic and against us. The complaint is primarily related to our prices for unbundled access to the local loop, which were set by the German telecommunications regulator, and to our subscriber line prices, which are subject to the German price-cap regime. Other competitors jointly filed two further complaints to the E.U. Commission containing similar allegations. On May 21, 2003, the E.U. Commission adopted a decision against us for allegedly abusing our dominant position by charging our competitors and end-users unfair monthly and one-off charges for access to our local network. The E.U. Commission directed us to end the alleged unfair pricing practices immediately and to refrain from repeating the alleged abusive behavior. In addition, the E.U. Commission imposed a fine of EUR 12.6 million. To comply with the E.U. Commission's decision, we requested that the German telecommunications regulator approve a modification of the price-cap regime that would allow us to increase the monthly fee for basic charges for analog access, which request was granted. Additionally, in July 2003, we filed a lawsuit with the Court of First Instance of the European Communities (the "Court of First Instance") to obtain reversal of the E.U. Commission's decision and fine. In the course of the written proceedings the Court of First Instance admitted several of our competitors as intervening parties on the side of the E.U. Commission. Upon our reply to the observations of the intervening parties in December 2004, the written proceedings are now substantially complete. However, the intervening parties are still requesting the disclosure of confidential parts of the case file in order to provide the Court of First Instance with their observations thereto. The Court of First Instance has not yet decided on this request.

In 2002, following a competitor's complaint with respect to an alleged "price squeeze" between our line sharing and T-DSL tariffs, the E.U. Commission approached us with several requests for information. The E.U. Commission requested extensive data on our tariffs relating to the cost of line sharing and T-DSL services. On the basis of the provided data, the E.U. Commission came to the conclusion that there was a negative margin between our line sharing and T-DSL tariffs. The E.U. Commission informed us that in its preliminary view the charging of those tariffs was abusive pursuant to Art. 82 of the E.C. Treaty, because those tariffs would not allow our line sharing customers to effectively compete with us in the DSL retail market. In order to remedy the E.U. Commission's concerns we committed ourselves to closing the alleged price squeeze by (1) refraining from charging the line sharing fees as of April 1, 2004, to December 31, 2004; (2) restructuring our T-DSL tariffs; and (3) applying to the German telecommunications regulator for a reduction of our (monthly and/or one-off) line sharing fees as of January 1, 2005. As a result of these actions, the E.U. Commission informed us that it would not open formal proceedings against us, provided that we comply with these commitments. After having implemented the restructuring of our T-DSL tariffs, and after having received an approval for the reduction of our monthly line sharing fees to EUR 2.43, effective as of January 1, 2005, the E.U. Commission closed its investigation in July 2004. Upon request of the E.U. Commission, we regularly provide the E.U. Commission with updated information so the E.U. Commission can monitor our on-going compliance with these commitments.

International Regulation

Regulatory Regime

We are subject to the regulatory regimes of those countries where we or our subsidiaries or affiliates offer services and/or operate telecommunications networks. Regulation in these countries includes, for instance, procedures for granting or renewing licenses to use scarce resources (mainly frequencies), coverage conditions and other conditions contained in licenses, universal service obligations, price approval and product launch procedures, regulation of the terms of interconnection and network access for other network operators, requirements to permit customers to select an alternative carrier for individual calls or to pre-select an alternative carrier, number portability requirements, regulation relating to potential health effects of mobile communications devices and related regulatory cases. In some countries, the general legal framework and the regulatory framework relating to telecommunications are less well developed than in Germany. This leads to legal and regulatory uncertainty, which could have an impact on our operations in those countries. Certain regulations may limit the flexibility of our subsidiaries to respond to market conditions. This is especially true in the mobile telephony sector.

General Authorization and Licensing Requirements

To provide services and to operate our networks, either general authorizations or licenses are required from the regulatory authorities in the respective countries. In line with the new E.U. regulatory framework, in Member States the operation of fixed networks and the provision of public voice telephony services in the fixed network is subject to a general authorization only, requiring at the most notification or registration, but not explicit approval. Accordingly, in the fixed-line segment, only the public voice telephony services of T-Com's Croatian subsidiary, T-Hrvatski Telekom, still require, and are consequently based on, licensing procedures. These licensing procedures also apply to the mobile network operations of the Deutsche Telekom group, whose GSM and UMTS businesses require individual licenses. The duration of any particular license or spectrum usage right depends on the legal framework in the respective country. Most countries limit the duration of licenses or usage rights to between three and 30 years. However, generally, in the United Kingdom and in the United States renewal of licenses is perpetual.

In addition, T-Systems co-operates with duly licensed operators and service providers in those countries where T-Systems does not maintain its own operators' licenses. In the event that T-Systems has not obtained a required license or otherwise entered into a cooperation arrangement with a licensed operator, T-Systems may be subject to penalties and sanctions, including criminal prosecution, in some countries.

Subsidiaries of Deutsche Telekom Group in Central and Eastern Europe

Deutsche Telekom's subsidiaries in Central and Eastern Europe are subject to the laws and regulations of their respective countries, *i.e.*, Slovakia, Hungary, Croatia and Macedonia. Regulation in Croatia and Macedonia is moving toward the European Union's current regulatory framework on electronic communications, whereas it has already been implemented in Hungary and Slovakia. This development may lead to stricter regulation and enforcement, even in countries that are not yet member states of the European Union.

Under the new legislation in Hungary and Slovakia, which implements the new E.U. regulatory framework for electronic communications, the national regulators can now impose the full range of remedies provided by E.U. law, especially those contained in the Directive 2002/19/EC of the European Parliament and of the Council of March 7, 2002, on access to, and interconnection of, electronic communications networks and associated facilities (the "Access Directive"), on telecommunications providers with significant market power. Among the remedies that may be imposed are obligations:

(a) to disclose information on the terms of interconnection and network access to competitors;

(b) to treat competitors in a non-discriminatory manner;

(c) to keep separate accounts for activities related to interconnection and network access;

(d) to grant competitors network access; and

(e) to comply with wholesale and (under certain additional conditions) retail price controls.

Furthermore, SMP operators may be required to implement carrier selection and carrier pre-selection, which allow customers to choose a provider other than the incumbent to route and bill their calls. However, all of these remedies may only be applied after the national regulator has conducted a prescribed analysis of the relevant market, showing that regulatory intervention is justified and proportionate.

At the same time, the fixed-line operations of Deutsche Telekom's subsidiaries in Central and Eastern Europe are facing strong competition from mobile operators and, to a lesser degree, from VoIP operators. The business impact of increased regulation on Deutsche Telekom's subsidiaries in Central and Eastern Europe will depend on the way in which national regulatory authorities use their newly acquired powers and on whether competitors take advantage of regulatory decisions in their favor. However, increased pressures on prices and market shares are expected.

Slovakia

Regulation of Fixed-Line Business

The Slovak fixed-line telecommunications market was fully liberalized on January 1, 2003, and Slovakia became a full member state of the European Union on May 1, 2004. Correspondingly, a new "Act on Electronic Communications" entered into force on January 1, 2004, implementing the new E.U. regulatory framework. Some secondary legislation was issued in 2004, but we expect the adoption of further secondary legislation to continue during 2005. All obligations emanating from the previous telecommunications law (cost-oriented interconnection, accounting separation, carrier selection, and provision of an offer of a minimum set of leased lines) remain valid until the Telecommunications Office of the Slovak Republic (the "Slovak telecommunications regulator") defines new remedies within the specified market analysis procedures.

Deutsche Telekom's subsidiary in Slovakia, Slovak Telecom (the incumbent operator), was required to issue a mandatory reference interconnection offer under the previous telecommunications law at the same time the fixed telecommunication market was liberalized on January 1, 2003. However, no interconnection agreement is currently in operation. In 2004, Slovak Telecom was obliged by the Slovak telecommunications regulator to amend its reference interconnection offer and has accordingly submitted a new offer. Among the major changes required are a new pricing methodology based on benchmarks and an obligation to grant competitors co-location rights. The new pricing rules will lead to lower interconnection prices, which may accelerate Slovak Telecom's loss of market share in the retail market.

The Slovak telecommunications regulator has begun to implement market analysis procedures for the Slovak fixed and mobile wholesale markets, and Slovak Telecom has thus far been found to have SMP in the following markets: fixed network termination, fixed network call origination, and unbundled local loop markets. In a draft decision submitted to the E.U. Commission, the Slovak telecommunications regulator has proposed to apply all of the possible regulatory remedies applicable to market participants with SMP. We expect the processes for these markets to be completed by the end of the first quarter of 2005. The SMP proposition in the draft decision implies that Slovak Telecom will have to implement a new reference interconnection offer and the first reference unbundling offers. We further expect the Slovak telecommunications regulator to continue implementing the market analysis procedures for the remaining markets in 2005.

A new obligation, number portability, became effective on May 1, 2004. However, because the secondary legislation defining implementation details has not yet been adopted, and fixed interconnection is not yet implemented (*i.e.,* Slovak Telecom's network is not yet being interconnected with another network), this service is not yet available to customers in Slovakia.

On August 27, 2004, the Slovak Ministry of Transport and Telecommunication issued a decree regarding the financing of the universal service obligation. This decree will have a significant impact on Slovak Telecom as soon as the Slovak telecommunications regulator designates Slovak Telecom as a universal service provider, as expected. Simultaneously, the Slovak telecommunications regulator may also regulate the detailed scope of services and prices to be offered by Slovak Telecom, including further tariff packages for socially disadvantaged groups. The financial impact will depend on the details of the tariff schemes required.

Regulation of Mobile Business

Once the market analysis procedures prescribed by the new E.U. regulatory framework have been concluded in Slovakia, the Slovak telecommunications regulator can impose remedies on mobile network operators found to have SMP in sub-segments of the mobile markets. For more information, see " Subsidiaries of Deutsche Telekom Group in Central and Eastern Europe."

A draft decision by the Slovak telecommunications regulator for the mobile voice call termination market considers the applicability of SMP status to both of the two Slovak mobile services operators and discusses the imposition of all available remedies, including price controls, on both operators. We expect further decisions concerning access and international roaming during the course of the Slovak telecommunications regulator's ongoing market analysis procedure.

Hungary

Regulation of Fixed-Line Business

On November 24, 2003, the Hungarian Parliament adopted a new telecommunications law. Under this law, our Hungarian subsidiary, Matáv, the largest operator of local access networks in Hungary, is regulated by the Hungarian Communications Authority ("NHH"), which can impose the full range of remedies provided by the new E.U. law regarding telecommunications providers with SMP. For more information, see " International Regulation Subsidiaries of Deutsche Telekom Group in Central and Eastern Europe." In addition to these remedies, the NHH is empowered to examine whether the relationship between Matáv's wholesale and retail prices constitutes unfair price competition with respect to its competitors. If such a violation were found to exist, Matáv would be required to adjust its prices correspondingly, and could be fined for its past behavior. However, in September 2004, that authority formally ended an investigation into the relationship between some of Matáv's retail tariff packages and the corresponding wholesale prices, stating that the alleged unfair price competition could not be proved. At the moment, no further NHH investigation is expected on this issue.

Although some competition within the fixed-line network has existed in Hungary for several years, Matáv still possesses substantial market shares in many telecommunications markets within Hungary. Therefore, it is likely that Matáv will be found to have SMP in a large number of the markets currently subject to regulation under the NHH's ongoing market analysis procedures. As a result, it is likely that certain regulatory obligations, including those governing the terms and conditions of network access, will be imposed on Matáv, leading to a loss of market share in at least some segments of the markets in which it is operating. At this point, the company cannot fully anticipate the combined impact of these changes on its business and results of operations. Matáv's business and results of operations may be adversely affected by the result of some market analysis procedures, while others may lead to the termination of Matáv's SMP status and the removal of related regulatory obligations.

The NHH's analysis of Hungary's electronic communications markets has experienced some delay and began only in August 2004, but several draft decisions regarding the fixed-line markets have been issued to date. According to the draft decisions regarding the markets for access to the public telephone network at a fixed location for residential customers and non-residential customers, the NHH proposes to subject Matáv's prices to a price-cap formula. According to this formula, subscriber line prices may not be raised by a higher percentage than the inflation rate during the reference period. According to the draft decisions relating to the markets for publicly available local and/or national telephone services and international telephone services provided at a fixed location for residential customers and non-residential customers, Matáv would no longer be subject to controls of its call prices, but would incur an obligation to offer carrier selection/carrier pre-selection under Article 19 of the Universal Service Directive. In its comments on the aforementioned draft decisions of the NHH, the E.U. Commission has partly questioned the appropriateness and proportionately of the remedies proposed. The NHH may now adopt the proposed measures taking the utmost account of the E.U. Commission's comments and comments made by other national regulators.

The removal of price controls in retail call markets would allow for greater pricing flexibility. However, Matáv's maneuvering space is in fact restricted by existing competition with mobile, cable telephony and fixed-line competitors. Competition has been further facilitated by geographical and non-geographical number portability, which was introduced into the fixed-line network on January 1, 2004. By the end of October 2004, Matáv suffered a net loss of 43,186 lines as a result of number portability.

T-Com also expect that continuing or increased wholesale market regulation (*e.g.*, additional obligations regarding the provision of leased lines, call termination charges and wholesale products for broadband access), will have a negative impact on Matáv's margins. According to the draft decisions of the Hungarian regulator for these markets, obligations on call origination and termination, unbundling, price regulation and broadband local bitstream access would remain in force, and new obligations including retail price regulations for the leased line termination segment and broadband national bitstream access would be introduced, while all current remedies concerning call transit and leased line trunk segments would be lifted. However, these decisions are not yet effective.

As in previous years, Matáv will most likely also have to submit reference offers for interconnection and unbundling to the NHH for approval. In the market for wholesale call origination, Matáv has been designated as having significant market power, along with the other access network operators (Emitel, Monortel, HTCC and Invitel), and would therefore be subject to price regulation. The financial impact such price regulation may have cannot be calculated at this point.

Regulation of Mobile Business

T-Mobile Hungary operates under the conditions contained in its current GSM licenses for the 900 and the 1800 MHz frequency bands. Among these is the requirement to pay yearly frequency usage fees, which amounted to approximately EUR 20 million in 2004. While the concession fee of approximately EUR 45 million for the 900 MHz license has been fully paid, T-Mobile Hungary has paid an annual concession fee of USD 1 million since the commencement of the 1800 MHz service. Furthermore, as a result of a public tender, T-Mobile Hungary was also awarded a UMTS license in December 2004, and will have to pay the relevant license fee and comply with the conditions contained in the license. T-Mobile Hungary is also subject to regulatory obligations imposed as a result of market analyses carried out by the NHH. As to the wholesale market for call origination on mobile networks, the NHH decided in September 2004 to abstain from regulatory intervention. In the NHH's view, competition for call origination on mobile networks is effective and does not warrant imposing regulatory remedies. Effective competition was also found to exist on the market for international roaming services. In another decision, however, the NHH designated T-Mobile Hungary, Vodafone and Pannon GSM as having significant market power on the wholesale market for call termination on mobile networks. As a result, each of these companies is required to grant access to specific network facilities, act in a transparent and non-discriminatory manner, keep separate accounts and comply with price controls. Both NHH decisions have been approved by the E.U. Commission; accordingly, they can be expected to take effect in due course. The gradual decrease in mobile termination rates resulting from this regulatory intervention will reduce T-Mobile's revenues, even if growth in its subscriber base and in average revenue per user should offset losses to some extent. With a loss of only 15,375 customers, mobile number portability, which has been in effect since May 1, 2004, has had a negligible effect on T-Mobile Hungary so far.

Macedonia

Although Macedonia is not currently a candidate for accession to the European Union, a new Macedonian telecommunications act is being prepared to more closely align its telecommunication regulations with E.U. practice. MakTel's monopoly rights in the Macedonian telecommunications market expired on December 31, 2004, making it now possible for other network and service providers to enter the Macedonian communications markets upon receiving a license from the government. Some new competitors are expected to enter the market, but only after the adoption of the new telecommunications act, which will have a significant impact on competitors' business decisions. According to the governement's schedule, the new law should enter into force in March 2005.

The need to be prepared for a competitive environment has made it necessary for MakTel to carry out some changes in its retail tariffs during 2004. For example, MakTel shortened the duration of the pulse interval used for billing purposes; further rebalancing of retail prices might become necessary. While T-Com believes such steps would keep overall revenues stable, they could lead to a loss of market share and customers.

In addition, prior to the liberalization of the Macedonian communications markets, MakTel had already concluded national interconnection agreements with the two mobile telephone operators, MobiMak (MakTel's own subsidiary) and Cosmofon. Mobile network operators in Macedonia are currently not subject to price regulation. However, according to the draft telecommunications act, mobile companies would also be required to prepare reference interconnection offers.

Croatia

Regulation of Fixed-line Business

In June 2004, the European Union officially granted Croatia accession country status. Accession negotiations are expected to begin in 2005, but a specific date for accession has not yet been determined. This means that the current regulatory regime, based on the Croatian Telecommunications Act of 2003 (the "Croatian Telecommunications Act"), which brought the country's legal framework roughly in line with the pre-2002 regulatory framework of the European Union, will have to be adjusted during the accession preparations to match the new E.U. regulatory framework by the time of accession.

The Croatian Telecommunications Act conferred new powers on the Croatian regulator, the Telecommunications Agency (the "Croatian telecommunications regulator"). New members of the Council of the Croatian telecommunications regulator were not appointed until October 2004, and it remains to be seen in 2005 how they will use their new powers. In September 2004, Deutsche Telekom's Croatian subsidiary, T-Hrvatski Telekom, the Croatian incumbent, was designated as an operator with SMP in the interconnection market and in the market for public voice services on the fixed network. In this context, the Croatian telecommunications regulator can, among other things, regulate access and connection charges as well as conditions for interconnection. This could have a detrimental impact on T-Hrvatski Telekom's revenues, especially as competition in the fixed-line network begins to unfold, with two national licenses for public voice services on the fixed network having been issued in 2004. In line with its obligations, T-Hrvatski Telekom has submitted a reference interconnection offer that has meanwhile been approved by the Croatian telecommunications regulator. Furthermore, T-Hrvatski Telekom's operations in Croatia are negatively affected by provisions of the Croatian Telecommunications Act that exclude financial compensation for universal service if the obligated provider has a market share of more than 80%, and require telecommunications network operators to carry out government wiretapping requests without reimbursement of costs.

The Croatian telecommunications Act and secondary legislation that has recently been adopted obliges T-Hrvatski Telekom to provide unbundling of the local loop, carrier pre-selection, and number portability from January 1, 2005. T-Mobile Hrvatska, a 100% subsidiary of T-Hrvatski Telekom, will have to provide number portability as of June 30, 2005. However, decisions on issues concerning the technical implementation of number portability (*e.g.,* rules for calculation and distribution of costs related to number portabilty, and the establishment and maintenance of the database of ported numbers, *etc.*) still have to be made by the Croatian telecommunications regulator, before customers can effectively avail themselves of number portability.

Also, a secondary regulation of telecommunications services entered into force on December 31, 2004. It regulates, among others, voice and leased lines services, internet services (including VoIP) and value-added services, and provides for a single price approval mechanism to be imposed on T-Hrvatski Telekom due to its SMP status. This will clearly reduce the flexibility of T-Hrvatski Telekom's pricing policy. The regulation also provides the Croatian telecommunications regulator pre-approval controls over T-Hrvatski Telekom's terms and conditions for network access requested by value-added service providers, ISPs and VoIP providers. T-Hrvatski Telekom has to submit terms and conditions for access to its network, which are in line with the new regulation, to the Croatian telecommunications regulator by March 1, 2005.

Secondary legislation complementary to the Croatian Telecommunications Act, regarding the universal service obligation and local-loop unbundling has not yet been adopted and may have far-reaching consequences for competition in the market and for T-Hrvatski Telekom's business.

Tariff rebalancing introduced by T-Hrvatski Telekom in 2001 has been the object of litigation initiated by several consumers seeking compensation. They are supported by a Croatian consumer protection organization. This case is ongoing. If the court were to decide in favor of the plaintiffs, this would set a precedent that could lead to a large number of similar compensation requests against T-Hrvatski Telekom. In addition, depending on the outcome, T-Hrvatski Telekom might have to adjust its tariff system for public voice services. In January 2004, the Croatian State Inspectorate began an inspection of T-Hrvatski Telekom regarding implementation of its obligations under the Croatian Consumer Protection Law, which states that prices for services of general public interest (including telecommunications services) must, when the nature of the service allows, be calculated on the basis of expenditure during an accounting period, by applying a tariff system pursuant to specific rules. This legal obligation has applied to T-Hrvatski Telekom since September 9, 2003, when the consumer protection law entered into force. Finally, T-Hrvatski Telekom submitted to the Croatian telecommunications regulator a new optional pricing system for fixed telecommunications tariffs on March 1, 2005. If approved, the optional tariff package with one-second billing intervals is expected to ease public pressure on T-Hrvatski Telekom with a positive effect on both the State Inspectorate and the Court case regarding tariff rebalancing.

Regulation of Mobile Business

A third GSM/DCS 1800 license and three UMTS licenses were put out to tender by the Croatian government in the autumn of 2004. The two existing mobile operators, T-Mobile Hrvatska and VIPnet, were each granted a UMTS license for the period of 20 years. A third combined GSM/DCS 1800 and UMTS license was issued to the Croatian-Swedish Consortium, Tele2, on December 21, 2004.

A national roaming obligation was introduced in April 2004, which applies to all concessionaires of public telecommunications services that use the radio-frequency spectrum in the GSM/DCS 1800 network. A new market entrant may request national roaming after achieving a minimum of 20% national coverage. VIPnet has filed a constitutional complaint with the Croatian Constitutional Court, disputing the legality of this obligation; the case is still pending. If the national roaming obligation is upheld, the entry into the market of the third licensed mobile operator is likely to lead to decreasing market shares for the two existing operators, VIPnet and T-Mobile Hrvatska.

T-Mobile Hrvatska and VIPnet were designated by the regulator as operators with SMP in the market for public voice services in mobile networks and for the interconnection market. This decision of the regulator will have a significant impact on the current financial position of the two mobile operators, because, pursuant to this decision, their interconnection prices have become subject to a specific control regime. Namely, according to the applicable laws, prices for interconnection of mobile operators that are designated as operators with significant market power on the interconnection market have to be determined in accordance with the principles of transparency and cost-orientation, and must be based on the actual costs of the service provided, including a reasonable rate of return on investments.

The previous Croatian telecommunications regulatory authority had initiated an investigation into the interconnection prices agreed between the two existing mobile operators, T-Mobile Hrvatska and VIPnet; the case is still pending. The outcome of this case cannot be predicted at this point.

ERONET, one of three mobile network operators in Bosnia and Herzegovina, in which T-Hrvatski Telekom owns a stake of 49%, could experience problems regarding the legal basis of its mobile operations in the near future. In an auction by the federal government of Bosnia and Herzegovina in 2004, ERONET did not receive a GSM license, but HT Mostar did. Therefore, ERONET concluded a contract with HT Mostar in order to be able to provide mobile services to its customers. HT Mostar has in the meantime been confirmed by a court decision as the rightful majority owner of ERONET, with a stake of 51%. The current contract between ERONET and HT Mostar expires on March 31, 2005. In order to continue its operations after the expiration of this short-term contract, ERONET must renegotiate its relationship with HT Mostar. It is currently expected that these negotiations will not encounter major difficulties.

International Mobile Regulation

USA: T-Mobile USA

Our U.S. operations are regulated by the FCC pursuant to the Communications Act of 1934 (the "U.S. Communications Act") and the Telecommunications Act of 1996 (the "U.S. Telecommunications Act") (collectively, the "Acts") and by various other federal, state and local government bodies. Any of these agencies could adopt regulations or take other actions that could adversely affect our business. If we fail to comply with applicable regulations, we may be subject to sanctions, which may have an adverse effect on our wireless business in the United States. FCC regulations applicable to Commercial Mobile Radio Service ("CMRS") operators include, among other things, required service features and capabilities, such as number pooling and portability and emergency 911 service. The FCC does not regulate the rates charged by CMRS operators.

The FCC generally assigns spectrum licenses for commercial operations through competitive bidding, or auctions. T-Mobile USA operates exclusively in the PCS frequency bands at 1900 MHz. T-Mobile USA's ability to expand coverage and provide additional capacity to handle its growing customer base and new service offerings is limited to those markets where we have obtained or can obtain licenses with sufficient spectrum to provide voice, data and other services, or enter into roaming or leasing arrangements with other GSM carriers. T-Mobile USA will continue to seek opportunities where appropriate to acquire additional spectrum licenses, systems and/or operators, or enter into joint ventures, which will add to its current footprint or increase its spectrum capacity. The FCC periodically makes additional spectrum available via competitive bidding, and has specifically identified 90 MHz of spectrum in the 1.7 GHz/2.1 GHz range, and 20 MHz in the 1.9 GHz/2.1 GHz range, for "advanced wireless services," including 3G wireless services, which it is expected to auction in 2006.

Spectrum licensees are also subject to other FCC and governmental rules and various recent industry developments that may affect U.S. operations, as follows:

Renewal and construction requirements of spectrum licenses: Our CMRS spectrum licenses have a ten-year term, after which they must be renewed with the FCC. Renewal generally will be granted to a spectrum licensee that has: (1) met its construction requirements during its past spectrum license term, and (2) substantially complied with applicable FCC rules and policies and the Acts.

Foreign ownership: The U.S. Communications Act limits direct foreign ownership in a FCC spectrum license to 20%. The U.S. Communications Act also mandates that no more than 25% of a FCC spectrum licensee's capital stock may be indirectly owned or voted on by non-U.S. citizens or their representatives, by a foreign government, or by a foreign corporation, absent an FCC finding that a higher level of foreign ownership is not inconsistent with the public interest. In connection with the VoiceStream and Powertel mergers, the FCC authorized indirect foreign ownership of T-Mobile USA's licenses in excess of 25%.

Enhanced 911: The FCC has established timetables for making emergency 911 services available by cellular, PCS, and other commercial mobile service providers, including enhanced 911 ("E911") services, which provide the caller's telephone number, location and other useful information. Fundamentally, such carriers have an ongoing obligation to comply with various implementation standards and deadlines imposed by the FCC relating to E911. In July 2003, T-Mobile USA entered into a consent decree with the FCC governing the deployment and provision of E-911 "Phase II" services, and the FCC required as part of the decree that T-Mobile USA make a "voluntary contribution" in the amount of USD 1.1 million to the U.S. Treasury. The consent decree contains a number of equipment deployment benchmarks stretching into 2005, as well as benchmarks related to the deployment of Phase II service continuing into the future. Failure to meet the benchmarks contained in the consent decree could result in initiation of additional enforcement actions against T-Mobile USA, including significant monetary fines.

Local Exchange Carrier/CMRS interconnection: FCC rules require local exchange carriers ("LECs") to provide CMRS carriers interconnection within a reasonable time after it is requested, unless such interconnection is not technically feasible or not economically reasonable. Interconnection allows the completion of calls between wireless and wireline phones. FCC intercarrier compensation rules provide a framework for determining the levels of reciprocal compensation (for traffic originating/terminating in a local area) and access charges (for non-local traffic). In 2001, the FCC embarked on a wide-ranging examination of intercarrier compensation methodologies, which may result in substantial modification of its interconnection rules, and may materially affect T-Mobile USA's operations. This examination includes more than one proceeding and includes continued uncertainly over a provision that permits CMRS to pay the lower ISP rate as the rate for mobile calls terminating at the LEC. The positive or negative impact of such modifications cannot be determined until the FCC issues decisions in these proceedings. The FCC adopted a further notice of proposed rulemaking on these issues in February 2005, but it is still too early to predict what the outcome of this proceeding will be.

Wireless local number portability: CMRS carriers are required under FCC rules to provide wireless local number portability ("LNP"), which enables customers to migrate their landline telephone numbers to a CMRS carrier and *vice versa*, and to migrate their CMRS telephone numbers from one CMRS carrier to another CMRS carrier. CMRS carriers were required to implement LNP in the top 100 metropolitan service areas by November 24, 2003, and in the remainder of the United States by May 24, 2004. T-Mobile USA has incurred substantial costs in complying with this requirement. Its experience since the introduction of wireless LNP suggests that the increased ability of customers to change their wireless service providers has had no significant impact on its business thus far.

CALEA: The Communications Assistance for Law Enforcement Act ("CALEA") requires telecommunications carriers to ensure that their facilities are technically capable of assisting law enforcement officials' use of wiretaps and similar devices to intercept or isolate customer communications. All CMRS carriers must comply with CALEA. In addition, T-Mobile is subject to an agreement with the Federal Bureau of Investigation and Department of Justice, which imposes on us certain operational and other requirements designed to ensure that we can effectively respond to, and implement, such wiretap and other information requests by law enforcement agencies. We expect the FCC to complete a rulemaking this year to address the applicability of CALEA to packet-based services, such as broadband Internet access.

Regulation on the state and local level: Some states, through their respective public utility commissions, or through other means, have taken, or are seeking to take, actions to regulate various aspects of wireless operations, including customer billing, termination of service arrangements, advertising, the filing of "informational" tariffs and certification of operations. For example, last year the California PUC adopted extensive consumer protection regulations for all telecommunications carriers. Although these rules are currently subject to a stay by the California PUC while it considers potential modifications, other states are also considering adopting rules governing various consumer issues, either through regulation or legislation. These developments have significantly affected, or have the potential to significantly affect, T-Mobile USA's business practices with respect to many aspects of the carrier-customer relationship, including solicitations, marketing, activations, billing and customer care. At the local level, wireless facilities typically are also subject to zoning and land use regulation, and may be subject to fees for use of public rights-of-way. T-Mobile USA's access to additional sites to install wireless facilities is a key component of its ability to continue to deploy wireless services in an effective manner.

United Kingdom: T-Mobile UK

Legal Framework

The principal legislation governing mobile telecommunications networks and services in the United Kingdom is the Communications Act 2003 (the "CA") and the Wireless Telegraphy Acts 1949-1998, as amended by the CA (the "WTA"). Under this legislation, regulation of the telecommunications industry was, until December 29, 2003, conducted by the Secretary of State for Trade and Industry together with the Office of Telecommunications ("Oftel") and the Radiocommunications Agency and, since December 29, 2003, has been conducted by the Office of Communications ("Ofcom"), with a much-reduced role for the U.K. Secretary of State for Trade and Industry.

Implementing the new E.U. regulatory framework under the CA, Oftel had undertaken a market review of mobile access and call origination and concluded in December 2003 that no supplier had SMP, either individually or in combination with one or more other suppliers. The findings of Oftel were accepted by the E.U. Commission. A further market review conducted by Oftel and its successor Ofcom on wholesale call termination is described below.

In December 2004, Ofcom initiated work on a review of the market for wholesale international roaming. The initial stage of this review is being co-ordinated by Ofcom, with the other members of the ERG and the E.U. Commission, as part of a pilot project to see if NRAs, such as Ofcom, can reach a common approach, possibly resulting in a regulation of wholesale roaming services. A formal market review is expected to be launched in April 2005. As a consequence, T-Mobile UK may be obliged to lower the wholesale roaming tariffs it charges to foreign operators.

Licensing and Frequency Allocation

T-Mobile UK holds a WTA license to operate digital telecommunications systems for frequencies in the 1800 MHz band. Following an auction, T-Mobile UK was awarded a UMTS license allocating frequency packages of 2 × 10 MHz paired spectrum and 5 MHz unpaired spectrum. Ofcom introduced spectrum trading in the United Kingdom in December 2004, although T-Mobile UK's GSM and UMTS licences will not be tradable until 2007, at the earliest. Ofcom is currently conducting a major review of spectrum management policy, which will involve the auctioning over the next 2-3 years of 12 bands of spectrum, which may be used for competing mobile services. It has proposed that this spectrum will be auctioned on a technology- and service-neutral basis. Only bidders that acquire spectrum currently designated for UMTS services will be permitted to provide such services prior to 2007, although the current proposal is that licensees other than fixed-wireless access licensees who have acquired spectrum at auctions will be able to provide other mobile services. T-Mobile UK and the other GSM operators in the United Kingdom may be able to change the use of their GSM spectrum in 2007, for example to use it for UMTS services, but the terms on which they may be able to do this are not yet clear.

WTA GSM License

T-Mobile UK's GSM license will remain in force until T-Mobile UK surrenders it, and is subject to variation or revocation on one year's notice by the U.K. Secretary of State for Trade and Industry in the event of failure to pay license fees, in the interests of national security, to comply with E.U. obligations, for breach of the license terms or for reasons relating to the management of the radio spectrum. T-Mobile UK is also licensed under the WTA to operate microwave links. Most WTA licences are not currently transferable, although spectrum trading is being introduced in stages in the United Kingdom. The spectrum initially tradeable includes that used for microwave links. When spectrum trading is extended to T-Mobile UK's GSM licence it is likely that its term will change, probably to a five-year rolling term. Other terms of WTA licences will also change with the introduction of spectrum liberalization.

T-Mobile UK's WTA licenses specify the performance and technical requirements with which it must comply. The Secretary of State for Trade and Industry may restrict the operations of mobile telegraphy stations or may close stations temporarily or permanently if T-Mobile UK breaches its WTA license conditions. T-Mobile UK may also be required to modify or restrict its use of, or permanently close down, radio equipment if a state of emergency is declared or in the interests of long-term spectrum planning.

T-Mobile UK's most recent annual license fee for GSM spectrum was GBP 16.6 million (approximately EUR 23.4 million). T-Mobile UK's most recent annual license fee for microwave links was GBP 3.5 million. Ofcom has recently consulted with operators and generally on proposals to revise fees. This is likely to result in an increased fee for microwave links, but not for GSM spectrum, until 2007. Likely fees for GSM spectrum after 2007 are currently unclear.

WTA UMTS License

T-Mobile's UMTS license was one of five licenses issued following the UMTS auction in the United Kingdom in 2000. T-Mobile UK's license was issued on May 9, 2000, and will remain in force until December 31, 2021, unless it is revoked by the Secretary of State for Trade and Industry or surrendered earlier. The UMTS license may be revoked in circumstances similar to those that permit revocation of the WTA GSM license, but also due to material breach of the U.K. UMTS auction rules or if the UMTS network does not cover 80% of the U.K. population by the end of 2007. It cannot be revoked for reasons relating to the management of radio spectrum. Ofcom has published draft guidance on the interpretation of the coverage obligation in its UMTS licence, upon which it will consult with licensees and others until March 2005.

T-Mobile UK does not have any obligation to provide national roaming to third parties. However, in 2003 Oftel undertook a consultation on proposals to require, among others, T-Mobile UK to offer GSM national roaming if requested by the new entrant UMTS mobile operator "3". All U.K. GSM licensees objected to this proposal. Ofcom issued a consultation in 2004 on whether it has the power to impose such a condition if it is needed and proposed guidelines to be applied if it is required to determine a national roaming agreement. Ofcom has stated that it will not publish its conclusions, pending the outcome of a tendering process for national roaming, to be conducted by "3".

Interconnection and Price Regulation

Oftel published the results of its E.U. market review of call termination rates on December 19, 2003. Ofcom published its final statement on June 1, 2004. As a result, T-Mobile UK is required to reduce its prices so that the average price for call termination for the seven months from September 1, 2004, to March 31, 2005, is below GBP 0.0631 per minute (based on weighted volumes from September 2003 to March 2004) and the average for the year April 1, 2005, to March 31, 2006, is at or below the average of the rates for September 2004 to March 2005. The relevant reductions were implemented by T-Mobile UK on September 1, 2004.

In addition, Ofcom has imposed conditions requiring:

(1) the provision of network access for GSM call termination;

(2) no undue discrimination in the provision of such access;

(3) a requirement to provide Ofcom with copies of new or amended access agreements; and

(4) prior notification of price changes.

Ofcom has indicated that it will commence a further market review of the wholesale mobile call termination market in 2005.

U.K. Competition Law

The Competition Act 1998 (the "Competition Act") became effective on March 1, 2000, and the Enterprise Act 2002 (the "Enterprise Act") became effective on June 20, 2003. The U.K. Office of Fair Trading and other sector-specific regulators, including Ofcom, are responsible for applying and enforcing both of these acts. The Competition Act prohibits agreements between undertakings, decisions by associations of undertakings, or concerted practices, that have the effect of preventing or distorting competition in the United Kingdom, and also prohibits conduct that amounts to abuse of a dominant position in a market in the United Kingdom. The Enterprise Act prohibits cartels as well as creates criminal offenses for breaches of the cartel provisions of the Enterprise Act, which also apply to directors and other officers involved in the prohibited conduct. Both the Enterprise Act and the Competition Act give Ofcom and the Office of Fair Trading concurrent jurisdiction to apply and enforce these acts in the telecommunications sector. Ofcom is, among other things, empowered to carry out investigations into suspected breaches, including requiring the production of documents and information and searching of premises. The Competition Act also enables affected third parties to bring enforcement actions in the U.K. courts directly against telecommunications operators who are allegedly in breach of the Competition Act's prohibitions and seek damages.

The Netherlands: T-Mobile Netherlands

Regulatory Framework

Regulatory supervision of the Dutch Telecommunications Act (1998) (the "Dutch Telecommunications Act") is mainly carried out by the Independent Post and Telecommunications

Authority ("OPTA"). On the basis of the new E.U. regulatory framework, the Dutch Telecommunications Act became amended effective May 19, 2004.

Market analysis

Following the new E.U. regulatory framework, OPTA has begun analyses of several markets within the mobile telecommunications market, which could have negative consequences for T-Mobile Netherlands' business. The affected markets include the market for wholesale voice call termination and the market for access and call origination.

In December 2004, OPTA initiated the review of the market for wholesale international roaming. These activities are being coordinated by the ERG and the E.U. Commission in order to allow NRAs, including OPTA, to reach a common approach, possibly resulting in a regulation of wholesale roaming services. As a consequence, T-Mobile Netherlands may be obliged to lower the wholesale roaming tariffs it charges to foreign operators.

Licensing and Frequency Allocation

In 1998, national and regional licenses were awarded for the commercial use of frequencies on the basis of the GSM standard (DCS 1800 MHz). T-Mobile Netherlands acquired six of these regional licences, which together allow for nationwide coverage. These licenses will expire in 2013. There are four additional national GSM licenses (GSM 900 MHz and/or DCS 1800 MHz) assigned to other mobile operators in the Netherlands.

In 2000, T-Mobile Netherlands was granted one of five national UMTS licenses, which license will expire in 2016. Under the terms of this license, T-Mobile Netherlands must achieve coverage of all cities with more than 25,000 inhabitants, as well as all major highways, by January 1, 2007.

The Dutch Ministry of Economic Affairs has published a draft proposal for a law that would facilitate trading, transfer and combination of all or a portion of frequency spectrum.

Interconnection

Following investigations by OPTA and the Dutch competition authority into mobile call termination tariffs, all Dutch licensed mobile telecommunications operators voluntarily agreed to amend call termination tariffs from January 1, 2004, to December 1, 2006. Under this agreement, the Dutch mobile operators may not exceed certain flat-rate and per-minute tariffs in accordance with a specific schedule.

As a result of these voluntary decreases, the Dutch competition authority has formally ceased its investigation into suspected excessive pricing. OPTA has decided to adhere to the voluntarily set tariffs until December 1, 2005, and has adopted the voluntary tariffs in its own policy recommendations. After December 1, 2005, on the basis of the new E.U. regulatory framework, OPTA may impose further decreases based on its market analysis procedures. Challenges by fixed operators to these volutary decreases have so far been denied by OPTA, against which appeals have been filed.

Access

On December 1, 2003, T-Mobile Netherlands was required by OPTA to negotiate an interconnection agreement with Yarosa (a SMS service provider), both for providing originating access and terminating access services. After several legal proceedings, the Trade and Industry Appeals Board ruled in the highest instance on November 24, 2004, that OPTA is not authorized to oblige T-Mobile Netherlands to negotiate on the basis of the access requests by Yarosa, thus concluding the case successfully for T-Mobile.

Competition Law

The Dutch Competition Act became effective January 1, 1998, and simultaneously the Netherlands Competition Authority (the "NMa") was created. The Dutch Competition Act is based on, and is closely linked to, E.U. competition law. The Dutch Competiton Act is based on a system very similar to that of Articles 81 and 82 of the E.C. Treaty. The Dutch Competition Act also includes a system of preventative concentration control, which is very similar to the Merger Regulation.

According to Article 6 of the Dutch Competition Act, agreements, decisions and concerted practices are prohibited if they have, as their objective or effect, the prevention, restriction or distortion of competition. According to Article 24 of the Dutch Competition Act, undertakings are also prohibited from abusing a dominant position; the criteria of Article 82 of the E.C. Treaty apply.

As part of the enforcement of the Dutch Competition Act, the NMa can impose fines which may not exceed 10% of an undertaking's turnover, which makes Dutch competition law consistent with E.U. competition law. In addition to the imposition of administrative fines, the NMa is authorized to impose interim measures and sanctions that are designed to ameliorate a violation.

According to a decision by the NMa on September 27, 2004, T-Mobile Netherlands was fined EUR 14.8 million for its alleged involvement in an anti-competitive scheme regarding dealer commissions carried out together with the four other Dutch mobile telecommunications operators. T-Mobile Netherlands and the other affected companies have filed an appeal of the NMa's decision on a variety of grounds.

Czech Republic: T-Mobile Czech Republic

Legal Framework

The legal framework for telecommunications in the Czech Republic is set by the Telecommunications Act No. 151/2000, which introduced full liberalization of the telecommunications sector in the Czech Republic on January 1, 2001. Regulatory supervision is carried out by the independent Czech Telecommunication Office (the "CTO"). The decisions of the CTO can be challenged in court (with the exception of price regulation decisions, which are issued by the CTO Chairman and are final).

The Czech Republic was obliged to implement the new E.U. regulatory framework for electronic communications by May 1, 2004 (the day of its accession to the European Union). However, the implementation has been delayed and the proposed new "Act on Electronic Communication" is expected to come into force during the second quarter of 2005. Once the new act is implemented, the CTO will begin market analysis procedures on the three mobile markets included in the E.U. Commission's recommendation on relevant product and services markets. For more information, see " The E.U. Regulatory Framework."

In December 2004, the CTO initiated a review of the market for wholesale international roaming. These activities are coordinated by the ERG and the E.U. Commission to allow NRAs, including the CTO, to reach a common approach, possibly resulting in a regulation of wholesale roaming services. As a consequence, T-Mobile Czech Republic may be obliged to lower the wholesale roaming tariffs it charges to foreign operators.

Licensing and Frequency Allocation

Frequencies and telephone numbers are to be allocated upon request on a non-discriminatory basis. There is a one-time allocation fee and further usage fees are paid to the CTO. The CTO can refuse frequency allocation if there are more requests than available frequencies. In that case, an auction or a "beauty contest" must be held. Frequency and number allocations are non-transferable and there is no secondary market for allocations. T-Mobile Czech Republic holds an allocation of frequencies in the 900 and 1800 MHz bands and, based on an auction, was awarded a UMTS license for 2x19.8 MHz FDD and 5 MHz TDD of spectrum and a part of the 28 GHz band. UMTS services must be launched by January 1, 2007, and must cover at least 90% of the city of Prague.

T-Mobile Czech Republic is a holder of the following individual licenses:

- Establishment and operation of a public GSM telecommunications network
- Establishment and operation of a public UMTS telecommunications network
- Provision of public telephone service via a public fixed telecommunications network
- Provision of public telephone service via a public mobile telecommunications network

In July 2004, the CTO allowed Eurotel Praha (one of three mobile operators owned by Ceský Telecom) to use the old analog 450 MHz spectrum for mobile broadband services. Considering Eurotel Praha owns an exclusive licence in this band and T-Mobile Czech Republic has so far not been successful in gaining access to that spectrum, this could have a negative impact on the business of T-Mobile Czech Republic.

Significant Market Power Designations

Operators designated as having SMP over a relevant market are subject to specific regulation:

- Provision of universal service (only fixed network SMPs)
- Obligation to allow access to the network

The CTO has designated T-Mobile Czech Republic as an operator having SMP relating to the markets for both the operation of a public mobile telephony network as well as the provision of public telephony service via public mobile telephony network. This designation obliges T-Mobile Czech Republic to agree to allow all authorized service providers and virtual mobile network operators to access its network. T-Mobile Czech Republic has not yet been approached with such requests.

Interconnection

All individually licensed network operators are obliged to interconnect upon request. If the requested operator refuses to interconnect (or to extend services included in an interconnection agreement), or the negotiations take more than 90 days, the CTO will make a decision concerning the interconnection, which is binding for both interconnection parties. The majority of interconnection services are price-regulated by the CTO (even when the interconnection was agreed without any intervention of the CTO). Fixed-mobile interconnection is regulated in the same way as fixed-fixed interconnection. For more information, see " Price Regulation." T-Mobile Czech Republic has signed interconnection agreements, and currently has interconnection in place, with the other two Czech mobile network operators and with all major Czech fixed network operators.

Price Regulation

Price regulation can be imposed on interconnection prices, prices of the services within the universal service obligation and, in the case of abuse of a dominant position, on any price that is anticompetitive. There is no specific price regulation approach defined by the Telecommunications Act No. 151/2000, but the CTO has determined that interconnection prices must be based on cost using either a long-run incremental costing methodology or a fully allocated historical cost approach.

Termination and origination charges for fixed networks are currently set using a long-run incremental cost method, whereas termination and origination charges for mobile networks are currently based upon fully-allocated historical costs. In March 2004, the CTO reduced mobile termination charges by 13%, compared to the price level determined in November 2001, based upon fully allocated historical costs. Further price decreases may be mandated in 2005.

Competition Law

The competition law framework in the Czech Republic is defined by the Act on Protection of Economic Competition No. 143/2001. This act focuses on the protection of economic competition, restrictive or other practices endangering economic competition by:

(1) agreements between competing companies;

(2) abuse of a dominant position by competing undertakings; or

(3) concentrations of competing companies.

The act prohibits the conclusion of agreements between competing undertakings leading to, or which may lead to, the distortion of economic competition. The act also prohibits the abuse of a dominant position by competing companies. The protection of economic competition falls within the competence of the Czech Antimonopoly Office. The Czech Antimonopoly Office is entitled, in particular, to impose sanctions for the breach of obligations under the Act on Protection of Economic Competition No. 143/2001. Such penalties may amount to as much as 10% of the net turnover of the breaching entity. The Czech Antimonopoly Office is also entitled to apply Articles 81 and 82 of the E.C. Treaty if agreements between undertakings or abusive practices have an effect on trade between Member States.

In its decision of July 20, 2001, the Czech Antimonopoly Office stipulated that T-Mobile Czech Republic abused its dominant position by charging CZK 1.00 higher prices for calls to the Oskar network than for calls to other mobile networks, and imposed a fine amounting to CZK 15 million. T-Mobile Czech Republic challenged the decision and on January 28, 2005, the decision of the Czech Antimonopoly Office was annulled by the Czech Supreme Administrative Court. The case has been returned to the Czech Antimonopoly Office for further consideration. For more information, see "Item 8. Financial Information Litigation."

In its decision of October 27, 2003, the Czech Antimonopoly Office stipulated that selected parts of the interconnection agreement between T-Mobile Czech Republic and Oskar are to be considered a prohibited horizontal cartel agreement and imposed a fines amounting to CZK 12 million. The Czech Antimonopoly Office argued that selected provisions of the interconnection agreement did not allow for indirect interconnection between the two networks. T-Mobile Czech Republic has challenged this decision of the Czech Antimonopoly Office through an administrative proceeding, but no decision in its challenge has yet been reached.

The issue of the protection of economic competition is also included in the Act on Prices No. 526/1990 Coll. This act stipulates that price regulation may be applied only in cases in which the market is threatened by the effects of restriction of economic competition, or if an extraordinary market situation requires such regulation. If the defined conditions are met, prices are most often regulated in the form of an issued price decision, which stipulates the maximum price. In the Czech Republic, prices for interconnection are frequently regulated. However, in the area of telecommunications services the Act on Prices No. 526/1990 will be abandoned in the near future, because the delayed Act on Electronic Communication is expected to provide for specific price regulation.

Austria: T-Mobile Austria

Legal Framework

On August 20, 2003, the new E.U. regulatory framework was implemented in Austria through the new Austrian Telecommunications Act. Regulatory supervision is carried out by the Telekom-Control-Kommission (the "TKK") and the Rundfunk und Telekom Regulierungs GmbH (the "RTR").

On October 20, 2003, the TKK commenced investigations into the following mobile markets:

- mobile access and call origination in public mobile networks (wholesale markets)
- call termination in individual public mobile networks (wholesale markets)

On October 27, 2004, the TKK came to the decision that T-Mobile Austria has SMP in its market for call termination in the public mobile networks and imposed the following remedies:

- No discrimination regarding the quality and price of the service "termination in the T-Mobile Austria network"
- Obligation to publish a reference interconnection offer within two months of the TKK decision
- Obligation to allow direct and indirect interconnection pursuant to § 41 of the new Austrian Telecommunications Act
- Obligation to charge termination fees based on the long-term incremental costs of an efficient operator ("LRAIC")

Following a public consultation by the TKK on the applicable LRAIC model, on March 9, 2005, TKK published a position paper on the cost calculation model to be used in the future; T-Mobile Austria may, as a consequence, be obliged to lower its wholesale termination charge.

In December 2004, the RTR initiated a review of the market for wholesale international roaming. These activities are coordinated by the ERG and the E.U. Commission to allow NRAs, including the RTR, to reach a common approach, possibly resulting in a regulation of wholesale roaming services. As a consequence, T-Mobile Austria may be obliged to lower the wholesale roaming tariffs it charges to foreign operators.

Allocation Of Frequencies

Due to the new Austrian Telecommunications Act, frequency trading is now permitted in Austria, including for GSM and UMTS frequencies. This may make it easier for T-Mobile Austria, and its competitors, to acquire additional frequencies.

Licensing and Frequency Allocation

T-Mobile Austria holds licences for GSM frequencies in the 900 and 1800 MHz bandwidths as well as for UMTS frequencies. In accordance with its license conditions, T-Mobile Austria initiated UMTS commercial service in December 2003. T-Mobile Austria's population coverage obligations under this license are 25% by December 31, 2003 and 50% by December 31, 2005, both of which have already been achieved.

Price Regulation and Interconnection

Price regulation may be applied to wholesale and retail prices. Currently there is no price regulation for retail prices in the Austrian mobile market, except for prices relating to mobile number portability. In terms of wholesale prices, the Austrian regulatory authority regulated T-Mobile Austria's

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call termination prices until September 30, 2003. As of October 1, 2003, T-Mobile Austria signed bilateral agreements with the main mobile and fixed-line operators. Further regulatory measures relating to termination prices may be undertaken as a result of applications before the Austrian regulatory authority by interconnection partners.

Other International Matters

Over 70 member countries of the World Trade Organization, including E.U. member states and the United States, have entered into the Basic Telecommunications Agreement (the "BTA"), in order to provide market access to some or all of their basic telecommunications services. This agreement took effect on February 5, 1998. The BTA is part of the General Agreement on Trade in Services, which is administered by the World Trade Organization. Under the BTA, signatories have made commitments to provide market access. Under such commitments, they are to refrain from imposing certain quotas or other quantitative restrictions in specified telecommunications services sectors, and are obligated to treat foreign telecommunications service suppliers no differently than national service suppliers. In addition, a number of signatories have agreed to the pro-competitive principles set forth in a reference paper relating to anti-competitive behavior, interconnection, universal service, transparency of licensing criteria, independence of the regulator and scarce resources.

In complaints filed by U.S. and European trade associations in December 2004, the U.S. Trade Representative (the "USTR") has been asked to determine whether certain aspects of the telecommunications regulatory situation in Germany comply with Germany's obligations under the BTA. The criticism involved relates to, among other things, long provisioning times for leased lines and excessive and discriminatory fixed-to-mobile termination rates. Concerning the 2004 amendments to the Telecommunications Act, the criticism is related, among other things, to the "functional competition" and "double dominance" tests and the lack of an independent regulator. The USTR probably will publish its 2004 annual report in April 2005.

On October 14, 2004, the FCC initiated a Notice of Inquiry to evaluate the effect of foreign mobile termination rates on U.S. consumers and competition. Mobile termination rates are the charges a mobile operator levies for completing calls originating on another carrier's network. It is still too early to determine whether this proceeding will ultimately result in any material change to termination rates outside the United States, including those charged by our wireless subsidiaries.

DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

Network Infrastructure

As a result of substantial investments in our telecommunications and cable networks since the early 1990s, we believe that T-Com's fixed-line network in Germany is one of the most technologically advanced networks in the world, with full digital switching and nearly 100% digital transmission capabilities. T-Com introduced ATM, WDM and SDH technologies as part of this advanced network. These advanced technologies not only provide much faster voice and data transmission, but also improved network management and network reliability.

During 2004, T-Com continued to expand the use of SDH technology. T-Com plans to further increase the use of WDM and SDH technologies corresponding to the demands of T-Com's customers in-line with its on-going broadband strategy.

As of December 31, 2004, T-Com's PSTN in Germany consisted of approximately 7,911 local networks connected by a long-distance transmission network. As of December 31, 2004, the transmission network linking our German local networks consisted of approximately 197,000 km of fiber-optic cable. T-Com's IP platform, the basis for various services offered to individual customers (especially access to the internet) as well as to business customers (*e.g.*, VPNs, connection of servers to the World Wide Web), consisted of 74 locations linked primarily through router technology.

The following table provides information on the length of T-Com's copper and fiber-optic lines in its access and transmission networks in Germany at December 31 in each of the years presented:

	Length in km	
Year	**Copper Cable**	**Fiber-Optic Cable**
2002	1.46 million	0.176 million
2003	1.47 million	0.195 million
2004	1.49 million	0.197 million

For more information about our network infrastructure, see " Description of Business and Divisions T-Com."

Global Network Factory

T-Systems' Global Network Factory manages the development, construction and operation of T-Systems' global network outside Germany, including its own 2.5 Gigabyte SDH network connecting major European cities. These international networks have partially migrated into fiber-optic and WDM systems. These newer networks include leased wavelengths up to multiples of 10 Gigabyte leased capacity (*e.g.,* leased lines from providers other than Deutsche Telekom), with state of the art SDH, Sonet, IP, MPLS and ATM Frame Relay, as well as digital voice and VoIP platforms.

Cable and Satellite Transmission Infrastructure

T-Systems' global transmission infrastructure consists of both cable (underground and submarine cables) and satellite transmission systems, which, as of December 31, 2004, linked the German national telecommunications network directly to more than 700 other telecommunications service providers worldwide. T-Systems owns substantially all of the technical equipment, such as switches and routers, used in this transmission network.

As of December 31, 2004, T-Systems held interests in approximately 75 fiber-optic submarine and terrestrial cable networks worldwide. Restoration contracts with other cable operators and telecommunications carriers are created to prevent network failures from affecting network availability. T-Systems' German domestic telecommunications network is connected to submarine cables via various "landing points," five of which are located in Germany, the largest being in the city of Norden. T-Systems also operates and maintains, for third parties, the submarine cables in the German landing points.

T-Systems operates two large satellite earth stations in Usingen and Raisting, Germany, which are connected directly to the T-Systems German telecommunications network. The station in Usingen is mainly used for media and broadcast services and the station in Raisting is mainly used as a gateway for international telecommunications services (*e.g.*, voice, data and IP traffic).

In 2002, T-Systems finalized the extension of its wholly-owned terrestrial network in major European countries as well as in North America and Asia. This network is the international backbone (network platform), designed to achieve high standards in reliability, speed and management throughout the network. It consists of both purchased and leased network capacities and technical equipment that is installed at various "points of presence" locations ("PoPs"). PoPs are spaces or rooms in buildings where technical equipment is stored and maintained. T-Systems is the primary owner of the technical equipment (fixed assets) located in these PoPs. The worldwide total leased space housing the technical equipment within the PoPs amounts to approximately 4,055 square meters. T-Systems is a party to a global network, the "Telekom Global Net," which, as of December 31, 2004, included 162 owned PoPs. Furthermore T-Systems provides access to its global high-performance IP platform in 49 countries wordwide (including Germany), of which 32 countries are located in Europe, 10 countries in Asia, and 5 countries in the Americas, as well as Australia and South America. Over this network, voice, data and IP services are provided for domestic customers, large national and international corporations, and other telecommunications carriers.

Currently, we have no plans for the proactive extension of the footprint of T-Systems' existing international transmission network. T-Systems expects that if network coverage needs to be extended to accommodate new locations, this will be done either by working with other major carriers or by actual customer demand-driven expansion of the network.

Internet Platforms

To serve the growing number of broadband users in Germany, T-Systems has employed extensive switching-differentiated services in its global IP network, both domestic and international,which provide Internet solutions through high-capacity bandwidth connections into and within Western, Central and Eastern Europe and North America, as well as certain high-capacity connections into Asia. T-Systems has a network presence in major North American cities, such as New York, Washington, San Francisco, Los Angeles, Miami and Toronto. With the deployment of MPLS, T-Systems can expand its service offerings to its business customers. For example, MPLS allows different applications (*e.g.*, email, file transfer) to be assigned priorities in order to maximize performance over shared network resources. T-Systems MPLS backbone carries 41 Petabytes of IP traffic per month (a Petabyte is a unit of measurement for physical data storage; *e.g.*, 41 Petabytes = 41 billion Megabytes).

To allow the free exchange of Internet traffic with other IP networks, T-Systems has negotiated interconnection agreements with other carriers operating IP networks of similar size, scope and reach. T-Systems has settlement-free peering agreements with approximately 50 major IP carriers around the world and has established a total peering capacity of 160+ gbit/s. A peering agreement is an agreement to directly interconnect to another carrier's network and thus carry each other's traffic. The following table sets forth our peering capacity in the regions and for the end of the years indicated:

Year	Peering Capacity (gbit/s) USA/Europe
2002	44,966/52,873
2003	45,213/64,746
2004	57,926/105,832

T-Online does not own any network infrastructure assets. Instead, T-Online uses T-Com's Internet platform to provide its customers with access to the Internet. Further, T-Online supports its portal and value-added services as well as all customer care functions with its own servers, which are hosted in data processing centers, operated by T-Systems. These servers are dual-connected to the Internet backbone via load-balanced leased-lines, which enables several servers to support one service. T-Online employs high levels of security, including firewalls and intrusion detection systems to protect against penetration. The servers employ load-balancing systems to manage users' requests, which enable T-Online's systems to respond to user requests in a highly effective manner.

Global Computing Factory

T-Systems' GCF possesses the server equipment, software tools and expertise employed in the operation of the computer network infrastructure described above. As of December 31, 2004, GCF's global mainframe systems performance had a combined total computing power of 130,786 millions of instructions per second ("MIPS"), compared to 113,723 MIPS as of December 31, 2003.

T-Systems' mainframe computing equipment in Germany and Switzerland (approximately 81% of T-Systems' total worldwide computing power) is based on a leasing contract with IBM. T-Systems only purchases the computing capacity actually required, according to a flexible, demand-driven business agreement. Additional mainframe systems used by GCF are located in Germany, Italy, Switzerland, South Africa, France, Brazil, Spain and the United Kingdom, most of which are leased from IBM. In addition to these mainframe systems, as of December 31, 2004, a total of 35,418 servers (most of which are owned by T-Systems) were operated worldwide in the following countries: Germany, Italy, Switzerland, Spain, Czech Republic, the United States, South Africa, France, Denmark, Brazil, Hungary, Turkey, Singapore, Belgium, the United Kingdom, Philippines, Russia and Poland (compared to a total of 28,399 servers as of December 31, 2003).

Mobile Network Infrastructure

At December 31, 2004, the network infrastructure of our mobile telecommunications subsidiaries in Germany, the United States, the United Kingdom, Austria, the Czech Republic and the Netherlands consisted of approximately 74,000 base station cells.

Real Estate

The German real estate portfolio owned by Deutsche Telekom AG consists of approximately 10,800 properties which are located on a total site area of approximately 45 million square meters. The total net floor space of these properties is approximately 10.2 million square meters. In addition to this, our lettable area leased from other owners has to be considered and amounts to approximately 3.6 million square meters. Most of these areas are used for telecommunications installations, research centers, service outlets, computer centers and offices. Lettable area and leased sites used for our radio transmission facilities are not itemized in square meters. Therefore they are specified separately and not included in these numbers.

The German real estate portfolio of Deutsche Telekom is managed and serviced through Sireo, GMG, DeTe Immobilien and DFMG Deutsche Funkturm GmbH.

The real estate portfolio of our consolidated group had a book value of EUR 9.6 billion at December 31, 2004, including properties of DFMG Deutsche Funkturm GmbH and of foreign subsidiaries. Approximately 79% of the book value of the real estate portfolio (EUR 7.6 billion) of the Deutsche Telekom group relates to properties held directly by Deutsche Telekom AG on an unconsolidated basis. The remaining 21% of the book value of real estate in the Deutsche Telekom group is mostly related to the T-Mobile division and our Central and Eastern European subsidiaries.

To improve operational efficiencies and to dispose of non-core assets, we have continued to monetize certain of our real estate assets. In 2004, we entered into agreements for the sale of properties for an aggregate of approximately EUR 159 million. Of the EUR 270 million in proceeds received in 2004, EUR 93 million related to properties transferred in 2004, and EUR 177 million related to transactions in 2003 and prior years. The sold properties are located on land with an area of approximately 2.1 million square meters and include approximately 0.2 million square meters of lettable area. We leased back a relatively small part of this. Although we will incur rent expense related to the leased back area, we will achieve a reduction in interest payments and other costs related to the properties sold.

Our radio transmission sites in Germany, including towers, masts and rooftops, are owned or leased by our subsidiaries, DFMG Deutsche Funkturm GmbH, Erste DFMG Deutsche Funkturm Vermoegens GmbH & Co. KG and Zweite DFMG Deutsche Funkturm Vermoegens GmbH & Co. KG (together, "DFMG"). DFMG manages these radio transmission sites and the related technical infrastructure facilities to provide antenna space for T-Mobile Deutschland, T-Com and T-Systems in Germany. DFMG also offers these services to third party radio network operators. DFMG currently manages approximately 23,500 radio transmission sites, with about 3,300 built on DTAG property. Approximately 21,000 are owned by DFMG, whereas the remaining 2,500 are third-party-property. Excluded are radio transmission sites for AM, short and long wave radio transmission owned by T-Systems.

ITEM 5. Operating and Financial Review and Prospects

You should read the following discussion in conjunction with our annual consolidated financial statements, including the notes to those financial statements, that appear elsewhere in this report. Our financial statements have been prepared in accordance with German GAAP, which differs in certain significant respects from U.S. GAAP. For a discussion of the principal differences between German GAAP and U.S. GAAP as they relate to us and a reconciliation of net income (loss) and total shareholders' equity to U.S. GAAP, see " Reconciling Differences between German GAAP and U.S. GAAP" and notes (41) through (44) to the consolidated financial statements.

The strategies and expectations referred to in this discussion are considered 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 this discussion 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 were 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. Please refer to "Forward-Looking Statements" and "Item 3. Key Information Risk Factors" for descriptions of some of the factors relevant to this discussion and other forward-looking statements in this Annual Report.

MANAGEMENT OVERVIEW

The following discussion and analysis is presented by management of our company and provides a view of our financial condition, operating performance and prospects from management's perspective. Since much of this discussion is forward-looking, you are urged to review carefully the factors referenced elsewhere in this Annual Report that may have a significant influence on the outcome of such forward-looking statements.

The 2004 financial year was an excellent year for us. We achieved our ambitious goal of continuing profitable growth. In addition to positive developments at our divisions, we successfully implemented our centrally managed, cross-divisional "Agenda 2004" program. This program focused on cooperation by T-Com and T-Online with respect to our broadband initiative, and by T-Systems and T-Com with respect to our business customers initiative. Our divisions and group headquarters also cooperated closely to implement our efficiency, innovation, human resources, and quality initiatives.

Growth continues in 2004; significantly improved operating results.

Our continued growth is reflected in the 3.7% increase in net revenues to EUR 57.9 billion. The main contribution to this increase was made by our mobile communications and broadband businesses. The share of net revenue generated by international activities rose from 37.9% in the previous year to 39.3% in 2004, largely as a result of increases at T-Mobile USA.

We achieved an increase in net income in 2004, generating EUR 4.6 billion compared with EUR 1.3 billion in 2003. This was due primarily to strong revenue growth, a write-up of mobile licenses in the amount of EUR 2.4 billion, and efficiency gains and cost reductions, offset, in part, by an increase of EUR 1.8 billion in income taxes due to increased income before taxes and restricted use of net operating loss carry-forwards introduced in 2004.

As a result of this encouraging performance in 2004, our Management Board and our Supervisory Board (*Aufsichtsrat*) will propose a dividend of EUR 0.62 per share at our shareholders' meeting.

Net cash provided by operating activities increased by approximately EUR 2.0 billion year-on-year to EUR 16.3 billion. This increase relates mainly to the substantial improvement in cash generated from operations, due, in part, to active receivables management, and a reduction in net interest payments.

Our total liabilities as reported on our balance sheet was again cut significantly by EUR 13.5 billion to EUR 52.4 billion in 2004, compared to EUR 65.9 billion in 2003, primarily using available cash flows from operations and the sale of investments (mainly MTS shares). Of this amount, debt decreased to EUR 42.7 billion in 2004, compared to EUR 55.4 billion in 2003. This development had a positive effect on interest expense. Additionally, on March 3, 2005, Standard & Poor's raised its long-term corporate credit rating to 'A-' from 'BBB+' with a stable outlook. We believe that we have now achieved a high level of financial flexibility.

T-Com has developed key growth potential with T-DSL.

In 2004, despite the continued revenue decline in the fixed-line network due to regulatory and competitive pressures, T-Com continued its initiative to increase use of high-speed Internet communication via T-DSL. As part of its broadband offensive, it differentiated its range of mass market broadband services through marketing campaigns coordinated with T-Online. In Germany alone, the number of T-DSL lines used by T-Com customers for high-speed Internet communication rose from approximately 4 million to 5.8 million during 2004. This includes 246,000 DSL lines that T-Com sold to competitors under resale agreements. T-Com's subsidiaries in Hungary, Croatia, and Slovakia also increased their number of DSL lines by 140% year-on-year to 265,000. Another key component of T-Com's broadband strategy is wireless local area network ("W-LAN") the most important wireless technology for broadband Internet access via T-DSL. This provides customers with wireless online access using W-LANs both from home and via public W-LANs ("HotSpots"). T-Com sold 658,000 W-LAN terminal devices in 2004 and entered into over 4,000 contracts to establish its own HotSpots in Germany. Combined with T-Mobile HotSpots, there are now approximately 3,500 HotSpots in operation in Germany. These efforts, while having a moderate short-term to mid-term effect, are part of a longer term strategy to increase the penetration of broadband and advanced technologies penetration and provide new and innovative products and services.

The number of narrowband channels (including ISDN channels and internal use) in Germany and abroad fell by 1.4% to 54.7 million channels. In Germany, substitution effects by mobile communications and customers switching to competitors led to a drop in channels by 1.6% compared with the previous year. The number of T-ISDN channels rose slightly to 21.7 million in 2004. The decrease in our narrowband channels in Germany and Central and Eastern Europe is expected to continue in 2005 and beyond.

Mobile communications remains the growth driver.

The growth at T-Mobile's mobile communications subsidiaries continued in 2004. Revenues and the number of customers increased significantly in 2004. T-Mobile USA was again the growth driver with almost 4.2 million new customers, 3.6 million of whom are fixed-term contract subscribers. As of December 31, 2004, T-Mobile USA had a total of 17.3 million customers. T-Mobile Deutschland acquired 1.1 million net new customers in the 2004 financial year. The main growth here was in terms of quality, with over 80% of new customers being fixed-term contract subscribers. T-Mobile Deutschland remains the market leader in Germany with a total of 27.5 million customers. In the United Kingdom, approximately 2.1 million net new customers (including Virgin Mobile customers) became users of T-Mobile UK's network in 2004 75% more than in the previous year. Customer numbers at T-Mobile Czech Republic and T-Mobile Netherlands developed particularly encouragingly in 2004, while in Austria they remained stable despite intense competition.

An important milestone in 2004 was the agreement by T-Mobile USA to acquire the GSM mobile communications network operated by Cingular Wireless in California and Nevada and the exchange of spectrum licenses. Previously, this network was managed together with T-Mobile USA and Cingular

Wireless under a network sharing joint venture. Additionally, in 2004, T-Mobile launched its UMTS mobile communications network in Germany and the United Kingdom.

Industry-specific marketing helped T-Systems remain competitive.

T-Systems again performed well despite continued pressure on margins and changes in its market environment. T-Systems achieved these results primarily through continued improvements in efficiency and active cost management. T-Systems also increased its revenue from external customers as a result of industry-specific marketing. Overall, the positive development of T-Systems' revenue was driven by significant growth in revenue from the IT unit. Business from telecommunications services continued to fall due to the strong price and competitive pressure in many areas of the market especially in international carrier services. The Toll Collect consortium, in which Deutsche Telekom holds a 45% stake, has been operating the new system for collecting distance-based tolls for heavy vehicles upwards of 12 tons total weight on German motorways since January 1, 2005 on behalf of the Federal Ministry of Transport. The start of toll collection was mostly problem-free. For more information, see " Liquidity and Capital Resources Guarantees and Commitments."

T-Online again increases customer numbers.

T-Online successfully maintained its healthy market position primarily due to the broadband initiative implemented together with T-Com. Customer growth was also driven by a new attractive rate system and the expansion of the division's range of online content. T-Online recorded approximately 1.2 million new DSL rate customers in 2004 an increase of approximately 0.6 million year-on-year.

Our strategic realignment allows us to continue tackling the challenges of a new era in 2005.

In 2005, we want to continue to build on our successes from the 2004 financial year with a clear focus on sustained profitable growth. To accomplish this, we will concentrate on our three key growth markets and will focus more intensively on customer needs. As of January 1, 2005, we replaced our four-pillar structure with three strategic business areas ("SBAs"): Broadband/Fixed Network, covered by the T-Com and T-Online business units, along with the transfer of ICSS from T-Systems to T-Com as well as other transfer of units between T-Com and T-Systems; Mobile Communications, responsibility for which remains with T-Mobile; and Business Customers, services for which will be provided by T-Systems Enterprise Services for multinational business customers and T-Systems Business Services for medium-sized and large business customers.

Merger of T-Online International AG with Deutsche Telekom AG progresses.

A core element of our strategic realignment is our goal of merging T-Online International AG with Deutsche Telekom AG. The proposed merger underlines T-Online's central role in the further development of the new Broadband/Fixed Network Strategic Business Area. The complete integration of T-Online with Deutsche Telekom is crucial to our realigned strategy of developing the fixed-network and broadband business in Germany. Our Broadband/Fixed Network Strategic Business Area concentrates on combining network access, communication, and entertainment services for the mass market. We are convinced that this "double-play" (network access/communication) and "triple-play" (network access/communication/entertainment services) approach is a key ingredient for the future growth of the broadband business in Germany. We also expect this integrated broadband strategy to strengthen customer loyalty, offer ways of driving forward revenue per customer, and help counter the decline in the voice telephony market in conventional fixed networks. The complete integration of T-Online with Deutsche Telekom will provide us with the necessary flexibility to present a single face to the customer which is a key requirement for effectively marketing our combined offerings and to achieve long-term customer relationships.

The Management Boards of each of Deutsche Telekom and T-Online have entered into a merger agreement under which shareholders of T-Online will receive shares of Deutsche Telekom AG in return for their T-Online International AG shares in accordance with the exchange ratio set forth in the merger agreement. To be legally binding, the merger agreement requires the approval of the T-Online shareholders. Deutsche Telekom held 90.14% of T-Online's share capital as of March 11, 2005. Since this exceeds the statutory threshold of 90%, no resolution by Deutsche Telekom's shareholders would be required under German law, unless shareholders of Deutsche Telekom whose holdings in the aggregate represent at least 5% of the share capital of Deutsche Telekom request such a resolution.

The shareholders' meeting of T-Online shareholders will be held on April 28, 2005. In the event that the end of the agenda has not been reached by the close of the meeting on that day, the meeting will be continued to the following day. At this shareholders' meetings, the shareholders of T-Online will vote, among other things, on the approval of the Merger Agreement.

The merger agreement must be approved by holders of at least 75% of the outstanding shares of T-Online. Since Deutsche Telekom holds 90.14% of the outstanding voting stock of T-Online as of March 11, 2005, approval to the merger agreement by the shareholders of T-Online is assured.

Excellence Program defines concrete measures for the coming years.

To transform our structures so that they are integrated in the eyes of our Customers, and to promote long-term profitable growth, we have launched an "Excellence Program" that will run for three years. This program covers three business area-specific growth programs and five cross-segment initiatives that will systematically focus on all aspects of our customers needs with the aim of supporting profitable growth in the long term. The excellence program comprises a specific growth program for each of our three strategic business areas: **"re-define"** (Broadband/Fixed Network), **"Focus on Growth"** (Business Customers), and **"Save for Growth"** (Mobile Communications). "re-define" focuses on three initiatives: "innovation and growth," "quality and efficiency," and increased customer focus. Its implementation will be driven by a new corporate culture that will be based on promoting entrepreneurial thinking by all our employees. "Focus on Growth" aims to optimize customer orientation and concentrates on customers, products, operational excellence, efficiency, and mobilization. Under the "Save for Growth" program, we are examining the value added by all of our structures as well as our core and supporting processes. A significant proportion of the savings will be used for future investments. All business area-specific programs will be actively supported by centrally managed, group-wide coordination of the following projects: "Customer and Brand," "Products and Innovations," "Operational Excellence," "Profitability," and "Human Resources."

Driving forward our group's strategy of profitable growth.

We will continue to focus on profitable growth in 2005. The year will be dominated by our strategic realignment and our concentration on the three core business areas: Broadband/Fixed Network, Mobile Communications, and Business Customers. Although we are not expecting to see the full fruits of these measures in the coming year, we are expecting a further increase in net revenues in 2005. The growth in the Mobile Communications Strategic Business Area will be generated primarily by a further expansion in the customer base in the U.S. market, and retention and improvement in the customer base in the European market. Our Broadband/Fixed Network Strategic Business Area will continue to focus on its broadband initiative, among other measures designed to counter the decline in revenues in the voice telephony market. In the Business Customers Strategic Business Area, we expect an increase in our current share of the ICT market in Germany and also an increased share of the ICT budgets of existing and potential international customers.

We are also continuing our focus on sustained efficiency gains and improvement in cost structures.

In 2005, we plan to further expand investments in property, plant, and equipment and intangible assets (excluding goodwill) compared with 2004, in accordance with our strategy. The largest investments will be for the Mobile Communications and Broadband/Fixed Network Strategic Business Areas. In Mobile Communications, we will focus on further expanding network capacity in the United States to lay the foundations for additional customer growth. We have acquired Cingular Wireless' GSM mobile communications network in California and Nevada and plan to purchase additional spectrum licenses to enhance our existing network capacity and coverage. In Europe, investments will be driven by the need to improve the quality of existing GSM networks and to further expand UMTS networks. In the Broadband/Fixed Network Business Area, we plan to invest more heavily in expanding DSL, upgrading transmission networks, and upgrading fiber-optic technologies and infrastructure.

The planned capital expenditures, the proposed merger of T-Online with Deutsche Telekom, and the proposed dividend payment will increase our liquidity requirements in 2005. We expect that this increased cash requirement will be covered primarily by cash flows from operating activities.

New accounting principles as of January 1, 2005.

Commencing January 1, 2005, we converted our accounting standards from German GAAP to IFRS. The effects of this conversion on our key performance indicators will be varied. For example, it is expected that total revenue will change only slightly, while net income and shareholders' equity will increase primarily due to the discontinuation of the amortization of goodwill and U.S. mobile communications licenses. For more information, see " Preliminary Guidance on Differences Between IFRS and German GAAP."

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements, prepared in accordance with German GAAP, and the reconciliation of our consolidated financial statements from German GAAP to U.S. GAAP, are dependent upon and sensitive to accounting methods, assumptions and estimates that we use as bases for the preparation of our consolidated financial statements and reconciliation. We have identified the following critical accounting estimates and related assumptions and uncertainties inherent in our accounting policies, which we believe are essential to an understanding of the underlying financial reporting risks and the effect that these accounting estimates, assumptions and uncertainties have on our consolidated financial statements under German GAAP and our reconciled U.S. GAAP financial statements information.

Accounting for and Recovery of Long-Lived Assets

Our accounting for long-lived assets and intangible assets involves the use of estimates for determining the fair value at the acquisition date, especially in the case of such assets acquired in a business combination, and the useful lives of the assets over which the costs of acquiring these assets are reflected in the financial statements.

Initial Valuation

We record purchased property, plant and equipment, and purchased intangible assets (other than goodwill) at acquisition or construction cost. When these assets are acquired in a business combination, the purchase price is allocated to the estimated fair value of the acquired property, plant and equipment, and intangible assets. Property, plant and equipment and intangible assets, including mobile communication licenses, are depreciated or amortized on a straight-line basis over their estimated useful lives.

Property, plant and equipment are valued at acquisition or construction cost, less depreciation. Construction costs include directly allocable costs, an appropriate allocation of material and production overhead, and interest accrued during the construction period. However, general and administration expenses are not capitalized. As permitted by *Postreform II*, the legislation by which the former Deutsche Bundespost Telekom was legally transformed into a stock corporation, property, plant and equipment transferred to Deutsche Telekom AG on January 1, 1995, were recorded in the opening balance sheet of Deutsche Telekom AG at fair market values at that date. However, due to the short period between the acquisition date and January 1, 1995, property, plant and equipment acquired during 1993 and 1994 were valued at their remaining book value. The remaining useful lives and the depreciation methods applicable to those assets were not changed. Except as otherwise described in this Annual Report, the fair market values shown in the opening balance sheet have been carried forward as the acquisition costs.

We decided in late 2000 to introduce a real estate strategy oriented toward the monetization of our real estate portfolio. As a consequence, a new valuation approach based on the current replacement costs of individual plots of land owned by us was adopted for German GAAP, whereby the lower of the net book value or the replacement cost was recorded. The subsequent comparison of the newly calculated replacement costs with the carrying amounts resulted in downward adjustments to book values amounting to EUR 2.5 billion.

Recoverability

Under German GAAP, when an impairment in the value of assets occurs, nonscheduled depreciation and amortization charges are incurred. Furthermore, nonscheduled charges may be reversed when the conditions giving rise to the impairment no longer exist. We assess the impairment of identifiable intangibles and long-lived assets whenever there is reason to believe that the carrying value may exceed the fair value, and where a permanent impairment in value is anticipated. The determination of impairments of long-lived 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 broad measure of factors. In evaluating assets for impairment, we apply the German commercial law principle of prudence (*Vorsichtsprinzip*) (Sec. 252(1)(4) HGB) in conjunction with the individual valuation principle (*Einzelbewertungsgrundsatz*). We typically consider, among other things, technological obsolescence, discontinuance of services, current replacement costs and other changes in circumstances that indicate an impairment.

In a strategic review undertaken in 2002, we used a discounted cash flow approach to estimate the fair value of our mobile communication licenses, including our FCC licenses in the United States. Assumptions regarding mid- and long-term business development prospects were reassessed in light of changes in current competitive conditions, future expectations of growth in the wireless communications industry, increased costs of capital and changes in the future availability of financing. Our use of this valuation method represents a change in valuation methodology, because previously we had used a market approach primarily based on the prices for mobile communication licenses that had been established in relevant auctions to determine the initial valuation of these licenses in our acquisition of T-Mobile USA. Due to the length of time that had elapsed since these auctions took place, along with the general lack of an active marketplace for mobile communication licenses, we concluded that there was insufficient basis to use a market-based approach.

Under U.S. GAAP, we review long-lived assets, including property, plant and equipment, and amortizing intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets that are held and used is measured by comparing the sum of the future undiscounted cash flows derived from an asset (or a group of assets) to their carrying value. If the carrying value of the asset (or the group of assets) exceeds the sum of the future undiscounted cash flows, impairment is considered to exist. If an impairment is considered to exist on the basis of undiscounted cash flows, the impairment charge is measured using an estimation of the assets' fair value, typically using a discounted cash flow method. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or groups of assets) requires management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows and applicable discount rates. Specifically, the estimation of cash flows underlying the fair values of our 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 we have limited historical information on customer demand. If the demand for these products and services does not materialize as we expect, we will generate less revenue, cash flow and potential impairment charges to write-down these investments to their net realizable values, which could adversely affect our future operating results.

Accounting for Valuation and Recovery of Goodwill and Intangible Assets with Indefinite Lives

Goodwill usually arises in business combinations. The amount of goodwill initially recognized is dependent on the allocation of the purchase price of an entity to all identifiable assets acquired and the liabilities assumed. Such allocations are based on the fair values of those assets. The determination of the fair values of assets and liabilities is based, to a considerable extent, on management's judgment. In addition, for German GAAP purposes, the useful life assigned to goodwill is an estimate that is based on the judgment of management at the time of acquisition. Goodwill is then amortized on a straight-line basis over its useful life. Under U.S. GAAP, goodwill is not amortized, but tested for impairment at a minimum on an annual basis.

We review, on a regular basis, the performance of our subsidiaries. Nonscheduled amortization charges are recorded under German GAAP when there is reason to believe that goodwill associated with a subsidiary is impaired and that the impairment is of a permanent nature. The amount of the nonscheduled amortization is determined by comparing the carrying amount of that subsidiary to its fair value. The determination of the fair value of a subsidiary involves the extensive use of estimates by management. Methods commonly used to determine the fair value of a subsidiary include discounted cash flow-based methods and methods that use quoted stock market prices as a basis. Factors affecting estimated fair values typically include discount rates, future cash flows, growth rates, industry developments, market prices and control premiums. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any goodwill amortization.

U.S. GAAP requires that goodwill and other indefinite-lived intangible assets be tested for impairment at least annually using a two-step approach at the reporting unit level. In the first step, the fair value of the reporting unit is compared to its book value, including goodwill and intangible assets. The determination of fair value of each reporting unit, which requires significant judgment, is generally based on the present value of future cash flows. In the case that the fair value of the reporting unit is less than its book value, a second step is performed, which compares the fair values to the book values of the reporting units' goodwill and intangible assets. The fair value of goodwill is determined based upon the differences between the fair value of the reporting unit and the net of the fair values of the identifiable assets and liabilities of the reporting unit. The fair value of indefinite-lived intangible assets is determined based on expected discounted future cash flows. If the fair value of goodwill and other indefinite-lived intangible assets are less than their book values, the differences are recorded as impairment charges.

Recovery of Financial Assets

We hold, as financial assets, minority interests in foreign telecommunications service providers that are principally engaged in the mobile, fixed-line, Internet and data communications businesses, some of which are publicly traded and have highly volatile share prices. We record an investment impairment charge when we believe an investment has experienced a decline in value that is "permanent" under German GAAP or "other than temporary" under U.S. GAAP. Determining 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, we use quoted market prices, if available, or other valuation methods, based on information available from the investee.

Future adverse changes in market conditions, or poor operating results of underlying investments, could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

Our most significant minority interest investments are in PTC, in which we own a 49% interest, and MTS, in which we own a 10% interest.

For U.S. GAAP purposes, our minority interest ownership in shares of publicly traded companies is classified as "available-for-sale" and reflected in our balance sheet at fair value. Changes in fair values are reported in a separate component of shareholders' equity. For our remaining investments in financial assets, our accounting policy is to record an impairment of such investments to net realizable value when a decline in fair value below carrying value is deemed to be other than temporary. To the extent that these investments are not publicly traded, fair value is determined based on judgments and estimates of expected future cash flows. In determining if a decline in value is other than temporary, we consider 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, and our ability and intent to hold the investment.

A prolonged downturn in the telecommunications industry could negatively affect the operations of these investments and their ability to generate future cash flows. This could result in changes to the forecasted cash flows and potential impairment charges, which could adversely affect our future operating results.

Allowance for Doubtful Accounts

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

Deferred Taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves the jurisdiction-by-jurisdiction estimation of actual current tax exposure and the assessment of temporary differences resulting from the differing treatment of certain items, such as accruals and amortization, for tax and financial reporting purposes. These differences result in deferred-tax assets and liabilities, which are included in our consolidated balance sheets. We must assess in the course of our tax planning procedures, the fiscal year of the reversal of our deferred-tax assets and liabilities, and if there will be future taxable profits in those periods. We reverse in the current year deferred-tax assets and liabilities for timing differences that have been recorded if we anticipate that the future reversal will take place in a tax-loss year. If we estimate that timing differences of a current year will be reversed in a later tax-loss year, we do not record deferred-tax assets and liabilities for those timing differences.

Significant management judgment is required in determining our provisions for income taxes, deferred-tax assets and liabilities. Under German GAAP, we do not record deferred-tax assets consisting of net operating losses carried forward and foreign tax credits. The analysis is based on estimates of taxable income in the jurisdictions in which the group operates and the period over which the deferred-tax assets and liabilities will be recoverable. If actual results differ from these estimates, or we adjust these estimates in future periods, our financial position and results of operations may be affected materially.

Under U.S. GAAP, we record a valuation allowance to reduce the deferred-tax assets to an amount that we believe is more-likely-than-not to be realized. In assessing the need for a valuation allowance, we consider future taxable income and ongoing prudent and feasible tax planning strategies. In the event that our estimates of projected future taxable income and benefits from available tax strategies are lowered, or changes in current tax regulations are enacted that would impose restrictions on the timing or extent of our ability to utilize the tax benefits of net operating loss carryforwards in the future, an adjustment to the recorded amount of net deferred-tax assets would be made, with a related charge to income.

Pension Accounting

Our pension obligations for benefits to non-civil servants are generally satisfied by defined-benefit plans. Our pension benefit costs for non-civil servants are determined in accordance with actuarial assumptions, 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 our pension cost, because the amount of funded plan assets is small in relation to our outstanding pension obligations. Other key assumptions for our pension costs are based in part on actuarial valuations, which rely on assumptions, including discount rates used to calculate the amount of our pension obligation. Due to the underfunded status of certain pension plans at their respective measurement dates, a charge representing an additional minimum liability is recorded in net income under German GAAP. Our 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 our pension benefit costs may be affected materially.

Our pension plan obligations with respect to civil servant employees and retirees are subject to a special regime, which effectively fixes our annual costs at 33% of the pensionable gross remuneration of active civil servants and the notional pensionable gross remuneration of civil servants on leave of absence. The funding of this annual contribution is recognized as a period expense. In accordance with both U.S. and German GAAP, no liability or accrual has been recorded in respect of future payments.

For more information concerning our pension plan arrangements for civil servants and non-civil servants, see note (28) to our consolidated financial statements and "Item 6. Directors, Senior Management and Employees Employees and Labor Relations."

Civil Service Health Insurance Fund

We are obligated, under *Postreform II*, to pay for our share of any operating cost shortfalls between the sources of regular income of the Civil Service Health Insurance Fund (*Postbeamtenkrankenkasse*, "PBeaKK") and benefits paid. The PBeaKK provides healthcare and medical benefits for its members and their relatives, who are civil servants employed by or retired from Deutsche Telekom, Deutsche Post AG and Deutsche Postbank AG. When *Postreform II* came into effect, the PBeaKK was closed to new members. The insurance premium collected by the PBeaKK may only be increased by the amount by which healthcare costs in Germany rise on average and, therefore, does not reflect the changing composition of ages of the participants in the PBeaKK. We have accrued the actuarially determined present value of the fund's future deficit, which we cover using a discount rate, assumptions about life expectancy and projections for contributions and future increases in general health care costs in Germany. Because the calculation of this accrual involves long-term projections over periods of more than 50 years, the present value of the liability is sensitive to small variations in the changes used for the calculation.

Accrued Liabilities

We exercise considerable judgment in recording our accrued liabilities and our 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. Where we expect that the occurrence of a contingency is reasonably likely, we accrue an amount for the contingent liability under German GAAP that represents management's estimate at the balance sheet date, considering all anticipated risks and losses up to that date, even if they became known after the balance sheet date but prior to the preparation of the financial statements. Under U.S. GAAP, we record an accrual for liabilities when a loss contingency is considered to exist and when 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 amount accrued.

Significant estimates are involved in the determination of provisions related to taxes, environmental liabilities and litigation claims. These estimates are subject to change as new information becomes available to us, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to our estimates of these loss contingencies may significantly affect future operating results.

Revenue Recognition

Customer Activation Fees

Our T-Com and T-Mobile divisions receive installation and activation revenues from new customers. For U.S. GAAP, we defer the recognition of these revenues (and related costs) and amortize them 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 our revenue for any period.

Long-Term Service Contracts

Our T-Systems division conducts a significant portion of its business under long-term contracts with customers. We account for certain long-term service contracts using the percentage-of-completion method under U.S. GAAP, recognizing revenue as performance on a contract progresses. This method places considerable importance on the accuracy of estimates of the extent of progress made towards completion. 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. We regularly review all estimates involved in such long-term contracts and adjust them as necessary.

Multiple-Element Arrangements

We have adopted the provisions of the Emerging Issues Task Force Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21") for multiple-element revenue arrangements entered into after December 31, 2003. EITF 00-21 requires that arrangements involving the delivery of bundled products or services be separated into individual component deliverables, each with its own separate earnings process. Revenue relating to the bundled contract is allocated among the different deliverables, based on their relative fair values (the relative fair value of each of the component deliverables to the aggregated relative fair value of the bundled deliverables). The determination of fair values in the T-mobile and T-systems business is complex, because some of the components are price-sensitive and, thus, volatile in a competitive marketplace. Revisions to our estimates of these relative fair values may significantly affect the allocation of sales values among the different deliverables, affecting our future operating results.

PRELIMINARY GUIDANCE ON DIFFERENCES BETWEEN IFRS AND GERMAN GAAP

We are required to prepare consolidated financial statements in accordance with IFRS from January 1, 2005. The opening IFRS consolidated balance sheet will be prepared for the period beginning January 1, 2003 (date of transition to IFRS in accordance with IFRS 1: First-time Adoption of IFRS.) The Committee of European Securities Regulators has recommended that selected IFRS financial information be disclosed in advance of publication of such IFRS financial statements. In line with this recommendation, we are providing a summary of certain of the expected differences in the preparation of our consolidated financial statements on the basis of IFRS. Other items may arise due to new pronouncements from the International Accounting Standards Board (IASB) or pronouncements that are not endorsed by the E.U. commission prior to the preparation of our December 31, 2005 consolidated financial statements, which can result in modification of the following guidance.

General

In accordance with IFRS 1, assets and liabilities are to be recognized and measured in our consolidated balance sheets and consolidated income statements under IFRS in accordance with the relevant IFRS standards, compliance with which is mandatory as of December 31, 2005, the date on which our annual consolidated financial statements under IFRS will be prepared for the first time.

In general, on first-time adoption of IFRS, the carrying amounts of the assets and liabilities from the consolidated balance sheet reported in accordance with German GAAP as of December 31, 2002, must be measured retrospectively in the IFRS opening consolidated balance sheet on the basis of those IFRS standards that are in force as of December 31, 2005. However, IFRS 1 provides for exemptions from this basic principle in certain cases, some which are described below.

The results that will be reported under IFRS will differ in many respects from our results that historically have been presented under German GAAP. The differences in accounting principles between IFRS and German GAAP which we expect will have a significant impact on our financial condition and results of operations, and certain of the exemptions provided by IFRS 1 that we expect to use in measuring our IFRS opening consolidated balance sheet, are summarized below:

Use of fair values at time of privatization (revaluation as deemed cost)

At the time of privatization (January 1, 1995), we recorded the assets and liabilities contained in our opening consolidated balance sheet at fair value, and plan to apply this approach to the IFRS opening consolidated balance sheet. Therefore, the consolidated opening balance sheet will reflect net assets from the time of privatization at fair value.

Accounting for business combinations

In accordance with IFRS 1 regarding first-time adoption of IFRS, we have elected not to apply IFRS 3: Business Combinations, to business combinations that occurred prior to the date of our transition to IFRS. As a result, the opening consolidated balance sheet generally will reflect the assets and liabilities acquired from prior business combinations under German GAAP. The carrying amount of goodwill under German GAAP will be carried over to the IFRS opening consolidated balance sheet, subject to any necessary adjustments for impairment losses on goodwill at the date of transition.

Accounting for Share-based payments

IFRS requires grants of share-based payments to be recognized as compensation and measured at fair value, but permits an exemption from recognition for share-based payments granted before November 7, 2002 or that vest before January 1, 2005. We plan to make use of this exemption.

Amortization of goodwill and certain intangible assets

Under German GAAP, goodwill and intangible assets are amortized over their estimated economic useful lives. Under IFRS, goodwill and certain intangible assets will not be amortized, but will be reviewed for impairment annually ("impairment-only approach").

Accounting for software and other development costs

Costs incurred to develop software and other development costs are expensed as incurred under German GAAP. However, IFRS requires the capitalization of certain costs incurred to develop software, which costs will be amortized over the software's useful life.

Borrowing costs

Borrowing (finance) costs incurred during construction periods have been capitalized under German GAAP, whereas capitalization is optional under IFRS. We plan to establish our policy to expense all finance costs under IFRS.

Measurement of investment

Under German GAAP, investments in companies not fully consolidated and not accounted for in the consolidated financial statements under the equity method are measured at amortized cost or at the lower of cost or fair value. Under IFRS, we will account for these investments as available for sale and measure them at fair value, with the resulting unrealized gains and losses recognized directly in equity.

Leases

Under German GAAP, the lease accounting classification generally follows its tax treatment. Under IFRS, the classifications of leased assets is based on the substance of the arrangement.

Pension obligations

Although provisions are required to be recognized for pension obligations under both German GAAP and IFRS, differences in the measurement of the obligation will exist between IFRS and Statement of Financial Accounting Standards ("SFAS") 87 (used for German GAAP). In accordance with IFRS 1, we will recognize all cumulative actuarial gains and losses at the date of transition to IFRS. Furthermore, additional minimum liability will not be recognized under IFRS.

Provisions

The recognition of restructuring provisions under IFRS is subject to more detailed and strict recognition criteria than under German GAAP. In addition, provisions for future internal expenses, recognized under German GAAP are not allowed under IFRS.

Deferred revenue

With regard to the treatment of deferred revenue, the main differences between German GAAP and IFRS is the way in which up-front fees for telecommunications services will be recognized. Under German GAAP, the up-front fees generally are recognized as revenue on the date on which a line is activated. Under IFRS, the up-front fees and the incremental costs are to be accrued over the average duration of the customer relationship.

Other IFRS differences

Other expected differences between IFRS and German GAAP exist due to the different accounting principles regarding asset-backed securitization ("ABS") transactions, deferred taxes, long-term construction contracts (percentage-of-completion method), derivatives and measurement of property, plant and equipment.

Reporting under IFRS will result in different disclosures in the financial statements.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

Operating Results

The significant increase in 2004 is primarily attributable to increased revenues, a reduction in selling costs and general and administrative costs, and an increase in other operating income. Despite the increase in revenue, the cost of sales (EUR 31,402 million) was kept at the same levels as the previous year, primarily as a result of the successful implementation of measures to improve efficiency. In addition, selling costs and general and administrative costs decreased by a total of EUR 519 million year-on-year, in particular due to the improvement in cost structures and, in the case of selling costs, improved receivables management. The increase in other operating income also boosted operating results in 2004 mainly due to the write-up of U.S. mobile communications licenses by EUR 2,448 million due to changes in fair value measurements. The increase in operating results was offset in part by increased other operating expenses due to the recognition of an accrual of EUR 529 million in connection with the dissolution of the U.S. mobile communications network sharing joint venture with Cingular Wireless.

In 2003, our operating results increased by approximately EUR 26,557 million, to EUR 5,429 million. This improvement was largely attributable to EUR 21,395 million in non-scheduled amortization of goodwill and mobile communications licenses recorded in 2002 that did not recur in 2003, as explained in greater detail below. Overall, operating costs (cost of sales, selling costs and general and administrative costs) as well as the other operating expenses declined, in comparison with 2002, by a total of EUR 23,751 million. Also influencing the improvement in our operating results for

2003 was an increase in net revenues of EUR 2,149 million. A decline in net revenues at our T-Com division was more than offset by increases at our other divisions, particularly T-Mobile.

Net Revenues

Net revenues increased by EUR 2,042 million or 3.7% up to EUR 57,880 million in 2004 despite unfavorable exchange rate trends and the effect of changes in the composition of the consolidated group. The introduction of call-by-call and preselection in the previous year in particular resulted in a decrease in net revenue at T-Com. Revenue growth at T-Mobile was driven by a sustained increase in customer numbers, offset in part, by unfavorable exchange rate effects and the deconsolidation of Niedermeyer at T-Mobile Austria. Despite deconsolidations, in particular SIRIS and TELECASH, T-Systems recorded a slight increase in net revenues. This was largely due to growth in the IT business, which more than offset the decline in net revenues recorded in the telecommunications sector. In addition to the consolidation of the Scout24 group, net revenue growth at T-Online was primarily driven by the continued rise in customer numbers and the increasing acceptance of paid services.

We generated consolidated net revenues of EUR 55,838 million in 2003. This equates to a year-on-year increase of EUR 2,149 million, or 4.0%, despite negative exchange rate effects. A decline in net revenues at our T-Com division was more than offset by a rise in aggregate net revenues from our other operating divisions. T-Mobile was the main contributor to net revenue growth. The full-year consolidation of T-Mobile Netherlands in 2003 accounted for EUR 0.6 billion increase in group net revenues. This positive influence was offset by a decrease in net revenues at T-Com of approximately EUR 0.5 billion as a result of the deconsolidation of the cable businesses and at T-System of approximately EUR 0.2 billion as a result of the deconsolidation of TELECASH and T-Systems SIRIS.

For more information on our net revenue development and trends, see " Segment Analysis."

Cost of Sales

Our cost of sales comprises the aggregate cost of products and services delivered. In addition to directly attributable costs, such as direct material and labor costs, it also includes indirect costs, such as depreciation and amortization (other than goodwill).

Cost of sales remained unchanged in 2004 at EUR 31,402 million. At T-Com and T-Systems, cost of sales decreased, largely due to a decrease in revenues and the successful implementation of efficiency improvement measures, and due to changes in the composition of the group and to exchange rate fluctuations, particularly with respect to the U.S. dollar. This was offset in part by the increase in cost of sales at T-Mobile, which was due to the growth in customer numbers. Combined with the increase in revenues, the stability in the cost of sales led to an improvement in the gross profit margin from 43.8% in 2003 to 45.7% in 2004.

The cost of sales in 2003 decreased by EUR 13,075 million to EUR 31,402 million, compared to 2002, primarily due to a decrease in the amortization of mobile communications licenses. As a result of the strategic review carried out in 2002, the cost of sales included nonscheduled writedowns of mobile communications licenses held by T-Mobile USA and T-Mobile UK, which totaled EUR 11,549 million. Changes in the composition of the Deutsche Telekom group in 2003 also had an effect on cost of sales in 2003, as a result of dispositions in 2002.

Selling Costs

Our selling costs include all expenses for activities that do not directly increase the value of our products or services, but help to secure sales. Selling costs generally include all expenses relating to the sales (*i.e.* commissions), advertising and marketing departments and other sales promotion activities.

In 2004, selling costs decreased by EUR 223 million to EUR 13,282 million, compared to 2003. The ratio of selling costs to net revenues decreased substantially from 24.2% to 22.9%. The T-Com division was responsible for the majority of the 2004 decrease in selling costs, attributable in particular to the improvement in its cost structure mainly as a result of reduced personnel and personnel-related costs and the reduction in losses on receivables due to improved receivables management. Selling costs at T-Mobile increased, primarily due to higher advertising, marketing and customer acquisition costs, offset in part by U.S. dollar exchange rate effects. Additionally, the decrease in selling costs was affected by deconsolidation of disposed businesses in 2003.

In 2003, our selling costs were EUR 241 million higher than in the previous year, mainly due to an increase at T-Mobile, attributable to the full-year consolidation of T-Mobile Netherlands and higher expenses for marketing and commissions. This increase was partially offset by lower losses on accounts receivable and provisions for doubtful accounts at T-Com.

General and Administrative Costs

Our general and administrative costs generally include all costs attributable to the core administrative functions that are not directly attributable to production or selling activities.

In 2004, general and administrative costs decreased by EUR 296 million, or 5.9%, to EUR 4,680 million, compared to 2003. This equates to a year-on-year decrease in the ratio of administrative costs to net revenues from 8.9% to 8.1%. All of the divisions of the group contributed to this development, with the exception of T-Online, mainly as a result of its acquisition of the Scout24 group. The decrease in administrative costs was also negatively affected by changes in the composition of the Deutsche Telekom group, and the non-recurrence of expenses (EUR 221 million) relating to the Civil Service Health Insurance Fund incurred in 2003.

In 2003, general and administrative costs declined by EUR 1,086 million. This development included efficiency improvements and a decrease in other taxes. For more information, see note (12) to our consolidated financial statements.

Other Operating Expenses

Other operating expenses consist of amortization of goodwill, additions to accruals (if not allocated to the functional costs), expenses for the ABS credit risk discount, foreign currency translations, losses from disposals and miscellaneous items.

In 2004, the increase in other operating expenses (EUR 500 million), compared to 2003, was primarily attributable to the recognition of an accrual for contingent losses relating to the winding-up of the U.S. mobile communications network sharing joint venture with Cingular Wireless (EUR 529 million). The increase in expenses (EUR 303 million) for the ABS credit risk discount was due, in particular, to T-Mobile Deutschland, which sold its trade accounts receivable to a special purpose entity as part of the ABS program in November 2003.

In 2003, the reduction in other operating expenses (EUR 9,831 million), compared to 2002, was primarily attributable to the group-wide strategic review in the third quarter of 2002, which resulted in non-scheduled amortization of goodwill (EUR 9,719 million) at T-Mobile and T-Systems in 2002. In 2003, no similar non-scheduled amortization of goodwill was recorded. Additionally, in 2003, other operating expenses included personnel expenses resulting from the transfer of employees from T-Com to Vivento. Other operating expenses were also affected by changes in the composition of our consolidated group, mainly attributable to the full-year consolidation of T-Mobile Netherlands and the disposition of the cable businesses.

Of the other operating expenses in 2004, EUR 255 million (EUR 395 million in 2003) relates to transactions consummated in prior years.

Other Operating Income

Other operating income consists of tax refunds, reversals of allowances and accruals, cost reimbursements, gains from sales of marketable securities and assets, foreign currency gains and other miscellaneous items.

In 2004, the increase in other operating income was primarily due to the write-up of the U.S. mobile communications licenses, by EUR 2,448 million, due to changes in fair-value measurements. Income from the disposition of noncurrent assets increased slightly, compared to 2003, and included gains of EUR 955 million from the sale of shares in MTS as well as gains of EUR 238 million from the sale of the satellite operator SES Global.

In 2003, the increase in other operating income was primarily due to higher income from asset dispositions, amounting to approximately EUR 1,464 million, including the sale of the remaining interests in the regional cable businesses (EUR 436 million), TeleCash (EUR 82 million), Eutelsat (EUR 65 million), Globe Telecom (72 million), Joint Venture UMC (Ukrainian Mobile Communications), T-Systems SIRIS S.A.S. and Celcom (Malaysia) (in total EUR 86 million), as well as shares in MTS (EUR 352 million).

Of the total amount of other operating income in 2004, EUR 2,762 million (EUR 2,680 million in 2003) relates to income recognized on transactions consummated in prior years.

Financial Income (Expense), Net

The following table presents information concerning our financial income (expense), net:

	For the years ended December 31,				
	2004	**2003**	**2002**	**2004/2003**	**2003/2002**
		(millions of €)		**(% change)**	
Results related to companies accounted for under the equity method	41	(247)	(430)	n.m.	42.6
Other investments	(17)	(8)	(1,544)	n.m.	99.5
Income (loss) from financial activities	24	(255)	(1,974)	n.m.	87.1
Net interest expense	(3,351)	(3,776)	(4,048)	11.3	6.7
Financial income (expense), net	**(3,327)**	**(4,031)**	**(6,022)**	**17.5**	**33.1**

n.m. not meaningful

Net Interest Expense

In 2004, our net interest expense decreased by EUR 425 million, to EUR 3,351 million, primarily due to continued debt reduction.

In 2003, our net interest expense decreased by EUR 272 million, to EUR 3,776 million, largely due to a reduction in debt and the recognition of interest income from the reversal of interest rate derivatives that were no longer necessary.

The effective weighted average interest rate applicable to our outstanding indebtedness related to bonds and debentures was 6.8% in 2004, 6.8% in 2003 and 6.7% in 2002. The effective weighted average interest rate applicable to our outstanding indebtedness related to bank liabilities was 6.5% in 2004, 6.1% in 2003 and 5.7% in 2002. A portion of our debt instruments have provisions that could cause the interest rate on such investments to increase upon the occurrence of certain downgrades in our long-term unsecured debt ratings. For more information, see " Liquidity and Capital Resources Capital Resources."

Income (loss) from Financial Activities

Income (loss) from financial activities includes our share of the income or losses on investments accounted for under the equity method and losses relating to writedowns of other investments. Results related to companies accounted for under the equity method include the amount of annual amortization of goodwill relating to these investments, which is essentially the amortization of goodwill arising from the difference between the purchase price we paid and our share of the shareholders' equity for each of these investments. Income and loss from other investments primarily consists of dividends received from our investments as well as provisions for writedowns of the carrying amounts of other investments.

Other Investments

Results from other investments decreased from EUR (8) million in 2003 to EUR (17) million in 2004. This decrease was primarily a result of lower write-downs on financial assets and marketable securities, and lower income related to associated companies not accounted for under the equity method and related companies.

In 2003, results from other investments improved, mainly due to a decline from the high level of writedowns on financial assets and marketable securities in 2002, primarily due to the share price-related writedowns of the net carrying amount of the shareholding in France Télécom (EUR 613 million), valuation adjustments on investments in non-current securities (EUR 384 million), and writedowns of long-term loans to associated and related companies relating to the sale of the cable companies (EUR 322 million).

Results Related to Companies Accounted for Under the Equity Method

Results related to companies accounted for under the equity method increased in 2004, compared to 2003, as a result of increased income from improved results, primarily from PTC and MTS (EUR 106 million and EUR 177 million, respectively, in 2004, compared to EUR 84 million and EUR 121 million, respectively, in 2003), and from lower expenses attributable to Toll Collect.

Loss related to companies accounted for under the equity method improved in 2003. In particular, the non-recurrence, due to consolidation, of the expense relating to companies that were accounted for using the equity method in 2002, and the positive effect of the write-up of the net carrying amount of the stake in comdirect bank AG ("comdirect bank"), had a positive effect on loss relating to associated and related companies. Expenses relating to Toll Collect had a negative effect in 2003.

Income Taxes

	For the years ended December 31,				
	2004	**2003**	**2002**	**2004/2003**	**2003/2002**
	(millions of €)			(% change)	
Income taxes	1,608	(225)	(2,847)	n.m.	(92.1)

n.m. not meaningful

In 2004, income taxes increased by EUR 1,833 million compared to 2003, primarily as a result of improved taxable profits from our group companies, the restrictions on full use of our net operating loss carryforwards and deferred tax expense of EUR 625 million relating to T-Mobile USA. Deferred taxes result primarily from temporary differences between income determined under German GAAP and under applicable tax law. At December 31, 2004, we had corporate income tax net operating loss carryforwards amounting to approximately EUR 16,795 million and trade tax net operating loss carryforwards amounting to approximately EUR 4,368 million. With the exception of net operating loss carryforwards of EUR 9,365 million, the utilization of which is limited to periods from 2005 to 2023, these net operating loss carryforwards have an unlimited carryforward period under German and local tax law. However, as a result of new tax legislation in Germany that became effective in 2004, the use of our German net operating loss carryforwards were restricted to no more than 60% of our taxable income.

In 2003, we had net operating loss carryforwards affecting corporate income tax and trade tax net operating loss carryforwards, with the result that we were able to fully utilize these tax loss carryforwards within our domestic tax consolidated group. The tax benefit reported relates to the 2002 corporate income tax benefit of EUR 0.4 billion at T-Mobile International AG & Co. KG as a result of the change of the legal form of T-Mobile from a stock corporation to a partnership. This tax benefit was partially offset by tax expense relating to domestic and foreign shareholdings not included in the domestic tax consolidation group.

In 2003, income taxes decreased by EUR 2,622 million compared to the previous year. This was mainly attributable to the decrease in deferred tax benefits due to the reversal of deferred tax liabilities in 2002 as a result of the strategic review and the ensuing write-downs of U.S. mobile licenses. There were no comparable effects in 2003.

Our effective income tax rate (income taxes as a percentage of pre-tax income (loss)) was approximately 25% in 2004, (16)% in 2003 and 11% in 2002. The German statutory income tax rate for us was approximately 39% in 2004, 40.4% in 2003, and 39% in 2002. It included corporate income tax of 25%, a solidarity surcharge on corporate income tax (*Solidaritätszuschlag*) levied at 5.5% on corporate income tax and trade tax at an average German national rate.

Net Income

In 2004, we increased our net income to EUR 4,634 million, from net income of EUR 1,253 million in 2003. This was primarily a result of the factors set forth above.

SEGMENT ANALYSIS

The following table presents total revenues (the sum of external (net) revenues and inter-segment revenues), net revenues and inter-segment revenues of our segments for the years indicated.

	For the year ended December 31,								
	2004			2003			2002		
	Net Revenues	Inter-Segment Revenues	Total Revenues	Net Revenues	Inter-Segment Revenues	Total Revenues	Net Revenues	Inter-Segment Revenues	Total Revenues
	(millions of €)								
T-Com	24,425	3,389	27,814	25,116	4,090	29,206	26,491	4,068	30,559
T-Mobile	24,088	907	24,995	21,572	1,206	22,778	18,339	1,396	19,735
T-Systems	7,238	3,299	10,537	7,184	3,430	10,614	6,895	3,594	10,489
T-Online	1,793	186	1,979	1,662	189	1,851	1,391	193	1,584
Group Headquarters and Shared Services	336	4,165	4,501	304	3,964	4,268	573	3,838	4,411
Reconciliation		(11,946)	(11,946)		(12,879)	(12,879)		(13,089)	(13,089)
Group	57,880		57,880	55,838		55,838	53,689		53,689

Reclassifications

The structure for our segments has been adjusted to reflect the revised reporting structure at T-Com and T-Systems. Effective as of April 1, 2004, responsibility for the investment in Toll Collect was transferred from T-Com to T-Systems. To facilitate comparison, prior-year figures have been adjusted to reflect this change.

T-Com

The following table presents selected financial information concerning T-Com:

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €)			(% change)	
Net revenues	24,425	25,116	26,491	(2.8)%	(5.2)%
Inter-segment revenues	3,389	4,090	4,068	(17.1)%	0.5%
Total revenues	27,814	29,206	30,559	(4.8)%	(4.4)%

Net Revenues

In 2004, T-Com was again the main contributor to revenues in the Deutsche Telekom group. Net revenues decreased by EUR 691 million, primarily due to a reduction in network communication revenues as a result of reduced call charge and wholesale services revenues. In addition, due to the sale of the remaining cable businesses in March 2003, the net revenues attributable to these businesses for the first three months of 2003 (EUR 167 million) did not recur in 2004.

The reduction in call charge revenues was primarily due to market share losses resulting from increased competition from other carriers, the introduction in Germany of call-by-call in April 2003 and carrier pre-selection in July 2003, as well as the increased use of optional lower-rate calling plans. Average market share in T-Com's domestic fixed-line network declined from 57.6% in 2003 to 54.0% in 2004. This decline corresponded to a 10.7% decrease in the call traffic volume from end customers.

Net revenues were also affected by the mandatory 9.5% average reduction in interconnection charges in the fourth quarter of 2003 and the continuing trend towards direct interconnection between other carriers, which resulted in a decrease in wholesale services revenues.

Primarily as a result of the introduction in 2003 of call-by-call, carrier pre-selection and the loss of market share in the access market, T-Com's local market share, measured in terms of call volume, decreased year to year. Declines in local call market share are expected to continue.

In 2003, net revenues decreased by EUR 1,375 million, or 5.2%, to EUR 25,116 million in 2003, from EUR 26,491 million in 2002. The sale of the remaining cable businesses in March 2003 had a negative impact on net revenues in 2003 because these companies' revenues were no longer included in the consolidated group. T-Com's cable businesses contributed an aggregate of EUR 167 million to net revenues in 2003 and EUR 897 million in 2002. Net revenues in 2003 were also adversely affected by a 6.6% decrease in customer call traffic volume, which corresponded to a reduction of average market share in T-Com's domestic fixed-line network from 61.2% in 2002 to 57.6% in 2003.

Net revenues of our Central and Eastern European subsidiaries increased by EUR 56 million in 2004 as compared with 2003. The increase was primarily due to exchange rate effects in Hungary, Croatia and Slovakia, as well as to an increase in revenues at T-Hrvatski Telekom and an increase in net revenues from mobile and online products. The increase was slightly offset by a decrease in net revenues at Matáv and Slovak Telecom. Net revenues decreased by EUR 29 million in 2003. The decrease was primarily due to exchange rate effects in Hungary and Croatia as well as a decrease in net revenues at Slovak Telecom.

Inter-Segment Revenues

In 2004, T-Com revenues from T-Systems, T-Online, T-Mobile and the other Deutsche Telekom affiliates (inter-segment revenues) amounted to EUR 3,389 million, a decrease of EUR 701 million, or 17.1%, compared to inter-segment revenues of EUR 4,090 million in 2003. This decrease was primarily attributable to the direct interconnection of T-Systems, and T-Mobile's networks. In addition, in

January 2004, T-Com reduced the price that it charges to T-Systems for Wide Area Network services ("WAN") and ISP services, resulting in a decrease in inter-segment revenues. T-Com believes that revenue with T-Systems will continue to decrease in the future due to changes in the types of products provided to T-Systems and its customers. In the past T-Com provided advanced products and services to T-Systems for sale to its end customers. In 2004, T-Com began providing only basic products to T-Systems, which are then bundled by T-Systems and provided to their customers.

Effective as of April 2004, T-Com reduced the prices it charged T-Online for ISP services, which resulted in a reduction of inter-segment revenues. Although T-Com expects inter-segment revenue growth through its broadband products and services, T-Com does not believe that such growth will be sufficient to completely offset the expected decrease in inter-segment revenue from narrowband products.

Decreased revenues from T-Mobile relating to interconnection were mainly attributable to the direct-network interconnection of T-Mobile with other carriers as well as with T-Systems. However, T-Com expects that revenues from T-Mobile will increase slightly in the near future, mainly due to higher revenue arising from W-LAN access and services and from the buildout of T-Mobile's UMTS network infrastructure in Germany.

In 2003, inter-segment revenues amounted to EUR 4,090 million, an increase of EUR 22 million, or 0.5%, compared to inter-segment revenues of EUR 4,068 million in 2002. This increase was mainly due to higher revenues from T-Online and T-Systems. Revenues from T-Online increased largely due to the growth in ISP origination services, higher demand for bandwidth and the growing number of online customers. The increase in revenues from T-Systems was attributable to additional services purchased by T-Systems as a result of the migration of larger business customers from T-Com to T-Systems. The increase in inter-segment revenues in 2003 was partially offset by a decrease in revenues from T-Mobile, which was a result of increasing direct interconnection between the networks of other mobile carriers.

Total Revenues

The following table reflects T-Com's total revenues by geographic area:

	For the years ended December 31,				
	2004	**2003**	**2002**	**2004/2003**	**2003/2002**
		(millions of €)		**(% change)**	
Domestic	23,921	25,351	26,682	(5.6)	(5.0)
Central and Eastern Europe	3,893	3,855	3,877	1.0	(0.6)
Total revenues	**27,814**	**29,206**	**30,559**	**(4.8)**	**(4.4)**

In 2004, T-Com's total revenues decreased by EUR 1,393 million, or 4.8%, to EUR 27,814 million, from EUR 29,206 million in 2003, primarily due to a reduction in wholesale services revenues resulting from mandatory price reductions for interconnections and continued carrier migration, as well as to a reduction in call charges due to the impact of call-by-call and carrier pre-selection. Domestic revenues accounted for 86% of total revenues in 2004. In addition, due to the sale of the remaining cable business in March 2003, the revenue attributable to these businesses for the first three months of 2003 did not recur in 2004.

Furthermore, T-Com's revenues from its Central and Eastern European subsidiaries increased slightly in 2004 due to an increase in revenues from mobile products, online products and wholesale services, as well as an increase in T-Hrvatski Telekom's total revenues. Matáv, T-Hrvatski Telekom and Slovak Telecom accounted for all of T-Com's Central and Eastern European revenues and contributed EUR 3,893 million, or approximately 14%, of total revenues in 2004.

In 2003, T-Com's total revenues decreased by EUR 1,353 million, or 4.4%, to EUR 29,206 million, from EUR 30,559 million in 2002. Domestic revenues accounted for approximately 86.8% of total revenues in 2003, primarily due to the deconsolidation of the cable businesses and continued downward pressure on revenue following price reductions imposed by the German telecommunications regulator. Matáv, T-Hrvatski Telekom and Slovak Telecom contributed EUR 3,855 million, or approximately 13.2%, of total revenues in 2003.

Components of Total Revenues

The components of total revenues are listed in the following table:

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €)			(% change)	
Domestic					
Network communications	14,764	15,094	15,154	(2.2)	(0.4)
Data communications	1,874	1,850	2,392	1.3	(22.7)
Value-added services	1,292	1,387	1,426	(6.8)	(2.7)
Terminal equipment	646	798	927	(19.0)	(13.9)
Other fixed-line network revenues	212	406	1,173	(47.8)	(65.4)
Total fixed-line network revenues	**18,788**	**19,535**	**21,072**	**(3.8)**	**(7.3)**
Wholesale services	4,199	4,643	4,399	(9.6)	5.5
System integration	180	175	261	2.9	(33.0)
Other domestic services.	754	998	950	(24.4)	5.1
Total domestic revenues[(1)]	**23,921**	**25,351**	**26,682**	**(5.6)**	**(5.0)**
Central and Eastern Europe					
Matáv	2,389	2,392	2,429	(0.1)	(1.5)
T-Hrvatski Telekom	1,083	1,034	1,007	4.7	2.7
Slovak Telecom	421	429	441	(1.9)	(2.7)
Total Central and Eastern Europe revenues	**3,893**	**3,855**	**3,877**	**1.0**	**(0.6)**
Total revenues	**27,814**	**29,206**	**30,559**	**(4.8)**	**(4.4)**

(1) Information for 2003 has been reclassified to conform to 2004 organizational changes, including adjustments to reflect the impact of customer discounts, which were reclassified from other domestic services to data communications revenues. These reclassifications did not affect total domestic revenues in 2003.

Total Domestic Revenues

In 2004, total domestic revenues (total revenues derived from within Germany) decreased by EUR 1,430 million, or 5.6%, to EUR 23,921 million, from EUR 25,351 million in 2003. The decrease in total domestic revenues was primarily the result of a reduction in revenues from network communication services, which includes revenue from call charges, and a reduction in wholesale services revenues, due to mandatory price reductions for interconnections. The reduction in revenues from call charges was primarily due to the impact of call-by-call, carrier pre-selection and competition from alternative access providers. In addition, due to the sale of the remaining cable business in March 2003, the revenue attributable to the business for the first three months of 2003 did not recur in 2004.

In 2003, total domestic revenues decreased by EUR 1,331 million, or 5.0%, to EUR 25,351 million, from EUR 26,682 million in 2002. The decrease in total domestic revenues in 2003 was primarily attributable to the deconsolidation of the cable businesses, continued negative pressures on revenues as a result of price reductions imposed by the German telecommunications regulator, and increased competition in most areas of the fixed-line business.

Network Communications

Network communications revenues consist of revenues from network access products and calling services. Revenues from network access products include monthly access charges and installation fees. Revenues from calling services include call charges relating to local, regional and domestic long-distance calls, international calls, calls to mobile networks and calls to Internet service providers. Call charges vary, depending on the rate plan, or tariff, in effect at the time a call is initiated. T-Com customers are able to choose from a variety of calling plans designed to suit a variety of individual and business needs.

In 2004, network communications total revenues decreased by EUR 330 million, or 2.2%, to EUR 14,764 million, from EUR 15,094 million in 2003. The decrease in network communication revenues was primarily the result of a reduction in revenues from call charges due to the introduction of call-by-call and carrier pre-selection for local services as well as the increased use of optional lower rate calling plans. This decrease was offset in part by an increase in access revenues, due in part to an increase in price related to the standard T-Net access products and increased sales of broadband access. An increase of the level of services provided under optional rate plans also increased access revenues and decreased calling revenues year-on-year, as customers chose to pay higher access fees to receive the benefits of lower calling charges.

The decrease in call revenues in 2004 was primarily due to a decline in call minutes as well as increased use of optional lower-rate calling plans. The decline in total call minutes by 12% in 2004, as compared to 2003, was largely the result of increased competition from call-by-call providers (since April 2003) and carrier pre-selection (since July 2003) as well as the increased use of mobile phones as substitutes for fixed-line telephones. Although T-Com introduced several innovative rate plan options during 2004, its fixed-line network market share, measured in minutes of call time, decreased from 57.6% in the previous year to 54.0% in 2004. T-Com expects that its market share in this area will continue to decrease, primarily as a result of the continuing effects of call-by-call and carrier pre-selection as well as competitive and regulatory pressures.

In addition, price reductions resulting from regulatory decisions in 2003 also contributed to the decrease of call revenues in 2004. The most significant pricing measure came into effect in September 2003, which included a rate reduction for local calls. Moreover, T-Com expects connection minute revenues for all rate plans to decrease in the future, due to increasing pressure in the regulatory environment as well as increased competition. T-Com will seek to slow this trend through the introduction of innovative offers and a simplified rate structure, including flat-rate plans (rate plans offering a specific number of minutes for a fixed fee). For more information, see "Item 4. Information on the Company Regulation."

The total number of standard T-Net access lines decreased in 2004 by 3.6%, compared to 2003. The total number of T-ISDN access lines increased by 1.5% in 2004. However, during the second half of 2004, the total number of T-ISDN access lines decreased, because of increasing saturation of the ISDN market, increased competition and customer migration from T-ISDN access with T-DSL to T-Net access with T-DSL which occurred after T-Com harmonized its pricing for T-DSL in 2004.

T-DSL lines in operation (which requires either T-Net or T-ISDN) increased from 4 million at the end of 2003 to 5.6 million at the end of 2004, primarily due to the continued growth in the number of T-DSL customers. During 2004, T-Com introduced its T-DSL "1/2/3" strategy with attractive prices for both new and existing T-DSL customers, and introduced a low cost broadband Internet access product, called "Three Times Zero Euro" to all new T-DSL customers.

Although T-Com expects that the number of T-Net access lines and T-ISDN access lines will decline because of increased competition and increased use of mobile phones in place of fixed-access lines, T-Com believes that T-DSL growth will remain relatively strong in 2005. A strategic goal for

T-Com is to increase revenue through increased broadband penetration and sales of T-DSL products to new and existing customers.

In 2003, network communications total revenues decreased by EUR 60 million, or 0.4%, to EUR 15,094 million, from EUR 15,154 million in 2002. The decrease in revenues was primarily the result of a reduction in revenues from call charges, which were also affected by the introduction of call-by-call and carrier pre-selection for local services. This decrease in calling services revenues was partially offset by price increases in access lines, the migration of customers to more advanced lines with higher prices and the increase in sales of broadband lines.

Revenues from calling services decreased in 2003, compared to the previous year. T-Com recorded lower revenues from local call charges in 2003. The introduction of call-by-call in the local network in April 2003 resulted in a substantial reduction in T-Com's market share for extended local calls. In 2003, T-Com's fixed-line network market share as measured by call time in minutes decreased from 61.2% to 57.6%. T-Com launched innovative rate plans in an attempt to minimize this decrease.

Price reductions for call minutes were introduced on February 1, 2003 as part of the price-cap regime mandated by the German telecommunications regulator. As a result of these price reductions and a decrease in the total volume of customer minutes billed (related to a lengthening of the time increment used to bill customers), local call revenues decreased.

In 2003, the growth in revenues from monthly access charges exceeded the decrease in revenues from call charges. On February 1, 2003 and September 1, 2003, the prices of traditional telephone lines were increased as part of the price-cap adjustments. Prices for the installation of T-DSL lines were also increased on January 1, 2003, which resulted in an increase in installation fee revenues, which partially offset the decline in network communications revenues.

Although the total number of access lines decreased in 2003 by 2.1% compared to 2002, revenues from monthly access charges increased due to growth in the number of higher priced T-ISDN lines. In addition, the number of T-DSL lines in operation grew by approximately 42.9% in 2003, which had a positive affect on revenues.

Data Communications

Total revenues from data communications services increased in 2004, by EUR 24 million, or 1.3%, to EUR 1,874 million. This increase was a result of the increases in revenues in T-Com's IT solutions and dedicated customer lines as well as CompanyConnect. This increase was largely offset by a decrease in revenues in T-Com's principal other data communications products, due to reduced prices and call volumes. In addition to revenue decreases due to price, volume or transfer effects relating to other principal products, T-Com's TDN products also contributed to this revenue decrease due to external carriers creating their own networks, as well as a migration from data communications to CSN products, which are included under Wholesale Services, and are priced lower than similar TDN products.

In 2003, the decrease in total revenues from data communications services of EUR 542 million, or 22.7%, to EUR 1,850 million was mainly the result of a reclassification of product offerings and customer transfers from T-Com to T-Systems. In 2004, T-Com reclassified certain customer discounts previously reported under "Other domestic services" to "Data communications," which reduced data communications revenues for 2003 (approximately EUR 128 million), but did not change the revenue trend. The transfer of customers to T-Systems related to corporate business solutions, where certain customers were migrated to T-Systems' service platform. In addition, a reduction in sales of TDN products contributed to the decrease in revenues in 2003, due to the substitution of CSN products due to changes in customer preferences for standard products rather than standard solutions.

Value-Added Services

Revenues from value-added services include revenues from toll-free numbers, shared-cost numbers, public payphones, T-Vote Call, premium-rate services, the directory-assistance service and other operator services, such as call center services.

Total revenues from value-added services decreased in 2004 by EUR 95 million, or 6.8%, to EUR 1,292 million in 2004, from EUR 1,387 million in 2003. This was mainly the result of a decrease in revenues from T-Com's premium-rate services, due to a decrease in customer demand and a regulatorily mandated change to a transmission fee-based billing model. This decrease in revenues from premium-rate services was partially offset by an increase in revenues from T-Vote Call. For more information, see "Item 4. Information on the Company Regulation Customer Protection Ordinance."

In 2004, public telephone use continued to decrease, which resulted in a slight decrease in value-added services revenues, primarily as a result of the continued substitution of mobile phones. This trend is expected to continue in the future.

T-Com believes that value-added services revenues will decrease slightly in the near future due to a decline in market share resulting from increased competition as well as a result of the change to a transmission fee-based billing model for premium rate services. The continued positive growth in T-Vote Call and, to a lesser extent, in the shared-cost call services, are not expected to fully compensate for the decrease in premium rate services.

In 2003, total revenues from value-added services decreased by EUR 39 million, or 2.7%, to EUR 1,387 million. The decrease was mainly attributable to lower revenues from public telephone use and premium-rate services. The decrease in revenues contributed by public payphones was largely attributable to the substitution effect of increased use of mobile phones instead of fixed-line telephones. The decrease in revenues in 2003 was partially offset by an increase in revenues from T-Vote Call.

Terminal Equipment

Revenues from terminal equipment sales consist of revenues from the sale and rental of conventional and ISDN telephones, and PBXs, relating to the fixed-line network.

Total revenues from sales of terminal equipment decreased by EUR 152 million, or 19.0%, to EUR 646 million in 2004, from EUR 798 million in 2003. This decrease was a result from reduced demand for rentals of conventional telephones and communications systems for business customers as well as decreased revenues due to a decline in ISDN equipment sales. The decrease in demand was also, in part, a result of business customers' tendency to use their own equipment rather than renting equipment from T-Com.

In 2003, total revenues from sales of terminal equipment decreased by EUR 129 million, or 13.9%, to EUR 798 million, from EUR 927 million in 2002, primarily due to a reduction in demand as a result of stagnant market conditions, the accompanying deterioration in the investment climate and intense competition in the marketplace for such products.

Other Fixed-Line Network Revenues

Other fixed-line network revenues mainly consist of support services for the installation, maintenance and repair of telecommunications equipment and related service support. Total other fixed-line network revenues decreased by EUR 194 million, or 47.8%, to EUR 212 million in 2004, from EUR 406 million in 2003. This decrease was largely attributable to the sale of the remaining cable businesses in March 2003, which contributed net revenues for the first three months of 2003 of EUR 167 million and no revenues in 2004.

In 2003, T-Com's total other fixed-line network revenues decreased by EUR 767 million, or 65.4%, to EUR 406 million. This decrease was largely attributable to the sale of the remaining cable businesses in March 2003.

Wholesale Services

T-Com's wholesale services business primarily consists of interconnection services for domestic operators of fixed-line and mobile communications networks, carrier-specific transmission paths, access to the unbundled local loop, ISPs and IP services.

Total revenues from the wholesale services business, including revenues for services provided to third parties as well as revenues from Deutsche Telekom group segments, decreased by EUR 444 million, or 9.6%, to EUR 4,199 million in 2004, from EUR 4,643 million in 2003.

In 2004, total revenues from the wholesale services business decreased largely due to an average 9.5% price reduction for interconnection charges, which was mandated by the German telecommunications regulator. In addition, total revenues from wholesale services decreased due to the carrier migration to multiple points of interconnection, which led to a reduction in the average price per minute. Furthermore, the trend towards direct interconnection between T-Mobile and other carriers, between T-Mobile and T-Systems, and between other mobile carriers continued, which decreased the amount of traffic among mobile carriers that is routed by T-Com through its fixed-line network. The decrease was also due to price reductions for narrowband (by an average of 8%) and broadband (by an average of 22%) ISP services.

These revenue decreases were partly offset by a growth in revenues from T-Com's unbundled local loop, which allows competitors to have direct access to telecommunications customers. Revenues related to T-Com's unbundled local loop increased due to the number of customer connections requested by competing carriers. In addition, since Resale DSL was introduced on July 1, 2004, T-Com provided 246,000 lines to competitors under resale agreements in the second half of 2004.

T-Com believes that the price reductions for ZISP and Online Connect which were implemented in October 2004 and January 2005, respectively, will have a negative effect on revenues in the future. The anticipated decrease in revenues is expected to be offset in part by growth in Resale DSL revenues and revenues related to T-Com's unbundled local loop.

In 2003, total revenues from the wholesale services business increased by EUR 244 million, or 5.5%, to EUR 4,643 million. This was largely due to increases in ISP services and carrier leased lines revenues, which were partially offset by a decrease in revenues from interconnection services provided to operators of fixed-line and mobile telecommunications networks. This decrease was primarily due to the trend towards direct interconnection between mobile carriers.

Total ISP services revenues increased in 2003, due to a growth in usage of online services. This resulted in an increase in demand for services provided by T-Com to internet service providers. In addition, in 2003, total revenues from access to T-Com's unbundled local loop increased due to an increase in the number of customer connections requested by competing carriers.

Systems Integration

Systems integration consists of implementation and support in the area of telecommunications applications, and also includes service solutions for T-LAN and communications networking, wiring and network expansion, as well as E-Business Solutions.

Total revenues increased slightly by EUR 5 million, or 2.9%, to EUR 180 million in 2004, from EUR 175 million in 2003. In 2004, IT investment activities were negatively affected by the general and regional weak economic environment.

Total revenues decreased by EUR 86 million, or 33.0%, to EUR 175 million in 2003, from EUR 261 million in 2002. The revenue trend in 2003 from ongoing business was characterized by a difficult market environment and lack of investment activities due to the weak economy.

Other Domestic Services

Other domestic services revenues mainly consist of sales commissions from other Deutsche Telekom divisions for the sale of their products through T-Com's sales outlets, such as the T-Punkt outlets. Other domestic services also include revenues from the publication and sale of subscriber data to telecommunications services (*e.g.*, telephone directories), from the production and sale of prepaid cards for online-shopping and from prepaid cards for telephones.

Total other domestic services revenues decreased by EUR 244 million, or 24.4%, to EUR 754 million in 2004, from EUR 998 million in 2003. This decrease was primarily the result of a change in the business model relating to sales of telecommunications equipment, mobile devices and accessories. Prior to the change in T-Com's business model, revenues from the sale of mobile devices and accessories through T-Com's T-Punkt outlets during 2004 were recorded on a gross basis and the corresponding costs shown under cost of sales. As a result of the change in business model, revenues relating to sales of these products are recorded as sales commissions received from other Deutsche Telekom group companies.

In addition, total other domestic service revenues decreased due to lower revenues from the publishing and directory business in 2004, compared to 2003 due to a decline in advertising revenues and increased competition from online services. T-Com expects other domestic services revenues to decrease in the future due to continuing competition from online services.

Total other domestic services revenues increased by EUR 48 million, or 5.1%, to EUR 998 million in 2003 from 950 million in 2002. This increase is primarily due to the reclassification of customer discounts (approximately EUR 158 million), now reported under Data communications. This increase was offset, in part, due to lower revenues from the publishing and directory business. The decrease in revenues from the publishing and directory business was largely due to a consolidation of our portfolio of certain low-margin business customers, as well as a decline in advertising revenues due to the weakness in the German economy.

Total Central and Eastern Europe Revenues

Total revenues from T-Com's Central and Eastern European subsidiaries were EUR 3,893 million in 2004, a slight increase from total revenues EUR 3,855 million in 2003, due to an increase in total revenues at T-Hrvatski Telekom, which was partially offset by decreased total revenues from Matáv and Slovak Telecom. When measured in local currencies, revenues at Matáv and Slovak Telecom decreased year on year. Revenues from fixed-line networks continued to decline in all Central and Eastern European subsidiaries during 2004, primarily due to further deregulation, increasing competition and the substitution effect of mobile telephones. This decline was partially offset by an increase in mobile, online and broadband revenues in all three Central and Eastern European subsidiaries.

Total revenues from T-Com's Central and Eastern European subsidiaries were EUR 3,855 million in 2003, slightly lower than total revenues of EUR 3,877 million in 2002. This decrease was largely due to negative currency exchange rate effects in Hungary and Croatia. When measured in local currencies, total revenues at Matáv and T-Hrvatski Telekom increased year-on-year. Revenues from the fixed-line networks continued to decline in 2003, offset in part by the continuing trend towards strong growth in the mobile businesses. Demand for online services and fixed-network broadband applications also grew in Central and Eastern Europe in 2003, although from a lower initial base.

Matáv

Matáv generates revenues from fixed-line network services, mobile communications, wholesale services, online services and cable television business. In 2004, total revenues decreased from EUR 2,392 million to EUR 2,389 million, or 0.1%, due to lower fixed-line networks revenues, lower wholesale services and lower value-added services. This decrease in fixed-line network revenues was due to price decreases in connection with regulatory constraints as well as a reduction in market demand resulting from increasing competition and substitution effects of mobile telephones. In addition, wholesale service revenues decreased due to lower levels of traffic terminating in the fixed-line network. The decrease in fixed-line network revenues was partially offset by increased revenues from mobile services, online services and data communications.

Fixed-line network revenues declined by 8.1%, from EUR 1,210 million to EUR 1,112 million in 2004, due to an overall decrease in call minutes as well as price reductions. The decline in fixed-line network revenues accelerated beginning in 2004, which was primarily due to substitution effects of mobile telephones. In addition, fixed-line network revenues were influenced by aggressive marketing campaigns and the use of attractive products by competing mobile and fixed network providers. Matáv will seek to slow this trend through the introduction of innovative offers and a simplified rate structure, including flat-rate plans.

Revenues from wholesale services decreased by approximately 24.4%, from EUR 119 million in 2003, to EUR 90 million in 2004. This decrease was primarily the result of lower termination volume into Matáv's fixed-line network and reduced interconnection charges. These decreases were also partially due to direct carrier interconnection.

Revenues from mobile communications increased from EUR 973 million in 2003 to approximately EUR 1,060 million in 2004, primarily due to an increase in the number of customers (from 3.8 million to 4 million) as well as an increase in call minutes. Prepaid customers represented 71.1% of the total T-Mobile Hungary customers as of December 31, 2004. T-Com expects the growth rate of mobile revenues to decrease, because of the increasing saturation of the market and stronger competition.

Revenues from online services increased from EUR 45 million in 2003 to EUR 76 million in 2004, primarily as a result of an increase in the number of customers, which grew by 26.1%, from 211,000 to 266,020 and an increase in the number of broadband customers.

T-Com expects that revenues from Matáv's fixed-line network and wholesale services will continue to decline in 2005. T-Com expects that the decrease in Matáv's revenue will partly be offset by increasing revenues from mobile services and online services. However, T-Com expects the growth rate of mobile revenues to decrease, because of increasing saturation of the market and stronger competition.

Matáv's total revenues decreased by EUR 37 million, or 1.5%, to EUR 2,392 million in 2003, from EUR 2,429 million in 2002, primarily because of lower fixed-line revenues and negative currency effects.

Commencing January 1, 2005, results from T-Mobile Hungary will be reported under the T-Mobile division. For more information, see "Item 4. Information on the Company Strategy Strategic Realignment."

T-Hrvatski Telekom

T-Hrvatski Telekom generates revenues from its fixed-line network, mobile communications business, online services and carrier services business.

Total revenues increased by 4.7% to EUR 1,083 million in 2004, from EUR 1,034 million in 2003. This increase was due to higher revenues from mobile and online services, which were partially offset by lower revenues for fixed-line network services. Measured in local currency, revenues from T-Hrvatski Telekom remained largely unchanged in 2004, compared to 2003.

T-Hrvatski Telekom's mobile services revenues increased primarily due to substitution effects of mobile telephones and increased mobile usage during the tourist season. Commencing January 1, 2005, results from T-Hrvatski Telekom's mobile services will be reported under the T-Mobile division. For more information, see "Item 4. Information on the Company Strategy Strategic Realignment."

Online services revenues increased, from EUR 37 million in 2003, to EUR 40 million in 2004. This increase was driven primarily by higher numbers of customers, which grew by 17.5%, from 480,000 to 563,000 and an increase in the number of broadband customers from 2,000 at the end of 2003 to 22,000 at the end of 2004.

Fixed-line network revenues declined slightly due to a decrease in access fees for traditional access lines as well as in call charges. In 2004, minutes of use decreased by 0.8% from 5.12 billion to 5.08 billion.

In connection with the acquisition of the second tranche (16%) of the shares of T-Hrvatski Telekom, a commitment was signed to invest EUR 748 million in T-Hrvatski Telekom from 2002 to 2004. The goal of this investment program was primarily the expansion of the fixed-line and mobile network infrastructures. Due to changes in costs for telecommunications equipment, technological progress as well as changes in the market and in the local economy, T-Hrvatski Telekom did not meet the required investment targets in 2004. T-Hrvatski Telekom does not believe that significant risks associated with having not met the investment targets exist.

Total revenues increased by 2.7% to EUR 1,034 million in 2003, despite a negative currency translation effect of 2.0%. In local currency, total revenues increased 4.8%. Although fixed-line network revenues reflected a slight downward trend, mainly due to a decrease in the number of standard access lines, by 28,000, to 1.6 million, and minutes of use from 5.17 billion to 5.12 billion, mobile communications revenues increased by approximately 20%, primarily as a result of an increase in customers from 1.2 million to 1.3 million. Revenues from wholesale services decreased by 22%, while online service revenues increased by nearly 100%.

Slovak Telecom

Slovak Telecom generates revenues from its fixed-line network, wholesale services, online services and broadcasting services. Slovak Telecom's total revenues decreased by EUR 8 million, or 1.9%, to EUR 421 million in 2004, from EUR 429 million in 2003.

In 2004, fixed-line network revenues fell by 0.9%, from EUR 351 million to EUR 348 million. This decrease was primarily attributable to the decline in standard access lines by 83,000, to 1.1 million. In addition, revenues decreased due to the substitution effects of mobile telephones and increasing competition from mobile operators.

Revenues from wholesale services decreased by approximately 23%, from EUR 47 million to EUR 36 million, primarily as a result of decreasing prices for international traffic as well as increasing competition.

T-Com expects that revenue from Slovak Telecom's fixed-line network will continue to decrease in 2005.

Slovak Telecom's total revenues decreased by EUR 12 million, or 2.7%, to EUR 429 million in 2003, from EUR 441 million in 2002. The decrease was primarily attributable to the substitution of fixed-line business by increased usage of mobile communications.

Operating Expenses

The following table provides selected information regarding the components of T-Com's operating expenses:

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €)			(% change)	
Cost of sales	15,512	16,958	18,339	(8.5)	(7.5)
Selling costs	5,458	6,115	6,565	(10.7)	(6.9)
General and administrative costs	1,628	1,707	1,782	(4.6)	(4.2)
Other operating expenses	729	1,029	607	(29.2)	69.5
Total	**23,327**	**25,809**	**27,293**	**(9.6)**	**(5.4)**

Cost of Sales

Cost of sales decreased by EUR 1,446 million, or 8.5%, to EUR 15,512 million in 2004, compared to EUR 16,958 million in 2003.

In 2004, the cost of sales of telecommunications services decreased compared to 2003. Domestic telecommunications services costs decreased primarily due to lower depreciation and amortization costs associated with T-Com's fixed-line network, the direct network interconnection between T-Mobile Deutschland with its competitors and the decreasing number of calls between fixed network and mobile customers. In addition, the number of calls terminating in the networks of other third-party providers decreased, which resulted in lower termination costs.

Furthermore, lower terminal equipment sales led to a decrease in the cost of sales of these products. The decrease in personnel costs and employee benefit costs due to reductions in headcount and working hours also contributed to lower cost of sales in 2004. In addition, a business model change in 2004 resulted in reduced cost of sales for terminal equipment compared to 2003. Further, the cable businesses, which were sold in 2003, did not contribute to cost of sales in 2004. The decrease in T-Com's cost of sales was partly offset by an increase in cost of sales in the Central and Eastern European subsidiaries, primarily as a result of higher costs related to increased sales, higher severance payments, higher impairment costs and currency translation effects.

In 2003, cost of sales decreased by EUR 1,381 million, or 7.5%, to EUR 16,958 million, compared to EUR 18,339 million in 2002. This decrease is primarily attributable to lower depreciation and amortization costs and, to a lesser extent, to lower interconnection costs associated with T-Com's termination of customer traffic in the networks of other carriers. In addition, costs related to repair and network maintenance, as well as rental costs related to premises housing technical equipment, both decreased. Furthermore, costs associated with purchases of terminal equipment decreased, due to the decline in customer demand for these products. For more information, see " Components of Total Revenues Terminal Equipment." In addition, costs decreased due to the sale of the cable businesses in 2003, which contributed lower costs in 2003 than in 2002.

Selling Costs

T-Com's selling costs decreased in 2004 by EUR 657 million, or 10.7%, to EUR 5,458 million. This decrease was primarily due to a reduction in headcount, employee hours and allowances for bad debts in 2004. This decrease in selling costs was partially offset by increased advertising and marketing costs related to our new broadband initiatives.

In 2003, T-Com's selling costs decreased by EUR 450 million, or 6.9%, to EUR 6,115 million, primarily as a result of a decrease in write-downs of receivables related to carrier services. In addition, advertising and marketing costs decreased, compared to the previous year. Furthermore, levels of personnel in T-Com's sales organization were also reduced, due to the transfer of employees to Vivento. In addition, selling costs decreased in 2003, due to the sale of the cable businesses, which contributed lower costs in 2003 than in 2002.

General and Administrative Costs

General and administrative costs decreased slightly in 2004, by EUR 79 million, or 4.6%, to EUR 1,628 million, primarily as a result of improvements in efficiency and lower costs related to severance payments of T-Hrvatski Telekom. Further, the cable businesses, which were sold in 2003, did not contribute to general and administrative costs in 2004. The decrease in T-Com's general and administrative costs was partly offset by increased cost related to the transfer of the financial accounting function of T-Com from GHS to T-Com during 2004.

In 2003, T-Com's general and administrative costs decreased slightly, by EUR 75 million, or 4.2%, to EUR 1,707 million. The decrease was largely the result of reductions in travel and training costs. In addition, certain centralized personnel and organizational responsibilities were transferred into T-Com's operational areas. The costs associated with these activities have been shown under cost of sales and selling costs in 2003. This decrease was partially offset by increased costs from activities relating to press and communication, trademark protection, regulation, controlling and IT services. T-Com assumed these additional responsibilities, relating to T-Com businesses only, from GHS. In addition, costs decreased due to the sale of the cable businesses in 2003, which contributed lower costs in 2003 than in 2002.

Other Operating Expenses

T-Com's other operating expenses consist of a number of items such as charges related to Vivento, foreign currency transaction losses, goodwill write-downs and expenses related to the ABS program.

Other operating expenses amounted to EUR 729 million in 2004, representing a decrease of EUR 300 million, or 29.2%, compared to 2003. This was mainly a result of lower expenses related to the ABS program, foreign currency transaction costs and costs related to additions for legal accruals. Furthermore, payments to Vivento in 2004 declined significantly in comparison to 2003. These decreases were partially offset by higher goodwill amortization.

In 2003, other operating expenses were EUR 1,029 million, representing an increase of EUR 422 million, or 69.5%, compared to 2002. This was primarily the result of an increase in costs associated with redundancy payments and higher payments to Vivento. In addition, foreign currency transaction costs contributed to the increase in other operating expenses.

Financial Income (Expense), Net

T-Com's net financial income in 2004 was EUR 111 million, representing an increase of EUR 395 million from a net financial expense of EUR 284 million in 2003. This resulted primarily from an increase in interest income of EUR 185 million as well as a reduction in interest expense of EUR 299 million, both of which relate to changes in T-Com's debt related to intercompany clearance accounts. These factors were partially offset by a decrease in financial income relating to the cable businesses sold in 2003.

T-Com's net financial expense for 2004, 2003 and 2002 reflects organizational changes, including adjustments to reflect the transfer of Toll Collect to T-Systems.

Net financial expense in 2003 was EUR 284 million, representing a decrease of EUR 583 million from EUR 867 million in 2002. This decrease was primarily the result of non-recurring valuation adjustments for loans made to the cable businesses (EUR 322 million) in 2002, and reductions in net interest expense (EUR 247 million) reflecting the decline in T-Com's debt in 2003.

Income Before Taxes

Income before taxes increased by EUR 835 million, or 17.8%, to EUR 5,525 million in 2004, compared to EUR 4,690 million in 2003. Despite a decrease in revenue, T-Com was able to increase its operating profit in 2004, primarily as a result of decreased operating expenses as described above.

T-Com's income before taxes for 2004, 2003 and 2002 reflects organizational changes, including adjustments to reflect the transfer of Toll Collect to T-Systems.

Income before taxes increased by EUR 1,086 million, or 30.1%, to EUR 4,690 million in 2003, due to reductions in operating expenses that exceeded the reduction in revenues in 2003. The reductions in operating expenses were primarily due to lower maintenance and rental expenses for T-Com's fixed-line network, reductions of losses on accounts receivable and headcount arising from the transfer of employees to Vivento. In addition, the gain on sale of the cable businesses (EUR 320 million) also contributed to the increase in income before taxes. Increases in accruals for employee severance and pensions had a negative effect in 2003.

Depreciation and Amortization

Depreciation and amortization decreased by EUR 378 million, or 7.3%, to EUR 4,790 million in 2004, from EUR 5,168 million in 2003. The decrease in depreciation in 2004 was primarily due to a reduction in depreciation related to the assets of the cable businesses that were sold in 2003, and lower depreciation and amortization costs associated with T-Com's fixed-line telecommunications network in Germany.

In 2003, depreciation and amortization decreased by EUR 371 million, or 6.7%, to EUR 5,168 million, from EUR 5,539 million in 2002. This decrease was primarily due to the disposal of the remaining cable businesses in 2003. In addition, reductions in capital expenditures led to lower depreciation and amortization costs in 2003.

Personnel Costs

Personnel costs primarily consist of wages and salaries, but also include social security, pension costs and other employee benefits.

Personnel costs decreased by EUR 989 million, or 14.4%, to EUR 5,867 million in 2004 from EUR 6,856 million in 2003. This decrease was primarily due to a reduction in headcount and in employee hours in 2004. The reduction in headcount was achieved through the transfer of employees to Vivento, early retirement programs, voluntary redundancy programs and attrition, as well as the transfer of certain service lines to GHS. T-Com will not incur additional costs relating to employees transferred to Vivento in the future. For more information, see " Group Headquarters and Shared Services."

Personnel costs increased by 173 million, or 2.6%, to 6,856 million in 2003 from 6,683 million in 2002, primarily as a result of increases in accruals for employee severance payments in Germany and Croatia, increases in pension accruals due to changes in interest rates, as well as increases in wages and salaries, compared to the previous year. These increases were only partially offset by reductions in T-Com's headcount, by approximately 19,500 employees, of which approximately 13,000 were transferred to Vivento during 2003. For more information, see " Group Headquarters and Shared Services."

Capital Expenditures

T-Com's capital expenditures increased by 2.6% in 2004, compared to 2003. In Germany, T-Com intensified its capital spending on transmission platforms, UMTS licenses, access networks and, in particular, on ADSL technology. Investments in intangible assets and property, plant and equipment in the Central and Eastern European subsidiaries increased in 2004, compared to 2003, primarily due to the accelerated roll-out of the next generation network at Slovak Telecom. Capital spending at Matáv also increased, compared to the previous year, due to the substantial expansion of its ADSL network.

Capital expenditures decreased by 29% in 2003, compared to 2002. This was mainly due to a reduction in expenditures related to the extension of T-Com's SDH transmission platform in 2002. Other factors included a slow down in the expansion of the fixed-line network and weak market conditions. In addition, an increase in capacity utilization of ISDN access lines, declining growth rates and minimized capital expenditure in the PSTN network led to a reduction in overall capital expenditures in 2003.

T-Mobile

The following table presents selected financial information concerning T-Mobile:

	For the years ended December 31,				
	2004	**2003**	**2002**	**2004/2003**	**2003/2002**
	(millions of €)			(% change)	
Net revenues	24,088	21,572	18,339	11.7	17.6
Inter-segment revenues	907	1,206	1,396	(24.8)	(13.6)
Total revenues	24,995	22,778	19,735	9.7	15.4
Income (loss) before taxes	4,636	831	(23,754)	n.m.	n.m.

n.m. not meaningful

Net Revenues

The net revenues from our T-Mobile division, which consist of revenues from customers outside of the Deutsche Telekom group, increased by EUR 2,516 million, or 11.7%, to EUR 24,088 million in 2004, from EUR 21,572 million in 2003. The dominant factor in the revenue development of the T-Mobile group in 2004 was the continued growth in the number of customers.

The aggregate number of T-Mobile customers increased by 13.3%, from 61.1 million in 2003, to 69.2 million in 2004 (including 3.6 million Virgin Mobile customers in 2003 and 5.0 million in 2004). This increase was mainly a result of strong customer growth in the United States, and to a lesser extent, customer growth in Europe.

Net revenues increased by EUR 3,233 million, or 17.6%, to EUR 21,572 million in 2003, from EUR 18,339 million in 2002. This increase in revenues was primarily driven by the growth in the number of customers, particularly at T-Mobile USA. Additionally, net revenues were affected by the full-year consolidation in 2003 of T-Mobile Netherlands, which had contributed to net revenues for only three months in 2002.

In Germany, the United Kingdom, Austria, the Czech Republic and the Netherlands, the rate of mobile telephone penetration is quite high. As a result, T-Mobile expects that the growth in the number of T-Mobile customers in these markets will be significantly lower than in past years, and the focus of competition will continue to shift from customer acquisition to customer retention, and to increasing average revenues per user ("ARPU") by stimulating demand for voice usage and new data products and services, which T-Mobile expects will have a positive impact on net revenues.

Total Revenues

Total revenues include both net revenues from external customers and revenues from other divisions within the Deutsche Telekom group. The most significant component of inter-segment revenues relates to revenues received from our T-Com division, for terminating calls on our mobile network in Germany that originated from T-Com's fixed-line network in Germany.

Revenues from mobile termination fees are primarily generated in our European operations. Revenues from European mobile termination fees were approximately 11% of total revenues in 2004 (approximately 12% of total revenues in 2003). In 2004, in the Czech Republic and Germany, the regulatory authorities and mobile operators agreed to decrease mobile termination fees by 13% and 8%, respectively. Since this price reduction first became effective in Germany in December 2004, it has had only a minor impact on T-Mobile's total revenues in 2004. However, decreased mobile termination fees in the United Kingdom (a decrease of approximately 33%) in 2003 and the Netherlands in 2003 and 2004, required by the regulatory authorities in those countries, did negatively affect T-Mobile's total revenues in 2004. These decreased mobile termination fees will continue to have a negative impact on T-Mobile's total revenues in 2005. Moreover, the regulatory authorities in Germany and Austria have determined that mobile termination fees should decrease further. T-Mobile believes that mobile termination fees will decrease in its other markets as well in the future.

The following table reflects the number of T-Mobile customers by subsidiary:

	As of December 31,				
Subsidiary	**2004**	**2003**	**2002**	**2004/2003**	**2003/2002**
	(customers in millions)			(% change)	
T-Mobile Deutschland	27.5	26.3	24.6	4.6	6.9
T-Mobile UK[1]	15.7	13.6	12.4	15.4	9.7
T-Mobile USA	17.3	13.1	9.9	32.1	32.3
T-Mobile Austria	2.0	2.0	2.0		
T-Mobile Czech Republic (formerly RadioMobil)	4.4	4.0	3.5	10.0	14.3
T-Mobile Netherlands (formerly Ben)[2]	2.3	2.0	1.4	15.0	42.9
Total[3]	69.2	61.0	53.8	13.3	13.4

(1) Includes Virgin Mobile customers of 5.0 million in 2004, 3.6 million in 2003, and 2.4 million in 2002.

(2) First consolidated September 30, 2002.

(3) Percentages and total number of customers calculations based on actual figures.

The figures above represent the total number of contract and prepaid customers at year-end for the periods presented. The customer counting methodologies employed differ in some respects between national markets, so that the figures in the table above may not be directly comparable with one another. For more information relating to how we calculate our customer data, see "Item 4. Information on the Company Description of Business and Divisions T-Mobile."

T-Mobile expects that the number of customers in its European markets will not grow significantly in the future, as most of the mobile telecommunications markets in Europe are relatively mature and at or near saturation. T-Mobile expects that the number of its customers in the U.S. market will continue to increase, because that market has not yet reached saturation, although usage patterns may differ from those prevalent in Europe.

Total Revenues by Geographic Area

The following table reflects T-Mobile's total revenues by geographic area:

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €)			(% change)	
Germany[1]	8,704	8,479	7,801	2.7	8.7
United States[1]	9,366	7,416	6,138	26.3	20.8
United Kingdom[1]	4,344	4,303	3,997	1.0	7.7
Austria[1]	883	1,098	1,034	(19.6)	6.2
Czech Republic[1]	828	768	705	7.8	8.9
The Netherlands[1][2]	1,046	861	162	21.5	n.m.
Other[1]	103	95	6	8.4	n.m.
Intra-segment revenues	(279)	(242)	(108)	15.3	n.m.
Total revenues	24,995	22,778	19,735	9.7	15.4

n.m. not meaningful

(1) These amounts relate to each mobile subsidiary's respective separate financial statements (single-entity financial statements adjusted for uniform group accounting policies and reporting currency), without taking into consideration consolidation effects at the division level or the group level, which consolidation effects are included under "Intra-segment revenues" in the table.

(2) First consolidated September 30, 2002.

Germany

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €)			(% change)	
Total revenues	8,704	8,479	7,801	2.7	8.7
Less Terminal equipment	677	809	692	(16.3)	16.9
Less Other	437	325	227	34.5	43.2
Service revenues	7,590	7,345	6,882	3.3	6.7

Through T-Mobile Deutschland, we offer mobile telecommunications services to individual and business customers in Germany. In 2004, the total revenues of T-Mobile Deutschland increased by EUR 225 million, or 2.7%, compared to 2003. This increase was primarily attributable to an increase in service revenues and other revenues. In 2003, the total revenues of T-Mobile Deutschland increased by EUR 678 million, or 8.7%, compared to 2002. This increase was primarily attributable to an increase in service revenues and sales of mobile devices (included in Terminal equipment revenues).

Service revenues increased by EUR 245 million, or 3.3%, to EUR 7,590 million in 2004, compared to EUR 7,345 million in 2003. This increase was primarily attributable to both non-voice and voice revenues, as a result of having a larger customer base. Non-voice revenues increased by EUR 92 million to EUR 1,327 in 2004, compared to EUR 1,235 million in 2003. Voice revenues increased by EUR 153 million to

EUR 6,263 million in 2004, compared to EUR 6,110 million in 2003.

In 2003, service revenues increased by EUR 463 million, or 6.7%, compared to 2002. This increase was again attributable to increases in both non-voice and voice revenues, as a result of having a larger customer base.

Revenues from sales of mobile devices decreased by EUR 132 million to EUR 677 million in 2004, compared to EUR 809 million in 2003, due to a lower total number of gross customer additions (gross adds) and a lower share of contract gross adds. Revenues from sales of mobile devices increased by EUR 117 million to EUR 809 million in 2003, compared to EUR 692 million in 2002, due to an increase in mobile devicess sold to dealers and higher-priced mobile devices with enhanced functionalities, such as MMS.

Other revenues mainly consist of "visitor revenues" (revenues generated from payments made by foreign mobile operators for the use by their customers of T-Mobile's network), MVNO revenues, activation revenues and disconnection fees. MVNO revenues are generated from O2 traffic being routed through the T-Mobile Deutschland network. MVNO revenues accounted for approximately 47% of the total other revenues in 2004, compared to approximately 25% in 2003. For information relating to an EC proceeding regarding visitor revenues, please see "Item 8. Financial Information Litigation."

Other revenues increased by EUR 112 million to EUR 437 million in 2004, compared to 2003, primarily as a result of higher MVNO revenues caused, in part, by an increase in O2's customer base. Other revenues increased by EUR 98 million to EUR 325 million in 2003, compared to 2002, primarily as a result of higher visitor revenues and higher MVNO revenues caused, in part, by an increase in O2's customer base.

United States

	For the years ended December 31,				
	2004	**2003**	**2002**	**2004/2003**	**2003/2002**
	(millions of €)			**(% change)**	
Total revenues	9,366	7,416	6,138	26.3	20.8
less Terminal equipment	1,285	958	819	34.1	17.0
less Other	519	480	468	8.1	2.6
Service revenues	7,562	5,978	4,851	26.5	23.2

Total revenues increased by EUR 1,950 million, or 26.3%, to EUR 9,366 million in 2004, compared to EUR 7,416 million in 2003. The increase in total revenues resulted primarily from an increase in service revenues, due to an increase in the customer base and, to a lesser extent, from an increase in sales of mobile devices. Total revenues increased by EUR 1,278 million, or 20.8%, to EUR 7,416 million in 2003, compared to EUR 6,138 million in 2002, primarily due to an increase in the overall customer base in 2003. Expressed in local currency, the total revenue increase was higher on a percentage basis before currency translation effects, as described in "Notes to the Consolidated Financial Statements Summary of Accounting Policies."

Service revenues increased by EUR 1,584 million, or 26.5%, to EUR 7,562 million in 2004, compared to EUR 5,978 million in 2003, primarily due to an increase in customers. As a part of service revenues, non-voice revenues increased by EUR 236 million, or 146.6%, to EUR 397 million in 2004, compared to EUR 161 million in 2003, due to increased customer acceptance of these services. Service revenues increased EUR 1,127 million, or 23.2%, to EUR 5,978 million in 2003, compared to EUR 4,851 million in 2002, mainly as a result of an increase in customers. As a part of service revenues, non-voice revenues increased by EUR 106 million, or 189.8%, to EUR 161 million in 2003, compared to EUR 55 million in 2002, due to increased numbers of customers and higher customer acceptance of these services.

Revenues from sales of mobile devices increased by EUR 327 million to EUR 1,285 million in 2004, compared to EUR 958 million in 2003, mainly due to an increase in gross adds of 28.6%. Revenues from sales of mobile devices increased by EUR 139 million to EUR 958 million in 2003, compared to EUR 819 million in 2002, primarily as a result of a 10.5% growth in gross adds.

Other revenues mainly include visitor revenues and activation revenues. Other revenues increased to EUR 519 million in 2004, from EUR 480 million in 2003, mainly as a result of increased visitor revenues. Other revenues increased to EUR 480 million in 2003, compared to EUR 468 million in 2002, primarily due an increase in customer activation revenues.

We expect further customer and revenue growth at T-Mobile USA. However, revenue growth in local currency may be offset by negative effects from unfavorable exchange rate developments between the euro and U.S. dollar.

United Kingdom

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €)			(% change)	
Total revenues	4,344	4,303	3,997	1.0	7.7
less Terminal equipment	403	422	429	(4.5)	(1.6)
less Other	229	430	332	(46.7)	29.5
Service revenues	3,712	3,451	3,236	7.6	6.6

Total revenues increased by EUR 41 million, or 1.0%, to EUR 4,344 million in 2004, compared to EUR 4,303 million in 2003, primarily due to an increase in customers and service revenues. This increase was offset, in part, by lower other revenues. Expressed in local currency, total revenues decreased slightly in 2004, compared to 2003. Total revenues in 2003 increased by EUR 306 million, or 7.7%, to EUR 4,303 million, compared to EUR 3,997 million in 2002, primarily due to an increase in customers.

Service revenues increased by EUR 261 million, or 7.6%, to EUR 3,712 million in 2004, compared to EUR 3,451 million in 2003. This increase was primarily attributable to increases in both non-voice and voice revenues, as a result of having a larger customer base. This increase was partly offset by a decrease in mobile termination fees, as imposed by the U.K. telecommunications regulator, Ofcom. For more information, see "Item 4. Information on the Company Regulation." Service revenues increased by EUR 215 million, or 6.6%, to EUR 3,451 million in 2003, compared to EUR 3,236 million in 2002, primarily due to an increase in customers.

Revenues from sales of mobile devices decreased slightly in 2004, compared to 2003, mainly due to higher sales discounts in 2004. Revenues from sales of mobile devices decreased in 2003, compared to 2002, mainly due to lower gross adds.

Other revenues increased from 2002 to 2003, primarily due to customer growth associated with the Virgin Mobile joint venture. However, such revenues did not continue to grow in 2004, because T-Mobile UK sold its stake in Virgin Mobile at the end of January 2004, and because T-Mobile UK and Virgin Mobile renegotiated both their shareholder and service agreements in 2004. The new service agreement significantly decreased T-Mobile UK's inbound revenues from the joint venture, which are now being passed directly to Virgin Mobile. However, at the same time, T-Mobile UK's marketing contribution payment to Virgin Mobile was agreed to be phased out, which had a positive effect on the overall results of T-Mobile UK. Virgin Mobile currently pays an MVNO fee for using T-Mobile UK's network.

Austria

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €)			(% change)	
Total revenues	883	1,098	1,034	(19.6)	6.2
less Terminal equipment	42	70	70	(40.0)	
less Other	110	275	238	(60.0)	15.5
Service revenues	731	753	726	(2.9)	3.7

Total revenues decreased by EUR 215 million, or 19.6%, to EUR 883 million in 2004, from EUR 1,098 million in 2003. This decrease was due to decreases in service revenues and other revenues and, to a lesser extent, in sales of mobile devices. Total revenues increased by EUR 64 million, or 6.2%, to EUR 1,098 million in 2003, from EUR 1,034 million in 2002. This increase was due to increases in service revenues and other revenues.

Service revenues decreased by EUR 22 million, or 2.9%, to EUR 731 million in 2004, from EUR 753 million in 2003. This decrease was primarily due to decreasing tariffs in a competitive environment. Service revenues increased by EUR 27 million to EUR 753 million in 2003. This increase was mainly due to higher usage.

Revenues from sales of mobile devices decreased by EUR 28 million in 2004, to EUR 42 million, compared to EUR 70 million in 2003, due to higher discounts. Revenues from sales of mobile devices remained stable at EUR 70 million in 2003, compared to 2002.

Other revenues decreased by EUR 165 million, or 60.0%, in 2004, to EUR 110 million, compared to EUR 275 million in 2003, due to the January 2004 disposal of Niedermeyer GmbH, an Austrian electronics retail chain that had been owned by T-Mobile Austria. Prior to 2004, other revenues had been substantially derived from revenues received from the sale of non-telecommunications products and services sold through Niedermeyer. In 2004, other revenues primarily consisted of visitor revenues and activation fees. Visitor revenues were EUR 86 million in 2004. In 2003, other revenues consisted of EUR 153 million from Niedermeyer and visitor revenues of EUR 85 million.

Czech Republic

	For the years ended December 31,				
	2004	**2003**	**2002**	**2004/2003**	**2003/2002**
	(millions of €)			**(% change)**	
Total revenues	828	768	705	7.8	8.9
less Terminal equipment	32	29	30	10.3	(3.3)
less Other	74	65	74	13.8	(12.2)
Service revenues	722	674	601	7.1	12.1

Total revenues increased by EUR 60 million, or 7.8%, to EUR 828 million in 2004, compared to EUR 768 million in 2003. In local currency, total revenues also increased. The development of the Czech koruna relative to the euro had a minor positive currency translation effect. The increase in total revenues was mainly related to an increase in service revenues as a result of having a larger customer base, which increased by 10.0%, from 4.0 million in 2003, to 4.4 million customers in 2004. Total revenues increased by EUR 63 million, or 8.9%, to EUR 768 million in 2003, compared to EUR 705 million in 2002, also due to an increase in service revenues as a result of a significant increase in customer base, from 3.5 million at the end of 2002, to 4.0 million, or 14.3%, at the end of 2003.

Service revenues increased by EUR 48 million to EUR 722 million in 2004. This increase was mainly a result of a larger customer base. Service revenues increased by EUR 73 million to EUR 674 million in 2003, from EUR 601 million in 2002. This increase was due to a larger customer base.

Other revenues mainly include visitor revenues and activation revenues. The increase in other revenues in 2004, compared to 2003, was primarily due to higher visitor revenues. The decrease in other revenues in 2003, compared to 2002, was primarily due to lower activation revenues, which were partly offset by increased visitor revenues.

The Netherlands

	For the years ended December 31,				
	2004	2003	2002(1)	2004/2003	2003/2002
	(millions of €)			(% change)	
Total revenues	1,046	861	162	21.5	n.m.
less Terminal equipment	47	42	7	11.9	n.m.
less Other	79	60	13	31.7	n.m.
Service revenues	920	759	142	21.2	n.m.

n.m. not meaningful

(1) First consolidated September 30, 2002.

Total revenues, service revenues, revenues from sales of mobile devices and other revenues increased from 2003 to 2004, primarily as a result of an increase in the number of customers. Customers increased to 2.3 million at the end of 2004, from 2.0 million at the end of 2003. Other revenues mainly include visitor revenues and customer activation revenues. Because T-Mobile Netherlands' results were not consolidated until September 30, 2002, results for 2002 are not comparable to subsequent periods and are, therefore, not meaningful.

Average Revenue Per User by Geographic Area

The following discussion provides additional revenue information by geographic area with respect to ARPU. We use ARPU to measure the average monthly service revenues on a per-customer basis. We believe that ARPU provides management with useful information concerning usage and acceptance of our product and service offerings and an indicator of our ability to attract and retain high-value customers. We calculate ARPU as: services revenues generated by customers (revenues for originating and terminating voice calls and data revenues), including our customers' roaming revenues and monthly subscription fees, divided by our average number of customers for the period. The revenues we use in the calculation of ARPU exclude revenues from equipment sales and customer activation revenues, because these do not represent ongoing customer revenue streams, and revenues from visitor roaming, MVNOs and other revenues, because these are not generated directly by our customers. Non-GAAP financial measures, such as that used in the ARPU discussions below, are not prepared in accordance with German GAAP or U.S. GAAP and are neither uniformly defined nor utilized by all companies in our industry group. Accordingly, such measures may not be comparable with similarly titled measures disclosed by other companies. Non-GAAP financial measures should not be viewed in isolation or as an alternative to other figures reported under German GAAP or U.S. GAAP. For a more detailed breakdown of our customers by geographic area, see "Item 4. Information on the Company Description of Business and Divisions T-Mobile." The calculations of ARPU numbers below are based on actual figures. Differences in calculating ARPU using the service revenues and average customer numbers below may be a result of rounding.

Germany

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €, except where noted)			(% change)	
Total revenues	8,704	8,479	7,801	2.7	8.7
thereof service revenues	7,590	7,345	6,882	3.3	6.7
Average customers (in millions)	27.0	25.3	23.5	6.7	7.7
ARPU/month (in euro)(1)	23	24	24	(4.2)	

(1) For comparative purposes, monthly ARPU using total revenues for the twelve-month period ended December 31, 2004, was EUR 27, and EUR 28 for each of the twelve-month periods ended December 31, 2003, and 2002.

ARPU per month decreased by EUR 0.76 in 2004, compared to 2003, based on actual figures. This decrease was due to a lower usage per customer, together with lower average prices per minute for outgoing calls. In 2004, the proportion of contract customers in the total customer base grew, which partly offset the decline in ARPU.

The ARPU per month decreased by EUR 0.20 in 2003, compared to 2002. This decrease was due to a lower usage per customer for both the prepay customer base and the contract customer base. In 2003, the positive effects from the growth of the contract customers' share of the total customer base was partly offset by the decline in the average usage per customer.

United States

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €, except where noted)			(% change)	
Total revenues	9,366	7,416	6,138	26.3	20.8
thereof service revenues	7,562	5,978	4,851	26.5	23.2
Average customers (in millions)	15.3	11.5	8.2	33.0	40.2
ARPU/month (in euro)(1)	41	44	49	(6.8)	(10.2)

(1) For comparative purposes, monthly ARPU using total revenues for the twelve months ended December 31, 2004, 2003 and 2002, were EUR 51, EUR 54 and EUR 62, respectively.

ARPU per month decreased to EUR 41 in 2004, compared to EUR 44 in 2003, due to changes in local currency exchange rates. In local currency ARPU per month increased slightly, mainly due to regulatory fees and gross booking of USF (Universal Service Fees). For more information, see "Item 4. Information on the Company Regulation International Mobile Regulation USA: T-Mobile USA." The positive affect on ARPU attributable to both fees was less than EUR 1.50 in 2004. ARPU in local currency was positively affected by an increased usage of data and short message services.

ARPU per month decreased to EUR 44 in 2003, compared to EUR 49 in 2002, primarily due to changes in local currency exchange rates. In local currency ARPU per month increased slightly, primarily as a result of an increase in the proportion of contract customers in the overall customer base. Additionally, the increase in ARPU per month in local currency also reflects contract customer migration to higher-priced rate plans and increased usage of data and short message services by contract customers, and higher usage by prepay customers.

United Kingdom

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €, except where noted)			(% change)	
Total revenues	4,344	4,303	3,997	1.0	7.7
Thereof Service revenues(1)	3,712	3,451	3,236	7.6	6.6
Average customers (in millions) (2)	10.5	9.6	9.4	9.4	2.1
ARPU/month (in euro)(2)(3)	29	30	29	(3.3)	3.4

(1) Does not include revenues earned from Virgin Mobile customers, which revenues are not included in the ARPU calculation.

(2) Does not include Virgin Mobile customers for purposes of ARPU calculation.

(3) For comparative purposes, monthly ARPU using total revenues for the twelve-month periods ended December 31, 2004, 2003 and 2002, were EUR 34, EUR 37 and EUR 35, respectively.

ARPU per month decreased to EUR 29 in 2004, compared to EUR 30 in 2003, mainly due to a decrease in mobile termination fees mandated by Ofcom, and a decrease in voice usage per customer, which was primarily driven by lower usage in the prepay segment.

ARPU per month increased to EUR 30 in 2003, compared to EUR 29 in 2002, due to a higher proportion of contract customers in the total customer base, and an increase in usage per customer. Compared to ARPU measured in euro, ARPU per month in local currency increased at a higher rate in 2003, compared to 2002, due to changes in local currency exchange rates. The increase in service revenues was offset, in part, by a decrease in mobile termination fees mandated by Ofcom.

Austria

	For the years ended December 31,				
	2004	2003	2002[(1)]	2004/2003	2003/2002
	(millions of €, except where noted)			(% change)	
Total revenues	883	1,098	1,034	(19.6)	6.2
Thereof Service revenues	731	753	726	(2.9)	3.7
Average customers (in millions)	2.0	2.0	2.0		
ARPU/month (in euro)[(1)]	30	31	30	(3.2)	3.3

(1) For comparative purposes, monthly ARPU using total revenues for the twelve-month periods ended December 31, 2004, 2003 and 2002, were EUR 37, EUR 46 and EUR 43, respectively.

ARPU per month decreased to EUR 30 in 2004, from EUR 31 in 2003. This decrease was mainly due to decreasing tariffs in a competitive environment.

ARPU per month increased to EUR 31 in 2003, from EUR 30 in 2002. This increase was mainly due to increasing usage and a relatively higher proportion of contract customers in 2003.

Czech Republic

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €, except where noted)			(% change)	
Total revenues	828	768	705	7.8	8.9
Thereof Service revenues	722	674	601	7.1	12.1
Average customers (in millions)	4.1	3.6	3.2	13.9	12.5
ARPU/month (in euro)[(1)]	15	15	16		(6.3)

(1) For comparative purposes, monthly ARPU using total revenues for the twelve-month periods ended December 31, 2004, 2003 and 2002, were EUR 17, EUR 18 and EUR 18, respectively.

ARPU per month remained constant at EUR 15 in 2004, compared to 2003. However, in local currency ARPU decreased by 4.4% in 2004. In local currency ARPU was negatively affected in 2004, primarily due to a decreases in mobile termination fees. This decrease was offset, in part, by an increase in data usage and by a higher proportion of contract customers, compared to prepay customers.

ARPU per month decreased to EUR 15 in 2003, from EUR 16 in 2002, as a result of local currency exchange rates. In local currency, ARPU in 2003 was virtually the same as in 2002. ARPU was negatively affected in 2003, due to decreases in both the tariffs for, and volume of, terminating calls received from other operators. These decreases were offset by an increase in data usage, excluding SMS, and by an increase in the average monthly subscription fee per customer, due to a higher proportion of contract customers.

The Netherlands

	For the years ended December 31,				
	2004	2003	2002(1)	2004/2003	2003/2002
	(millions of €, except where noted)			(% change)	
Total revenues	1.046	861	162	21.5	n.m.
Thereof Service revenues	920	759	142	21.2	n.m.
Average customers (in millions)	2.2	1.7	1.4	29.4	n.m.
ARPU/month (in euro)(2)	35	37	33	(5.4)	

n.m. not meaningful

(1) First consolidated September 30, 2002.

(2) For comparative purposes, monthly ARPU using total revenues for the twelve-month periods ended December 31, 2004, and 2003, and the three-month period ended December 31, 2002, were EUR 40, EUR 42 and EUR 39, respectively.

ARPU per month decreased to EUR 35 in 2004, from EUR 37 in 2003. This decrease was primarily the result of decreasing tariffs, driven by high competition in the market as well as the regulatorily mandated lowering of mobile termination fees.

ARPU per month increased to EUR 37 in 2003, from EUR 33 in 2002. This increase was primarily the result of an increase in the proportion of contract customers within the customer base, and an increase in usage per customer.

Operating Expenses

The following table provides information regarding components of operating expenses in our T-Mobile division:

	For the years ended December 31,							
	2004		2003		2002		2004/2003	2003/2002
	(millions of €, except percentages)						(% change)	
Cost of sales	13,591	56.7%	12,893	57.9%	24,009	56.0%	5.4	(46.3)
Selling costs	7,075	29.5%	6,689	30.0%	6,243	14.6%	5.8	7.1
General and administrative costs.	961	4.0%	1,004	4.5%	1,018	2.4%	(4.3)	(1.4)
Other operating expenses	2,352	9.8%	1,684	7.6%	11,586	27.0%	39.7	(85.5)
Total	23,979	100.0%	22,270	100.0%	42,856	100.0%	7.7	(48.0)

Cost of Sales

Cost of sales includes the purchase of goods, such as mobile devices and SIM cards, as well as the cost of services purchased, such as line rental, interconnection charges, international roaming charges, data processing charges, maintenance and other support services, and information technology services. Its main components include goods and services purchased, personnel costs, as well as depreciation and amortization of mobile telecommunications licenses and other tangible and intangible assets related to the network.

Cost of sales increased by EUR 698 million, or 5.4%, in 2004, compared with 2003. This increase was almost exclusively attributable to T-Mobile USA, primarily as a result of an increase in goods and services purchased (EUR 711 million). This increase was mainly related to an increase in volume due to an increase in customers and, to a lesser extent, by the procurement of higher-priced mobile devices. Other contributors to the increase in cost of sales were increases in expenses for telecommunications services provided by third parties, including interconnection expenses, roaming and other expenses for telecommunications services.

In 2003, cost of sales decreased by EUR 11,116 million, or 46.3%, compared to 2002. This was a direct result of the 2002 group-wide strategic review and the resulting non-scheduled amortization of FCC licenses by T-Mobile USA and T-Mobile UK's UMTS license in 2002. Amortization of mobile telecommunications licenses decreased by EUR 12,121 million in 2003, mainly because the non-scheduled amortization of such licenses in 2002 (EUR 11,549 million) was not repeated in 2003. As a result of the lower amortization basis, and the weaker U.S. dollar, scheduled amortization of mobile telecommunications licenses decreased by EUR 572 million, from EUR 1,733 million in 2002, to EUR 1,161 million in 2003. In contrast, goods and services purchased increased by EUR 1,001 million during the same period, partially as a result of the full-year consolidation of T-Mobile Netherlands, which accounted for EUR 321 million of the increase in 2003. In addition, goods and services purchased at T-Mobile USA increased by EUR 366 million in 2003, mainly due to an increase in the quantity of mobile devices sold and, to a lesser degree, to the procurement of higher-priced mobile devices. T-Mobile Deutschland contributed EUR 197 million to the increase in goods and services purchased in 2003, mainly due to a higher volume of purchases of mobile devices.

Selling Costs

Selling costs accounted for 29.5% of the T-Mobile division's total operating expenses in 2004. Selling costs include all expenses relating to sales, including, among other things, commissions paid to resellers and third-party distributors, call center and customer care expenses, marketing costs and billing services.

Selling costs increased by EUR 386 million, or 5.8%, between 2003 and 2004. This increase was mainly attributable to T-Mobile USA, as a direct result of higher customer acquisition costs, increased advertising costs and higher customer bad debt expenses (due to the larger customer base). Selling costs also increased at T-Mobile Deutschland, mainly in the areas of marketing and billing services. These increases were partly offset by decreased selling costs at T-Mobile UK, primarily due to reduced commission rates.

The EUR 446 million increase in selling costs from 2002 to 2003 was mainly attributable to a EUR 254 million increase in selling costs associated with the first full-year consolidation of T-Mobile Netherlands, compared to only three months of full consolidation in 2002. Additionally, EUR 207 million of the increase resulted from T-Mobile Deutschland, mainly driven by an increase in commissions. The increase in selling costs was offset, in part, by the currency translation effects relating to T-Mobile USA.

General and Administrative Costs

General and administrative costs include all costs allocated to core administrative functions that are not directly attributable to the cost of sales or selling activities, including, among other items, costs relating to accounting, finance, human resources, general management, communications, strategy and legal services.

General and administrative costs decreased by EUR 43 million between 2003 and 2004. This decrease was primarily due to lower costs at T-Mobile USA, due to the weaker U.S. dollar and the reimbursement of property taxes, and at T-Mobile Austria, partly as a result of the deconsolidation of Niedermeyer.

General and administrative costs decreased by EUR 14 million in 2003, compared to 2002, mainly as a result of the weaker U.S. dollar, offset, in part, by the full-year consolidation of T-Mobile Netherlands, which increased general and administrative costs by EUR 29 million.

Other Operating Expenses

The following table provides information regarding T-Mobile's other operating expenses:

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €)			(% change)	
Losses on disposition of non-current assets	51	26	34	96.2	(23.5)
Transfers to accruals			6	n.m.	n.m.
Foreign currency transaction losses	30	18	20	66.7	(10.0)
Amortization of goodwill	1,398	1,435	11,447	(2.6)	(87.5)
Other operating expenses	873	205	79	n.m.	159.5
Total	2,352	1,684	11,586	39.7	(85.5)

n.m. not meaningful

Other operating expenses increased by EUR 668 million in 2004, compared with 2003. This was mainly the result of the establishment of an accrual for contingent losses, relating to the dissolution of T-Mobile's joint venture with Cingular Wireless, in the amount of EUR 529 million. The most significant cost component within other operating expenses was goodwill amortization, which decreased slightly by EUR 37 million, or 2.6%, from 2003 to 2004, primarily as a result of exchange rate fluctuations. T-Mobile UK contributed EUR 650 million to goodwill amortization, or 46.5%, while T-Mobile USA contributed EUR 493 million, or 35.3%, of the total goodwill amortization in 2004. The remaining goodwill amortization for 2004 was attributable to T-Mobile Netherlands (EUR 113 million), T-Mobile Austria (EUR 90 million), T-Mobile Czech Republic (EUR 40 million), and others (EUR 12 million).

Other operating expenses decreased to EUR 1,684 million in 2003, from EUR 11,586 million in 2002, primarily as a result of the non-recurrence of non-scheduled goodwill amortization in 2003. In addition, the lower basis for goodwill at T-Mobile USA after the 2002 non-scheduled amortization, along with the weaker U.S. dollar, contributed to the decrease in 2003. T-Mobile UK contributed EUR 638 million, or 44.5%, of total goodwill amortization in 2003, while T-Mobile USA contributed EUR 542 million, or 37.8%, of total goodwill amortization in 2003. At T-Mobile USA, goodwill amortization decreased by EUR 8,971 million, or 94.3%, mainly as a result of the non-recurrence of non-scheduled amortization, which amounted to EUR 8,288 million in 2002. The remaining goodwill amortization in 2003 was attributable to T-Mobile Netherlands (EUR 113 million), T-Mobile Austria (EUR 90 million), T-Mobile Czech Republic (EUR 40 million), and others (EUR 12 million).

In 2002, other operating expenses were significantly affected by non-scheduled goodwill amortization at T-Mobile USA, as discussed above, and by non-scheduled goodwill amortization at T-Mobile Netherlands in the amount of EUR 958 million. These non-scheduled goodwill amortizations were a result of the group-wide strategic review in 2002. In this strategic review, a cash flow-based analysis of mobile communications licenses and goodwill was performed. The assumptions regarding mid- and long-term business development prospects were reassessed in light of changes in the current competitive conditions, future expectations of growth in the wireless communications industry, increased costs of capital and changes in the future availability of financing. Scheduled amortization of goodwill totalled EUR 2,186 million in 2002, with T-Mobile USA contributing EUR 1,225 million and T-Mobile UK contributing EUR 788 million of this amount.

Other Operating Income

The following table provides information regarding the other operating income of T-Mobile:

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €)			(% change)	
Reversal of accruals	87	141	59	(38.3)	139.0
Income from reversal of valuation adjustments (including asset-backed securities)	107	61	54	75.4	13.0
Cost reimbursements	277	371	381	(25.3)	(2.6)
Income from write-ups to non-current assets	2,448			n.m.	n.m.
Income from the disposal of noncurrent assets (including sales of investments)	979	359	8	n.m.	n.m.
Insurance compensation	6	17	8	(64.7)	112.5
Foreign currency translation gains.	28	35	30	(20.0)	16.7
Other income	462	234	259	97.4	(9.7)
Total	4,394	1,218	799	n.m.	52.4

n.m. not meaningful

Other operating income consists of a number of items, such as income from the disposal of non-current assets, cost reimbursements from Deutsche Telekom AG, reversal of accruals and foreign currency translation gains.

Other operating income increased by EUR 3,176 million in 2004, compared with 2003. This increase was mainly the result of the EUR 2,448 million write-up in the carrying amount of U.S. mobile communications licenses (FCC licenses). In connection with the dissolution of T-Mobile's network joint venture with Cingular Wireless, T-Mobile was required to perform a review of the valuation of T-Mobile USA. As a result of that review, T-Mobile was required to write-up EUR 2,448 million relating to the value of the FCC licenses. In addition, T-Mobile sold a further 15.09% of its stake in the Russian mobile operator MTS, resulting in a EUR 941 million gain from the sale.

The substantial increase in income from the disposal of non-current assets in 2003 related to the sale of part of T-Mobile's stake in MTS, which amounted to EUR 352 million. Other significant components were subsidies received from mobile devices suppliers and income from the reversal of accruals (especially the reversals of the accruals for service providers, property rationalization and "Universal Services").

Financial Income (Expense), Net

The following table presents information concerning the financial income (expense), net of our T-Mobile division:

	2004	2003	2002	2004/2003	2003/2002
	For the years ended December 31,				
	(millions of €)			(% change)	
Other income from investments		4		n.m.	n.m.
Expenses from the transfer of losses	(2)			n.m.	n.m.
Income (loss) from companies accounted for under the equity method	131	93	(355)	40.9	n.m.
Writedowns on financial assets and marketable securities	(20)		(72)	n.m.	n.m.
Income (loss) from financial activities	109	97	(427)	12.4	n.m.
Net interest expense	(883)	(992)	(1,005)	11.0	1.3
Total	(774)	(895)	(1,432)	13.5	37.5

n.m. not meaningful

Net financial expense in 2004 decreased to EUR 774 million, from EUR 895 million in 2003. This decrease was primarily attributable to income from financial activities of EUR 109 million in 2004, compared to EUR 97 million in 2003, and to an increase in income from companies accounted for under the equity method (EUR 131 million in 2004, compared to EUR 93 million in 2003). Income from companies accounted for under the equity method in 2004 was primarily derived from T-Mobile's equity stake in MTS (EUR 177 million) and PTC (EUR 106 million), offset, in part, by losses mainly related to T-Mobile USA's equity investment in the network joint venture with Cingular Wireless (EUR 127 million) and scheduled goodwill amortization at PTC (EUR 74 million). Net interest expense also decreased by 11.0% in 2004, compared to 2003, due to lower debt balances.

Net financial expense in 2003 decreased to EUR 895 million, from EUR 1,432 million in 2002. This decrease was primarily attributable to income from financial activities of EUR 97 million in 2003, compared to a loss of EUR 427 million in 2002, and to income from companies accounted for under the equity method, which amounted to EUR 93 million in 2003, compared to a loss of EUR 355 million in 2002. The increase of EUR 448 million relating to companies accounted for under the equity method was primarily the result of the full-year consolidation of T-Mobile Netherlands in 2003. Additionally, income from companies accounted for under the equity method in 2003 included T-Mobile's equity stake in MTS (EUR 121 million) and PTC (EUR 84 million), offset, in part, by losses mainly related to T-Mobile USA's equity investment in the network joint venture with Cingular Wireless (EUR 84 million) and scheduled goodwill amortization at PTC (EUR 76 million). Net interest expense in the amount of EUR 992 million decreased by 1.3% in 2003, compared to 2002.

Income (Loss) Before Taxes

Income before taxes improved substantially from EUR 831 million in 2003 to EUR 4,636 million in 2004.

This improvement was mainly due to an increase in other operating income, primarily as a result of the write-up of FCC licenses (EUR 2,448 million) and the EUR 941 million gain from the sale of a portion of T-Mobile's stake in MTS. The gain from the sale of T-Mobile's stake in Virgin Mobile (EUR 75 million) also added to the increase in 2004. In addition, total revenues increased from EUR 22,778 million to EUR 24,995, or 9.7%, while cost of sales only increased by EUR 698 million, or 5.4%. These positive factors were partly offset by an increase in selling costs in the amount of 386 million, or 5.8%, and an increase in other operating expenses in the amount of EUR 668 million, or 39.7%, mainly due to the establishment of an accrual for contingent losses in connection with the dissolution of the joint venture with Cingular Wireless, in the amount of EUR 529 million.

In 2003, income before taxes improved from a loss of EUR 23,754 million in 2002, to a profit of EUR 831 million in 2003. This improvement was mainly due to the non-recurrence of non-scheduled amortization of licenses and goodwill, which affected 2002 in the amount of EUR 20,810 million. Additionally, total revenues increased from EUR 19,735 million to EUR 22,778 million, or 15.4%. Other contributing factors to 2003 income before taxes were an improvement in net financial expense in the amount of EUR 537 million, due to improved results from investments in companies accounted for under the equity method, an improvement in other operating expenses in the amount of EUR 9,902 million, mainly as a result of lower goodwill amortization, and an increase in other operating income, mainly as a result of a EUR 352 million gain from the sale of part of the stake in MTS.

T-Systems

The following table presents selected financial information concerning T-Systems:

	For the years ended December 31,(1)				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €)			(% change)	
Net revenues	7,238	7,184	6,895	0.8	4.2
Inter-segment revenues	3,299	3,430	3,594	(3.8)	(4.6)
Total revenues	10,537	10,614	10,489	(0.7)	1.2
Loss before taxes	(211)	(581)	(1,990)	63.7	70.8

(1) To facilitate comparison, prior-year figures have been adjusted to reflect the revised reporting structure at T-Com and T-Systems. The Toll Collect joint venture, which was previsouly reported under T-Com, has been managed by and reported under the T-Systems segment since April 1, 2004. For more information, see " Segment Analysis Reclassifications."

Net Revenues

Net revenues (total revenues excluding inter-segment revenues) amounted to EUR 7,238 million in 2004, representing an increase of EUR 54 million, or 0.8%, compared to EUR 7,184 million in 2003. In 2003, certain T-Systems companies were deconsolidated, mainly T-Systems Siris SAS, T-Systems MultiLink SA and T-Systems CS AG. The deconsolidated companies contributed aggregate net revenues of approximately EUR 163 million in 2003 and no revenues in 2004.

In 2004, IT Services' net revenues grew by 9.1%, mainly due to increased revenues from T-Systems' outsourcing business, its focus on its largest global customers and the successful implementation of the Focus Solutions strategy. TC Services' net revenues decreased by 5.5% in 2004, primarily due to the deconsolidation of companies in 2003.

T-Systems' net revenues amounted to EUR 7,184 million in 2003, representing an increase of EUR 289 million, or 4.2%, compared to EUR 6,895 million in 2002, largely due to a change in T-Systems' business strategy in 2003. The increase of EUR 289 million was achieved despite the deconsolidation of certain T-Systems companies, mainly T-Systems Siris SAS, T-Systems MultiLink SA and TeleCash GmbH.

In 2003, TC Services' net revenues grew by 15.8%, mainly due to higher revenues from external domestic and international network services, accompanied by revenue growth at ICSS. IT Services' net revenues decreased by 8.1% in 2003, primarily due to difficult general economic situation and intense price pressure in 2003.

T-Systems plans to increase its current share of the integrated ICT market in Germany in particular. T-Systems believes that the IT services market has potential for future growth, with annual growth rates estimated at an average of 6%. T-Systems expects the telecommunications market to grow by approximately 3% per year. T-Systems' international key accounts in the IT business will be expanded through "big deals" and expanding its share of the ICT budgets of existing and potential customers. For large companies and small and medium-sized enterprises, the focus is on traditional telecommunications business and products. In this area, T-Systems intends to recover market share in the German market through efficient sales activities and new business initiatives.

Total Revenues

In addition to providing data processing, other information technology and services, such as the provision of computer center services, desktop services and application services to third parties, T-Systems is the primary provider of such services within Germany to the Deutsche Telekom group.

Approximately 31.3% of T-Systems' total revenues in 2004 were attributable to inter-segment revenues, compared to 32.3% in 2003 and 34.3% in 2002. In 2004, approximately 17.1% of T-Systems' TC Services revenues, and approximately 42.7% of T-Systems' IT Services revenues, were from other segments within the Deutsche Telekom group. In 2003, approximately 18.3% of T-Systems' TC Services revenues, and approximately 45.0% of T-Systems' IT Services revenues, were from other segments within the Deutsche Telekom group.

For the year ended December 31, 2004, T-Systems' total revenues decreased by EUR 77 million, or 0.7%, to EUR 10,537 million, compared to EUR 10,614 million in 2003. This decrease was due to a decrease in inter-segment revenues of EUR 131 million, or 3.8%, primarily from TC Services and Systems Integration, which was partially offset by an increase of EUR 26 million from Computing and Desktop Services. The deconsolidated companies contributed aggregate total revenues of approximately EUR 165 million in 2003 and no revenues in 2004.

Inter-segment revenues amounted to EUR 3,299 million in 2004, compared to EUR 3,430 million in 2003. The continuing decreases in T-Systems' inter-segment revenues were affected by the ongoing group-wide cost-efficiency program, which resulted in reduced budgets for IT services at other divisions, reduced prices for IT services and a reduction in the number of desktops managed.

For the year ended December 31, 2003, total revenues of T-Systems increased by EUR 125 million, or 1.2%, to EUR 10,614, compared to EUR 10,489 million in 2002. This increase was due to an increase of EUR 289 million in net revenues, offset by a decrease in inter-segment revenues in the amount of EUR 164 million, or 4.6%. The increase in total revenues of EUR 125 million was achieved despite the deconsolidation of certain T-Systems companies in 2003. The deconsolidated companies contributed total revenues of approximately EUR 165 million in 2003 and EUR 418 million in 2002. Inter-segment revenues amounted to EUR 3,430 million in 2003, compared to EUR 3,594 million in 2002. The decrease in inter-segment revenues was largely the result of our ongoing group-wide cost-efficiency program, which resulted in reduced budgets for IT services at other divisions and reduced prices for IT services. The price reductions were partially offset by increasing volumes in Computing Services.

	For the years ended December 31,				
	2004	2003	2002	2004/2003	2003/2002
	(millions of €)			(% change)	
Total TC Services revenues	**4,689**	**5,033**	**4,779**	**(6.8)**	**5.3**
Total IT Services revenues					
Systems Integration	1,807	1,833	1,918	(1.4)	(4.4)
Computing Services	2,671	2,427	2,366	10.1	2.6
Desktop Services	1,370	1,321	1,426	3.7	(7.4)
Total IT Services revenues	**5,848**	**5,581**	**5,710**	**4.8**	**(2.3)**
Total revenues	**10,537**	**10,614**	**10,489**	**(0.7)**	**1.2**

TC Services

For the year ended December 31, 2004, TC Services total revenues decreased by EUR 344 million, or 6.8%, to EUR 4,689 million, compared to EUR 5,033 million in 2003. This decrease was primarily due to lower revenues from ICSS. The decrease in ICSS revenues was mainly due to reduced revenues from T-Com and T-Mobile and to T-Systems' refocus on higher-margin contracts. The decreasing revenues from T-Com and T-Mobile were the result of competitive pressure on price and volume. Accordingly, voice traffic in 2004 decreased to approximately 13 billion minutes compared to 14.1 billion minutes in 2003. Revenues from external domestic network services remained relatively stable in 2004, compared to 2003. The deconsolidated companies contributed aggregate total revenues of approximately EUR 128 million in 2003 and no revenues in 2004.

In 2004, inter-segment revenues, which accounted for 17.1% of TC Services total revenues, decreased by EUR 117 million, compared to 2003, primarily due to overcapacity, increased technical capacity and increasing competition, which resulted in price and volume declines. In addition, other price reductions, especially with respect to T-Com, resulted mainly from regulatory pricing decisions, which reduced T-Systems' pricing structure in a corresponding manner. For more information, see "Item 4. "Information on the Company Regulation."

For the year ended December 31, 2003, TC Services total revenues increased by EUR 254 million, or 5.3%, to EUR 5,033 million, compared to EUR 4,779 million in 2002. The increase of EUR 254 million was achieved despite the deconsolidation of T-Systems Siris SAS, T-Systems MultiLink SA and TeleCash GmbH, which contributed approximately EUR 128 million in 2003 and EUR 371 million in 2002. The increase in TC Services total revenues in 2003 was mainly due to higher revenues from external domestic and international network services, accompanied by revenue growth at ICSS, amounting to EUR 120 million, and MediaBroadcast, amounting to EUR 27 million. These higher revenues primarily resulted from increased sales activities as well as an intensified focus on the offering of TC services to globally active customers. Domestic TC Services revenues increased by EUR 162 million, or 5.1%.

As a result of previous investments in international backbone capacities, ICSS was able to route approximately 8% more traffic over its own network, compensating for decreasing prices in the world market (14.1 billion minutes of voice traffic in 2003, compared to 13.0 billion minutes in 2002). Decreasing prices mainly resulted from increased technical capacity and increased competitive pressure.

In 2003, inter-segment revenues accounted for 18.3% of TC Services total revenues and decreased by EUR 307 million, compared to 2002, primarily due to increased technical capacity resulting in price declines. In addition, other price reductions, especially with respect to T-Com, resulted mainly from regulatory pricing decisions. Additionally, the completion of the sale of the remaining cable businesses led to a reduction in inter-segment revenues of approximately EUR 27 million.

IT Services

Systems Integration

Total revenues decreased by EUR 26 million, or 1.4%, to EUR 1,807 million, compared to EUR 1,833 million in 2003. This decrease primarily resulted from continuing downward price pressure within the Deutsche Telekom group, which was partially offset by increased external revenues. Inter-segment revenues accounted for approximately 44.9% of total Systems Integration revenues in 2004, compared to 46.5% in 2003. The increase in external revenues mainly resulted from new contracts with existing customers. Despite reduced staff, invoiced hours increased slightly, compared to 2003.

In 2003, Systems Integration total revenues decreased by EUR 85 million, or 4.4%, to EUR 1,833 million, compared to EUR 1,918 million in 2002. This decrease primarily resulted from negative price pressures in contracting domestic and international markets. Despite reduced staff, invoiced hours remained nearly constant, compared to 2002. Inter-segment revenues accounted for approximately 46.5% of total Systems Integration revenues in 2003 and remained nearly constant compared to the previous year.

Computing and Desktop Services

Computing Services

For the year ended December 31, 2004, Computing Services total revenues increased by EUR 244 million, or 10.1%, to EUR 2,671 million, compared to EUR 2,427 million in 2003. This increase was primarily the result of increasing external revenues. In 2004, approximately 57% of Computing Services' total revenues resulted from external revenues, compared to 55% in 2003. External revenues increased due to the addition of revenues from several new contracts. Inter-segment revenues increased by EUR 56 million, or 5.2%, to EUR 1,138 million in 2004, compared to EUR 1,082 million in 2003. Increased volumes within the Deutsche Telekom group were partially offset by pricing pressures.

For the year ended December 31, 2003, Computing Services total revenues increased by EUR 61 million, or 2.6%, to EUR 2,427 million, compared to EUR 2,366 million in 2002. This increase was primarily a result of increased inter-segment revenues. In 2003, approximately 44.6% of Computing Services' total revenues resulted from inter-segment revenues. Inter-segment revenues increased by EUR 137 million, or 14.5%, in 2003, compared to EUR 183 million, or 16.2%, in 2002. Increased volumes within the Deutsche Telekom group were partially offset by pricing pressures. The increase in inter-segment revenues was mainly due to outsourcing agreements with non-domestic companies within the T-Mobile division, which were entered into during the second half of 2002.

Desktop Services

Total revenues increased by EUR 49 million, or 3.7%, to EUR 1,370 million, compared to EUR 1,321 million in 2003. Domestic revenues increased by EUR 64 million from 2003 to 2004, mainly as a result of increasing external revenues from the resale business. Revenues from the resale business increased by 10%, compared to 2003. Revenues from the provision of desktop-related services decreased by 6%, due to the reduced number of desktop workstations as a result of reduced investments in IT equipment by customers and in part reduced workforces.

Inter-segment revenues accounted for approximately 39.8% of Desktop Services' total revenues in 2004, versus 43.5% in 2003. From 2003 to 2004, inter-segment revenues decreased due to the reduced number of desktops managed within the Deutsche Telekom group.

In 2003, Desktop Services' total revenues decreased by EUR 105 million, or 7.4%, to EUR 1,321 million, compared to EUR 1,426 million in 2002. Total international revenues decreased by EUR 71 million, or 17.7%, to EUR 330 million, compared to EUR 401 million in 2002. A portion of this decrease resulted from the deconsolidation of Groupe Spring and Marketech, which contributed EUR 14 million to total revenues in 2002 and no revenues in 2003. Domestic revenues decreased by EUR 34 million from 2002 to 2003, mainly as a result of lower revenues from large customers, due to the difficult general economic situation. Revenues in the reselling business decreased, due to continuing low demand in the market, while revenues from services such as user helpdesk and support activities increased to 61% of Desktop Services' total domestic revenues in 2003, up from 58% in 2002.

Inter-segment revenues accounted for approximately 43.5% of Desktop Services' total revenues in 2003 (EUR 575 million). From 2002 to 2003, inter-segment revenues increased slightly due to an increase in the number of desktops managed, which was offset by the effects of price reductions (approximately EUR 37 million).

Operating Expenses

The following table provides information regarding components of operating expenses of T-Systems:

	For the years ended December 31,							
	2004		2003		2002		2004/2003	2003/2002
	(in millions of €, except percentages)							
Cost of sales	8,631	76.2%	9,183	79.0%	9,529	73.0%	(6.0)%	(3.6)%
Selling costs	824	7.3%	671	5.8%	876	6.7%	22.8%	(23.4)%
Administrative costs	738	6.5%	751	6.5%	909	7.0%	(1.7)%	(17.4)%
Other operating expenses	1,128	10.0%	1,011	8.7%	1,741	13.3%	11.6%	(41.9)%
Total	11,321	100.0%	11,616	100.0%	13,055	100.0%	(2.5)%	(11.0)%