DEUTSCHE TELEKOM AG
Form 6-K
September 09, 2004
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 6-K

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

For the month of September 2004

DEUTSCHE TELEKOM AG

(Translation of registrant's name into English)

Friedrich-Ebert-Allee 140
53113 Bonn
Germany
(Address of principal executive offices)

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

Form 20-F Form 40-F

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

Yes No

EXPLANATORY NOTE

This Report and the financial information contained herein is being filed in compliance with Financial Accounting Standards Board Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) as a result of a subsequent change in composition of certain of our segments. Specifically, as a result of the transfer of responsibility for the investment in the joint venture Toll Collect GmbH ("Toll Collect") from T-Com to T-Systems effective as of April 1, 2004, SFAS 131 requires that we recast prior year financial statements to conform to the restructured segment composition. Accordingly, we have made changes to page F-7, "Statement of Segment Reporting", and "Note (36) Segment Reporting", to the financial statements previously filed in connection with our Annual Report on Form 20-F for the fiscal year ended December 31, 2003. Such change is not required by German statutory reporting and filing regulations. All other information contained in these financial statements remain unaffected by this change in segment composition, except that the report of independent registered public accounting firms thereon has been reissued to include these changes.

i

DEFINED TERMS

The term "Report" refers to this Report on Form 6-K for the six-month period ended June 30, 2004.

Deutsche Telekom AG is a private stock corporation organized under the laws of the Federal Republic of Germany. As used in this Report, unless the context otherwise requires, the term "Deutsche Telekom" refers to Deutsche Telekom AG and the terms "we," "us", "our", "the Company" and "Group" refer to Deutsche Telekom and, as applicable, Deutsche Telekom and its direct and indirect subsidiaries as a group. Our registered office is at Friedrich-Ebert-Allee 140, 53113 Bonn, Germany, telephone number +49-228-181-0. Our agent for service of process in the United States is Deutsche Telekom, Inc., 101 East 52nd Street, New York, N.Y. 10022.

FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements that reflect the current views of our management with respect to future events. Forward-looking statements generally are identified by the words "expects," "anticipates," "believes," "intends," "estimates," "aims," "plans," "will," "will continue," "seeks" and similar expressions. Forward-looking statements are based on current plans, estimates and projections, and therefore you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events, although we intend to continue to meet our ongoing disclosure obligations under the U.S. securities laws (such as our obligations to file annual reports on Form 20-F and periodic and other reports on Form 6-K) and under other applicable laws. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. These factors include, among other factors: the development of demand for our telecommunications services, particularly for new, higher value service offerings; competitive forces, including pricing pressures, technological changes and alternative routing developments; regulatory actions and the outcome of disputes in which the company is involved or may become involved; the pace and cost of the rollout of new services, such as UMTS, which may be affected by the ability of suppliers to deliver equipment and other circumstances beyond our control; public concerns over health risks putatively associated with wireless frequency transmissions; risks associated with integrating our acquisitions; the development of asset values in Germany and elsewhere, the progress of our debt reduction program, including its degree of success in achieving desired levels of liquidity improvement and proceeds from disposals; the development of our cost control initiatives, including in the area of personnel reduction; risks and uncertainties relating to benefits anticipated from our international expansion, particularly in the United States; the progress of our domestic and international investments, joint ventures and alliances; our ability to gain or retain market share in the face of competition; our ability to secure and retain the licenses needed to offer our services; the effects of price reduction measures and our customer acquisition and retention initiatives; the availability, term and deployment of capital, particularly in view of our debt refinancing needs, actions of the rating agencies and the impact of regulatory and competitive developments on our capital outlays; and changes in currency exchange rates and interest rates. If these or other risks and uncertainties (including those described in "Forward-Looking Statements," "Item 3. Key Information — Risk Factors" and "Item 5. Operating and Financial Review and Prospects — Factors Affecting Our Business" contained in our most recent Annual Report on Form 20-F for the year ended December 31, 2003 filed with the U.S. Securities and Exchange Commission) materialize, or if the assumptions underlying any of these statements prove incorrect, our actual results may be materially different from those expressed or implied by such statements.

ii

DEUTSCHE TELEKOM AG

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

To the Board of Management and Shareholders of Deutsche Telekom AG

We have audited the accompanying consolidated balance sheets of Deutsche Telekom AG as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, cash flows, and segment reporting for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Deutsche Telekom AG at December 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in Germany.

As discussed in the Summary of Accounting Policies note to the financial statements, the Company changed its basis of presentation of the statement of operations in 2003.

Accounting principles generally accepted in Germany vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature of such differences is presented in Notes 41 through 44 to the consolidated financial statements.

March 11, 2004,
except for Note 36 as to which the date is August 9, 2004.

Ernst & Young
Deutsche Allgemeine Treuhand AG
Wirtschaftspruefungsgesellschaft
Stuttgart

(Prof. Dr. Pfitzer)	(Hollweg)
Wirtschaftspruefer	Wirtschaftspruefer
PwC Deutsche Revision	
Aktiengesellschaft	
Wirtschaftspruefungsgesellschaft	
Frankfurt am Main	
(Frings)	(Laue)
Wirtschaftspruefer	Wirtschaftspruefer

F-2

CONSOLIDATED STATEMENTS OF OPERATIONS

	Notes	For the year ended December 31, 2003	2002	2001
			(millions of €)	
Net revenue	(1)	55,838	53,689	48,309
Cost of sales	(2)	(31,402)	(44,477)	(29,766)
Gross profit		24,436	9,212	18,543
Selling costs	(3)	(13,505)	(13,264)	(11,675)
General and administrative costs	(4)	(4,976)	(6,062)	(5,622)
Other operating income	(5)	4,558	3,901	6,619
Other operating expenses	(6)	(5,084)	(14,915)	(5,078)
Operating results		5,429	(21,128)	2,787
Financial income (expense), net	(7)	(4,031)	(6,022)	(5,348)
Results from ordinary business activities[(1)]		1,398	(27,150)	(2,561)
Income tax benefit (expense)	(8)	225	2,847	(751)
Income (loss) after tax benefit (expense)		1,623	(24,303)	(3,312)

(Income) loss applicable to minority shareholders	(9)	(370)	(284)	(142)
Net income (loss)		1,253	(24,587)	(3,454)
Earnings (loss) per share in €		0.30	(5.86)	(0.93)

(1)Including other taxes in accordance with the classification of the statement of operations by the cost-of-sales method.

The accompanying notes are an integral part of the consolidated financial statements.

F-3

CONSOLIDATED BALANCE SHEETS

	Notes	As of December 31, 2003	2002
		(millions of €)	
Assets			
Noncurrent assets			
Intangible assets	(13)	45,193	53,402
Property, plant and equipment	(14)	47,268	53,955
Financial assets	(15)	3,190	4,169
		95,651	111,526
Current assets			
Inventories, materials and supplies	(16)	1,432	1,556
Receivables	(17)	5,762	6,258
Other assets	(18)	3,162	3,392
Marketable securities	(19)	173	413
Liquid assets	(20)	9,127	1,905
		19,656	13,524
Prepaid expenses and deferred charges	(21)	772	771
		116,079	125,821
Shareholders' equity and liabilities			
Shareholders' equity	(22)		
Capital stock	(23)	10,746	10,746
Additional paid-in capital	(24)	50,092	50,077
Retained earnings	(25)	248	248
Unappropriated net income (loss) carried forward from previous year		(24,564)	23
Net income (loss)		1,253	(24,587)
Cumulative translation adjustment account		(8,017)	(5,079)
Minority interest	(26)	4,053	3,988
		33,811	35,416
Accruals			
Pensions and similar obligations	(28)	4,456	3,942
Other accruals	(29)	11,247	12,155

		15,703	16,097
Liabilities	(30)		
Debt		55,411	63,044
Other		10,451	10,541
		65,862	73,585
Deferred income		703	723
		116,079	125,821

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2003	2002	2001
		(millions of €)	
Net income (loss)	1,253	(24,587)	(3,454)
Income applicable to minority shareholders	370	284	142
Income (loss) after taxes	1,623	(24,303)	(3,312)
Depreciation and amortization	12,884	36,880	15,221
Income tax (benefit) expense	(225)	(2,847)	751
Net interest expense	3,776	4,048	4,138
Net gains from the disposition of noncurrent assets	(792)	(428)	(1,106)
Results from associated companies	247	430	547
Other noncash transactions	(699)	1,144	(1,146)
(Increase) decrease in capitalized working capital(1)	(542)	184	428
(Increase) decrease in accruals	1,584	1,410	(136)
Decrease in other working capital carried as a liability(2)	149	101	761
Income taxes (paid) received	88	(15)	10
Dividends received	39	63	115
Cash generated from operations	18,132	16,667	16,271
Interest paid	(4,481)	(6,112)	(4,779)
Interest received	665	1,908	442
Net cash provided by operating activities	14,316	12,463	11,934
Cash outflows for investments in			
— intangible assets	(844)	(841)	(1,021)
— property, plant and equipment	(5,187)	(6,784)	(9,847)
— financial assets	(373)	(568)	(498)
— consolidated companies	(275)	(6,405)	(5,695)
Cash inflows from disposition of			
— intangible assets	24	14	208
— property, plant and equipment	1,055	1,304	1,146
— financial assets	1,569	1,130	3,514
— shareholdings in consolidated companies and business units	1,510	697	1,004

Net change in short-term investments and marketable securities	(18)	226	4,440
Other	466	1,187	1,384
Net cash used for investing activities	(2,073)	(10,040)	(5,365)
Changes in short-term debt	(9,214)	(10,012)	(10,266)
Issuance of medium and long-term debt	6,951	11,677	13,949
Repayments of medium and long-term debt	(2,879)	(3,472)	(6,589)
Dividends paid	(92)	(1,582)	(1,905)
Proceeds from exercise of stock options and warrants	15	1	—
Change in minority interests	(7)	(47)	—
Net cash used for financing activities	(5,226)	(3,435)	(4,811)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(43)	(14)	(26)
Net increase (decrease) in cash and cash equivalents	6,974	(1,026)	1,732
Cash and cash equivalents, at beginning of year	1,712	2,738	1,006
Cash and cash equivalents, at end of year	8,686	1,712	2,738

(1)Change in receivables, liabilities, other assets, inventories, materials and supplies and prepaid expenses and deferred charges.

(2)Change in other liabilities (which do not relate to financing activities) and deferred income.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

				Consolidated shareholders' equity generated							Minority interest		
€	Capital stock nominal value	Additional paid-in capital	Retained earnings	Unappr. net income (loss) carried forward	Net income (loss)	Cumulative translation adjustment account	Shareholders' equity in. acc. with consol. bal. sheet	Treasury shares(1)	Total	Minority interest capital	Cumulative Translation adjustment account	Total in acc. with cons. bal. sheet
Jan. 1,	7,756	24,290	1,159	44	5,926	(761)	38,414	(7)	38,407	4,667	(365)	4,302
the of the												
										808		808
or 2000				(1,877)			(1,877)		(1,877)	(33)		(33)
ated net ied			3,992	1,934	(5,926)		—		—			
nominal ital	2,990	25,704					28,694		28,694			

axes					(3,454)		(3,454)		(3,454)	142		142
from												
			28			(811)	(783)		(783)		88	88
Dec.												
	10,746	49,994	5,179	101	(3,454)	(1,572)	60,994	(7)	60,987	5,584	(277)	5,307
the												
of the												
										(1,586)		(1,586)
or 2001				(1,539)			(1,539)		(1,539)	(43)		(43)
ated net												
s)												
			(4,915)	1,461	3,454		—		—			
l for												
of												
n/Powertel		83					83		83			
axes					(24,587)		(24,587)		(24,587)	284		284
from												
			(16)			(3,507)	(3,523)		(3,523)		26	26
Dec.												
	10,746	50,077	248	23	(24,587)	(5,079)	31,428	(7)	31,421	4,239	(251)	3,988
the												
of the												
										(123)		(123)
or 2002										(102)		(102)
ed net												
d												
				(24,587)	24,587		—		—			
l on												
stock												
rrants												
ge												
		15					15		15			
r taxes					1,253		1,253		1,253	370		370
from												
						(2,938)	(2,938)		(2,938)		(80)	(80)
Dec.												
	10,746	50,092	248	(24,564)	1,253	(8,017)	29,758	(7)	29,751	4,384	(331)	4,053

(1)Treasury shares are included within marketable securities in the consolidated balance sheets.
The accompanying notes are an integral part of the consolidated financial statements.

F-6

STATEMENT OF SEGMENT REPORTING (RESTATED)

		Net revenue	Revenue between segments	Depreciation and amortization	Net interest income/ (expense)	Income/ (loss) related to associated and related companies	Income/ (loss) before income taxes	Segment assets	Segment investments	Segment liabilities	Employee
		(millions of €, except employee figures)									
-Com[1]	2003	25,116	4,090	(5,169)	(315)	31	4,690	29,030	2,324	4,214	139,54
	2002	26,491	4,068	(5,539)	(562)	(304)	3,604	33,782	3,273	13,120	153,06
	2001	26,427	3,401	(5,444)	(346)	(509)	4,673				
-Mobile[1]	2003	21,572	1,206	(5,196)	(992)	97	831	50,025	3,813	17,617	41,76
	2002	18,339	1,396	(27,285)	(1,005)	(427)	(23,754)	57,655	5,766	20,224	38,94
	2001	13,101	1,536	(6,324)	(3,008)	(204)	(6,441)				
-Systems[1]	2003	7,184	3,430	(1,499)	(39)	(447)	(581)	5,665	708	4,649	42,10
	2002	6,895	3,594	(2,616)	(98)	(20)	(1,990)	6,646	3,551	5,268	43,48
	2001	7,121	3,700	(1,372)	102	13	(389)				
-Online[1][3]	2003	1,662	189	(430)	110	90	104	1,532	116	212	2,63
	2002	1,391	193	(435)	128	(265)	(471)	1,797	170	119	2,53
	2001	1,027	113	(416)	164	(381)	(820)				
roup eadquarters & hared Services	2003	304	3,964	(881)	(2,874)	(3)	(4,071)	10,631	455	41,334	25,20
	2002	573	3,838	(1,298)	(2,510)	(1,093)	(4,690)	12,978	551	34,539	17,87
	2001	633	4,481	(1,447)	(1,102)	(375)	402				
econciliation[1]	2003	0	(12,879)	291	334	(23)	425	(1,232)	(349)	(3,255)	
	2002	0	(13,089)	293	(1)	135	151	(1,332)	(149)	(844)	
	2001	0	(13,231)	(218)	52	246	14				
roup	2003	55,838	0	(12,884)	(3,776)	(255)	1,398	95,651	7,067	64,771	251,26
	2002	53,689	0	(36,880)	(4,048)	(1,974)	(27,150)	111,526	13,162	72,426	255,89
	2001	48,309	0	(15,221)	(4,138)	(1,210)	(2,561)				

(1) According to new structure (see note (36) Segment Reporting)

(2) Average number of employees for the year

(3) Figures are calculated in accordance with German GAAP, as applied throughout the Deutsche Telekom Group, and differ from those published in the reports of T-Online International AG under International Financial Reporting Standards ("IFRS")

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE OF CONSOLIDATED NONCURRENT ASSETS

	Acquisition or production costs							Depreciation, amortization, and write-downs						
1, 3	Translation adjustment	Changes in the composition of the Deutsche Telekom Group	Additions	Disposals	Reclassi- fications	Dec. 31, 2003	Jan. 1, 2003	Translation adjustment	Changes in the composition of the Deutsche Telekom Group	Additions	Disposals	Reclassi- fications	Write-ups	De
774	(4,055)	(79)	681	752	297	36,866	16,937	(2,022)	(62)	2,157	728	(22)	0	16
371	(483)	0	0	0	0	14,888	4,254	(223)	0	597	0	0	0	4
273	(3,398)	14	20	17	(16)	16,876	9,909	(1,712)	0	516	16	0	0	
741	(4)	0	0	0	0	737	206	(1)	0	48	0	0	0	
389	(170)	(93)	661	735	313	4,365	2,568	(86)	(62)	996	712	(22)	0	1
375	(4,331)	(41)	150	969	0	41,684	17,439	(1,934)	(41)	2,521	814	0	0	17
134	1	0	2	14	(48)	75	5	0	0	0	4	0	0	
783	(8,385)	(120)	833	1,735	249	78,625	34,381	(3,956)	(103)	4,678	1,546	(22)	0	3
779	(99)	(2)	199	1,288	423	18,012	7,417	(25)	(1)	743	600	87	8	
460	(1,490)	(3,954)	2,267	1,786	1,658	83,155	48,426	(506)	(2,588)	6,700	1,630	(38)	1	50
573	(189)	(256)	456	466	253	6,371	4,287	(100)	(226)	763	365	(26)	0	4

274	(184)	(19)	2,629	78	(2,583)	2,039	1	0	0	0	0	(1)	0	
086	(1,962)	(4,231)	5,551	3,618	(249)	109,577	60,131	(631)	(2,815)	8,206	2,595	22	9	6
310	(2)	39	9	33	(1)	322	161	0	32	22	11	0	0	
58	0	(57)	0	0	0	1	0	0	0	0	0	0	0	
151	(409)	(28)	607	503	(44)	2,774	558	(41)	(8)	94	88	(43)	84	
488	(14)	0	4	852	45	671	467	(5)	1	3	327	43	7	
300	(1)	0	24	490	0	333	797	0	0	0	489	0	0	
522	(1)	46	3	584	0	86	384	0	0	9	393	0	0	
121	(4)	(42)	36	19	0	92	14	0	0	0	0	0	0	
550	(431)	(42)	683	2,481	0	4,279	2,381	(46)	25	128	1,308	0	91	
419	(10,778)	(4,393)	7,067	7,834	0	192,481	96,893	(4,633)	(2,893)	13,012	5,449	0	100	9

The consolidated noncurrent assets schedule is part of the notes to the consolidated financial statements.

Summary of Accounting Policies

Description of Business and Relationship with the Federal Republic of Germany

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

T-Com is responsible for Deutsche Telekom's fixed-network business, where it is one of Europe's largest operators. T-Com provides network-related services to all of Deutsche Telekom's divisions, as well as approximately 200 telecommunications companies. In Germany, T-Com serves residential and business customers with a broad range of products and services. Small and medium-sized enterprises (SMEs) benefit from T-Com's end-to-end, integrated IT and telecom solutions.

T-Com is present within Central and Eastern Europe through its shareholdings in Magyar Távközlési (Matáv) (Hungary), HT-Hrvatske telekommunikacije (Croatia), and Slovak Telecom (Slovakia) (formerly Slovenské Telekomunikácie).

The DeTeMedien business previously reported within the T-Online division has been reported within the T-Com division since January 1, 2003. T-Com has operated as an independent brand under the umbrella of the Deutsche Telekom Group since August 1, 2003.

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

T-Systems provides Deutsche Telekom's national and international key accounts with customized information and communication technology (ICT) solutions. T-Systems provides the infrastructure needed to do this, implements customer solutions, and operates end-to-end business processes based on these solutions if required. T-Systems is represented in over 20 countries around the world by branch offices and its own national companies.

T-Online is one of the leading Internet service providers in Germany. T-Online operates a combined business model within Deutsche Telekom, that consists of the access business as well as content, services, e-commerce, and advertising. T-Online is represented through its operating subsidiaries in France and Spain and certain other European countries.

The DeTeMedien business previously included in the T-Online division has been reported in the T-Com division since January 1, 2003.

Group Headquarters and Shared Services includes all other group units which are notdirectly allocable to the divisions. During 2003, Deutsche Telekom completed its reorganization to create a virtual Strategic Management Holding. As part of this reorganization, the unit previously reported as "Other" has been renamed "Group Headquarters and Shared Services." Group Headquarters now focuses on strategic and cross-divisional management functions. All other operating functions not directly related to the divisions' core businesses are now performed by Shared Services. In particular, these include subsidiaries and shared services, such as real estate, billing services, fleet management, and Vivento (formerly PSA).

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

The Federal Republic of Germany's direct and indirect shareholding in Deutsche Telekom at December 31, 2003 amounted to 42.77 percent. In accordance with the letter dated January 12, 2004, the direct shareholding amounted to 26.03 percent (1,092,721,315 shares); an additional 16.74 percent (702,704,750 shares) are held by a federal corporation, Kreditanstalt für Wiederaufbau, Frankfurt/Main, (KfW), in accordance with the letter dated January 20, 2004. The Federal Republic

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

administers its shareholding and exercises its rights as a shareholder through a public law entity, the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency), which is subject to supervision by the Federal Ministry of Finance (BMF).

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

The Federal Republic of Germany is a customer of Deutsche Telekom; it sources services from the Company on an arm's length basis. The Group provides services to various departments and agencies of the Federal Republic at market prices and terms based on Deutsche Telekom's commercial pricing policies. Revenues from services provided to individual departments or agencies do not represent a significant component of Deutsche Telekom's net revenues.

Summary of Significant Accounting Principles

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

In addition to having its shares traded on the Frankfurt and other German stock exchanges, as well as the Tokyo exchange, Deutsche Telekom shares are traded in the form of American Depositary Shares (ADS) on the New York Stock Exchange (NYSE) and the German stock exchanges. Differences between the accounting principles in Deutsche Telekom's consolidated financial statements and those of U.S. GAAP are, in most cases, the result of binding rules of German GAAP which differ from those of U.S. GAAP.

The accompanying consolidated financial statements also differ from consolidated financial statements prepared in accordance with U.S. GAAP where the classification and presentation requirements of German GAAP (§§ 298 in conjunction with 266 and 275 HGB) are binding. Differences between accounting and measurement principles applied in Deutsche Telekom's consolidated financial statements and those of U.S. GAAP are presented as a separate reconciliation to supplement the consolidated financial statements, and explained in detail in the notes 41 through 44.

German GAAP requires only one year of comparative figures for the statement of operations, whereas the SEC requires the two previous years. The SEC also requires three years of cash flow statements and statements of shareholders' equity.

In 2003 the statement of operations format has been changed to reflect the cost-of-sales method (in accordance with § 275 (3) HGB). This format compares net revenue with the expenses incurred to generate those revenues, classified into cost of sales, selling, and general and administrative functions. The classification of the consolidated statement of operations using the cost-of-sales method is designed to enhance the international comparability of financial reporting.

Unless otherwise noted all amounts shown are in millions of euro. Certain items have been combined for presentation purposes in the statement of operations and the consolidated balance sheets in order to make the financial statements more informative and understandable. These items are disclosed separately in the notes. In the case of changes in presentation, prior-year amounts have been reclassified to conform with the current-year presentation. In accordance with § 297 (1) sentence 2 HGB, the consolidated financial statements also include consolidated statements of cash flows, consolidated statements of shareholders' equity, and segment reports.

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

- Property, plant and equipment leased under contracts for which, in accordance with U.S. GAAP and in contrast to the leasing provisions of tax law, the risks and rewards of ownership have been assumed (primarily excluding sale and lease back transactions) are recognized at cost. Scheduled depreciation is recorded over the useful economic life of the asset or the term of the lease. The present value of payment obligations resulting from future lease payments is included as liabilities.
- Interest expense incurred during the construction of items of property, plant and equipment has been capitalized as part of these assets' costs.
- No accruals are recorded for internal year-end closing expenses to be incurred after year-end.
- Investment grants received are recorded as reductions of the acquisition costs of invested assets.

The single-entity financial statements of Deutsche Telekom AG as well as the consolidated financial statements of the Deutsche Telekom Group are published in the Federal Gazette (Bundesanzeiger) and filed under HRB 6794 with the Commercial Registry of the Bonn District Court.

Consolidated Group

The consolidated financial statements are comprised of the accounts of Deutsche Telekom AG and its subsidiaries.

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

- Subsidiaries are companies in which Deutsche Telekom directly or indirectly holds majority voting rights or management control.
- Associated companies are companies in which Deutsche Telekom directly or indirectly holds between 20 and 50 percent of the voting rights and exercises a significant influence. Such companies are generally included in the consolidated financial statements using the equity method.
- Companies in which Deutsche Telekom holds less than 20 percent of the voting rights are carried in the consolidated financial statements at the lower of cost or market value and classified as "Other investments in related companies."

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The changes in the composition of the Deutsche Telekom Group in 2003 are presented in the following table:

	Domestic	International	Total
Consolidated subsidiaries			
January 1, 2003	101	260	361
Additions	4	11	15
Disposals	(42)	(22)	(64)
Reclassifications	1	(3)	(2)
December 31, 2003	64	246	310
Associated companies included at equity			
January 1, 2003	22	27	49
Additions	3	3	6
Disposals	(7)	(6)	(13)
Reclassifications	1	(2)	(1)
December 31, 2003	19	22	41
Other unconsolidated subsidiaries and other investments in related companies (greater than 5 %)			
January 1, 2003	89	48	137
Additions	25	4	29
Disposals	(25)	(16)	(41)
Reclassifications	(2)	5	3
December 31, 2003	87	41	128
Total			
January 1, 2003	212	335	547
Additions	32	18	50
Disposals	(74)	(44)	(118)
Reclassifications	0	0	0
December 31, 2003	170	309	479

The consolidated financial statements include the financial statements of the parent company, Deutsche Telekom AG, as well as 64 (December 31, 2002: 101) domestic and 246 (December 31, 2002: 260) foreign subsidiaries in which Deutsche Telekom AG has a direct or indirect controlling interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Effects on the 2003 consolidated statement of operations:

	For the year ended December 31, 2003 (millions of €)
Net revenue	(86)
Cost of sales	144
Gross profit	58
Selling costs	(129)
General and administrative costs	(21)
Other operating income	551
Other operating expenses	(205)
Operating results	254
Financial income (expense), net	(54)
Results from ordinary business activities[(1)]	200
Income taxes	(180)
Income after taxes	20
(Income) loss applicable to minority shareholders	0
Net income (loss)	20

(1)Including other taxes in accordance with the classification of the statement of operations under the cost-of-sales method.

Effects on the 2003 consolidated balance sheet:

	As of December 31, 2003 (millions of €)
Assets	
Noncurrent assets	(1,615)
Current assets, prepaid expenses and deferred charges	1,425
	(190)
Shareholders' equity and liabilities	
Shareholders' equity	248
Accruals	(49)
Liabilities and deferred income	(389)
	(190)

Significant Changes in the Composition of the Deutsche Telekom Group

2003:

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

T-Systems International GmbH sold TeleCash Kommunikations-Service GmbH for EUR 0.1 billion effective March 24, 2003 and deconsolidated the company in the first quarter of 2003. The disposition of this company generated a book gain of EUR 0.1 billion.

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

2002:

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

On September 25, 2002, T-Mobile International AG, Bonn (herein referred to as T-Mobile International) acquired the remaining 50.0001 percent of the shares of the mobile communications company Ben Nederland Holding B.V. (renamed T-Mobile Netherlands Holding B.V. on February 25, 2003) from the company's other shareholders Belgacom, TDC, and Gringots (Crédit Suisse First Boston) for a purchase price of EUR 1.7 billion. In addition, T-Mobile International took over outstanding shareholder loans amounting to approximately EUR 0.3 billion. The goodwill of EUR 1.7 billion generated by this transaction was written down by EUR 1.0 billion as a result of the strategic review of net carrying amounts; the remaining amount is being amortized over a period of 12 years. T-Mobile Netherlands provides mobile communications services in the Netherlands. The company was included in the consolidated financial statements as a fully consolidated subsidiary for the first time as of September 30, 2002.

2001:

On January 15, 2001 Deutsche Telekom acquired 51 percent of the shares of the Macedonian telecommunications company Makedonski Telekommunikacii A.D., Skopje (referred to as Maktel below) via a subsidiary of Matáv. The acquisition costs amounted to EUR 302 million. Maktel was included in the subgroup financial statements of Matáv for the first time in the first quarter of 2001. The resulting goodwill of EUR 180 million is being amortized over a period of 20 years.

In April 2001, Deutsche Telekom increased its shareholding in the Czech mobile communications company T-Mobile Czech Republic, Prague (formerly RadioMobil) via CMobil B.V., Amsterdam, a subsidiary of T-Mobile International. The acquisition costs for this additional 11.77 percent stake amounted to EUR 598 million. CMobil's shareholding thus increased to 60.77 percent. The additional goodwill generated amounting to EUR 444 million is being amortized over a period of 12 years. T-Mobile Czech Republic was fully consolidated for the first time on April 1, 2001.

On May 31, 2001 Deutsche Telekom acquired 100 percent of the shares in Voicestream Wireless Corporation (T-Mobile USA) and Powertel, Inc. (Powertel) for a total purchase price of EUR 39.4 billion, including a cash component of EUR 4.9 billion and the initial investment in T-Mobile USA preferred stock amounting to EUR 5.6 billion that Deutsche Telekom had made in September 2000. T-Mobile USA provides communications services for private households in urban areas of the United States on the basis of GSM (Global System for Mobile Communications) technology. Powertel provides communications services, mainly in urban areas in the Southeast of the United States on the basis of GSM technology. T-Mobile USA shareholders received for each share of T-Mobile USA common stock either 3.6693 Deutsche Telekom shares and USD 15.7262 in cash, 3.6683 Deutsche Telekom shares and USD 15.9062 in cash, or 3.7647 Deutsche Telekom shares. Each Powertel shareholder received 2.6353 Deutsche Telekom shares for each Powertel share. T-Mobile USA and Powertel were fully consolidated for the first time on May 31, 2001. The consolidation of T-Mobile USA and Powertel generated goodwill totaling EUR 23.6 billion. This goodwill is being amortized over a period of up to 20 years. However, the Group recorded a nonscheduled goodwill amortization amounting to EUR 8.3 billion as a result of the strategic review in the second half of 2002. In conjunction with the acquisition of T-Mobile USA and Powertel, Deutsche Telekom granted rights to acquire a total of 43,619,261 no par value Deutsche Telekom shares in exchange for outstanding options, warrants and exchange rights for shares in T-Mobile USA and Powertel.

On October 25, 2001, Deutsche Telekom AG acquired an additional 16 percent equity interest in the Croatian telecommunications company HT-Hrvatske telekomunikacije d.d., Zagreb, increasing its ownership to 51%, for a purchase price of EUR 507 million. After the acquisition, Deutsche Telekom AG became the majority shareholder, and consolidated the company in its consolidated financial statements from November 1, 2001. The goodwill generated, EUR 240 million, is being amortized over a period of up to 20 years.

The following pro forma information shows Deutsche Telekom's most important financial data, including the major subsidiaries acquired in 2002 and 2001, as if they had been consolidated at January 1, 2001.

Pro Forma Information (Unaudited)

	2002	2001
Net revenue (billions of €)		
Reported	53.7	48.3
Pro forma	54.1	51.6

Net income (loss)		
under German GAAP (billions of €)		
Reported	(24.6)	(3.5)
Pro forma	(24.9)	(6.9)
Earnings (loss) per share under German GAAP (€)		
Reported	(5.86)	(0.93)
Pro forma	(5.93)	(1.85)

At December 31, 2003 and 2002, 88 and 77 subsidiaries, respectively, were not consolidated because they were not material to the net worth, financial position, and results of the Deutsche Telekom Group.

At December 31, 2003, in accordance with § 311 (1) HGB, 41 (December 31, 2002: 49) companies over which Deutsche Telekom exercises significant influence have been classified as associated companies and are accounted for using the equity method. The remaining 30 (December 31, 2002: 35) associated companies which have little or no effect on the net worth, financial position, and results of the Deutsche Telekom Group were classified as other investments in related companies, and are carried at acquisition cost adjusted for applicable write-downs and reversals to the extent of previously recognized write-downs.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Principal Subsidiaries and Associated Companies

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

Name and registered office	Deutsche Telekom share December 31, 2003	Shareholders' equity December 31, 2003	Revenue 2003	Income/loss after taxes 2003	Employees 2003
	(%)		(millions of €)		(annual average)
Fully consolidated subsidiaries					
T-Mobile Deutschland GmbH, Bonn[(2)]	100.00	1,456	8,479	2,273	8,812
T-Mobile Holdings Ltd., Hatfield, United Kingdom[(1)(3)]	100.00	7,523	4,303	(613)	6,201
	100.00	462	1,098	73	2,540

T-Mobile Austria GmbH, Vienna, Austria[1][4]					
T-Mobile USA, Inc., Bellevue, Washington, United States[1][2]	100.00	13,351	7,416	(1,298)	19,372
T-Mobile Czech Republic a.s., Prague, Czech Republic[5]	60.77	515	768	139	2,532
T-Mobile Netherlands Holding B.V., The Hague, Netherlands[1][3]	100.00	326	861	(76)	1,418
T-Online International AG, Darmstadt[1]	73.94	5,367	1,851	0	2,638
T-Systems International GmbH, Frankfurt/Main	100.00	1,179	6,325	531	12,351
T-Systems CDS GmbH, Darmstadt[6]	100.00	260	1,981	323	6,697
T-Systems GEI GmbH, Aachen[6]	100.00	80	546	58	4,085
T-Systems PCM GmbH, Feldkirchen[6]	100.00	30	491	22	1,582
GMG Generalmietgesellschaft mbH, Münster	100.00	264	2,340	(290)	0
DeTeImmobilien, Deutsche Telekom Immobilien und Service GmbH, Münster	100.00	11	941	(12)	6,647
Deutsche Telekom Network Projects & Services GmbH, Bonn[1]	100.00	533	1,066	56	2,710
Matáv Magyar Távközlési Rt., Budapest, Hungary[1][7]	59.49	2,362	2,396	319	15,178
Slovak Telecom a.s. (formerly: Slovenské Telekomunikácie, a.s.), Bratislava, Slovakia[1]	51.00	1,175	431	89	8,091
HT-Hrvatske telekomunikacije d.d., Zagreb, Croatia[1]	51.00	1,895	1,036	193	9,708
Associated companies					
MTS, OJSC Mobile TeleSystems, Moscow, Russia[1][8][10][11]	25.15	1,152	1,205	245	11,042
PTC, Polska Telefonia Cyfrowa Sp.z o.o., Warsaw, Poland[1][9][10][11]	49.00	308	1,121	79	3,643

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

2002 financial year. The amounts included in the consolidated financial statements are based on the 2003 financial year results.

(11)Employees at balance sheet date at end of 2002

Consolidation Principles

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

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

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

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

The consolidated balance sheets include deferred taxes resulting from the effects of consolidation, provided the tax expense is expected to reverse in later years when taxes will be paid, except where the effects of consolidation relate to the parent company during the periods prior to the end of 1995, when it was essentially exempt from taxation.

The investments in associated companies included **at equity** are accounted for using the book value method; equity is calculated by applying local principles of valuation, as permitted by § 312 (5), sentence 2 HGB. The principles used for full consolidation are also applied in treating the differences resulting from the initial consolidation.

Joint ventures are included using the equity method.

Foreign Currency Translation

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

The financial statements of foreign subsidiaries are translated using the functional currency method. The functional currency is the currency in which the foreign subsidiary performs its principal operations. The activities and financial structure as reported in this currency should be reflected in the Group accounts. Generally, the functional currency of dependent subsidiaries is identical with that of the parent company. The currencies of dependent subsidiaries are translated according to the temporal method. However, the functional currency of independent subsidiaries is the local currency. Currently all consolidated foreign subsidiaries of Deutsche Telekom conduct their operations independently of the parent company; the currencies are therefore translated according to the modified current rate method. In the consolidated financial statements, the translation of all items shown in balance sheets of foreign subsidiaries from foreign currencies into euros is performed using the average rate on the balance sheet date. Gains and losses resulting from translation are recorded, without affecting income, in the cumulative translation adjustment account. The income statements of foreign subsidiaries are translated at the average exchange rates for the respective period.

The exchange rates of certain significant currencies changed as follows:

	Average Rate			Spot Rate	
	2003	2002	2001	Dec. 31, 2003	Dec. 31, 2002
		(€)		(€)	
100 Swiss Francs (CHF)	65.76650	68.15990	66.20630	64.15200	68.73340
100 Czech Koruna (CZK)	3.14101	3.24851	2.90920	3.08873	3.18167
1 Pound Sterling (GBP)	1.44585	1.59101	1.60761	1.41663	1.53635
100 Croatian Kuna (HRK)	13.21220	13.49190	13.36850	13.11000	13.37340
1000 Hungarian Forints (HUF)	3.94347	4.11657	3.90371	3.79407	4.23909
1000 Japanese Yen (JPY)	7.64138	8.47821	9.16991	7.42171	8.03280
100 Malaysian Ringgit (MYR)	23.28190	27.93620	29.39340	20.89500	25.07720
100 Philippine Pesos (PHP)	1.63218	2.08452	2.19127	1.44055	1.79995
100 Polish Zloty (PLN)	22.73590	25.99300	27.22010	21.27500	24.99940
100 Russian Ruble (RUB)	2.88655	3.38456	3.82700	2.71500	2.98257
100 Singapore Dollars (SGD)	50.70260	59.22700	62.55940	46.72500	55.34030
100 Slovak Koruna (SKK)	2.41004	2.34284	2.30987	2.43000	2.41429
1 U.S. Dollar (USD)	0.88492	1.06158	1.11683	0.79340	0.95293

Accounting Policies

Net revenues consist of goods and services sold in connection with the ordinary business activities of Deutsche Telekom. Net revenues are recorded net of value-added tax (VAT) and sales-related reductions. They are recognized in the accounting period concerned in accordance with the realization principle. Revenue was generated in the individual divisions as follows:

T-Com

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

T-Mobile

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

T-Systems

Telecommunication Services

Telecommunication Services include "Network Services" which consists of "Hosting and ASP Services", "Global Synergy, Strategy, and Solution" and "Media and Broadcast." Telecommunications services also include "International Carrier Sales and Solutions" and "Global Network Factory." Contracts for Network Services, which consist of the installation and operation of communication networks for customers, have an average duration of approximately three years. Revenues for voice,

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billed on a per-minute basis, and data services, billed on a bandwidth basis, are recognized under such contracts when used by the customer. Revenues from Carrier Services and Hosting and ASP Services are recognized as the services are provided.

Information Technology Services and Consulting

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

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

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

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

T-Online

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

Cost of sales comprises the aggregate cost relating to the revenues recognized from products and services sold in the relevant year. In addition to directly attributable costs, such as direct material and labor costs, cost of sales also includes indirect costs, including depreciation and amortization.

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

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

Research and development costs are expensed in full as incurred and amounted to approximately EUR 0.9 billion, EUR 0.9 billion and EUR 0.9 billion for the years ended December 31, 2003, 2002 and 2001, respectively.

Pension costs for defined benefit plans are actuarially computed using the projected unit credit method in accordance with SFAS No. 87, and are presented in accordance with SFAS No. 132 (as revised in 2003). This method is based on the total present value of the benefit obligations

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accumulated during the reporting period and takes into consideration the expected increases in wages and salaries and in retirement benefits. By contrast, the minimum accrual method in accordance with § 6a of the German Income Tax Act (Einkommensteuergesetz, EStG) is aimed at the recognition of the expense over the employees' entire working lives and does not take the expected increases in wages and salaries and retirement benefits into account (see note (28)

Accruals for Pensions and Similar Obligations).

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

Marketing expenses are expensed as incurred and amounted to approximately EUR 1.5 billion, EUR 2.2 billion and EUR 1.9 billion for the years ended December 31, 2003, 2002 and 2001, respectively.

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

Earnings (loss) per share for each period are calculated by dividing net income (loss) by the weighted average number of ordinary registered shares outstanding during that period. The weighted average number of ordinary registered shares in 2001 was calculated after recognizing the effect of the issuance of shares as part of the acquisition of T-Mobile USA and Powertel and the start of trading in these shares on June 4, 2001 in Frankfurt/Main, including those shares that are held on a trust basis for later issue and later trading as registered ordinary shares or ADRs.

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

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

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

Other property, plant, and equipment is carried at acquisition or construction cost, less depreciation. Construction cost includes directly attributable costs, an appropriate allocation of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

material and production overhead, and interest accruing during construction. General and administrative costs are not capitalized.

Nonscheduled depreciation is provided for when events or circumstances occur indicating an impairment in the value of assets. Such events or circumstances include prolonged adverse changes in the business environment or in assumptions or expectations considered at the time of initial acquisition.

Noncurrent assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

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

Additions to real estate are depreciated ratably in the year of acquisition. For assets other than buildings acquired in the first half of a year, the full-year rate of depreciation is charged in the year of acquisition and, for those assets acquired in the second half of the year, half the full-year rate of depreciation is charged. This methodology does not result in a significant difference to depreciation amounts calculated had depreciation commenced when the asset was placed in service.

Items with low acquisition cost are expensed in the year acquired.

Maintenance and repair costs are expensed as incurred.

Noncurrent assets are sold or otherwise disposed of at their relevant carrying amount (cost less accumulated depreciation). A gain or loss is recognized in results from operations for the difference between the sale consideration and the carrying amount of the disposed asset.

Financial assets are valued at the lower of cost or market value. Low-interest or non-interest bearing loan receivables are recorded at net present value. Write-downs are provided for only if impairment of financial assets is assumed to be permanent. In measuring impairments, Deutsche Telekom uses the actual market prices, if available, or other valuation methods based on information available from the investee.

Raw materials and supplies, and **merchandise** purchased and held for resale, are measured at acquisition cost, while **work in process and finished goods** are carried at production cost. Based on normal capacity utilization, production cost includes directly attributable costs, such as direct material and labor costs, as well as special production costs, plus an appropriate pro rata allocation of indirect material and labor costs and straight-line depreciation. General and administrative, and selling costs, social amenities expenses, as well as voluntary benefits to personnel, including pensions, are not generally included in production costs. The carrying amount of inventories is reduced to the lower of cost or market value at the balance sheet date. Further adjustments to these carrying amounts are recorded for obsolescence. See Note (16) Inventories, Materials and Supplies.

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

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

Stock options granted in the course of a contingent capital increase are recognized at the date the options are exercised, and not at the grant date. At the time the options are exercised, the amount received by the Company is transferred to capital stock in the amount of the corresponding nominal capital increase and a value of an additional amount to additional paid-in capital in accordance with § 272 (2) No. 1 HGB.

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

Deutsche Telekom is obliged to make contributions to a pension fund for current and former civil servant employees in annual amounts established by Postreform II, which came into force in 1995, rather than by annual actuarial valuations. The contribution amounts currently due in each period are recognized as an expense in the current period.

Provisions for tax and **other accruals**, including those for contingent losses and environmental liabilities, are computed in line with prudent commercial practice. Sufficient allowance was made for all identifiable risks when assessing these provisions and accruals.

Deferred taxes are calculated for the expected tax effects of temporary differences between balance sheet amounts in the financial statements and the amounts used for tax reporting purposes, as well as for the temporary differences arising from consolidation adjustments. Deferred taxes are offset and the balance is reported separately either as a deferred tax asset, or as a deferred tax liability reported under tax accruals. For purposes of computing deferred taxes, Deutsche Telekom uses a combined tax rate for domestic companies, covering German corporate income taxes, trade taxes (at an average German assessment national rate), and the solidarity surcharge (Solidaritätszuschlag); the respective local tax rate is used for foreign companies. Deferred taxes are not recognized if the temporary difference will reverse during a period covered by a net operating loss carryforward.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTES TO THE CONSOLIDATED STATEMENTS OF OPERATIONS

(1) Net Revenue

	For the year ended December 31,		
	2003	2002	2001
		(millions of €)	
T-Com[1]	25,116	26,491	26,427
T-Mobile[1]	21,572	18,339	13,101
T-Systems[1]	7,184	6,895	7,121
T-Online[1][2]	1,662	1,391	1,027
Group Headquarters & Shared Services	304	573	633
	55,838	53,689	48,309

(1)Net revenue according to new structure (see note (36) Segment Reporting).

(2)Figures are calculated in accordance with German GAAP, as applied throughout the Deutsche Telekom Group, and differ from those published in the reports of T-Online International AG under International Financial Reporting Standards.

Revenue by Geographic Area:

	For the year ended December 31,		
	2003	2002	2001
		(millions of €)	
Domestic	34,691	35,288	35,107
International	21,147	18,401	13,202
	55,838	53,689	48,309
Breakdown of international net revenue:			
European Union (excl. Germany)	7,962	6,836	6,088
Rest of Europe	5,118	5,067	3,787
North America	7,610	6,166	3,066
Latin America	69	74	85
Other	388	258	176
	21,147	18,401	13,202

Net revenue rose by EUR 2,149 million or 4.0 percent year-on-year despite unfavorable exchange rate trends. This figure also includes the effect of changes in the composition of the Group, which reduced net revenue by a total of EUR 86 million.

Regulatory decisions and a weak economic environment resulted in a decrease in revenue at T-Com. Further, the deconsolidation of the cable companies contributed to the decline in revenues.

Sustained high growth in subscriber numbers was again the driving force behind the increased revenue at T-Mobile. Changes in the composition of the consolidated group (T-Mobile Netherlands) also had a positive effect on revenue growth.

Positive developments in the telecommunications sector increased revenue at T-Systems, more than offsetting the slight decline in the IT business. This increase in revenue was partially offset by the effect of deconsolidations, in particular of TeleCash and SIRIS.

Revenue growth at T-Online was driven primarily by an expanded customer base, especially for broadband services, coupled with stronger demand for content and services, and the resulting increase in time spent online.

(2) Cost of Sales

The cost of sales, which mainly relates to the T-Com and T-Mobile divisions, fell by EUR 13.1 billion year-on-year to EUR 31.4 billion.

This is primarily due to a decrease in the amortization of mobile communications licenses that is included in cost of sales. As a result of the strategic review carried out in 2002, cost of sales was impacted by nonscheduled amortization of mobile communications licenses held by T-Mobile USA and T-Mobile UK totaling EUR 11.6 billion.

Changes in the composition of the Deutsche Telekom Group in 2003 further reduced cost of sales by EUR 0.1 billion.

(3) Selling Costs

Selling costs increased by EUR 0.2 billion year-on-year to EUR 13.5 billion, of which EUR 0.1 billion are attributable to changes in the composition of the Group. Based on net revenues generated, however, the ratio of selling costs to net revenues decreased from 24.7 percent to 24.2 percent.

The T-Mobile division accounts for the majority of selling costs and the year-on-year increase. This increase is attributable to the full-year consolidation of T-Mobile Netherlands for the first time and higher expenses for marketing and commissions. This is partially offset by lower losses on accounts receivable and provisions for doubtful accounts at T-Com in particular.

(4) General and Administrative Costs

General and administrative costs decreased year-on-year by EUR 1.1 billion to EUR 5.0 billion. This is equivalent to a 17.9 percent reduction on the prior-year figure. The factors behind this development include efficiency improvements and a decrease in other taxes (see note (12) Other Taxes).

(5) Other Operating Income

	For the year ended December 31,		
	2003	2002	2001
	(millions of €)		
Gain on sales of noncurrent assets (including sale of investments)	1,464	818	1,584
Reversal of accruals	804	791	1,139
Income from the reversal of valuation adjustments (including asset-backed securities)	688	556	288
Cost reimbursements	367	388	255
Foreign currency transaction gains	291	222	533
Insurance compensation	63	77	46
Refund of value-added tax (§ 15a Value-Added Tax Act - UStG)	54	68	85
Gain on sales of marketable securities	2	1	1,967
Other income	825	980	722
	4,558	3,901	6,619

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The increase in other operating income is due primarily to higher gains from dispositions of noncurrent assets of approximately EUR 1.5 billion. EUR 0.4 billion of this amount is attributable to the sale of the remaining cable activities, EUR 0.4 billion to the sale of shares in MTS, and approximately EUR 0.1 billion each to the sale of TeleCash, Globe Telekom, and Eutelsat.

Amounts reported in the previous year relate to the sale of Satelindo (EUR 0.2 billion) and the sale of T-Online shares (approximately EUR 0.3 billion).

The increase in income from the reversal of valuation adjustments recorded in prior years amounting to approximately EUR 0.1 billion relates primarily to the receipt of cash on residual interests from asset-backed securitization (ABS) transaction at the T-System division.

Of the total amount of other operating income, EUR 2,680 million (2002: EUR 1,342 million; 2001: EUR 1,897 million) relates to income recognized on transactions consummated in prior years.

(6) Other Operating Expenses

	For the year ended December 31,		
	2003	2002	2001
		(millions of €)	
Amortization of goodwill	2,521	13,108	3,663
Losses from the disposition of noncurrent assets (including sale of investments)	323	390	478
Foreign currency translation losses	307	310	333
Other expenses	1,933	1,107	604
	5,084	14,915	5,078

Other operating expenses decreased by EUR 9.8 billion year-on-year to EUR 5,084 million. This is attributable to the lower amortization of goodwill which, in 2002, consisted mainly of nonscheduled amortization on the goodwill of T-Mobile USA (EUR 8.3 billion), T-Mobile Netherlands (EUR 1.0 billion), and SIRIS (EUR 0.5 billion) (at T-Systems) primarily as a result of the strategic review.

The increase of EUR 0.8 billion in other expenses is primarily the result of Vivento personnel costs at Deutsche Telekom AG.

Of the operating expenses, EUR 395 million (2002: EUR 463 million, 2001: EUR 534 million) relates to transactions consummated in prior years.

(7) Financial Income (Expense), Net

For the year ended December 31,

	2003	2002	2001
		(millions of €)	
Dividend income from investments	26	41	107
Results related to companies accounted for under the equity method (including amortization of embedded goodwill)	(247)	(430)	(547)
Income (loss) related to associated and related companies	(221)	(389)	(440)
Income from debt securities and long-term loan receivables	7	171	152
Other interest and similar income	703	1,781	408
Interest and similar expense	(4,486)	(6,000)	(4,698)
Net interest income (expense)	(3,776)	(4,048)	(4,138)
Write-downs of financial assets and marketable securities	(34)	(1,585)	(770)
	(4,031)	(6,022)	(5,348)

Net financial expense improved year-on-year by EUR 2.0 billion to EUR 4,031 million. The decrease was mainly as a consequence of the decrease in expenses (including the amortization of embedded goodwill) relating to investments in associated companies, specifically the share price-related write-downs of the net carrying amount of the shareholding in France Telecom amounting to EUR 0.6 billion, and valuation adjustments on investments in noncurrent securities totaling EUR 0.4 billion recorded in 2002. In addition, the reversal of the valuation allowance recorded in prior years for the investment in comdirect bank AG had a positive impact on the income (loss) related to associated and related companies, offset by losses relating to Toll Collect totaling EUR 0.4 billion. The net interest expense decreased primarily as a result of the reduction in debt and the recognition of interest income from the reversal of interest rate derivatives that were no longer necessary.

(8) Income Taxes

Breakdown of results from ordinary business activities:

	For the year ended December 31,		
	2003	2002	2001
		(millions of €)	
Germany	4,270	712	2,946
International	(2,872)	(27,862)	(5,507)
	1,398	(27,150)	(2,561)

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

	For the year ended December 31,		
	2003	2002	2001
		(millions of €)	

Current taxes			
Germany	(181)	132	686
International	257	190	91
Deferred taxes			
Germany	(357)	(150)	(30)
International	56	(3,019)	4
	(225)	(2,847)	751

Deutsche Telekom AG's combined statutory income tax rate for 2003 amounts to 40.4 percent (compared to 39.0 percent in the two previous years) and includes corporate income taxes at a rate of 26.5 percent, the solidarity surcharge (Solidaritätszuschlag) of 5.5 percent on corporate income tax, and trade taxes at an average German national rate. The German Flood Victims Act (Flutopfersolidaritätsgesetz) resulted in a one-time increase in the corporate income tax rate in 2003 of 1.5 percentage points from 25 percent to 26.5 percent.

The Group's results from ordinary business activities amounted to EUR 1.4 billion. Deutsche Telekom AG also had net operating loss carryforwards affecting corporate income tax and trade tax net operating loss carryforwards, with the result that no taxes were incurred in the tax consolidation group. EUR 361 million of the current tax benefit reported relate to the 2002 corporate income tax of T-Mobile International AG & Co. KG as a result of the retroactive change of the legal form of the company from a stock corporation to a partnership. Further, as a result of the corporate reorganization of certain subsidiaries of T-Mobile International AG & Co. KG, the Company incurred tax deductible losses which resulted in the reduction of EUR 436 million in trade taxes during 2003. This tax benefit is offset by tax expense relating to domestic and foreign shareholdings not included in the tax consolidation group.

Deferred taxes result primarily from temporary differences between income determined under German GAAP and under applicable tax law. Changes in tax legislation beginning in the 2004 financial year limit the deductibility of tax loss carryforwards in Germany to 60% of current taxable income. As a result only 40% of the temporary differences in the Deutsche Telekom AG consolidated tax group (Organschaft) that are expected to reverse during the period of utilization of the net operating loss carryforwards were recognized.

The decrease in income from deferred taxes year-on-year is due to the fact that deferred tax liabilities were reversed in 2002 as a result of the strategic review and the ensuing nonscheduled amortization of FCC licenses (U.S. licenses issued by the Federal Communications Commission). There were no comparable effects in 2003.

Differences between the total income tax benefit of EUR 225 million (2002: benefit of EUR 2,847 million; 2001: expense of EUR 751 million) and the imputed, "expected" corporate income tax expense computed using the statutory corporate income tax rate for the parent company (combined income tax rate) of 40.4 percent, 39.0 percent and 39.0 percent for 2003, 2002 and 2001, respectively, are as follows:

	For the year ended December 31,		
	2003	2002	2001
		(millions of €)	

Expected corporate income tax at the statutory income tax rate applicable for the parent company	565	(10,447)	(977)
Increase (decrease) in income tax due to:			
Reduction of the Group's results without tax effect	3,136	11,027	2,896
Increase in the Group's results without tax effect	(1,001)	(435)	(966)
Group results not subject to the Group's rate of taxation	(44)	(2,878)	(491)
Permanent and semi-permanent differences between the carrying amounts in the tax accounts and in the financial statements	(1,809)	(34)	611
Other differences between balance sheets prepared for financial reporting and tax reporting	(58)	(323)	0
Trade tax (e.g., long-term debt)	(10)	247	216
Effect of domestic losses	61	386	(1,186)
Effects of changes in tax law and adjustments due to losses	(1,058)	(361)	676
Other	(7)	(29)	(28)
Income taxes	(225)	(2,847)	751
Effective income tax rate	(16%)	11%	(30%)

At December 31, 2003, the Deutsche Telekom Group had net operating loss carryforwards and similar tax loss carryforwards affecting corporate income tax amounting to approximately EUR 17,686 million (2002: EUR 22,198 million) and trade tax net operating loss carryforwards amounting to approximately EUR 5,488 million (2002: EUR 6,448 million). With the exception of non-German net operating loss carryforwards of EUR 10,180 million, the utilization of which is limited to periods from 2005 to 2023, these net operating loss carryforwards have an unlimited carryforward period under German and local tax law.

(9) (Income) Loss Applicable to Minority Shareholders

(Income) loss applicable to minority shareholders includes EUR 384 million (2002: EUR 390 million; 2001: EUR 322 million) in profits and EUR 14 million (2002: EUR 106 million, 2001: EUR 180 million) in losses. The profits in 2003 relate mainly to Matáv, HT-Hrvatske telekommunikacije, T-Mobile Czech Republic, and Slovak Telecom. The losses relate mainly to CAP Customer Advantage Program in 2003 and to T-Online International AG in 2002.

The consolidated statement of operations for all years presented was prepared using the cost-of-sales method (in accordance with § 275 (3) HGB). As a result, personnel costs and depreciation and amortization, as further described in notes (10) and (11), are no longer separately presented in the consolidated statement of operations.

(10) Personnel Costs and Average Number of Employees

	For the year ended December 31,		
	2003	2002	2001
		(millions of €)	
Wages and salaries:	10,571	10,467	9,313

Social security contributions and expenses for pension plans and benefits:			
Social security costs	1,406	1,340	1,147
Pension costs(1)	1,746	1,497	1,486
Health care expenses	194	176	168
	13,917	13,480	12,114

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

Personnel costs increased by EUR 0.4 billion or 3.2 percent in 2003 to EUR 13.9 billion. This was attributable in particular to an increase in additional minimum liabilities (AML) for pension obligations, in addition to collective bargaining agreements that adjust wages and salaries, offset by lower costs from reduced staff levels.

Number of Employees (Average for the Year)

	For the year ended December 31,		
	2003	2002	2001
	Number	Number	Number
Civil servants	49,998	52,961	56,707
Non-civil servants	201,265	202,935	184,953
Total Deutsche Telekom Group	251,263	255,896	241,660
Trainees and student interns	9,958	9,869	8,147

(11) Depreciation and Amortization

	For the year ended December 31,		
	2003	2002	2001
		(millions of €)	
Amortization of intangible assets	4,678	27,355	5,743
of which: amortization of goodwill	2,521	13,108	3,663
of which: amortization of UMTS licenses and FCC licenses	1,113	13,244	1,414
Depreciation of property, plant, and equipment	8,206	9,525	9,478
	12,884	36,880	15,221

Depreciation and amortization decreased during the year ended December 31, 2003 by EUR 23,996 million or 65.1 percent year-on-year to EUR 12,884 million. The decrease in the amortization of intangible assets is mainly the result of the non-recurrence of nonscheduled amortization of goodwill and mobile communications licenses as a result of the strategic review carried out in the third quarter of 2002. The reduction in amortization is a result of the lower amortization base.

Depreciation of property, plant, and equipment fell by EUR 1,319 million (13.8 percent) in the year ended December 31, 2003. In addition to deconsolidation effects (in particular from the sale of the cable business) and the disposal of real estate, this is also due to the decrease in nonscheduled depreciation. In the previous year, property, plant, and equipment was written down by approximately EUR 0.8 billion, of which EUR 0.3 billion relates to real estate, EUR 0.2 billion to submarine cables, and EUR 0.3 billion to other technical assets. Nonscheduled depreciation only amounted to EUR 0.3 billion in 2003; of this amount, EUR 0.2 billion relates to buildings for which no further business use is planned.

(12) Other Taxes

Other taxes included in the operating results amounted to EUR 162 million, compared with EUR 364 million in 2002 and EUR 57 million in 2001. The decrease in other taxes resulted from the non-recurrence of a one-time expense in the prior year in connection with the Federal Fiscal Court ruling on the recognition of goodwill in Deutsche Telekom AG's tax accounts.

NOTES TO THE CONSOLIDATED BALANCE SHEETS

(13) Intangible Assets

	As of December 31,	
	2003	2002
	Net carrying amount (millions of €)	
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	20,606	23,837
of which: UMTS licenses	10,260	11,117
of which: FCC licenses	8,179	10,364
of which: GSM licenses	484	535
Goodwill	24,513	29,436
Advance payments	74	129
	45,193	53,402

The decline in intangible assets by EUR 8.2 billion to EUR 45.2 billion is due primarily to scheduled amortization and a lesser extent the effect of foreign exchange translation losses of foreign group companies, while the investment volume decreased by EUR 4.5 billion to EUR 0.8 billion. The decrease in 2003 as compared to the high level of investments in the prior year, relates in particular to goodwill of EUR 2.7 billion as a result of the acquisition of the remaining shares in T-Systems ITS GmbH (formerly debis Systemhaus GmbH) and T-Mobile Netherlands accounting for EUR 1.7 billion.

At December 31, 2003, Deutsche Telekom did not have any indefinite-lived intangible assets. The following remaining useful lives apply to the mobile communications licenses at December 31, 2003: UMTS licenses: 13.5 to 18.0 years, FCC licenses: 17.4 years, and GSM licenses 6.0 to 18.0 years.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(14) Property, Plant, and Equipment

	As of December 31, 2003	2002
	Net carrying amount (millions of €)	
Land and equivalent rights and buildings including buildings on land owned by third parties	10,399	11,362
Technical equipment and machinery	32,792	38,034
Other equipment, plant, and office equipment	2,038	2,286
Advance payments and construction in progress	2,039	2,273
	47,268	53,955

In addition to decreases arising from foreign currency effects, the EUR 6.7 billion decrease in the carrying amount of property, plant, and equipment to EUR 47.3 billion is due primarily to the sale of the remaining cable businesses, sales of real estate relating to sale-and-lease-back transactions, and further depreciation charges, combined with a decline in the volume of new capital expenditures.

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

Rental and Leasing Obligations

Minimum lease payments under leases expiring subsequent to December 31, 2003 are shown below.

	Capital Leases	Operating leases
Financial Year	(millions of €)	
2004	52	1,703
2005	48	1,515
2006	48	1,347
2007	47	1,125
2008	47	995
after 2008	432	5,052
Total minimum lease payments	674	11,737
Imputed interest	(251)	
Present value of net minimum lease payments	423	

Capital leases relate primarily to office buildings and have terms of up to 25 years. Rental and leasing expenses totalled EUR 1.7 billion in 2003 (2002: EUR 1.7 billion and 2001: EUR 1.2 billion).

(15) Financial Assets

	As of December 31, 2003	2002
	Net carrying amount (millions of €)	
Investments in unconsolidated subsidiaries	118	149
Loans to unconsolidated subsidiaries	1	58
Investments in associated companies	2,386	2,593
Other investments in related companies	496	1,021
Long-term loans to associated and related companies	25	3
Other investments in noncurrent securities	86	238
Other long-term loans	78	107
	3,190	4,169

F-31

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The net carrying amount of investments in associated companies decreased by EUR 207 million due to currency translation adjustments affecting PTC (Poland), GSM Facilities (United States), and MTS (Russia) in particular. The decline was also due to the sale of the 11.05 percent shareholding in MTS. These factors were partly offset by the addition of shares in GSM Facilities, positive earnings contributions and the reversal of prior write-downs to the net carrying amount of the investment in comdirect bank AG.

The EUR 525 million decrease in other investments in related companies is due primarily to the sale of shares in Globe Telecom (EUR 320 million), Eutelsat (EUR 118 million), and Celcom (EUR 51 million).

Long-term loans to associated and related companies are mainly composed of shareholder loans. The additions relate mainly to loans to DeaSat.

The decrease in other investments in noncurrent securities is attributable in particular to the sale of securities from the portfolio of Deutsche Telekom Holding B.V., Amsterdam, and a valuation adjustment in Deutsche Telekom AG's securities portfolio.

The development of financial assets is shown in the statement of consolidated noncurrent assets. The list of investment holdings is filed with the Commercial Registry of the Bonn District Court (HRB 6794).

Significant investments in associated companies are shown below:

	As of December 31, 2003			As of December 31, 2002		
Name	Deutsche Telekom share (%)	Net carrying amount (millions of €)	of which: Embedded goodwill[(2)]	Deutsche Telekom share (%)	Net carrying amount (millions of €)	of which: Embedded goodwill[(2)]
PTC	49.00	1,097	877	49.00	1,287	1,122
GSM Facilities	29.20	592	—	25.60	586	—

MTS[1]	25.15	330	5	36.20	455	11
Other		367	107		265	52
		2,386	989		2,593	1,185

(1)Proportional market value on December 31, 2003: EUR 1,647 million (December 31, 2002: EUR 1,277 million).

(2)Net difference between carrying value and equity in net assets.

(16) Inventories, Materials and Supplies

	As of December 31, 2003	2002
	Net carrying amount (millions of €)	
Raw materials and supplies	391	466
Work in process	307	350
Finished goods and merchandise	635	730
Advance payments	99	10
	1,432	1,556

Inventories, materials and supplies decreased by EUR 124 million or 8.0 percent year-on-year. This figure includes reductions of EUR 15 million resulting from changes in the composition of the Deutsche Telekom Group.

Raw materials and supplies include spare parts for data communications equipment, transmission equipment, and other telecommunications spare parts, components, and cable. Work in process relates mainly to projects that have not yet been completed, such as the installation of telecommunications systems and the implementation of IT systems solutions.

Finished goods and merchandise relate mainly to inventories of terminal equipment held both for resale and leasing, as well as existing rights of use for submarine cables.

Advance payments relate primarily to orders for terminal equipment, replacement modules, and replacement components.

(17) Receivables

	As of December 31, 2003	2002
	Net carrying amount (millions of €)	

Trade accounts receivable	5,318	5,840
Receivables from unconsolidated subsidiaries	203	171
Receivables from associated and related companies	241	247
	5,762	6,258

The decrease in trade accounts receivable relates in particular to the first-time asset-backed securitization at T-Mobile.

In November 2003, T-Mobile Deutschland GmbH sold without recourse certain trade accounts receivable amounting to approximately EUR 0.5 billion to a special purpose vehicle in a global assignment of debts under an asset-backed securitization program. The contract strictly rules out the retransfer of the receivables sold. Appropriate discounts have been agreed to cover financing and program costs and possible bad debt losses. The contract provides for a rebate of the discounts if the risks covered by the discounts are not utilized by the purchaser. Servicing of the receivables is performed by T-Mobile Deutschland GmbH on behalf of the purchaser.

All receivables are due within one year, with the exception of trade accounts receivables amounting to EUR 16 million.

The following table represents the annual development of the allowance for doubtful accounts:

	As of January 1	Charged to costs and expenses	Amounts written off/released	As of December 31
		(millions of €)		
2001	790	1,167	(623)	1,334
2002	1,334	701	(680)	1,355
2003	1,355	376	(944)	787

The Company directly wrote off accounts receivable balances of EUR 282 million in 2003 (EUR 414 million in 2002; EUR 391 million in 2001).

(18) Other Assets

	As of December 31, 2003	As of December 31, 2002
	Net carrying amount (millions of €)	
Tax receivables	1,526	1,782
Accrued interest	408	390
Receivables from reimbursements and loans receivable	120	96
Receivables from employees	41	46
Miscellaneous other assets	1,067	1,078
	3,162	3,392

The decrease in other assets results mainly to the decrease in tax receivables, which consists mainly of income taxes. The decrease in income tax receivables relates mainly to the refund of a corporate income tax receivable of Deutsche Telekom AG in June 2003. The claim for reimbursement amounting to EUR 550 million related to corporate income tax receivables from the external tax audit for the period 1997 to 1999.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(19) Marketable Securities

	As of December 31, 2003	As of December 31, 2002
	Net carrying amount (millions of €)	
Treasury shares	7	7
Other marketable securities	166	406
	173	413

The number of treasury shares of 2,670,828, at December 31, 2003 was unchanged from the prior year, and is comprised as follows:

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

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

The decrease in other marketable securities compared with the previous year is mainly attributable to the reduction of Deutsche Bundespost bonds held to maintain favorable trading conditions and to the expiration of callable bonds.

(20) Liquid Assets

	As of December 31, 2003	As of December 31, 2002
	Net carrying amount (millions of €)	
Checks	8	10
Cash-in-hand and deposits at the Bundesbank	33	42

Cash in banks	9,086	1,853
	9,127	1,905

	As of December 31,	
	2003	2002
	Net carrying amount (millions of €)	
Original maturity less than 3 months	8,686	1,712
Temporary cash investments (original maturity longer than 3 months)	441	193
	9,127	1,905

Cash and cash equivalents with original maturity of less than 3 months consist primarily of fixed-term bank deposits, cash-in-hand, deposits at the Bundesbank, and checks. Temporary cash investments (with maturities longer than three months) consist almost exclusively of fixed-term bank deposits.

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

(21) Prepaid Expenses and Deferred Charges

Prepaid expenses and deferred charges of EUR 772 million (Dec. 31, 2002: EUR 771 million) include discounts on loans of EUR 264 million (Dec. 31, 2002: EUR 295 million) which are amortized on a straight-line basis over the terms of the respective liabilities. Other prepaid expenses and deferred charges are also recognized for advance personnel costs and lease payments.

(22) Shareholders' Equity

A detailed account of the development of the consolidated shareholders' equity for the years 2001, 2002, and 2003 is presented in the consolidated statements of shareholders' equity.

The development of the consolidated shareholders' equity from December 31, 1995 to December 31, 2003 is as follows:

Total shareholders' equity at year-end (millions of €)

(23) Capital Stock

In accordance with § 5 (1) of its Articles of Incorporation, Deutsche Telekom AG's capital stock totaled EUR 10,746 million as of December 31, 2003, and is composed of 4,197.8 million no-par value ordinary registered shares. Each share entitles the holder to one vote.

The Federal Republic's direct shareholding in Deutsche Telekom AG, represented by the Federal Agency, was 26.03 percent at December 31, 2003; KfW's shareholding was 16.74 percent at December 31, 2003. 1,093 million individual no-par value shares (EUR 2,797 million) of the capital stock were therefore held by the Federal Republic at December 31, 2003 and 703 million (EUR 1,799 million) by KfW. The remaining shares are in free float.

In the course of the acquisition of T-Mobile USA/Powertel, Deutsche Telekom AG granted options on Deutsche Telekom shares in exchange for the outstanding warrants between Deutsche Telekom and T-Mobile USA/Powertel at the time of the acquisition. As of December 31, 2003, the number of Deutsche Telekom shares deposited as collateral for the outstanding options granted to T-Mobile USA and Powertel employees amounted to 22,539,480.

Authorized Capital

With the approval of the Supervisory Board, the Board of Management is authorized to increase the capital stock (share capital) by up to a nominal amount of EUR 3,865,093,163.52 by issuing up to 1,509,802,017 ordinary registered shares against noncash contributions in the period up to May 25, 2005. The authorization may be exercised in full or in part. Shareholders' preemptive rights are disapplied. The Board of Management is authorized to determine the rights accruing to the shares in the future and the conditions for issuing shares, with the approval of the Supervisory Board. As of December 31, 2003, 1,168,148,391 of the 1,509,802,017 authorized no-par value shares had been issued for the acquisition of T-Mobile USA and Powertel.

Contingent Capital

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

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

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

On the basis of the authorizing resolution adopted by the shareholders' meeting on May 29, 2001, the capital stock was contingently increased by up to EUR 307,200,000, composed of up to 120,000,000 new no-par value registered shares (contingent capital II). This contingent capital increase is exclusively for the purpose of granting stock options to members of the Board of Management of Deutsche Telekom AG, to members of Deutsche Telekom's second-tier management, and to other executives, managers, and specialists of Deutsche Telekom AG, and to members of the boards of management, members of management, and other executives, managers, and specialists of lower-tier group companies in Germany and other countries as part of the Deutsche Telekom 2001 Stock Option Plan. It will be implemented only to the extent that the holders of stock options exercise these options. The new shares carry dividend rights from the beginning of the financial year in which they are issued. If new shares are issued after the end of a financial year but before the Company's shareholders' meeting that resolves the appropriation of net income for the preceding financial year, the new shares carry dividend rights from the beginning of the preceding financial year. No stock options granted under the 2001 Stock Option Plan had been exercised as of December 31, 2003.

On the basis of the authorizing resolution adopted by the shareholders' meeting on May 25, 2000, in conjunction with the amending resolution by the shareholders' meeting on May 29, 2001, the capital stock was contingently increased by up to EUR 2,621,237.76, composed of up to 1,023,921 new no-par value registered shares (contingent capital III). This contingent capital increase is exclusively for the purpose of granting stock options to members of the Board of Management of Deutsche Telekom AG and executives of the Company, and to members of the boards of management, members of management, and other executives of lower-tier subsidiaries as part of the Deutsche Telekom 2000 Stock Option Plan established on the basis of a resolution by the shareholders' meeting on May 25, 2000. It will only be implemented if these beneficiaries exercise their stock options. The new shares carry dividend rights from the beginning of the financial year in which they are issued. If new shares are issued after the end of a financial year but before the Company's shareholders' meeting that resolves the appropriation of net income for the preceding financial year, the new shares carry dividend rights from the beginning of the preceding financial year. No stock options granted under the 2000 Stock Option Plan had been exercised as of December 31, 2003.

Treasury Shares

The shareholders' meeting on May 20, 2003 rescinded the authorization of the Board of Management to acquire treasury shares resolved by the shareholders' meeting on May 28, 2002 with

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effect from the end of the shareholders' meeting on May 20, 2003. At the same time, the Board of Management of Deutsche Telekom AG was authorized to acquire up to 419,775,242 shares, i.e., up to almost 10 percent of the capital stock, before November 19, 2004. The treasury shares acquired on the basis of this authorization may be resold on the stock exchange, used to list the Company's shares on foreign stock exchanges, offered to third parties in the course of business combinations or for the acquisition of companies, parts of companies, or interests in companies, withdrawn, offered to shareholders on the basis of a subscription offer made to all shareholders, or sold other than on the stock exchange or by the way of an offer to all shareholders. The authorizations to acquire and utilize treasury shares may be exercised in full or in parts.

(24) Additional Paid-In Capital

The additional paid-in capital of the Group exceeds Deutsche Telekom AG's additional paid-in capital of EUR 24,333 million by EUR 25,759 million. This is due in part to the recognition of the new Deutsche Telekom shares issued in the course of the acquisition of T-Mobile USA and Powertel at fair value (EUR 28,680 million) instead of at their par value (EUR 2,990 million), which is permitted in the consolidated financial statements. There were also other allocations to additional paid-in capital in 2003 at Group level amounting to approximately EUR 1 million (2002: EUR 68 million) from the exercise of conversion options by former shareholders of T-Mobile USA and Powertel. The shares of Deutsche Telekom reserved for these conversion options in a trust were included in the single-entity financial statements of Deutsche Telekom AG in 2001 at the time of the appropriation of the additional paid-in capital.

(25) Retained Earnings

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

(26) Minority Interest

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

(27) Stock-Based Compensation

Deutsche Telekom AG

2000 Stock Option Plan

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

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

The absolute performance target is achieved when the moving thirty-day average closing price of the T-Share in Xetra trading at Deutsche Börse AG, Frankfurt/Main, exceeds the exercise price of EUR 62.69 by more than 20 percent at the end of the lock-up period.

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

Neither the absolute target nor the relative target had been exceeded at December 31, 2003.

Deutsche Telekom AG reserves the right, at its election, to settle the options through the payment of a cash amount (stock appreciation rights – SARs) instead of issuing new shares. The exercise of an SAR cancels the related option, and the exercise of an option cancels the related SAR. As of December 31, 2003, no resolution on conversion had been passed to this effect.

As of December 31, 2003, the weighted average remaining contractual life of the outstanding options from the 2000 Stock Option Plan was approximately 1.5 years.

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

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

	2000 Stock Option Plan					
	2003		2002		2001	
	Stock options (in thousands)	Weighted-average exercise price (€)	Stock options (in thousands)	Weighted-average exercise price (€)	Stock options (in thousands)	Weighted-average exercise price (€)
Outstanding at beginning of year	994	62.69	1,001	62.69	1,022	62.69
Granted	0	—	0	—	0	—
Exercised	0	—	0	—	0	—
Forfeited	7	62.69	7	62.69	21	62.69
Outstanding at end of year	987	62.69	994	62.69	1,001	62.69
Exercisable at end of year	0	—	0	—	0	—

2001 Stock Option Plan

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

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

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

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

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

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

Deutsche Telekom AG reserves the right, at its own discretion, to settle the options through the payment of a cash amount (stock appreciation rights – SARs) instead of issuing new shares. The exercise of an SAR cancels the related option, and the exercise of an option cancels the related SAR. As of December 31, 2003, no resolution on conversion had been passed to this effect.

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

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

As of December 31, 2003, the weighted average remaining contractual life of all outstanding options from the 2001 Stock Option Plan was approximately 8.1 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	2001 Stock Option Plan					
	2003		2002		2001	
	Stock options (in thousands)	Weighted-average exercise price (€)	Stock options (in thousands)	Weighted-average exercise price (€)	Stock options (in thousands)	Weighted-average exercise price (€)
Outstanding at beginning of year	11,964	24.22	8,219	30.00	—	—
Granted	0	—	3,928	12.36	8,221	30.00
Exercised	0	—	0	—	0	—
Forfeited	196	25.89	183	29.16	2	—
Outstanding at end of year	11,768	24.25	11,964	24.22	8,219	30.00
Exercisable at end of year	3,964	30.00	0	—	0	—

5,360 SARs were forfeited in 2003. As of December 31, 2003, 162,560 of the SARs granted between 2001 and 2003 to employees in countries in which it was not legally possible to grant stock options were still outstanding.

T-Online International AG

2000 Stock Option Plan

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

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

The weighted average remaining contractual life as of December 31, 2003 was 1.5 years.

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

	2000 Stock Option Plan					
	2003		2002		2001	
	Stock options (in thousands)	Weighted-average exercise price (€)	Stock options (in thousands)	Weighted-average exercise price (€)	Stock options (in thousands)	Weighted-average exercise price (€)
Outstanding at beginning of year	112	37.65	117	37.65	177	37.65
Granted	0	—	0	—	0	—
Exercised	0	—	0	—	0	—
Forfeited	0	—	5	37.65	60	37.65
Outstanding at end of year	112	37.65	112	37.65	117	37.65
Exercisable at end of year	0	—	0	—	0	—

2001 Stock Option Plan

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

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

Options are granted in annual tranches for periods of five years; stock options can be granted until 2005.

50 percent of the options granted may only be exercised after a two-year lock-up - calculated from the grant date of the options. The remaining 50 percent of the options granted may only be exercised three years after the day the preemptive rights are issued. The options have a life of ten years from the date of granting, meaning that options granted in the first tranche in 2001 and the options granted in the second tranche in 2002 are forfeited without replacement or compensation at the latest on August 12, 2011 and July 14, 2012 respectively. As of December 31, 2003, the weighted average remaining contractual life of the outstanding options from the 2001 Stock Option Plan was approximately 8 years.

2,369,655 options were granted on August 13, 2001 in the first tranche on the basis of the resolution adopted by the shareholders' meeting in May 2001. A further 2,067,460 options were granted in the second tranche on July 15, 2002. The exercise price, i.e., the performance target, for the first tranche is EUR 10.35 (125 percent of the reference price of EUR 8.28) and for the second tranche EUR 10.26 (125 percent of the reference price of EUR 8.21). The Board of Management decided not to issue the tranche for 2003.

On this basis, 26,410 stock options have been exercised from the 2001 tranche since August 14, 2003.

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

	2001 Stock Option Plan					
	2003		2002		2001	
	Stock options (in thousands)	Weighted-average exercise price (€)	Stock options (in thousands)	Weighted-average exercise price (€)	Stock options (in thousands)	Weighted-average exercise price (€)
Outstanding at beginning of year	4,415	10.31	2,348	10.35	0	—
Granted	0	—	2,067	10.26	2,369	10.35
Exercised	26	10.35	0	—	0	—

Forfeited	205	10.35	0	—	21	10.35
Outstanding at end of year	4,184	10.31	4,415	10.31	2,348	10.35
Exercisable at end of year	1,062	10.35	0	—	0	—

Stock Option Plan for the Acquisition of Ya.com Shares

In connection with the acquisition of shares in Ya.com, employees of Ya.com were granted 1,863,886 options for T-Online shares, for which the capital stock of T-Online was increased by EUR 1,863,886 in accordance with a resolution adopted on September 22, 2000.

The activities relating to the stock options granted by T-Online International AG as part of the acquisition of shares are as follows:

	Ya.com 2000 Stock Option Plan					
	2003		2002		2001	
	Stock options (in thousands)	Weighted-average exercise price (€)	Stock options (in thousands)	Weighted-average exercise price (€)	Stock options (in thousands)	Weighted-average exercise price (€)
Outstanding at beginning of year	366	0.00	1,084	0.00	1,864	0.00
Granted	0	—	0	—	0	—
Exercised	363	0.00	376	0.00	692	0.00
Forfeited	3	0.00	342	0.00	88	0.00
Outstanding at end of year	0	0.00	366	0.00	1,084	0.00
Exercisable at end of year	0	0.00	366	0.00	1,084	0.00

In its function as conversion trustee, Dresdner Bank holds 433,000 (2002: 430,000) options that may be sold under certain circumstances upon instructions by T-Online International AG. As the issuance of shares underlying these options for cash is viewed as an indirect cash payment by Ya.com shareholders to T-Online International AG as a result of the issue of T-Online shares, the proceeds of the sale of these options will be allocated upon sale as a premium to additional paid-in capital.

T-Mobile USA

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

F-42

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

At December 31, 2003, 22.5 million shares were available for outstanding options for the 1999 Management Incentive Stock Option Plan ("MISOP"), which was changed as a consequence of the acquisition on May 31, 2001. The MISOP provides for the issue of up to 8 million shares of Deutsche Telekom common stock, either as non-qualified stock options or as incentive stock options, plus the number of shares of common stock deliverable upon the exercise of the T-Mobile USA rollover options in accordance with the Agreement and Plan of Merger between Deutsche Telekom and T-Mobile USA. The vesting period and option term relating to the option plan are determined by the MISOP administrator. The options typically vest for a period of four years and have a term of up to 10 years.

The activities relating to the stock options granted since the acquisition of T-Mobile USA are as follows:

	Year ended December 31, 2003		Year ended December 31, 2002		Seven months ended December 31, 2001	
	Stock options (in thousands)	Weighted-average exercise price ($)	Stock options (in thousands)	Weighted-average exercise price ($)	Stock options (in thousands)	Weighted-average exercise price ($)
Outstanding at beginning of year	24,980	16.41	22,090	16.21	6,444	58.27
Conversion of historical T-Mobile USA options	—	—	—	—	(6,444)	58.27
Adjustment for T-Mobile merger	—	—	—	—	24,278	15.36
Granted	865	12.86	5,964	13.35	0	—
Exercised	3,709	4.20	2,133	3.35	1,639	3.21
Forfeited	1,865	21.34	941	19.51	549	17.47
Outstanding at end of year	20,271	17.95	24,980	16.41	22,090	16.21
Exercisable at end of year	11,756	17.88	10,028	13.95	6,299	9.88

	Outstanding options as of December 31, 2003			Exercisable options as of December 31, 2003	
Ranges of the exercise prices ($)	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted-average exercise price ($)	Number (in thousands)	Weighted-average exercise price ($)

0.02 – 7.60	2,750	4.2	2.79	2,840	2.79
7.60 – 15.20	7,673	7.3	12.22	2,551	11.00
15.20 – 22.80	58	5.8	17.50	58	17.50
22.80 – 30.39	8,604	6.3	26.30	5,412	26.88
30.39 – 37.99	1,186	6.1	30.97	895	30.97
0.02 – 37.99	20,271	6.4	17.95	11,756	17.88

F-43

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During 2003, 860,000 options were granted to certain key executives of T-Mobile USA under the Option Plan discussed above. These options vest based on meeting certain growth and financial performance measures and have a term of up to 10 years. Options granted, exercised and cancelled are summarized as follows:

	Year ended December 31, 2003	
	Stock options (in thousands)	Weighted-average exercise price ($)
Outstanding at beginning of year	—	—
Granted	860	3.81
Exercised	(10)	3.81
Forfeited	—	—
Outstanding at end of year	850	3.81
Exercisable at end of year	133	3.81

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2003:

	Outstanding options as of December 31, 2003			Exercisable options as of December 31, 2003	
Ranges of the exercise prices ($)	Number (in thousands)	Weighted average remaining contractual life (years)	Weighted-average exercise price ($)	Number (in thousands)	Weighted-average exercise price ($)
0.00 – 7.60	850	9.0	3.81	133	3.81

Powertel

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

The Powertel 2000 Stock Plan had 456,611 shares available at December 31, 2003. This plan was changed as a consequence of the acquisition. Under the terms of this plan, all employees, managers, directors, consultants, and advisors may be eligible for the allocation of options, conditional share allocations, or other allocations within the framework of the 2000 Stock Plan.

A total of 962,118 shares were available for outstanding options at December 31, 2003 for the Powertel Employee Stock Option Plan in force since 1991 ("1991 Option Plan"). The Powertel Board of Directors has decided not to grant any further options under the 1991 Option Plan.

At December 31, 2003, there were no shares available for outstanding options for the Non-employee Stock Option Plan ("Non-employee Plan"). The Powertel Board of Directors has decided not to grant any further options under the Non-employee Plan.

The activities relating to the stock options granted since the acquisition of Powertel are as follows:

	Year ended December 31, 2003		Year ended December 31, 2002		Seven months ended December 31, 2001	
	Stock options (in thousands)	Weighted-average exercise price ($)	Stock options (in thousands)	Weighted-average exercise price ($)	Stock options (in thousands)	Weighted-average exercise price ($)
Outstanding at beginning of period	1,790	21.85	2,509	19.50	2,010	53.31
Conversion of historical Powertel options	—	—	—	—	(2,010)	53.31
Adjustment for T-Mobile merger	—	—	—	—	5,323	20.04
Granted	0	0.00	0	0.00	0	—
Exercised	171	5.05	446	5.39	1,200	6.29
Forfeited	201	28.65	273	27.27	1,614	31.42
Outstanding at end of year	1,418	22.79	1,790	21.85	2,509	19.50

Exercisable at end of year	1,100	20.62	891	16.93	883	8.76

Ranges of the exercise prices ($)	Outstanding options as of December 31, 2003 Number (in thousands)	Weighted average remaining contractual life (years)	Weighted-average exercise price ($)	Exercisable options as of December 31, 2003 Number (in thousands)	Weighted-average exercise price ($)
0.02 – 7.60	394	4.1	5.60	394	5.60
7.60 – 15.20	98	4.3	9.72	99	9.72
15.20 – 22.80	19	6.1	19.97	16	19.86
22.80 – 30.39	418	6.9	26.92	226	26.91
30.39 – 37.99	489	6.2	35.87	365	35.95
0.02 – 37.99	1,418	5.7	22.79	1,100	20.62

Matáv

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

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

On July 1, 2002, Matáv used its authority under the shareholders' resolutions adopted in April 2002 to grant 3,964,600 options in respect of 3,964,600 shares of its stock to participants in its stock option plan at an exercise price of HUF 933 for the first tranche (exercisable 2003) and HUF 950 for the second tranche and third tranche (exercisable 2004/2005). The quoted fair market value of Matáv common stock quoted on BET (Budapest Stock Exchange) on the grant date was HUF 833 per share. The options expire five years from the date of grant (June 30, 2007). The remaining contractual life as of December 31, 2003 was 3.5 years.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

The activities relating to the share options granted by Matáv are as follows:

	2003		2002	
	Stock options (in thousands)	Weighted-average exercise price (HUF)	Stock options (in thousands)	Weighted-average exercise price (HUF)
Outstanding at beginning of year	3,965	944	0	—
Granted	0	—	3,965	944
Exercised	0	—	0	—
Forfeited	310	944	0	—
Outstanding at end of year	3,655	944	3,965	944
Exercisable at end of year	1	944	0	0

(28) Accruals for Pensions and Similar Obligations

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

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

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

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

The following table shows the composition of pension obligations:

	As of December 31,	
	2003	2002
	(millions of €)	
Pension obligations:		
— Direct	3,163	2,927
— Indirect	1,286	1,007
Obligations in accordance with Article 131 GG	7	8
	4,456	3,942

The obligation amounts shown contain an "additional minimum liability" for individual pension plans. An additional minimum liability is a step-up amount for pension obligations relating to certain pension plans; these changes are recognized in income under German GAAP, but directly in equity under U.S. GAAP. Excluding the additional minimum liability, the accrual for pensions amounts to EUR 3,553 million (2002: EUR 3,465 million).

	As of December 31,	
	2003	2002
	(millions of €)	
Actuarial present value of benefits:		
Vested benefit obligation	4,455	3,978
Nonvested benefit obligation	486	409
Accumulated benefit obligation	4,941	4,387
Effect of projected future salary increases	91	85
Projected benefit obligation	5,032	4,472
Plan assets at fair value	(489)	(412)
Projected benefit obligations in excess of plan assets	4,543	4,060
Unrecognized net losses	(990)	(595)
Unfunded accrued pension cost	3,553	3,465
Additional minimum liability	903	477
Total obligation	4,456	3,942

Calculation of Pension Accruals

	As of December 31,	
	2003	2002
	(millions of €)	
Unfunded accrued pension cost	3,555	3,467
Prepaid pension cost	(2)	(2)
Accrual for pensions	3,553	3,465

Taking into consideration the assets transferred to other entities, the pension obligations were fully disclosed.

The carrying amount of the corresponding pension accruals measured in accordance with § 6a EStG are EUR 3,674 million (2002: EUR 3,474 million).

The amount of pension obligations was determined using actuarial principles that are consistent with U.S. GAAP (SFAS No. 87), and using the assumptions at the respective balance sheet dates as shown in the following table:

Assumptions for the Measurement of Benefit Obligations

	As of December 31,		
	2003	2002	2001
Discount rate	5.25%	5.75%	6.00%
Projected salary increase	2.75%-3.50%	2.75%-3.50%	2.75%-3.50%
Projected pension increase	1.50%	1.50%	1.50%

Assumptions for Determining the Net Periodic Pension Cost

	For the year ended December 31,		
	2003	2002	2001
Discount rate	5.75%	6.00%	6.25%
Projected salary increase	2.75%-3.50%	2.75%-3.50%	2.75%-3.50%
Expected return on assets	6.00%	6.00%	6.00%-6.50%
Projected pension increase	1.50%	1.50%	1.50%

Development of the Projected Benefit Obligation

	2003	2002
	(millions of €)	

Projected benefit obligation, beginning of year	4,472	4,164
Service cost	140	155
Interest cost	251	241
Change in obligations	24	(59)
Actuarial losses	395	201
Total benefits actually paid	(250)	(230)
Projected benefit obligation, end of year	5,032	4,472

Development of Plan Assets at Fair Value

	2003	2002
	(millions of €)	
Plan assets at fair value, beginning of year	412	405
Actual return on plan assets	14	(20)
Contributions by employer	87	79
Benefits actually paid through pension funds	(58)	(52)
Change in obligations	34	0
Plan assets at fair value, end of year	489	412

Information on Pension Plans with Accumulated Benefit Obligation Exceeding Assets:

	As of December 31,	
	2003	2002
	(millions of €)	
Projected benefit obligation	1,813	1,533
Accumulated benefit obligation	1,754	1,474
Transferred assets	489	412

Breakdown of Plan Assets:

	As of December 31,	
	2003	2002
Equity securities	18%	20%
Debt securities	43%	47%
Other	39%	33%

Investment Strategy

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

Net Periodic Pension Cost

	For the year ended December 31,		
	2003	2002	2001
	(millions of €)		
Service cost	140	155	144
Interest cost	251	241	228
Expected return on plan assets	(27)	(24)	(24)
Amortization of gains and losses	13	7	0
Net periodic pension cost	377	379	348

Expected Amounts for Subsequent Years

Expected contributions by employer in 2004	EUR 87 million

Civil Servant Retirement Arrangements

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

In accordance with the provisions of the Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz - PTNeuOG), BPS-PT makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil servant status. The level of Deutsche Telekom AG's payment obligations to its special pension fund is defined under § 16 of the law concerning the Legal Provisions for the former Deutsche Bundespost Staff (PostPersRG). Since 2000, Deutsche Telekom AG has been legally obliged to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross remuneration of active civil servants and the notional pensionable gross remuneration of civil servants on leave of absence. The funding of this contribution is recognized as a period expense. These contributions amounted to EUR 809 million in the year ended December 31, 2003 (2002: EUR 838 million; 2001: EUR 845 million) (see note (34) Guarantees and Commitments, and Other Financial Obligations).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(29) Other Accruals

	As of December 31,	
	2003	2002
	(millions of €)	
Taxes	1,762	2,086
Provisions for deferred taxes	919	1,646
Accruals other than taxes		
Employee benefits		
Civil Service Health Insurance Fund	1,358	1,101
Personnel restructuring	566	558
Other obligations	1,231	1,080
	3,155	2,739
Outstanding invoices	1,849	2,540
Unused telephone units	524	500
Investment risks	399	126
Advertising cost subsidies / commissions	300	351
Restoration commitments	265	303
Loss contingencies	243	426
Refunds to be granted	230	168
Risks related to real estate	220	227
Litigation risks	209	164
Deferred maintenance	67	55
Other accruals	1,105	824
	8,566	8,423
	11,247	12,155

The Civil Service Health Insurance Fund (PBeaKK) provides services for its members mainly in cases of illness, birth, or death and calculates the allowances. When Postreform II came into effect, the PBeaKK was closed to new members. Due to the aging of the group of people insured, there is an expected shortfall between the fund's sources of regular income and benefits paid. The present value of this future deficit has been determined on the basis of actuarial principles, based on the new "1998 life expectancy tables" by Prof. Dr. Klaus Heubeck ("Richttafeln 1998"), which primarily reflect the increase in average life expectancy. Deutsche Telekom is required to cover part of this deficit, and has recognized an accrual for its share. The expense for the addition to this accrual was EUR 271 million in the year ended December 31, 2003 (2002: EUR 44 million; 2001: EUR 70 million), in particular as a result of the decrease in the discount rate.

Deutsche Telekom had, in response to competition, announced its intention to reduce its workforce by approximately 60,000 to 170,000 full-time equivalent employees by the end of the year 2000 (excluding employees of subsidiaries first consolidated after January 1, 1995) through natural attrition, early retirement, and other programs. The planned reductions included an estimated 38,300 non-civil servants expected to leave under voluntary separation agreements.

The personnel restructuring program has now been completed. There are, however, still contracts originating from this time which have to be fulfilled. In particular collective agreements are still used for bridging allowances and old-age part-time work and lead to the establishment of new accruals when a fixed contract is finalized.

Non-civil servants accepted severance offers in the current year.

The personnel restructuring accruals, other human resources obligations, and other accruals include accruals of EUR 662 million for restructuring measures, which developed as follows in the 2003 financial year:

Type of restructuring activities

	Accruals as of January 1, 2003	Additions to accruals	Usage of accruals	Accruals as of December 31, 2003
		(millions of €)		
Personnel restructuring accruals	558	192	184	566
Contracts terminated prematurely	62	49	30	81
Other	16	13	14	15
	636	254	228	662

Personnel restructuring accruals mainly relate to Deutsche Telekom AG (EUR 390 million) and T-Systems CDS (EUR 24 million). Restructuring accruals for premature termination of contracts consist primarily of accruals at T-Systems CDS of EUR 68 million.

The decrease in accruals for loss contingencies in 2003 is primarily due to the reduction of prior year accruals for debt premiums at T-Mobile USA amounting to EUR 150 million. These accruals were the result of the difference between the repayment amount and the higher fair value of bonds. The repurchase of the bonds issued reduced the accrual to EUR 1 million in 2003.

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

The increase in accruals for investment risks relates primarily to our investment in Toll Collect.

(30) Liabilities

	As of December 31, 2003	As of December 31, 2002
	of which due	of which due

	Total	within one year	in one to five years	after 5 years	Total	within one year	in one to five years	after 5 years
		(millions of €)				(millions of €)		
Debt								
Bonds and debentures	51,613	12,295	22,336	16,982	56,752	8,535	29,243	18,974
Liabilities to banks	3,798	806	1,928	1,064	6,292	1,341	3,534	1,417
	55,411	13,101	24,264	18,046	63,044	9,876	32,777	20,391
Other liabilities								
Advances received	402	402	—	—	414	228	186	—
Trade accounts payable	4,175	4,143	32		3,833	3,807	26	—
Liabilities on bills accepted and drawn	4	4	—	—	0	—	—	—
Payables to unconsolidated subsidiaries	198	198	—	—	158	157	1	—
Payables to associated and related companies	213	213	—	—	147	147		
Other liabilities	5,459	4,264	179	1,016	5,989	4,436	448	1,105
of which: from taxes	(1,091)	(1,091)	—	—	(1,159)	(1,159)	—	—
of which: from social security	(100)	(100)	—	—	(153)	(153)	—	—
	10,451	9,224	211	1,016	10,541	8,775	661	1,105
Total liabilities	65,862	22,325	24,475	19,062	73,585	18,651	33,438	21,496

The main items under bonds and debentures relate to old bonds issued by Deutsche Bundespost amounting to EUR 9.2 billion, and bonds issued by Deutsche Telekom International Finance B.V., Amsterdam, between 2000 and 2003 with the following terms:

Structure of the 2000 global bond:

Tranche	Nominal amounts (in currency)	Nominal amounts (€)	Nominal interest rate	Maturity
EUR	2,250,000,000	2,250,000,000	6.625%	2005
EUR	750,000,000	750,000,000	7.125%	2010
GBP	625,000,000	885,394,532	7.625%	2005
GBP	300,000,000	424,989,375	7.625%	2030
USD	3,000,000,000	2,380,196,792	8.250%	2005
USD	3,000,000,000	2,380,196,792	8.500%	2010
USD	3,500,000,000	2,776,896,223	8.750%	2030

JPY	90,000,000,000	667,953,888	2.000%	2005

Structure of the 2001 eurobond:

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

After downgrading by Moody's from A3 to Baa1 in March 2002, and by Standard & Poor's from A- to BBB+ in April 2002, the coupons of the 2000 global bond and the 2001 eurobond increased by 0.5 percent. The change in the interest rate has already been included in the tables. If Deutsche Telekom is upgraded to at least an A- level by both agencies, the coupons will be reduced again by 0.5 percent.

Structure of the 2002 global bond:

Tranche	Nominal amounts (in currency)	Nominal amounts (€)	Nominal interest rate	Maturity
EUR	2,000,000,000	2,000,000,000	8.125%	2012
EUR	2,500,000,000	2,500,000,000	7.500%	2007
USD	500,000,000	396,699,460	9.250%	2032

The coupons of the 2002 global bond will increase by 0.5 percent if Deutsche Telekom is downgraded by Standard & Poor's and Moody's to below Baa1 / BBB+ respectively.

Structure of the 2003 USD bond

Tranche	Nominal amounts (in currency)	Nominal amounts (€)	Nominal interest rate	Maturity