IRONWOOD PHARMACEUTICALS INC
Form 8-A12B/A
January 03, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-A/A

For Registration of Certain Classes of Securities

Pursuant to Section 12(b) or (g) of the

Securities Exchange Act of 1934

IRONWOOD PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-3404176**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

301 Binney Street **Cambridge, Massachusetts**	**02142**
(Address of principal executive offices)	(Zip Code)

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

Title of each class to be so registered	Name of each exchange on which each class is to be registered
Class A Common Stock, $0.001 par value per share	**The NASDAQ Stock Market LLC**

If this form relates to the registration of a class of securities pursuant to Section 12(b) of the Exchange Act and is effective pursuant to General Instruction A.(c) or (e), check the following box. x

If this form relates to the registration of a class of securities pursuant to Section 12(g) of the Exchange Act and is effective pursuant to General Instruction A.(d) or (e), check the following box. o

If this form relates to the registration of a class of securities concurrently with a Regulation A offering, check the following box. o

Securities Act registration statement or Regulation A offering statement file number to which this form relates (if applicable): **333-163275**

Securities to be registered pursuant to Section 12(g) of the Act: **None**

Explanatory Note

On February 1, 2010, Ironwood Pharmaceuticals, Inc. (the Company, we, us and our) filed a registration statement Form 8-A (the Initial Form 8-A) with the Securities and Exchange Commission in connection with our initial public offering and the listing of our Class A Common Stock, par value $0.001 per share (Class A Common Stock), on the NASDAQ Global Market.

On December 31, 2018, all outstanding shares of our Class B Common Stock, par value $0.001 per share (Class B Common Stock), automatically converted into the same number of shares of Class A Common Stock (the Conversion) pursuant to the terms of the Eleventh Amended and Restated Certificate of Incorporation of Ironwood Pharmaceuticals, Inc. No additional shares of Class B Common Stock will be issued following the Conversion.

The Conversion occurred pursuant to Article IV, Section B(7)(c) of our certificate of incorporation, which provided that, among other triggers, each share of Class B Common Stock would convert automatically, without any further action, into one share of Class A Common Stock, upon the later of (1) the first date on which the number of shares of Class B Common Stock outstanding is less than 19,561,556 or (2) December 31, 2018.

As required by Section 243 of the Delaware General Corporation Law (Section 243), we filed a certificate with the Secretary of State of the State of Delaware reciting that all shares of Class B Common Stock had been retired and may not be reissued (the Certificate of Retirement). Pursuant to Section 243, the Certificate of Retirement also had the effect of eliminating from our certificate of incorporation all reference to Class B Common Stock.

Prior to the Conversion, the shares of Class A Common Stock and Class B Common Stock generally had the same rights and privileges and ranked equally, shared ratably in dividends and distributions and were identical in all respects, except that each holder of shares of Class A Common Stock was entitled to one vote per share on all matters subject to a stockholder vote and each holder of shares of Class B Common Stock was entitled to ten votes per share on certain matters subject to a stockholder vote, including a merger involving the Company, a sale of substantially all of the Company s assets and a dissolution or liquidation of the Company, and one vote per share on all other matters subject to a stockholder vote. The shares of Class A Common Stock have the same voting powers, preferences, rights and qualifications, limitations and restrictions as the shares of Class A Common Stock had prior to the Conversion, except to the extent that they have increased voting power due to the elimination of the Class B Common Stock.

This Amendment No. 1 to Form 8-A amends and restates the Initial Form 8-A to reflect the elimination of the dual class structure.

Item 1. Description of Registrant s Securities to be Registered.

General

The following is a summary of the material rights of our capital stock and related provisions of our eleventh amended and restated certificate of incorporation, or certificate of incorporation, as modified by the certificate of retirement with respect to our Class B common stock, and fifth amended and restated bylaws, or bylaws. The following description of our capital stock does not purport to be complete and is subject to, and qualified in its entirety by, our certificate of incorporation, certificate of retirement and bylaws, all of which are included or incorporated by reference as exhibits to this Form 8-A/A.

Our certificate of incorporation provides that we have one series of common stock, Class A common stock. Our authorized capital stock consists of 675,000,000 shares, each with a par value of $0.001 per share, of which 600,000,000 shares are designated common stock, including 500,000,000 shares of Class A common stock and 100,000,000 shares that not designated to a series, and 75,000,000 shares of preferred stock. The rights, preferences and privileges of the preferred stock may be designated from time to time by our board of directors.

As of December 31, 2018, we had 154,414,691 shares of common stock issued and outstanding.

Common Stock

Voting Rights

Each share of common stock has one vote per share on all matters submitted to a vote of stockholders.

We have not provided for cumulative voting for the election of directors in our certificate of incorporation. Because our certificate of incorporation does provide for plurality voting for the election of directors, a director may be elected even if less than a majority of the votes cast are in favor of such election.

Dividends

Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of common stock will be entitled to share equally in any dividends that our board of directors may determine to issue from time to time. In the event a dividend is paid in the form of shares of common stock or rights to acquire shares of common stock, the holders of common stock will receive common stock, or rights to acquire common stock, as the case may be.

We have never declared or paid any cash dividends on our capital stock, and we do not currently anticipate declaring or paying cash dividends on our capital stock in the foreseeable future. We currently intend to retain all of our future earnings, if any, to finance operations. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and covenants and other factors that our board of directors may deem relevant.

Liquidation Rights

Upon our liquidation, dissolution or winding-up, the holders of common stock will be entitled to share equally all assets remaining after the payment of any liabilities and the liquidation preferences on any outstanding preferred stock.

Conversion

Our common stock is not convertible into any other shares of our capital stock.

Transfer Agent and Registrar

The Transfer Agent and Registrar for our common stock is currently Computershare Trust Company, N.A. Its address is 250 Royall Street, Canton, MA 02021.

Listing

Our common stock is listed on The NASDAQ Global Select Market under the symbol IRWD.

Preferred Stock

As of December 31, 2018, no shares of our preferred stock were outstanding. Our board of directors has the authority, without approval by the stockholders, to issue up to a total of 75,000,000 shares of preferred stock, par value $0.001 per share, all of which is undesignated, in one or more series.

Our board of directors may establish the number of shares to be included in each such series and may fix the designations, preferences, powers and other rights of the shares of a series of preferred stock. Our board could authorize the issuance of preferred stock with voting or conversion rights that could dilute the voting power or rights of the holders of common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of the Company and might harm the market price of our common stock. Our board of directors will make the determination to issue such shares based on its judgment as to our best interests and the best interests of our stockholders.

Anti-Takeover Effects of our Certificate of Incorporation and Bylaws and Delaware Law

Certain provisions of Delaware law, our certificate of incorporation and our bylaws could have the effect of delaying, deferring or discouraging another party from acquiring control of us. These provisions, which are summarized below, encourage persons seeking to acquire control of us to first negotiate with our board of directors and the holders of our capital stock.

Undesignated Preferred Stock

The ability to authorize undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us. These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management of our company.

Limits on Ability of Stockholders to Act by Written Consent

We have provided in our certificate of incorporation that our stockholders may not act by written consent. In addition, our certificate of incorporation also requires that special meetings of stockholders be called only by our board of directors, our chairman, our chief executive officer or our president if there is no chief executive officer. This limit on the ability of our stockholders to act by written consent or to call a special meeting may lengthen the amount of time required to take stockholder actions. As a result, a holder controlling a majority of our capital stock would not be able to amend our bylaws or remove directors without holding a stockholders meeting.

Requirements for Advance Notification of Stockholder Nominations and Proposals

Our bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board of directors. The bylaws do not give the board of directors the power to approve or disapprove stockholder nominations of candidates or proposals regarding business to be conducted at a special or annual meeting of the stockholders. However, our bylaws may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed. These provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer s own slate of directors or otherwise attempting to obtain control of our company.

Staggered Board of Directors

Nine individuals currently serve on our board of directors, which is divided into three classes. At each annual meeting of stockholders, a class of directors is to be elected for a three-year term to succeed the directors of the same class whose terms are then expiring. As a result, a portion of our board of directors will be elected each year. Our certificate of incorporation authorizes our board of directors to fix the number of directors from time to time by a resolution of the majority of our board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class shall consist of one-third of the directors. The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change in control. Between stockholder meetings, directors may be removed by our stockholders only for cause, and the board of directors may appoint new directors to fill the vacancies. These provisions may prevent a stockholder from removing incumbent directors and simultaneously gaining control of the board of directors by filling the resulting vacancies with its own nominees. Consequently, the existence of these provisions may have the effect of deterring hostile takeovers, which could depress the market price of our common stock.

Delaware Anti-Takeover Statute

We are subject to Section 203 of the Delaware General Corporation Law. This statute regulating corporate takeovers prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for three years following the date that the stockholder became an interested stockholder, unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- upon completion of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers, and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- on or subsequent to the date of the transaction, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 662/3% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is any person who, together with such person s affiliates and associates (i) owns 15% or more of a corporation s voting securities or (ii) is an affiliate or associate of a corporation and was the owner of 15% or more of the corporation s voting securities at any time within the three year period immediately preceding a business combination of the corporation governed by Section 203. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our board of directors does not approve in advance. We also anticipate that Section 203 may discourage takeover attempts that might result in a premium over the market price for the shares of common stock held by our stockholders.

Item 2. Exhibits.

Exhibit No.	**Description**
3.1	Eleventh Amended and Restated Certificate of Incorporation. Incorporated by reference to Exhibit 3.1 of our Annual Report on Form 10-K (File No. 001-34620), filed on March 30, 2010.
3.2	Certificate of Retirement.
3.3	Fifth Amended and Restated Bylaws. Incorporated by reference to Exhibit 3.2 of our Annual Report on Form 10-K (File No. 001-34620), filed on March 30, 2010.
4.1	Specimen Class A Common Stock certificate. Incorporated by reference to Exhibit 4.1 of our Registration Statement on Form S-1, as amended (File No. 333-163275), filed on January 20, 2010.
4.2	Indenture, dated as of June 15, 2015, by and between Ironwood Pharmaceuticals, Inc. and U. S. Bank National Association (including the form of the 2.25% Convertible Senior Note due 2022). Incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K (File No. 001-34620), filed on June 15, 2015.
4.3	Indenture, dated as of September 23, 2016, by and between Ironwood Pharmaceuticals, Inc. and U.S. Bank National Association (including the form of the 8.375% Notes due 2026). Incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K (File No. 001-34620), filed on September 26, 2016.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: January 3, 2019	IRONWOOD PHARMACEUTICALS, INC.	
	By:	/s/ Gina Consylman
		Gina Consylman
		Senior Vice President, Chief Financial Officer

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Cash outflows from investments in			
intangible assets	(841)	(1,021)	(15,980)
property, plant and equipment	(6,784)	(9,847)	(7,556)
financial assets	(568)	(498)	(8,487)
consolidated companies	(6,405)	(5,695)	(4,343)
Cash inflows from disposition of			
intangible assets	14	208	10
property, plant and equipment	1,304	1,146	655
financial assets	1,130	3,514	4,474
shareholdings in consolidated companies and business units	697	1,004	3,114
Net change in short-term investments and marketable securities	226	4,440	401
Other	1,187	1,384	6
Net cash used for investing activities	**(10,040)**	**(5,365)**	**(27,706)**

Net repayment of short-term debt	(10,012)	(10,266)	(780)
Issuance of medium and long-term debt	11,677	13,949	19,708
Repayments of medium and long-term debt	(3,472)	(6,589)	(2,408)
Dividends paid	(1,582)	(1,905)	(1,914)
Proceeds from share offering	1	3,255	
Change in minority interests	(47)	2	
Net cash provided by (used for) financing activities	**(3,435)**	**(4,811)**	**17,863**
Effect of foreign currency exchange rate changes on cash and cash equivalents	(14)	(26)	(29)
Net increase (decrease) in cash and cash equivalents	**(1,026)**	**1,732**	**128**
Cash and cash equivalents, at beginning of year	**2,738**	**1,006**	**878**
Cash and cash equivalents, at end of year			

1,712	**2,738**	**1,006**

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

** 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.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

millions of	Capital stock nominal value	Additional paid-in capital	Consolidated shareholders equity generated: Retained earnings	Consolidated shareholders equity generated: 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: Minority interest capital	Minority interest: Cumulative translation adjustment account	Minority interest: Total in acc. with cons. bal. Sheet	Consol. shareholders equity(1)
Balance at Jan. 1, 2000	**7,756**	**24,121**	**1,842**	**13**	**1,253**	**(284)**	**34,701**	**(14)**	**34,687**	**1,545**	**(557)**	**988**	**35,675**
Changes in the composition of the Group			(31)				(31)		(31)	3,058		3,058	3,027
Dividends for 1999			(621)		(1,253)		(1,874)		(1,874)	(25)		(25)	(1,899)
Unappropriated net income carried forward from previous year			(31)	31									
Increase in nominal value of capital stock		169					169		169				169
Reduction of treasury stock								7	7				7
Income after taxes					5,926		5,926		5,926	89		89	6,015
Difference from currency translation						(477)	(477)		(477)		192	192	(285)
Balance at Dec. 31, 2000	**7,756**	**24,290**	**1,159**	**44**	**5,926**	**(761)**	**38,414**	**(7)**	**38,407**	**4,667**	**(365)**	**4,302**	**42,709**
Changes in the composition of the Group										808		808	808
Dividends for 2000				(1,877)			(1,877)		(1,877)	(33)		(33)	(1,910)
Unappropriated net income carried forward			3,992	1,934	(5,926)								
Stock issued for the acquisition of VoiceStream/Powertel	2,990	25,704					28,694		28,694				28,694
Loss after taxes					(3,454)		(3,454)		(3,454)	142		142	(3,312)
Difference from currency translation			28			(811)	(783)		(783)		88	88	(695)
Balance at Dec. 31, 2001	**10,746**	**49,994**	**5,179**	**101**	**(3,454)**	**(1,572)**	**60,994**	**(7)**	**60,987**	**5,584**	**(277)**	**5,307**	**66,294**
Changes in the composition of the Group										(1,586)		(1,586)	(1,586)
Dividends for 2001				(1,539)			(1,539)		(1,539)	(43)		(43)	(1,582)
Unapproriated net income carried forward			(4,915)	1,461	3,454								
Stock issued on exercise of stock options, warrants and exchange rights		83					83		83				83

Loss after taxes					(24,587)		(24,587)		(24,587)	284		284	(24,303)
Difference from currency translation			(16)			(3,507)	(3,523)		(3,523)		26	26	(3,497)
Balance at Dec. 31, 2002	**10,746**	**50,077**	**248**	**23**	**(24,587)**	**(5,079)**	**31,428**	**(7)**	**31,421**	**4,239**	**(251)**	**3,988**	**35,409**

(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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies

Description of Business and Relationship with the Federal Republic of Germany

The business of the Deutsche Telekom Group (hereafter referred to as Deutsche Telekom, the Company or the Group) is structured in four divisions: T-Com, T-Systems, T-Mobile and T-Online.

T-Com is one of the largest fixed-network operators in Europe, operating approximately 57.5 million lines including ISDN channels. In Germany, T-Com serves residential customers and small and medium-sized business customers with over 51 million lines including ISDN channels and a broad range of products and services. As a full-service provider, T-Com offers integrated solutions consisting of information technology and telecommunications to approximately 440,000 small and medium-sized companies in Germany. T-Com is present in the markets within Central and Eastern Europe through its shareholdings in MATAV (Hungary), Hrvatske telekommunikacije (Croatia) and Slovenske Telekommunikacie (Slovakia).

T-Systems serves Deutsche Telekom s key account customers both domestically (within Germany) and internationally with comprehensive information technology and telecommunications services and e-business solutions.

Deutsche Telekom bundles its main mobile communications activities in the division T-Mobile. The mobile communications holding company is focused on the growth markets in Europe and the USA. In total, T-Mobile is represented in eight countries around the world with subsidiaries and affiliated companies. The network operators T-Mobile Deutschland GmbH (Germany), T-Mobile Austria GmbH (Austria, hereafter referred to as T-Mobile Austria), T-Mobile UK Ltd. (United Kingdom, hereafter referred to as T-Mobile UK), T-Mobile USA, Inc. (USA, formerly VoiceStream Wireless Corporation, Bellevue, USA, hereafter referred to as T-Mobile USA), Powertel, Inc. (USA, hereafter referred to as Powertel) and Ben Nederland Holding B.V. (hereafter referred to as Ben) are wholly-owned subsidiaries of T-Mobile International AG. The holding company holds a majority investment in the mobile communications provider RadioMobil a.s. (Czech Republic). The company also has minority shareholdings in Russia (MTS) and Poland (PTC).

T-Online is one of the largest European Internet service providers, with more than 12.2 million customers. In line with T-Online s strategy, its foreign subsidiaries T-Online.at (Austria), Ya.com (Spain), T-Online France (France), and T-Online.ch (Switzerland) used the broadband market in 2002 to support their subscriber growth and to extend the reach of their portals. Deutsche Telekom also includes the publishing business of DeTeMedien in the T-Online division.

Other includes all Group units which cannot be allocated to an individual segment. These include the Deutsche Telekom Group headquarters as well as the subsidiaries and shared services assigned to it, such as real estate, billing services, fleet management and the newly established Personnel Service Agency (PSA), as well as various competence centers and other subsidiaries, associated and related companies of the Group.

The Company, Deutsche Telekom AG, was registered 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, 2002 amounted to 42.77%. The direct shareholding amounted to 30.75% (1,290,835,401 shares); a further 12.02% (504,590,664 shares) are held by a federal corporation, the Kreditanstalt fuer Wiederaufbau (KfW). The Federal Republic administers its shareholding and exercises its rights as a shareholder through a public law entity, the Bundesanstalt fuer 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, supervises the telecommunications sector in Germany, and in this capacity regulates the business activities of Deutsche Telekom.

The Federal Republic of Germany is one of Deutsche Telekom s customers; it sources services from the Company at market conditions. 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. Services provided to any one department or agency of the Federal Republic do not represent a significant component of Deutsche Telekom s net revenues.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Principles

The annual consolidated financial statements and the 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 below, and German Stock Corporation Law (Aktiengesetz AktG). In general, Deutsche Telekom applies the relevant German Accounting Standards (DRS). However, the Company did not apply the valuation method for capital consolidation as required by DRS 4; Deutsche Telekom decided not to apply this standard in order to avoid valuation differences between German GAAP and U.S. GAAP.

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 consolidated financial statements differ from financial statements prepared in accordance with U.S. GAAP. Differences in accounting and valuation principles applied in Deutsche Telekom s financial statements and those of U.S. GAAP are shown in a reconciliation in note (40) et. seq. to the consolidated financial statements.

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.

The consolidated balance sheets and the consolidated statements of operations are prepared in accordance with the classification requirements of § 298 HGB, in combination with § 266 and § 275 HGB. The statements of operations are prepared using the total cost method. All amounts shown are in millions of euros (/EUR). Certain items have been combined in order to make the financial statements more informative and understandable. These items are shown separately in the notes. In the case of changes in presentation, prior-year amounts are reclassified to conform with the current-year presentation. In accordance with § 297 (1) sentence 2 HGB, the consolidated accounts also include a consolidated statements of cash flows and a segment report; in addition, the consolidated accounts also include a consolidated statements of shareholders equity. In conformity with international practice, reporting begins with the income statement, and the statements of cash flows and the statements of shareholders equity precede the notes to the consolidated financial statements.

The consolidated financial statements are prepared in accordance with uniform accounting policies. The accounting policies used in the consolidated financial statements differ from those used in the unconsolidated financial statements of the parent company. 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 (excluding sale and lease back transactions) are capitalized. Scheduled depreciation is recorded over the shorter of the estimated 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 incurred while items included in property, plant and equipment are under construction has been capitalized as part of the assets costs.

- Accruals for the internal costs of preparing the annual financial statements are not recorded.

- Investment grants received are recorded as reductions of the acquisition costs of assets.

Consolidated Group

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 has majority voting rights or management control.

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

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

The changes in the composition of the Deutsche Telekom Group in 2002 are presented in the following table:

	Domestic	International	Total
Consolidated subsidiaries			
January 1, 2002	104	253	357
Additions	7	17	24
Disposals	(13)	(14)	(27)
Reclassifications	3	4	7
December 31, 2002	101	260	361
Associated companies included at equity			
January 1, 2002	21	29	50
Additions	6	5	11
Disposals	(4)	(2)	(6)
Reclassifications	(1)	(5)	(6)
December 31, 2002	22	27	49
Other unconsolidated subsidiaries and other investments in related companies (greater than 5%)			
January 1, 2002	91	48	139
Additions	9	15	24
Disposals	(9)	(16)	(25)
Reclassifications	(2)	1	(1)
December 31, 2002	89	48	137
Total			
January 1, 2002	216	330	546
Additions	22	37	59
Disposals	(26)	(32)	(58)
Reclassifications	0	0	0
December 31, 2002	212	335	547

The consolidated financial statements include the individual company financial statements of the parent company, Deutsche Telekom AG, as well as 101 (Dec. 31, 2001: 104) domestic and 260 (Dec, 31, 2001: 253) foreign subsidiaries in which Deutsche Telekom AG has a direct or indirect controlling interest.

The most significant subsidiary consolidated for the first time during 2002 is Ben.

The changes in the company s composition of the Deutsche Telekom Group had the following effects on the consolidated financial statements in 2002:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Effects on the Company s consolidated statement of operations due to acquisitions in 2001 and 2002 were as follows (millions of):

Revenue	3,296
Goods and services purchased	(902)
Personnel costs	(606)
Depreciation and amortization	(2,695)
Other income (expenses)	(1,616)
Net loss	**(2,523)**

Effects on the Company s consolidated balance sheet due to acquisitions in 2002 were as follows (millions of):

Assets	
Noncurrent assets	1,302
Current assets, prepaid expenses, deferred charges and deferred taxation	(97)
	1,205
Shareholders equity and liabilities	
Shareholders equity	(1,002)
Accruals	158
Liabilities and deferred income	2,049
	1,205

Main acquisitions:

2002:

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

On September 25, 2002, T-Mobile International AG acquired the remaining 50.0001% of the shares in the mobile communications company Ben from its other shareholders Belgacom, TDC and Gringots (Credit Suisse First Boston) for a purchase price of EUR 1.7 billion and assumption of outstanding shareholder loans of approximately EUR 0.3 billion. Ben provides mobile communications services in the Netherlands. Approximately EUR 1.0 billion of the EUR 1.7 billion of goodwill generated by this transaction was written down as a result of the Company s strategic review. The remaining amount will be amortized over a period of 12 years. The company was fully consolidated as a subsidiary for the first time on September 30, 2002. The effects on the Company s consolidated balance sheet at that date were as follows (in millions of):

Assets	
Noncurrent assets	1,971

Current assets, prepaid expenses, deferred charges and deferred taxation	99
	2,070
Shareholders equity and liabilities	
Shareholders equity	1,706
Accruals	16
Liabilities and deferred income	348
	2,070

2001:

On January 15, 2001, Deutsche Telekom acquired 51% of the shares in the Macedonian telecommunications company Makedonski Telekommunikacii A.D., Skopje (referred to as MakTel below) via a subsidiary of MATAV. The acquisition costs amounted to EUR 301.5 million. Maktel was included in the subgroup financial statements of MATAV for the first time in the first quarter of 2001. The goodwill generated, EUR 180.3 million, is being amortized over a period of 20 years.

In April 2001 Deutsche Telekom increased its shareholding in the Czech mobile communications company RadioMobil a.s., Prague (herein referred to as RadioMobil) via Cmobil B.V., Amsterdam, a subsidiary of T-Mobile International AG, Bonn (herein referred to as T-Mobile International). The acquisition

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

costs for this additional 11.77% stake amounted to EUR 598 million. Cmobil s shareholding thus increased to 60.77%. The additional goodwill generated, EUR 444 million, will be amortized over a period of 12 years. RadioMobil was consolidated in full for the first time on April 1, 2001.

On May 31, 2001, Deutsche Telekom acquired 100% of the shares in T-Mobile USA and Powertel for a total purchase price of EUR 39.4 billion including a cash component of EUR 4.9 billion and an initial preferred stock investment in T-Mobile USA amounting to EUR 5.6 billion, which Deutsche Telekom had acquired in September 2000. T-Mobile USA provides communications services 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 US$ 15.7262 in cash, 3.6683 Deutsche Telekom shares and US$ 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 consolidated in full for the first time on May 31, 2001. The consolidation of T-Mobile USA and Powertel generated goodwill totaling EUR 23.6 billion. This 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 connection with the acquisition of T-Mobile USA and Powertel, Deutsche Telekom granted rights to purchase a total of 43,619,261 individual no par value Deutsche Telekom shares in exchange for outstanding options for shares in T-Mobile USA and Powertel (exchange rights of Cook Inlet and Eliska Wireless).

On October 25, 2001, Deutsche Telekom AG acquired an additional 16% stake in the capital of 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 full 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 loss under German GAAP (billions of)		
Reported	(24.6)	(3.5)
Pro forma	(24.9)	(6.9)
Loss per share under German GAAP ( )		
Reported	(5.86)	(0.93)
Pro forma	(5.93)	(1.85)

At December 31, 2002 and 2001, 77 and 83 subsidiaries, respectively, were not consolidated because they were not material to the net worth, financial position and results of the Deutsche Telekom Group. These subsidiaries accounted for less than 1% of consolidated revenue, results of operations and total assets of the Deutsche Telekom Group.

At December 31, 2002, in accordance with § 311 (1) HGB, 49 (Dec. 31, 2001: 50) companies over which Deutsche Telekom exercises significant influence have been classified as associated companies and are accounted for using the equity method. The remaining 35 (Dec. 31, 2001: 56) 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 at acquisition cost less applicable write-downs.

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

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Principal Subsidiaries and Associated Companies

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

Name and registered office	Deutsche Telekom share Dec. 31, 2002	Shareholders equity Dec. 31, 2002	Revenue 2002	Income after taxes 2002	Employees 2002 annual average
	(%)		(millions of)		
Subsidiaries					
T-Mobile Deutschland GmbH, Bonn(5)	100.00	1,447	7,801	3,564	9,226
T-Mobile Holdings Ltd., Borehamwood, United Kingdom(1)(5)	100.00	8,808	3,997	(3,425)	6,283
T-Mobile Austria GmbH, Vienna, Austria(1)(5)	100.00	389	1,034	23	2,675
T-Mobile USA, Inc., Bellevue, Washington, USA/ **Powertel** Inc., Bellevue, Washington, USA(1)(5)	100.00	11,697	6,137	(18,122)	17,290
RadioMobil a.s., Prague, Czech Republic(7)	60.77	389	705	88	2,542
Ben Nederland Holding B.V., Amsterdam(1)(5)	100.00	15	552	(594)	1,379
T-Online International AG, Darmstadt(1)	71.90	5,366	1,584	(465)	1,620
T-Systems International GmbH, Frankfurt a.M	100.00	1,244	3,828	(1,273)	10,938
T-Systems CSM GmbH, Darmstadt(6)	100.00	243	2,131	138	3,974
Detecon International GmbH, Bonn(6)	100.00	76	121	19	261
T-Systems SIRIS S.A.S., Paris, France(6)	100.00	46	237	(136)	333
GMG Generalmietgesellschaft mbH, Münster	100.00	151	2,862	(132)	7,126
DeTeImmobilien, Deutsche Telekom Immobilien und Service GmbH, Münster	100.00	17	771	(70)	5,644
T-Data Gesellschaft für Datenkommunikation mbH, Bonn(1)	100.00	502	565	39	1,110
Kabel Deutschland GmbH, Bonn(1)(10)	100.00	4,601	919	(334)	2,863
MATÁV, Magyar, Távközlési Rt., Budapest, Hungary(1)(4)	59.50	2,180	2,431	280	16,343
Slovenské Telekomunikácie, a.s., Bratislava, Slovakia(1)	51.00	1,131	441	81	9,804
HT-Hrvatske telekomunikacije d.d., Zagreb, Croatia(1)	51.00	1,765	1,001	249	10,773
Associated companies					
MTS, OJSC Mobile TeleSystems, Moscow, Russia(1)(2)(3)(9)	36.20	1,156	998	232	4,990
PTC, Polska Telefonia Cyfrowa Sp.z o.o, Warsaw, Poland(1)(2)(8)	49.00	285	1,183	116	3,399

(1) Consolidated subgroup financial statements
(2) 2001 financial year
(3) Indirect shareholding via T-Mobile Deutschland GmbH, Bonn (Deutsche Telekom share: 100%)
(4) Held via MagyarCom Holding GmbH, Bonn (Deutsche Telekom AG share: 100%)
(5) Indirect shareholding via T-Mobile International AG, Bonn (Deutsche Telekom share: 100%)
(6) Indirect shareholding via T-Systems International GmbH, Frankfurt a.M. (Deutsche Telekom share: 100%)

(7) Indirect shareholding via Cmobil B.V., Amsterdam (Deutsche Telekom indirect share: 92.14%)
(8) Indirect shareholding via T-Mobile Deutschland GmbH, Bonn; Mediaone International B.V., Eindhoven and Polpager Sp.z o.o., Warsaw (Deutsche Telekom AG indirect share: 100% each)
(9) Employees at balance sheet date at end of 2001
(10) Operating businesses sold during first quarter of 2003

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

value of net assets acquired is capitalized as goodwill and amortized over its estimated 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; furthermore, they include the effects of consolidation 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 income statement; 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, 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 valued at the corresponding hedge rate.

Currency translation of foreign subsidiaries is made in accordance with the functional currency method. Thus, 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 annual exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The exchange rates of certain significant currencies are as follows:

	Annual average rate			Spot rate	
	2002	**2001**	**2000**	**Dec. 31, 2002**	**Dec. 31, 2001**
		( )		( )	
100 Swiss Francs (CHF)	68.1599	66.2063	64.2701	68.7334	67.5494
100 Czech Koruna (CZK)	3.2485	2.9092	2.8011	3.1817	3.1309
1 Pound Sterling (GBP)	1.5910	1.6076	1.6423	1.5364	1.6418
100 Croatian Kuna (HRK)	13.4919	13.3685	13.0896	13.3734	13.6055
100 Hungarian Forints (HUF)	0.4117	0.3904	0.3850	0.4239	0.4079
100 Japanese Yen (JPY)	0.8478	0.9170	1.0050	0.8033	0.8644
100 Malaysian Ringgit (MYR)	27.9362	29.3934	28.5882	25.0772	29.8263
100 Philippine Pesos (PHP)	2.0845	2.1913	2.4585	1.7999	2.1973
100 Polish Zloty (PLN)	25.9930	27.2201	24.9595	24.9994	28.6050
1 Russian Ruble (RUB)	0.0338	0.0383	0.0386	0.0298	0.0372
100 Singapore Dollars (SGD)	59.2270	62.5594	62.9966	55.3403	61.2145
100 Slovak Koruna (SKK)	2.3428	2.3099	2.1282	2.4143	2.3377
1 U.S. Dollar (USD)	1.0616	1.1168	1.0863	0.9529	1.1334

Accounting and Valuation

Net revenues consist of goods and services sold in connection with the ordinary business activities of Deutsche Telekom. Net revenues are recorded net of 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 to 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 is recognized when the products are delivered and 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-Systems

Telecommunication Services

Telecommunication services include network services , carrier services , hosting and ASP services and broadcast services. Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of approximately three years. Revenues for voice, billed on a per minute basis, and data services, billed on a bandwidth basis, under such contracts are recognized when used by the customer. Carrier services revenue and Hosting and ASP Services revenues 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 recognized using the completed contract method. These projects are 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 similar to time and material service contracts. Revenue from maintenance is recognized over the contractual period or as the services are performed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In some of the Company s service 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 statements of operations.

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

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

T-Mobile

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

T-Online

T-Online revenues consist primarily of revenues from subscriber fees, charges for advertising and e-commerce, provider fees from content hosting, income from the provision of business homepage services for business clients and from cooperative arrangements with various content providers. 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. Transactions revenues are recognized upon notification from the customer that qualifying transactions have occurred and collection of the resulting receivable is reasonably assured.

Research and development costs are expensed in full as incurred and amounted to approximately EUR 0.9 billion, EUR 0.95 billion and EUR 0.7 billion for the years ended December 31, 2002, 2001 and 2000, respectively.

Pension costs for defined benefit plans are actuarially computed using the Projected Unit Credit Method, which is consistent with SFAS No. 87, and are shown in accordance with SFAS 132. This method presupposes the total present value of the benefit obligations accumulated during the reporting period and takes into consideration the expected increases in wages and salaries and in retirement benefits. By contrast, the minimum accrual method in accordance with § 6a of the German Income Tax Act (*Einkommensteuergesetz, EStG*) is aimed at the recognition of the expense over the employees entire working lives and does not take the expected increases in wages and salaries and retirement benefits into account (cf. (27) 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 assets to cover pension obligations. In accordance with U.S. GAAP, if the measurement of pension obligations under SFAS No. 87 results in the need to disclose an additional minimum liability, 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 position; changes in additional minimum liability are expensed.

Marketing expenses are expensed as incurred.

Income tax expense includes current income taxes payable as well as deferred taxes. Deferred income taxes are recorded for the expected future tax effects attributable to temporary differences in the balance

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

sheets prepared for tax reporting and for financial reporting purposes, except for the effects of those differences that are not expected to reverse in the foreseeable future or within expected net operating loss carryforward periods. Such differences may arise at the individual taxable entity level as well as in consolidation. Deferred taxes on temporary differences relating to Deutsche Telekom AG have not been included in the consolidated financial statements for periods prior to January 1, 1996, as Deutsche Telekom AG was not taxable prior to January 1, 1995, and benefited from an essentially complete exemption from tax in 1995.

Earnings per share for each period are calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during that period. The weighted average number of ordinary shares in 2002 and 2001 was ascertained after giving effect to the issuance of shares as part of the acquisition of T-Mobile USA/Powertel including those shares held in a trust for further issuance and the commencement of trading of the common shares and ADRs of the Company on June 4, 2001, in Frankfurt am Main.

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 estimated useful life.

Deutsche Telekom carries out impairment tests for subsidiaries for which a considerable level of goodwill is recorded. These tests are based on the calculation of the goodwill for 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, was recorded in the opening balance sheet of Deutsche Telekom AG at fair market values at that date. However, due to the short period of time that had elapsed since the measurement date for property, plant and equipment acquired since January 1, 1993, their carrying amount as at 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 costs.

Other property, plant and equipment is carried at acquisition or production cost, less scheduled depreciation. Construction costs include directly allocable costs, an appropriate allocation of material and production overhead and interest accruing during construction. General administration 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.

Depreciation of noncurrent assets is generally carried out using the straight-line method over the following estimated useful lives:

	Years
Intangible assets	3 to 22
Goodwill	3 to 20
Buildings	25 to 30
Shop improvements and window displays	8
Telephone facilities and terminal equipment	3 to 10
Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment and technical equipment for broadband distribution networks	4 to 10
Broadband distribution networks, outside plant networks and cable conduit lines	15 to 35
Telecommunications power facilities	3 to 10
Other equipment, plant and office equipment	3 to 20

Additions to real estate are depreciated beginning in the month the building is placed into service. For assets other than buildings acquired in the first half of a year, a full year of depreciation is provided in the year of acquisition and, for those assets acquired in the second half of the year, a half year of depreciation is provided.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Items with a low acquisition cost are expensed in the year of purchase.

Maintenance and repairs are expensed as incurred.

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

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. Nonscheduled 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 valued at acquisition cost, while **work in process and finished goods** are stated at production cost. Based on normal capacity utilization, construction cost includes directly allocable costs such as material and labor costs as well as special production costs plus an appropriate pro rata allocation of material and production overhead and straight-line depreciation. General administration and selling costs, social amenities expenses as well as voluntary benefits to personnel including pensions are not included in construction cost. 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. For a detailed breakdown of inventory components refer to note (15) below.

Receivables and other assets are shown at their nominal value. Known 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 remaining to maturity are discounted.

Marketable securities are stated 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 shown in the balance sheet at the date the options are exercised, not at the date they are granted. At the time the options are exercised, the amount received by the Company is recorded at the value of the corresponding nominal capital increase in the capital stock and at the value of an additional amount in 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 shown in accordance with SFAS No. 132.

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

Deferred taxes are calculated for the expected tax effects of temporary differences between the balance sheets prepared for financial reporting and tax reporting purposes, as well as for the temporary differences arising from consolidation entries. Deferred taxes are netted and either a net deferred tax asset or net deferred tax liability is recorded separately 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 national rate), and the solidarity surcharge (*Solidaritaetszuschlag*); the respective local tax rate is used for foreign companies.

Cost accruals are only made by Deutsche Telekom when there is an obligation to carry such liabilities on the balance sheet pursuant to § 249 (1) HGB. This refers mainly to accruals for costs of maintenance related to the financial year, but only incurred within the first three months of the following year.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Major **accruals**, with the exception of pensions and similar obligations as well as Civil Service Health Insurance Fund accruals for future shortfalls, are not discounted.

Liabilities are recorded 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 disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

New German Accounting Standards (GAS)

GAS 10 Deferred Taxes in Consolidated Financial Statements sets out the procedures for accounting for deferred taxes in consolidated financial statements. Deferred taxes should be recognized on timing differences relating to items dealt with through the profit and loss account and which, on reversal in future periods, are expected to result in tax expenses and tax reductions. Quasi-permanent differences should also be treated as timing differences. A deferred tax asset should be recognized on tax loss carryforwards and tax credits to the extent that it is sufficiently probable that the tax benefits from the tax loss carryforwards can be recovered. The Company has not yet decided if it will adopt GAS 10 during 2003. However, the adoption of GAS 10 during 2003 would result in a substantial increase in deferred tax assets and stockholders equity.

GAS 11 Related Party Disclosures requires capital market oriented parent enterprises (*kapitalmarktorientiere Gesellschaften*) to report on relationships with related parties. Related parties are individuals or legal entities which have the ability to control the reporting enterprise (or one of its subsidiaries) or which can exercise, either directly or indirectly, significant influence over the reporting enterprise (or one of its subsidiaries). Significant transactions with related parties should be disclosed in the notes to the consolidated financial statements either as an absolute amount or as a proportion of net sales. Receivables and payables (as well as contingent receivables and payables) and pricing policies should also be disclosed. This standard is effective for financial years beginning after June 30, 2002. Since the adoption of GAS 11 affects disclosure only, the adoption of GAS 11 will not have a material impact on our consolidated financial statements.

GAS 12 Non-current Intangible Assets sets out the rules for the recognition and measurement of non-current intangible assets. An intangible asset purchased for consideration should be measured at cost. If the useful live of an intangible asset is limited in time, the acquisition cost should be amortized systematically over its estimated useful life. A review should be performed at each reporting date to determine whether the intangible asset has suffered an impairment in value. Irrespective of whether the useful life of an intangible asset is limited or not limited in time, an intangible asset should be written down to its fair value if this is lower than the carrying amount. The impairment loss should be reversed if the reasons for the impairment loss no longer exist. This standard is effective for financial years beginning after December 31, 2002. The Company does not expect that the implementation of GAS 12 will have a material impact on its consolidated financial statements.

GAS 13 Consistency Principle and Correction of Errors stipulates that accounting policies be applied consistently from one period to the next. Departure from the consistency principle is only permissible in justified exceptional circumstances. The effect of a change in accounting policies and in consolidation method should be computed retrospectively. Pro forma disclosures should be presented for the previous years figures. This standard is effective for financial years beginning after December 31, 2002. The company does not expect that the implementation of GAS 13 will have a material effect on its consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTES TO THE CONSOLIDATED STATEMENTS OF OPERATIONS

(1) Net Revenue

	For the year ended December 31,		
	2002	2001[1]	2000[1]
		(millions of)	
T-Com	25,422	25,028	24,455
T-Systems	7,793	8,316	6,021
T-Mobile	18,229	12,994	8,994
T-Online	1,672	1,338	1,038
Other	573	633	431
	53,689	**48,309**	**40,939**

(1) Due to the repositioning of the divisions T-Com and T-Systems, the prior-year figures for T-Com, T-Systems and Other have been adjusted in line with the new structure.

Revenue by geographic area:

	For the year ended December 31,		
	2002	2001	2000
		(millions of)	
Domestic	35,288	35,107	33,178
International	18,401	13,202	7,761
	53,689	48,309	40,939
Breakdown of international net revenue:			
European Union (excl. Germany)	6,836	6,088	5,023
Rest of Europe	5,067	3,787	2,266
North America	6,166	3,066	231
Latin America	74	85	43
Other	258	176	198
	18,401	13,202	7,761

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

Net revenue increased by EUR 5,380 million or 11.1% over the previous year. The changes in the composition of the Deutsche Telekom Group resulted in a revenue increase of EUR 3,296 million or 6.8%.

The increase at T-Com over the previous year is mainly attributable to the first time consolidation of Hrvatske telekommunikacije (Croatia) in October 2001. In Germany, the increase in access revenues more than offsets the decrease in call revenues. Price cuts and direct interconnection between mobile communications carriers and competitors had a negative impact on revenue from the carrier services business.

The decrease at T-Systems is mainly attributable to the difficult economic situation. Certain key account customers have postponed large-scale IT and telecommunications projects.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The increase at T-Mobile is partly attributable to changes in the composition of the Group and partly to increased subscriber numbers.

Growth in access and non-access business had a positive impact on revenue at T-Online.

(2) Changes in Inventories and Other Own Capitalized Costs

	For the year ended December 31,		
	2002	2001	2000
		(millions of)	
Change in work in process inventories	(289)	(7)	161
Own capitalized costs	823	886	703
	534	**879**	**864**

Own capitalized costs relate primarily to planning and construction services. They include interest incurred during the construction period in the amount of EUR 39 million (2001: EUR 65 million; 2000: EUR 64 million).

(3) Other Operating Income

	For the year ended December 31,		
	2002	2001	2000
		(millions of)	
Reversal of accruals	791	1,139	386
Income from the disposition of noncurrent assets (including sale of investments)	818	1,584	5,928
Income from reversal of valuation adjustments (including asset-backed securities)	556	288	125
Cost reimbursements	388	255	305
Foreign currency transaction gains	222	533	309
Insurance compensation	77	46	51
Refund of value-added tax (§ 15a UStG)	68	85	169
Income from rental and lease agreements	41	32	11
Income from disposition of marketable securities	1	1,967	
Income from capital increases of subsidiaries and associated companies			2,887
Other income	939	690	831
	3,901	**6,619**	**11,002**

The decrease in income from the reversal of accruals is mainly attributable to the inclusion in the prior-year figure of income from the reversal of accruals for real estate risks which were previously calculated as lump sums (EUR 350 million), and which was not recorded in 2002.

Income from the disposition of noncurrent assets amounted to EUR 818 million. Of this figure, approximately EUR 200 million relates to the sale of Satelindo and EUR 300 million to the sale of additional shares in T-Online. The decrease in comparison with the previous year relates mainly to the non-recurrence of proceeds from the sale of the Baden-Wuerttemberg regional cable company (EUR 912 million).

The decrease in income from the disposition of marketable securities is mainly attributable to the proceeds from the sale of the shares held in Sprint Corporation, Kansas City, USA, amounting to EUR 1,954 million in 2001.

Of the total amount of other operating income, EUR 1,342 million (2001: EUR 1,897 million; 2000: EUR 611 million) relates to income recognized on transactions consummated in prior years.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Goods and Services Purchased

	For the year ended December 31,		
	2002	2001	2000
		(millions of)	
Goods purchased	4,671	4,397	4,075
Services purchased	9,747	9,080	7,875
of which: network access charges, Germany	1,967	2,174	1,985
of which: international network access charges	3,905	3,268	2,819
of which: other services	3,875	3,638	3,071
	14,418	**13,477**	**11,950**

The level of goods and services purchased increased by EUR 941 million or 7% compared with 2001. Of this increase, changes in the composition of the Deutsche Telekom Group account for EUR 902 million. Excluding the effects of the changes in the composition of the group, goods and services purchased remained at the same level as in the previous year. This is mainly attributable despite organic revenue growth to the lower level of terminal equipment purchased, the decrease in revenue from business with domestic carriers and the more favorable purchasing conditions for international network capacities.

(5) Personnel Costs/ Average Number of Employees

	For the year ended December 31,		
	2002	2001	2000
		(millions of)	
Wages and salaries:	**10,467**	**9,313**	**7,470**
Social security contributions and expenses for pension plans and benefits:			
Social security costs	1,340	1,147	861
Pension costs[(1)]	1,497	1,486	1,220
Health care expenses	176	168	167
	13,480	**12,114**	**9,718**

Number of Employees (Average for the Year)

	For the year ended December 31,		
	2002	2001	2000
	Number	Number	Number
Civil servants	52,961	56,707	65,217
Salaried employees (excl. civil servants)	202,935	184,953	139,815
Total Deutsche Telekom Group	**255,896**	**241,660**	**205,032**

Trainees/ student interns	9,869	8,147	6,826

(1) Expenses are incurred from net periodic pension costs plus the change in additional minimum liability which affects net income (loss).

Personnel costs increased by EUR 1,366 million or 11.3% in 2002 to EUR 13,480 million. EUR 0.6 billion relates to changes in the composition of the Deutsche Telekom Group and EUR 0.3 billion to restructuring expenses, in particular at T-Systems.

Furthermore, collective bargaining agreements to adjust wages and salaries to bring them in line with market conditions and to promote performance, and the structural change with the assignment of personnel in higher value positions, contributed to the increase in personnel costs.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Depreciation and Amortization

	For the year ended December 31,		
	2002	**2001**	**2000**
		(millions of)	
Amortization of intangible assets	27,355	5,743	2,233
of which: amortization of goodwill	13,108	3,663	1,247
of which: amortization of UMTS and U.S. mobile communications licenses	13,244	1,414	381
Depreciation of property, plant and equipment	9,525	9,478	10,758
	36,880	**15,221**	**12,991**

Of the total depreciation and amortization in 2002, nonscheduled depreciation and amortization related to the following assets:

	2002
	(millions of)
Intangible assets	**21,451**
of which: UMTS license at T-Mobile UK	2,165
of which: U.S. mobile communications licenses	9,384
of which: goodwill	9,865
Property, plant and equipment	**848**
of which: buildings	249
of which: submarine cables North Atlantic/Pacific	228
of which: property, plant and equipment at T-Systems	245
	22,299

Depreciation and amortization increased during 2002 by EUR 21,659 million to EUR 36,880 million.

The increase in amortization of intangible assets is mainly attributable to the write-downs on goodwill at T-Mobile USA (EUR 8,288 million), Ben (EUR 958 million) and SIRIS at T-Systems (EUR 473 million) made as a result of the strategic review in the third quarter of 2002. In addition, write-downs were made on the mobile communications licenses of T-Mobile USA (EUR 9,384 million) and the UMTS license of T-Mobile UK (EUR 2,165 million). In total, the write-downs on intangible assets resulting from the strategic review amounted to EUR 21,268 million.

Changes in the composition of the Deutsche Telekom Group in particular generated an increase in scheduled depreciation and amortization of EUR 1.7 billion. Most of this increase is attributable to the inclusion of T-Mobile USA in Deutsche Telekom s consolidated financial statements for the full financial year. Overall, as a result of changes in the composition of the Deutsche Telekom Group, scheduled amortization of goodwill increased by EUR 0.7 billion, amortization of UMTS and U.S. mobile communications licenses by EUR 0.5 billion and depreciation of property, plant and equipment by EUR 0.5 billion.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Other Operating Expenses

	For the year ended December 31,		
	2002	2001	2000
		(millions of)	
Marketing expenses	2,204	1,896	1,967
Advertising gifts and commissions	1,645	1,329	794
Rental and leasing expenses	1,732	1,213	766
Losses on accounts receivable and provision for doubtful accounts	1,677	1,225	723
Maintenance and repairs	1,282	1,133	843
Legal and consulting fees	746	695	591
Other employee-related costs	558	598	493
Postal charges	493	486	481
Losses on disposition of noncurrent assets (including sale of investments)	390	478	1,132
Administrative expenses	327	314	217
Foreign currency transaction losses	310	333	241
Provisions	296	391	611
Travel and transport expenses	283	290	241
License and concession expenses	203	197	116
Utilities	160	129	77
Telephone charges	137	94	15
Other expenses	1,667	1,350	1,116
	14,110	**12,151**	**10,424**

Of the EUR 1,959 million increase in other operating expenses over the previous year, EUR 1,334 million relates to changes in the composition of the Deutsche Telekom Group, of which T-Mobile USA accounts for EUR 1,047 million.

The increase of EUR 624 million in marketing expenses, advertising gifts and commissions is mainly attributable to the first full-year consolidation of T-Mobile USA. Rental and leasing expenses increased by EUR 519 million over the previous year. This development is mainly attributable to changes in the composition of the Deutsche Telekom Group within T-Mobile. Losses on accounts receivable and provisions for doubtful accounts increased by EUR 452 million, predominantly at Deutsche Telekom AG. This relates mainly to the discount for credit risks from the sales of receivables in the asset-backed securitization programs.

Of the total amount of other operating expenses, EUR 463 million (2001: EUR 534 million, 2000: EUR 1,208 million) relates to expenses recognized on transactions consummated in prior years.

(8) Financial Income (Expense), Net

	For the year ended December 31,		
	2002	2001	2000
		(millions of)	
Dividend income from investments	41	107	147
Results related to companies accounted for under the equity method (including amortization of goodwill)	(430)	(547)	1,890

Income/(loss) related to associated and related companies	**(389)**	**(440)**	**2,037**
Income from debt securities and long-term loan receivables	171	152	487
Other interest and similar income	1,781	408	511
Interest and similar expense	(6,000)	(4,698)	(4,095)
Net interest income (expense)	**(4,048)**	**(4,138)**	**(3,097)**
Write-downs on financial assets and marketable securities	**(1,585)**	**(770)**	**(170)**
	(6,022)	**(5,348)**	**(1,230)**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net financial expense in 2002 increased by EUR 674 million over the previous year, mainly as a result of further valuation adjustments on the net carrying amount of the investment in France Telecom, amounting to a total of EUR 0.6 billion, and on other investments in noncurrent securities of EUR 0.4 billion. Results related to associated and related companies and net interest expense improved, however. Results related to associated and related companies improved by EUR 51 million over the previous year, mainly as a consequence of the decrease in expenses (including the amortization of goodwill) relating to investments in associated companies, which were particularly high in the previous year. The decrease in net interest expense is largely attributable to the reversal of interest rate derivatives which were no longer necessary.

(9) Extraordinary Income (Loss)

In 2000, this item represented expenses relating to the initial public offering of T-Online International AG and the planned initial public offering of T-Mobile International AG.

(10) Taxes

Breakdown of income/(loss) before taxes:

	For the year ended December 31,		
	2002	**2001**	**2000**
		(millions of)	
Germany	1,034	2,953	8,291
International	(27,820)	(5,457)	(1,958)
	(26,786)	**(2,504)**	**6,333**

Breakdown of tax expense (benefit):

	For the year ended December 31,		
	2002	**2001**	**2000**
		(millions of)	
Income taxes	(2,847)	751	194
Other taxes	364	57	124
	(2,483)	**808**	**318**

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

	For the year ended December 31,		
	2002	**2001**	**2000**
		(millions of)	

Current taxes			
Germany	132	686	207
International	190	91	35
Deferred income taxes			
Germany	(150)	(30)	(57)
International	(3,019)	4	9
	(2,847)	**751**	**194**

The combined statutory income tax rate, currently 39%, includes corporate income taxes at a rate of 25%, the solidarity surcharge of 5.5% on corporate income tax (*Solidaritaetszuschlag*) and trade taxes at an average German national rate.

The Group s loss before taxes increased to EUR 26.8 billion. The resulting income tax benefit amounts to EUR 2.8 billion, compared with an expense of EUR 0.8 billion in the previous year. This effect was mainly attributable to the reversal of deferred tax liabilities relating to the nonscheduled amortization of mobile communications licenses of T-Mobile USA/Powertel, which generated a deferred tax benefit of EUR 3.0 billion. In 2002, the Federal Finance Court confirmed Deutsche Telekom s legal position in a legal

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

dispute concerning Deutsche Telekom AG s recognition of goodwill for tax reporting purposes. The amortization of tax deductible goodwill to be applied to the prior tax years 1996-1999 results in an income tax reduction of approximately EUR 1.0 billion for Deutsche Telekom AG. In addition, amortization of goodwill increases net operating loss carryforwards (corporate income tax and trade tax) for the years 2000-2002 by EUR 2.2 billion (EUR 741 million per year). However, the capitalization of tax deductible goodwill results in an additional expense of EUR 0.2 billion for wealth tax and trade capital tax for the years 1996 and 1997, which resulted in the increase in other taxes.

Furthermore, deferred taxes result primarily from temporary differences between income determined under German GAAP and under applicable tax law. On the basis of the existing net operating loss carryforwards in the Deutsche Telekom consolidated tax group, the parent company will not show any income taxes on the current taxable result until the net operating loss carryforwards have been fully utilized. The deferred taxes of the parent company and the integrated companies which will offset each other over the expected period of utilization of the net operating loss carryforwards were released in 2002.

Differences between actual income taxes benefit of EUR 2,847 million for 2002 (2001: expense of EUR 751 million, 2000: expense of EUR 194 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 39% are as follows:

	For the year ended December 31,		
	2002	**2001**	**2000**
		(millions of)	
Expected corporate income tax at the tax rate applicable for the parent company	(10,447)	(977)	2,723
Increase (decrease) in income tax due to:			
Reduction of the group s results without tax effect	11,027	2,896	1,497
Increase in the group s results without tax effect	(435)	(966)	(3,576)
Group results not subject to the German rate of taxation	(2,878)	(491)	(546)
Permanent and semi-permanent differences between the balance sheets prepared for financial reporting and tax reporting purposes	(34)	611	(640)
Other differences between the balance sheets prepared for financial reporting and tax reporting	(323)	0	0
Trade tax (e.g. long-term debt)	247	216	180
Effect of domestic losses	386	(1,186)	370
Effects of changes in tax law / corrections due to losses	(361)	676	167
Other	(29)	(28)	19
Income taxes	**(2,847)**	**751**	**194**
Effective income tax rate	11%	(30)%	3.1%

At December 31, 2002, Deutsche Telekom had net operating loss carryforwards affecting corporate income tax and similar carryforwards amounting to approximately EUR 22,198 million and trade tax net operating loss carryforwards amounting to approximately EUR 6,448 million. With the exception of non-German net operating loss carryforwards of EUR 11,432 million, which mainly will expire between 2008 and 2022, these net operating loss carryforwards have an unlimited carry forward period under current German and local tax law.

(11) (Income) Losses Attributable to Minority Shareholders

(Income) losses applicable to minority shareholders includes EUR 390 million (2001: EUR 322 million; 2000: EUR 189 million) in gains and EUR 106 million (2001: EUR 180 million; 2000: EUR 100 million) in losses. The gains in 2002 relate mainly to MATAV and Hrvatske telekommunikacije. The losses relate mainly to T-Online International AG.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTES TO THE CONSOLIDATED BALANCE SHEET

(12) Intangible Assets

	As of December 31,	
	2002	2001
	Net carrying amount	
	(millions of)	
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	23,837	39,254
Goodwill	29,436	40,597
Advance payments	129	200
	53,402	**80,051**

The decrease of EUR 26.6 billion in intangible assets to EUR 53.4 billion is mainly attributable to the scheduled and nonscheduled amortization of goodwill and mobile communications licenses as a result of the strategic review in the third quarter of 2002.

This write-down completely offset the EUR 2.7 billion and EUR 1.7 billion increases to intangible assets during 2002, arising from the acquisition of the remaining shares of T-Systems ITS GmbH (formerly debis Systemhaus GmbH) and Ben, respectively.

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

(13) Property, Plant and Equipment

	As of December 31,	
	2002	2001
	Net carrying amount	
	(millions of)	
Land and equivalent rights, and buildings including buildings on land owned by third parties	11,362	13,063
Technical equipment and machinery	38,034	39,947
Other equipment, plant and office equipment	2,286	2,743
Advance payments and construction in progress	2,273	2,955
	53,955	**58,708**

Property, plant and equipment decreased by EUR 4.8 billion to EUR 54.0 billion. Capital expenditure amounted to EUR 7.1 billion; depreciation and amortization increased to around EUR 9.5 billion; disposals amounted to EUR 3.4 billion and related mainly to the sale of real estate in the form of sale and lease back transactions.

The development of property, plant and equipment for 2002 is shown in the table of consolidated noncurrent assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Leasing

Minimum lease payments under leases expiring subsequent to December 31, 2002, are shown below (millions of EUR).

Year	Capital leases	Operating leases
2003	63	1,813
2004	58	1,609
2005	60	1,232
2006	58	924
2007	60	842
after 2007	666	3,630
Total minimum lease payments	**965**	**10,050**
Imputed interest	(422)	
Present value of net minimum lease payments	**543**	

Capital leases are primarily for office buildings and have terms of up to 25 years. EUR 794 million of the operating leases payments relate to real estate previously sold and leased back with average terms of 18 years.

(14) Financial Assets

The net carrying amounts of financial assets at:

	As of December 31,	
	2002	2001
	(millions of)	
Investments in unconsolidated subsidiaries	149	228
Loans to unconsolidated subsidiaries	58	82
Investments in associated companies	2,593	3,944
Other investments in related companies	1,021	1,895
Long-term loans to associated and related companies	3	395
Other investments in noncurrent securities	238	879
Other long-term loans	107	534
	4,169	**7,957**

The decrease of EUR 1,351 million in the net carrying amount of investments in associated companies relates mainly to the reclassification of the shares in Ben (EUR 543 million) and an investee of T-Mobile USA (EUR 283 million) as a result of their full consolidation for the first time in the year under review. Furthermore, the decrease is marked by current year losses and the amortization of goodwill, particularly relating to comdirect bank. These developments were offset by increases in various related companies of T-Mobile International AG amounting to EUR 437 million.

The decrease of EUR 874 million in other investments in related companies is largely a consequence of the valuation adjustment on and the subsequent disposal of the shares held in France Telecom.

Long-term loans primarily include loans to associated and related companies. The decrease is mainly attributable to valuation adjustments for loans to cable companies.

Other investments in noncurrent securities mainly include fixed-interest securities. The decrease is attributable to the sale of part of the fixed-interest securities from the portfolio of Deutsche Telekom Holding B.V., Amsterdam, and a valuation adjustment in Deutsche Telekom AG s securities portfolio.

A considerable proportion of other long-term loans was reclassified as loans to unconsolidated subsidiaries in the year 2002 as a result of the acquisition of HoldCo/ Polpager by T-Mobile International AG. Furthermore, the decrease in other long-term loans was also attributable to the repayment of a Deutsche Telekom AG loan by Deutsche Post.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The development of financial assets is shown in the table of noncurrent assets.

Significant investments in associated companies are shown below:

	As of December 31, 2002			As of December 31, 2001		
Name	Deutsche Telekom share	Net carrying amount	of which: Embedded goodwill(1)	Deutsche Telekom share	Net carrying amount	of which: Embedded goodwill(1)
	(%)	(millions of)		(%)	(millions of)	
PTC	49.0	1,287	1,122	45.0	1,232	1,114
GSM Facilities	25.6	586		24.0	516	
MTS(2)	36.2	455	11	36.2	435	16
Other		265	52		1,761	685
		2,593	**1,185**		**3,944**	**1,815**

(1) Net difference between carrying value and equity in net assets
(2) Proportional market value of EUR 1,277 million and EUR 1,459 million at December 31, 2002 and 2001 respectively

(15) Inventories, Materials and Supplies

	As of December 31,	
	2002	2001
	(millions of)	
Raw materials and supplies	466	597
Work in process	350	458
Finished goods and merchandise	730	606
Advance payments	10	10
	1,556	**1,671**

Inventories, materials and supplies decreased compared with the previous year by EUR 114 million or 6.8%. This figure includes offsetting effects of EUR 26 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 is mainly related to projects which 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.

(16) Receivables

	As of December 31,	
	2002	**2001**
	(millions of)	
Trade accounts receivable	5,840	6,173
Receivables from unconsolidated subsidiaries	171	423
Receivables from associated and related companies	247	230
	6,258	**6,826**

In December 2002, T-Systems International GmbH and its subsidiaries T-Systems PCM AG and T-Systems GEI GmbH sold without recourse certain trade accounts receivable amounting to EUR 276 million to a special purpose vehicle as part of an asset-backed securitization program. The contract explicitly 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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

covered by the discounts are not utilized by the purchaser. Servicing of the receivables sold is performed by T-Systems on behalf of the purchaser.

Since December 2001, Deutsche Telekom AG has sold by way of global assignment certain trade accounts receivable to a special-purpose vehicle as part of an asset-backed securitization program. The contract explicitly rules out the retransfer of the receivables sold. 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 sold is performed by Deutsche Telekom on behalf of the purchaser.

All receivables are due within one year, with the exception of EUR 63 million for trade accounts receivables.

The allowance for doubtful accounts and changes therein are in millions of euros as follows:

Years	As of January 1	Charged to costs and expenses	Amounts written off/released	As of December 31
	(millions of)			
2000	493	379	(82)	790
2001	790	1,167	(623)	1,334
2002	1,334	701	(680)	1,355

The Company directly wrote off accounts receivable balances of EUR 414 million in 2002 (December 31, 2001: EUR 391 million; December 31, 2000: EUR 344 million).

(17) Other Assets

	As of December 31,	
	2002	2001
	(millions of)	
Tax receivables	1,782	3,287
Accrued interest	390	352
Receivables from employees	46	34
Receivables from reimbursements and loans receivable	96	221
Miscellaneous other assets	1,078	1,072
	3,392	**4,966**

The decrease in other assets relates mainly to the decrease in tax receivables, which consist mainly of income taxes. The considerable decrease in income tax receivables relates mainly to the non-recurrence of the reimbursement of corporate income tax resulting from the dividend payment of T-Mobile International AG to Deutsche Telekom AG amounting to EUR 1.1 billion in the previous year. Furthermore, a claim for reimbursement shown in the previous year has been realized. Receivables in the year under review include tax refunds of approximately EUR 0.8 billion relating to the recognition of amortization on Deutsche Telekom AG s goodwill.

(18) Marketable Securities

As of December 31,	
2002	2001

	(millions of	)
Treasury shares	7	7
Other marketable securities	406	695
	413	**702**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The number of treasury shares at the balance sheet date, 2,670,828, unchanged from the December 31, 2001 is made up 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 the 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 acquisition cost of EUR 0.9 million and written down to the lower market trading price applicable at the balance sheet date. The total proportion of treasury shares in capital stock is 0.07%.

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

Other marketable securities primarily relate to own bonds held to maintain favorable trading conditions (EUR 139 million) and callable step-up bonds (EUR 225 million) held by Deutsche Telekom AG.

(19) Liquid Assets

	As of December 31,	
	2002	2001
	(millions of)	
Checks	10	47
Petty cash and deposits at the Bundesbank	42	25
Cash in banks (including deposits at Deutsche Postbank AG)	1,853	2,796
	1,905	**2,868**

	As of December 31,	
	2002	2001
	(millions of)	
Cash and cash equivalents		
Original maturity less than 3 months	1,712	2,738
Temporary cash investments (original maturity longer than 3 months)	193	130
	1,905	**2,868**

Cash and cash equivalents with original maturity of less than 3 months consist primarily of fixed-term bank deposits, checking account balances, deposits at the Bundesbank and Deutsche Postbank AG and petty cash. Temporary cash investments consist almost exclusively of fixed-term bank deposits.

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

(20) Prepaid Expenses and Deferred Charges

Prepaid expenses and deferred charges of EUR 771 million (Dec. 31, 2001: EUR 813 million) include discounts on loans of EUR 295 million (Dec. 31, 2001: EUR 351 million) which are amortized on a straight line basis over the terms of the respective liabilities. Other prepaid expenses and deferred charges are also shown for advance personnel costs and lease payments.

(21) Shareholders Equity

A detailed account of the development of the consolidated shareholders equity for the years 2000, 2001 and 2002 is presented in a separate table before the notes to the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The development of the consolidated shareholders equity from December 31, 1995, to December 31, 2002, is as follows (millions of):

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* unaudited

(22) Capital Stock

In accordance with Article 5 (1) of the Articles of Incorporation, Deutsche Telekom AG s capital stock totaled EUR 10,746 million at December 31, 2002, representing 4,197.8 million registered ordinary no par value 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 30.75% at December 31, 2002; the KfW s shareholding was 12.02% at December 31, 2002. Correspondingly, the Federal Republic held 1,291 million no-par value shares (EUR 3,304 million) of the capital stock as at December 31, 2002, while the KfW held 505 million no-par value shares (EUR 1,292 million). 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 warrants in circulation between Deutsche Telekom and T-Mobile USA/Powertel at the time of the acquisition. At December 31, 2002, the number of Deutsche Telekom shares deposited as collateral for the outstanding options granted to T-Mobile USA/Powertel employees amounted to 26,769,950.

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 for non-cash contributions in the period up to May 25, 2005. The authorization may be exercised in full or in part. The preemptive right of shareholders is precluded. 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, 2002 1,168,148,391 of the 1,509,802,017 ordinary shares have been issued for the acquisition of T-Mobile USA and Powertel.

Contingent Capital

The capital stock may be conditionally increased by up to EUR 500,000,000, divided into up to 195,312,500 shares (Contingent Capital I). The contingent capital may be increased only to the extent that

a. the holders or creditors of conversion rights or warrants attached to the convertible bonds or bonds with warrants issued by May 28, 2006 by Deutsche Telekom AG or a company in which it has a direct or indirect majority holding on the basis of the authorization granted by resolution of the Shareholders Meeting of May 29, 2001, exercise their conversion or option rights or

b. holders or creditors obligated to convert the convertible bonds issued by May 28, 2006, by Deutsche Telekom AG or companies in which it has a direct or indirect majority holding pursuant to the authorization granted by resolution of the Shareholders Meeting of May 29, 2001, fulfill their conversion obligation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The new shares are expected to participate in profits starting at the beginning of the financial year in which they are issued as the result of the exercise of any conversion or option rights being exercised or the fulfillment of any conversion obligations. The Contingent Capital I was used in 2003 through the issuance of approximately EUR 2.3 billion of convertible bonds that are mandatorily convertible into common shares of Deutsche Telekom AG at maturity on June 1, 2006. The convertible bonds were issued by Deutsche Telekom s Dutch finance subsidiary, Deutsche Telekom International Finance B.V., and guaranteed by Deutsche Telekom AG. The Securities were priced at par with a 6.5% coupon and a conversion ratio that, depending on the share price performance, may vary from a ratio of 3,417.1679 shares to 4,237.2881 shares for each bond (EUR 50,000 notional amount). The Securities were placed with non-U.S. institutional investors outside the United States.

Pursuant to the authorization granted by resolution of the Shareholders Meeting of May 29, 2001 the share capital was conditionally increased by up to EUR 307,200,000, divided into up to 120,000,000 new individual no par value registered shares (Contingent Capital II). The contingent capital increase was made exclusively for the purpose of granting subscription rights to members of the Board of Management of Deutsche Telekom AG, executives at levels below the Board of Management of Deutsche Telekom AG and other executives, managers and specialists of Deutsche Telekom AG and to Board of Management members, managing board members and other executives of second- and lower-tier domestic and foreign Group companies on the basis of a 2001 Stock Option Plan. As of December 31, 2002 none of the subscription rights granted under the Stock Option Plan 2001 have been exercised.

Pursuant to the authorization granted by resolution of the Shareholders Meeting of May 29, 2001 the share capital was conditionally increased by up to EUR 2,621,237.76, divided into up to 1,023,921 shares (Contingent Capital III). The contingent capital increase serves exclusively to grant subscription rights to members of the Board of Management and executives of the Corporation, as well as Board of Management members, managing board members and other executives of second- and lower-tier affiliated companies on the basis of a Stock Option Plan as provided for in the resolution of the Shareholders Meeting of May 25, 2000. As of December 31, 2002 none of the subscription rights granted under the Stock Option Plan 2000 have been exercised.

Treasury Shares

Pursuant to the authorization granted by resolution of the Shareholders Meeting of May 28, 2002 the Board of Management s authorization to acquire treasury shares, which was resolved by the shareholders meeting on May 29, 2001, was rescinded. At the same time, Deutsche Telekom AG was authorized to acquire treasury shares up to a maximum of 10% of the share capital, i.e., a total of no more than 419,775,242 shares. These treasury shares may be used for listings on foreign stock exchanges, offered as compensation in mergers or the acquisition of companies and equity interests, or retired. The authorization may be exercised in full or in part, and is valid until November 18, 2003.

(23) Additional Paid-In Capital

The additional paid-in capital of the consolidated Group exceeds the additional paid-in capital of Deutsche Telekom AG of EUR 24,319 million by EUR 25,758 million. This is due in part to the recording in 2001 of the new Deutsche Telekom shares issued in the course of the acquisition of T-Mobile USA/Powertel at their market value (EUR 28,680 million) instead of their nominal value (EUR 2,990 million), which is permitted in the consolidated financial statements. Furthermore, there were other allocations to additional paid-in capital in 2002 amounting to EUR 68 million from the exercise of conversion options by former shareholders of T-Mobile USA/Powertel. The shares in Deutsche Telekom reserved for these conversion options in a trust were included in the unconsolidated financial statements of Deutsche Telekom AG in 2001 at the time of the appropriation of the additional paid-in capital.

(24) 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 entries from prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(25) 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, Croatian Telecom, MATAV, Slovenske and RadioMobil.

(26) Stock-Based Compensation

Deutsche Telekom AG

2000 Stock Option Plan

In the 2000 financial year, Deutsche Telekom granted stock options to certain employees 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 passed by the shareholders meeting in May 2000. The quoted fair market value of Deutsche Telekom s common stock as quoted on Frankfurt am Main Xetra on the grant date was EUR 60.40 per share. The term of the options runs until July 20, 2005.

The options could not be exercised before the end of the lock-up period on July 19, 2002, and 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 considered to have been reached when the moving average of the closing price of the shares in Xetra trading on the Frankfurt Stock Exchange exceeds the exercise price by more than 20% for a period longer than 30 days.

The relative performance target is linked to share price performance relative to the performance of the Dow Jones Euro Stoxx 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, options and other special rights (total shareholder return) exceeds the performance of the Euro Stoxx 50© Total Return index measured on a moving thirty-day average basis.

Deutsche Telekom reserved the right, at its election, to settle the options through the payment of a cash amount (stock appreciation rights SAR) instead of issuing new shares. The exercise of an SAR cancels the related option and the exercise of an option cancels the related SAR. As at December 31, 2002, no resolution on conversion had been passed to this effect.

As of December 31, 2002, the weighted average remaining time to maturity of the outstanding options from the 2000 Stock Option Plan was approximately 2.5 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 activities relating to the stock options granted by Deutsche Telekom AG to beneficiaries of the 2000 Stock Option Plan (options in thousands) are as follows:

	2000 Stock Option Plan					
	2002		2001		2000	
	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price
	(in thousands)	( )	(in thousands)	( )	(in thousands)	( )
Outstanding at beginning of year	1,001	62.69	1,022	62.69		
Granted					1,024	62.69
Exercised						

Forfeited	7	62.69	21	62.69	2	62.69
Outstanding at end of year	994	62.69	1,001	62.69	1,022	62.69
Exercisable at end of year						

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 options to be issued to members of the Board of Management and other executives of the Company and lower-tier affiliated companies as part of the Deutsche Telekom 2001 Stock Option Plan.

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

The exercise price is payable upon exercise of the options. The exercise price per share is 120% of the reference price. The reference price corresponds to the non-weighted average of the closing price of the Deutsche Telekom shares in Xetra trading (or a comparable successor system) as operated by Deutsche Boerse AG on the Frankfurt Stock Exchange over the last 30 trading days before the day on which the options are granted. If the average price calculated using this method is lower than the closing price of the Deutsche Telekom shares in Xetra trading (or a comparable successor system) as operated by Deutsche Boerse AG on the Frankfurt Stock Exchange on the day on which the options are granted, 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 reserved the right, at its election, to settle the options through the payment of a cash amount (stock appreciation rights SAR) instead of issuing new shares. The exercise of an SAR cancels the related option and the exercise of an option cancels the related SAR. As at December 31, 2002, 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 passed by the shareholders meeting in May 2001. The quoted fair market value of Deutsche Telekom s common stock as quoted on Frankfurt am Main Xetra on the grant date was EUR 19.10 per share. The term of the options runs until August 12, 2011.

In 2002, 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 passed by the shareholders meeting in May 2001. The quoted fair market value of Deutsche Telekom s common stock as quoted on Frankfurt am Main Xetra on the grant date was EUR 10.30 per share. The term of the options runs until July 14, 2012.

As of December 31, 2002, the weighted average remaining time to maturity of the outstanding options from the 2001 Stock Option Plan was approximately 8.8 years.

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

	2001 Stock Option Plan			
	2002		2001	
	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price
	in thousands	( )	in thousands	( )
Outstanding at beginning of year	8,219	30.00		
Granted	3,928	12.36	8,221	30.00

Exercised				
Forfeited	183	29.16	2	
Outstanding at end of year	11,964	24.22	8,219	30.00
Exercisable at end of year				

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Furthermore, in 2002, Deutsche Telekom AG granted 2,580 SARs to employees in countries in which it was not legally possible to grant stock options. As of December 31, 2002, 168,050 of the SARs granted 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 decision of the shareholders meeting, 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 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 Frankfurt Xetra share price exceeds the exercise price by more than 40%. The relative performance target is linked to the performance of the shares relative to the performance of the Dow Jones Euro Stoxx 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), exceed the performance of the Euro Stoxx Telecom© index by more than 20% measured on a moving thirty-day average basis.

The weighted average remaining contractual life as of December 31, 2002, was 2.5 years.

The activities relating to the share options granted by T-Online International AG as part of the 2000 Stock Option Plan (in thousands) are as follows:

	2000 Stock Option Plan					
	2002		2001		2000	
	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price
	in thousands	( )	in thousands	( )	in thousands	( )
Outstanding at beginning of year	117	37.65	177	37.65	n/a	n/a
Granted					214	37.65
Exercised						
Forfeited	5	37.65	60	37.65	37	37.65
Outstanding at end of year	112	37.65	117	37.65	177	37.65
Exercisable at end of year						

2001 Stock Option Plan

The shareholders meeting on May 30, 2001, conditionally increased the capital stock of T-Online International AG by EUR 51,000,000 for the 2001 Stock Option Plan and authorized the Supervisory Board to issue preemptive rights to the members of the Board of Management of T-Online International AG 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 Boards of Management, members of the management and other directors, senior managers and selected specialists at Group companies within and outside Germany in which T-Online International AG directly or indirectly holds a majority shareholding.

The Stock Option Plan is structured as a premium priced plan . The exercise price is payable upon exercise of the options. The exercise price per share is 125% of the reference price. The reference price corresponds to the non-weighted average of the closing prices of the T-Online share in Xetra trading on the

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deutsche Boerse AG stock exchange in Frankfurt am Main (or a subsequent system in place of the Xetra system) over the last 30 trading days before granting of the options. If the average closing price calculated by this method is lower than the closing price of the T-Share in Xetra trading on the Deutsche Boerse AG stock exchange (or a subsequent system) on the day of granting 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 for the last time in 2005.

50% of the options granted may only be exercised after a period of two years calculated from the day the options are granted. The remaining 50% 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 of compensation at the latest on August 12, 2011, and July 14, 2012, respectively. As at December 31, 2002, the weighted average remaining time to maturity of the outstanding options from the 2001 Stock Option Plan was around 9 years.

2,369,655 options were granted on August 13, 2001, in the first tranche on the basis of the resolution passed by the shareholders meeting passed in May 2001. A further 2,067,460 options were granted in the second tranche on July 15 2002. The exercise price, the performance target, for the first tranche is EUR 10.35 (125% of the reference price of EUR 8.28) and for the second tranche EUR 10.26 (125% of the reference price of EUR 8.21).

The activities relating to the share options granted by T-Online International AG as part of the 2001 Stock Option Plan (in thousands) are as follows:

	2001 Stock Option Plan			
	2002		2001	
	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price
	(in thousands)	( )	(in thousands)	( )
Outstanding at beginning of the year under review	2,348	10.35		
Granted	2,067	10.26	2,369	10.35
Exercised				
Forfeited			21	10.35
Outstanding at end of year	4,415	10.31	2,348	10.35
Exercisable at end of year				

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 passed on September 22, 2000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The activities relating to the share options (in thousands) granted by T-Online International AG as part of the acquisition of shares are as follows:

	Ya.com 2000 Option Plan					
	2002		2001		2000	
	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price
	(in thousands)	( )	(in thousands)	( )	(in thousands)	( )
Outstanding at beginning of year	1,084	0.00	1,864	0.00	n/a	n/a
Granted					1,864	0.00
Exercised	376		692			
Forfeited	342		88			
Outstanding at end of year	366	0.00	1,084	0.00	1,864	0.00
Exercisable at end of year	366	0.00	1,084	0.00	280	0.00

In its function as conversion trustee, Dresdner Bank holds 430,000 options which may be sold under certain circumstances upon instruction 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 set up for the benefit of holders of T-Mobile USA stock options. The exercise price for each share of Deutsche Telekom AG common stock corresponds to the applicable exercise price per share of T-Mobile USA common stock divided by 3.7647. Furthermore, no more options will be granted under any other T-Mobile USA stock option plans.

At December 31, 2002, 25.0 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 over a period of four years and have a term of up to 10 years.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Year ended December 31, 2002		Seven months ended December 31, 2001	
	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price
	in thousands	(USD)	in thousands	(USD)
Outstanding, beginning of period	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	5,964	13.35		
Exercised	2,133	3.35	1,639	3.21
Forfeited	941	19.51	549	17.47
Outstanding at end of year	24,980	16.41	22,090	16.21
Exercisable at end of year	10,028	13.95	6,299	9.88

	Outstanding options			Exercisable options	
Ranges of the exercise prices in USD	Number (in thousands)	Weighted-average remaining contractual life (years)	Weighted-average exercise price (USD)	Number (in thousands)	Weighted-average exercise price (USD)
0.00 - 7.60	5,631	5.1	2.68	4,460	2.56
7.61 - 15.20	8,351	8.0	11.98	1,359	8.75
15.21 - 22.80	73	6.5	17.62	53	17.62
22.81 - 30.39	9,504	7.5	26.25	3,447	27.17
30.40 - 37.99	1,421	7.1	30.98	709	30.98
0.00 - 37.99	24,980	7.1	16.41	10,028	13.95

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 AG options at a conversion rate of 2.6353. The Deutsche Telekom AG shares linked to these options are administered in a trust deposit account set up for the benefit of holders of Powertel stock options. The exercise price for each share of Deutsche Telekom AG 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 535,306 shares available at December 31, 2002. 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 1,254,695 Deutsche Telekom shares were available for outstanding options at December 31, 2002, 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 in the 1991 Option Plan.

At December 31, 2002, 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 in the Non-employee Plan.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Year ended December 31, 2002		Seven Months ended December 31, 2001	
	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price
	in thousands	(USD)	in thousands	(USD)
Outstanding, beginning of period	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				
Exercised	446	5.39	1,200	6.29
Forfeited	273	27.27	1,614	31.42
Outstanding at end of year	1,790	21.85	2,509	19.50
Exercisable at end of year	891	16.93	883	8.76

	Outstanding options			Exercisable options	
Ranges of the exercise prices in USD	Number (in thousands)	Weighted-average remaining contractual life (years)	Weighted-average exercise price (USD)	Number (in thousands)	Weighted-average exercise price (USD)
0.02 - 7.60	543	5.2	5.58	433	5.64
7.61 - 15.20	142	5.4	9.90	121	9.64
15.21 - 22.80	22	6.8	19.78	14	19.61
22.81 - 30.39	512	8.0	26.86	50	26.46
30.40 - 38.00	571	7.2	35.87	273	36.18
0.02 - 38.00	1,790	6.7	21.85	891	16.93

MATAV

On April 26, 2002, the annual Shareholders Meeting of Magyar Tavkoezlesi Reszvenytarsasag (MATAV) approved the introduction of a new management share option plan.

In order to satisfy the exercise of options granted, the annual Shareholders Meeting of MATAV authorized MATAV s Board of Directors to purchase 17 million A series registered ordinary shares, each having a nominal value of HUF 100 as treasury shares.

On July 1, 2002, MATAV used its authority under the shareholders resolutions adopted in April 2002 to grant 3,964,600 options in respect of 3,964600 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 and 2005, respectively). The quoted fair market value of MATAV common stock as 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, 2002, was 4.5 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.

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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 MATAV are as follows:

	2002 Stock Option Plan	
	Stock options	Weighted-average exercise price
	(in thousands)	(HUF)
Outstanding, beginning of period		
Granted	3,965	944
Exercised		
Forfeited		
Outstanding at end of year	3,965	944
Exercisable at end of year		

(27) 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 employees 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 then approaching retirement remained unchanged. For younger employees, the obligations were 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 annually 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 became 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. The VAP s obligations are therefore suspended (parallel obligation). The VAP provides the pension services for and on behalf of Deutsche Telekom. Pension accruals are recorded in the balance sheet for financial reporting purposes for the 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 German 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table shows the composition of pension obligations:

	As of December 31, 2002	As of December 31, 2001
	(millions of)	
Pension obligations:		
Direct	2,927	2,683
Indirect	1,007	966
Obligations in accordance with Article 131 GG	8	12
	3,942	**3,661**

The obligation amounts shown contain a so-called additional minimum liability for certain pension plans. An additional minimum liability is a step-up amount for pension obligations relating to certain pension plans, whose changes are shown under German GAAP as affecting net income (loss), but are reflected as a charge to equity under U.S. GAAP. Excluding the additional minimum liability, the accrual for pensions amounts to EUR 3,465 million (2001: EUR 3,402 million).

	As of December 31, 2002	As of December 31, 2001
	(millions of)	
Actuarial present value of benefits:		
Vested	3,978	3,701
Nonvested	409	342
Accumulated benefit obligation	**4,387**	**4,043**
Effect of projected future salary increases	85	121
Projected benefit obligation	**4,472**	**4,164**
Plan assets at fair value	(412)	(405)
Projected benefit obligation in excess of plan assets	**4,060**	**3,759**
Unrecognized net (losses)	(595)	(357)
Unfunded accrued pension cost	**3,465**	**3,402**
Additional minimum liability	**477**	**259**
Total obligation	**3,942**	**3,661**

Taking into consideration the plan assets, the total pension obligations are fully disclosed.

The corresponding pension accruals measured in accordance with § 6a of the German Income Tax Act (Einkommensteuergesetz EStG) are EUR 3,474 million (December 31, 2001: EUR 2,995 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:

	2002	2001	2000
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%

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Development of the projected benefit obligation:

	2002	2001
	(millions of)	
Projected benefit obligation, beginning of year	**4,164**	**3,764**
Service cost	155	144
Interest cost	241	228
Change in obligations	(59)	(6)
Actuarial losses	201	280
Total benefits actually paid	(230)	(246)
Projected benefit obligation, end of year	**4,472**	**4,164**

Development of plan assets at fair value:

	2002	2001
	(millions of)	
Plan assets at fair value, beginning of year	**405**	**379**
Actual return on plan assets	(20)	2
Contributions by employer	79	73
Benefits actually paid through pension funds	(52)	(49)
Plan assets at fair value, end of year	**412**	**405**

Net periodic pension cost is summarized as follows:

	2002	2001	2000
		(millions of)	
Service cost	155	144	119
Interest cost	241	228	208
Return on Plan Assets	(24)	(24)	(17)
Amortization of gains and losses	7	0	
Net periodic pension cost	**379**	**348**	**310**

Civil servant retirement arrangements

Until the 2000 financial year, Deutsche Telekom AG maintained a special pension fund (Unterstuetzungskasse) 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 fuer Post und Telekommunikation e.V. (BPS-PT). On January 11, 2001, the fund was entered in the Register of Associations with retroactive effect from July 1, 2000. The BPS-PT works for all three companies of all three companies and also handles financial administration for the Federal Republic on a trust basis. It carries out all transactions for civil servants pension and allowance payments 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 civil servant 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 obligated to make annual contributions to the special pension fund amounting to 33% of the pensionable gross remuneration of active civil servants and the notional pensionable gross remuneration of civil servants on leave of absence. The funding of this annual contribution is recognized as a period expense. These contributions amounted to EUR 838 million, EUR 845 million and EUR 895 million in 2002, 2001 and 2000, respectively (see note (33) Guarantees and Commitments, and Other Financial Obligations).

Under PTNeuOG, the Federal Republic compensates the special pension fund for any shortfalls 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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

obligations it has assumed. The Federal Republic cannot require reimbursement from Deutsche Telekom AG for amounts paid by it to the special fund.

(28) Other accruals

	As of December 31,	
	2002	2001
	(millions of)	
Taxes	2,086	1,938
Provisions for deferred taxes	1,646	5,348
Accruals other than taxes		
Employee benefits		
Civil Service Health Insurance Fund	1,101	1,079
Personnel restructuring	558	252
Other obligations	1,080	916
	2,739	2,247
Outstanding invoices	2,540	2,218
Unused telephone units on phone cards sold	500	422
Loss contingencies	426	514
Advertising cost subsidies / commissions	351	270
Restoration commitments	303	265
Risks related to real estate	227	168
Refunds to be granted	168	132
Litigation risks	164	266
Investment risks	126	145
Deferred maintenance	55	56
Other	824	777
	8,423	**7,480**
	12,155	**14,766**

Due to differences between the book value and the fair market value of mobile communications licenses, intangible assets were recorded in 2001 upon first consolidation of T-Mobile USA with the accounting of the purchase price. This generated a provision for deferred taxes of EUR 5,812 million which was reduced to EUR 2,167 million in 2002 after write-downs on mobile communications licenses.

The increase in other accruals (excluding deferred taxes) is mainly attributable to an increase in personnel accruals (EUR 492 million) and accruals for outstanding invoices (EUR 322 million).

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. Deutsche Telekom AG has accrued the actuarially determined present value of this future deficit which Deutsche Telekom has to cover, taking the 1998 life expectancy tables by Prof. Dr. Klaus Heubeck (Richttafeln 1998) into account, which primarily reflect the increase in average life expectancy. The expense for the addition to this accrual was EUR 44 million in the year under review (2001: EUR 70 million; 2000: EUR 142 million).

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. This personnel restructuring program has now been completed. However, contracts remain which are not completed. In addition, collective agreements are used for early retirement and programs, which will lead to the establishment of new accruals when a fixed contract is finalized.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The table below sets forth the payments made and the related accruals/ payables for future payments in respect of these staff reduction measures for the years 2002 and 2001:

	2002	2001
	(millions of)	
Accruals/ payables, beginning of year	**215**	**150**
Payments made (including payments made against accruals / payables)	(117)	(125)
Additions to accruals / payables	166	190
Accruals/ payables, end of year	**264**	**215**

During 2002, T-Systems announced the planned reduction of the number of its employees. At December 31, 2002, the remaining balance for this reduction was EUR 339 million, of which EUR 252 million relates to staff adjustments and EUR 87 million to other structural measures.

Of the decrease in accruals for loss contingencies, EUR 150 million relates to accruals for debt premiums at T-Mobile USA. These accruals are the result of the difference between the repayment amount and the higher fair value of bonds.

(29) Liabilities

	As of December 31, 2002				As of December 31, 2001			
		of which due				of which due		
	Total	within one year	in one to five years	after five years	Total	within one year	in one to five years	after five years
	(millions of)				(millions of)			
Debt								
Bonds and debentures	56,752	8,535	29,243	18,974	58,301	12,598	28,447	17,256
Liabilities to banks	6,292	1,341	3,534	1,417	8,730	754	4,984	2,992
	63,044	**9,876**	**32,777**	**20,391**	**67,031**	**13,352**	**33,431**	**20,248**
Other								
Advances received	414	228	186		371	357	14	
Trade accounts payable	3,833	3,807	26		4,827	4,792	35	
Liabilities on bills accepted and drawn					1	1		
Payables to subsidiaries	158	157	1		104	103	1	
Liabilities to other companies in which an equity interest is held	147	147			152	152		
Other liabilities	5,989	4,436	448	1,105	6,565	5,243	355	967
of which: from taxes	(1,159)	(1,159)			(2,200)	(2,200)		
of which: from social security	(153)	(153)			(131)	(131)		
	10,541	**8,775**	**661**	**1,105**	**12,020**	**10,648**	**405**	**967**
Total liabilities	73,585	18,651	33,438	21,496	79,051	24,000	33,836	21,215

The main items under bonds and debentures relate to old bonds issued by Deutsche Bundespost amounting to EUR 11.8 billion, and bonds issued by Deutsche Telekom International Finance B.V., Amsterdam, with the following conditions:

Structure of the 2000 global bond:

Tranche	Nominal amount	Nominal amount in	Nominal interest rate	Maturity
Euro	2,250,000,000	2,250,000,000	6.625%	2005
Euro	750,000,000	750,000,000	7.125%	2010
British pound	625,000,000	960,218,750	7.625%	2005
British pound	300,000,000	460,905,000	7.625%	2030
U.S. dollar	3,000,000,000	2,858,799,000	8.250%	2005
U.S. dollar	3,000,000,000	2,858,799,000	8.500%	2010
U.S. dollar	3,500,000,000	3,335,265,500	8.750%	2030
Japanese yen	90,000,000,000	722,952,000	2.000%	2005

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Structure of the 2001 eurobond:

Tranche	Nominal amount	Nominal amount in	Nominal interest rate	Maturity
Euro	4,500,000,000	4,500,000,000	6.375%	2006
Euro	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 %. The change in the interest rate has already been included in the tables. If Deutsche Telekom is promoted back to at least A- level, the coupons will be reduced again by 0.5%.

Structure of the 2002 global bond:

Tranche	Nominal amount	Nominal amount in	Nominal interest rate	Maturity
Euro	2,000,000,000	2,000,000,000	8.125%	2012
Euro	2,500,000,000	2,500,000,000	7.500%	2007
U.S. dollar	500,000,000	476,466,500	9.250%	2032

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

Deutsche Telekom International Finance B.V. is a wholly owned subsidiary of Deutsche Telekom and the bonds issued by that subsidiary are fully and unconditionally guaranteed by Deutsche Telekom AG.

Breakdown of bonds and debentures as follows (in millions of):

	Effective interest rate					
	up to 6%	up to 7%	up to 8%	up to 9%	over 9%	Total
Due in						
2003	5,880	2,557			98	8,535
2004	2,757	3,192	6,212	159		12,320
2005	2,123	2,450	960	2,859		8,392
2006	421	4,500				4,921
2007	500	500	2,500		110	3,610
after 2007	2,105	705	6,429	8,194	1,541	18,974
	13,786	13,904	16,101	11,212	1,749	56,752

Liabilities to banks (mainly loan notes and short-term loans) due in the next 5 years and thereafter are as follows:

Due in	Amounts

	(millions of)
2003	1,341
2004	557
2005	2,582
2006	161
2007	234
after 2007	1,417
	6,292

The average effective interest rates for our debt positions are:

for bonds and debentures	6.69% p.a. (2001: 6.81% p.a.)
for liabilities to banks	5.74% p.a. (2001: 5.82% p.a.)

Deutsche Telekom has agreements with a number of banks pursuant to which it can draw on credit facilities up to EUR 22.6 billion. These include syndicated credit facilities agreed by Deutsche Telekom AG and T-Mobile UK for EUR 12 billion (Deutsche Telekom syndicated credit) and EUR 4.2 billion (T-Mobile

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

UK syndicated credit). Deutsche Telekom AG serves as guarantor of the T-Mobile UK consortium credit. The level of the interest rates depends on Deutsche Telekom s rating, the amount of the syndicated credit and the LIBOR rate plus margin ranking to be applied, from 0.275% to 0.500%. The loan commitment fee is between 0.050% 0.200% and also depends on Deutsche Telekom s rating. EUR 2.0 billion of the T-Mobile UK consortium credit has been used at December 31, 2002. This syndicated credit facility has an average interest rate of 4.69% excluding the loan commitment fee.

Part of the syndicated credit serves as collateral for Deutsche Telekom s commercial paper program. Deutsche Telekom cannot draw on the syndicated credit to the amount of the drawings on the commercial paper. At December 31, 2002, Deutsche Telekom issued commercial paper in the amount of EUR 1.5 billion. There were no additional outstanding debts relating to the Deutsche Telekom syndicated credit at the end of 2002. Deutsche Telekom s credit facilities continue to include short-term bilateral bank lines amounting to EUR 6.4 billion, of which, at the end of 2002, EUR 0.7 billion had been used for short-term drawings and EUR 0.8 billion for guarantees.

The development of debt is shown in millions of euros as follows:

(*) unaudited

The Company s original debt was raised principally to finance the development of the communications networks in eastern Germany.

The reasons for the increase in debt in 2000 include the payment for UMTS licenses, the initial investment in T-Mobile USA/Powertel, the increase in the shareholding in MATAV and the acquisition of Slovenske Telekommunikacie and debis Systemhaus.

The increase in debt in 2001 was mainly attributable to the acquisition and consolidation for the first time of T-Mobile USA/Powertel.

Debt decreased in 2002, despite the acquisition of the remaining shares in debis Systemhaus and Ben, by around EUR 4 billion, mainly resulting from cash generated from operations, sales of real estate and financial assets and changes in foreign currency rates.

Liabilities include borrowings of EUR 20,777 million (2001: EUR 17,799 million) denominated in foreign currencies.

Certain debt agreements contain affirmative and negative covenants, including financial covenants, and provide for various events of default. As of December 31, 2002, Deutsche Telekom and its subsidiaries were in compliance with these covenants. Additionally, certain subsidiaries of Deutsche Telekom are or may be subject to debt covenants that restrain the payment of dividends or the making of loans to Deutsche Telekom AG. With regard to non-wholly owned subsidiaries, agreements with minority shareholders or generally applicable principles of law relating to the rights of minority shareholders may in some instances restrict the ability of Deutsche Telekom to direct the payment of dividends or making of loans from those subsidiaries to Deutsche Telekom AG. The ability of subsidiaries to pay dividends may be subject to limitations relating to the availability of sufficient retained earnings or other local law requirements of general applicability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other liabilities:

	As of December 31,	
	2002	**2001**
	(millions of)	
Interest	1,556	1,586
Rental and leasing obligations	573	569
Loan notes	842	659
Liabilities to employees	164	153
Other	2,854	3,598
	5,989	**6,565**

Other liabilities include taxes of EUR 1,159 million (Dec. 31, 2001: 2,200 million) and social security liabilities of EUR 153 million (Dec. 31, 2001: EUR 131 million).

Liabilities in the amount of EUR 0 million (2001: EUR 120 million) payable by subsidiary companies to banks and third parties are collateralized. Deutsche Telekom AG has provided no collateral against its liabilities.

In accordance with Postreform II (§ 2 (4) of the Stock Corporation Transformation Act Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG s liabilities which were outstanding at January 1, 1995.

NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

The consolidated statements of cash flows has been prepared in conformity with International Accounting Standard (IAS) No. 7, Cash Flow Statements. Besides IAS 7, German Accounting Standard (DRS) No. 2, cash flow, as approved by the German Standardization Council (DSR), is also used in preparing the consolidated statement of cash flows.

Liquid assets and short-term investments with original maturities of less than 3 months at the date of purchase are considered cash equivalents in the preparation of the consolidated statements of cash flows. These current cash and cash equivalents decreased by EUR 1.0 billion to EUR 1.7 billion in 2002.

(30) Net Cash Provided by Operating Activities

Net cash provided by operating activities in 2002 amounted to EUR 12.5 billion. This represents an increase of EUR 0.5 billion compared with the previous year. This improvement is attributable in part to lower net interest payments resulting from the reversal of hedges, increases in accruals of EUR 1.4 billion and the change in non-cash transactions of EUR 2.3 billion. These are mainly the result of valuation adjustments for loans to associated companies of Kabel Deutschland GmbH (EUR 0.3 billion) and for the net carrying amount of Deutsche Telekom s stake in France Telecom (EUR 0.6 billion).

(31) Net Cash Used for Investing Activities

Net cash used for investing activities amounted to EUR 10.1 billion compared with EUR 5.4 billion in the previous year. The cash outflow of EUR 14.6 billion for investments in noncurrent assets is mainly attributable to investments in property, plant and equipment of EUR 6.8 billion, the full acquisition of T-Systems ITS GmbH (formerly debis Systemhaus) amounting to EUR 4.7 billion and the purchase of Ben for EUR 1.7 billion. Disposals resulted in a cash inflow of EUR 3.1 billion. The main factors here are the sale of real estate amounting to EUR 1.3 billion and the sale of shares in T-Online for EUR 0.7 billion. Disposals also included the sale of the shares in France Telecom and Satelindo for a total of EUR 0.6 billion.

Compared with the previous year, this results in a reduction of EUR 3.1 billion in cash outflows for investments in property, plant and equipment and a decrease in cash inflows from disposals, which in the previous year mainly related to the sale of the shares in Sprint (EUR 3.4 billion) and WIND (EUR 2.7 billion) and the sale of the cable company in Baden-Wuerttemberg (EUR 0.9 billion).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) Net Cash Provided by (Used for) Financing Activities

Net cash used in financing activities decreased in 2002 by EUR 1.4 billion compared with 2001 to EUR 3.4 billion. 2002 financing activities included approximately EUR 1.8 billion of cash used to reduce debt, and EUR 1.6 billion of cash used to pay the 2001 dividend to shareholders.

OTHER INFORMATION

(33) Guarantees and Commitments, and Other Financial Obligations

Guarantees and Commitments

	As of December 31, 2002	As of December 31, 2001
	(millions of)	
Guarantees	47	224
Liabilities arising from guarantee agreements	927	66
	974	**290**

The increase in liabilities from guarantee agreements relates mainly to obligations and indemnifications of T-Mobile International AG in connection with a EUR 909 million QTE (Qualified Technology Equipment) lease financing transaction.

Deutsche Telekom AG, DaimlerChrysler Services AG, Berlin and Compagnie Financiere et Industrielle des Autoroute S.A., Sevres Cedex (Cofiroute, France) as a consortium (TollCollect) have reached an agreement with the Federal Republic of Germany for the development and operation of a system for the recording and collection of toll charges for commercial vehicles. Deutsche Telekom and DaimlerChrysler Services AG, Berlin, each hold a 45% stake in the consortium and Cofiroute 10%. Under the terms of the agreement, the consortium has guaranteed successful completion of the system for the recording and collection of toll charges. This project consists of various phases with corresponding penalties for delayed completion. The system is scheduled to start operation in August 2003. The consortium has also guaranteed the continued successful operation of the system. An operating company will receive a defined level of remuneration for this purpose. If the development of the system does not proceed according to plan or if the system does not work after the start of operation, the consortium will be liable to pay contractual penalties, the amount of which cannot be reasonably estimated. This entails risks of joint and several liability.

Other Financial Obligations

	As of December 31, 2002			As of December 31, 2001		
		of which due			of which due	
	Total	in the following financial year	from second year after the balance sheet date	Total	in the following financial year	from the second year after the balance sheet date
	(millions of)					
Present value of payments to special pension fund	9,001	831	8,170	9,372	845	8,527
Purchase commitments for interests in other companies	826	218	608	6,872	5,022	1,850

Obligations under rental and lease agreements	10,050	1,813	8,237	6,839	1,269	5,570
Purchase commitments for capital projects in progress including obligations arising from future expenditure	1,213	1,141	72	3,201	3,142	59
Commitments arising from transactions not yet settled	475	364	111	444	315	129
Total other financial obligations	**21,565**	**4,367**	**17,198**	**26,728**	**10,593**	**16,135**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The present value of payments that Deutsche Telekom is required to make in accordance with Postreform II to the Company s special pension fund for civil servants, or its successor, on the basis of the 1998 life expectancy tables prepared by Prof. Klaus Heubeck amounted to EUR 9.0 billion at December 31, 2002, of which EUR 3.8 billion relates to future years of service of the active civil servants.

In 2002, purchase commitments for interests in other companies consist mainly of EUR 490 million relating to the obligation to acquire additional shares in PTC (EUR 128 million) and obligations of T-Mobile and T-Online in venture funds totaling approximately EUR 160 million. The decrease in purchase commitments for interests in other companies relate mainly to the exercise of the option held by DaimlerChrysler AG, Stuttgart, to sell Deutsche Telekom the remainder of its shares in T-Systems ITS GmbH, Leinfelden-Echterdingen (formerly debis Systemhaus) (EUR 4.7 billion); this option was exercised at the beginning of 2002. Furthermore, T-Mobile International AG fulfilled its obligation to take over additional shares in Ben in September 2002. The exercise price for this financial obligation as reported here in the previous year was EUR 1.7 billion.

During 2002, the Company sold real estate to a newly established real estate fund for EUR 525 million. In connection with the sale, the Company has committed to lease back the real estate sold for a period of 15 years. The Company has a call right to acquire all the shares of the real estate fund after 10 years, and the shareholders of the fund have the put right to compel the Company to acquire all the shares of the real estate fund after 16 years. The call and put prices are formula based, determined on the then cash flow multiples generated by the transferred real estate, and adjusted for outstanding mortgage loans at the time of exercise. Based on current market conditions, the undiscounted future put price would be approximately EUR 420 million, net of mortgage loans assumed of approximately EUR 210 million.

The increase in obligations under rental and lease agreements relates mainly to sale and lease back transactions for real estate.

The decrease in purchase commitments for capital projects in progress relates mainly to Deutsche Telekom AG. The decrease is mainly attributable to the reduction in investment activities.

The commitments arising from transactions not yet settled relate mainly to purchase commitments for UMTS and 3G equipment by T-Mobile to Siemens, Nokia and Nortel (total of EUR 354 million). There are detailed agreements covering the purchase quantities and periods.

Litigation, Claims and Assessments

A number of purported class action lawsuits have been filed and consolidated in the United States District Court for the Southern District of New York by or on behalf of purported purchasers of the ADSs issued pursuant to a registration statement on Form F-3 filed with the Securities and Exchange Commission on May 22, 2000, and pursuant to a prospectus dated June 17, 2000, and purported purchasers of our ADSs during the period from June 19, 2000, to and including February 21, 2001. The operative complaint in these consolidated actions asserts claims against the Company and the former Chairman of the Management Board, and others, under U.S. federal securities statutes based on allegations that statements made in the registration statement and prospectus were materially false and misleading because Deutsche Telekom allegedly failed adequately to disclose detailed information relating to merger negotiations with VoiceStream Wireless Corporation, and allegedly overstated the value of its real estate portfolio. The Court has certified the action as a class action and defined the class to include all purchasers of its ADSs during the period from June 19, 2000, to and including February 21, 2001.

Approximately 260 lawsuits have been filed in Germany by purported purchasers of its shares sold pursuant to prospectuses dated May 28, 1999 and May 26, 2000. These lawsuits allege that the book values the Company recorded for its real property portfolio were improperly established and maintained under German accounting principles. In many of these lawsuits, claims have also been made with respect to the VoiceStream transaction analogous to those made in the purported U.S. class action lawsuits described above. These lawsuits are pending before the District Court in Frankfurt am Main. It is too early for the Company to express a view of the possible outcome of the lawsuits. The presiding judge has issued a statement describing his preliminary view that it will be necessary to take evidence by obtaining an expert opinion. The presiding judge also stated that he is inclined to order a stay of the civil litigation until the criminal proceedings in the pertinent matter will be resolved. The court will probably decide on the stay in the course of the next months.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company is contesting each of the aforementioned lawsuits vigorously. Because the lawsuits, which in the aggregate involve substantial damage claims, are in their preliminary stages, the Company is not in a position to predict their outcome or impact. However, the Company believes that the allegations in the lawsuits do not provide a basis for the recovery of damages because all required disclosures were made on a timely basis.

On October 3, 2002, T-Mobile UK Ltd. (T-Mobile UK) commenced proceedings in London, United Kingdom, against its joint venture partners, Bluebottle UK Ltd. and Bluebottle Investments S.A. (which are both companies affiliated with the Virgin Group of companies) and also against the joint venture company itself, Virgin Mobile Telecomms Ltd. (Virgin Mobile). As part of the joint venture, T-Mobile UK is required to pay Virgin Mobile a lump sum per month for each Virgin Mobile customer. Virgin Mobile is required to pay T-Mobile UK a fee per minute used by its customers on the T-Mobile UK network. The complaint contained a number of allegations, including the right of T-Mobile UK to terminate the Joint Venture through a no-fault termination process. Virgin Mobile counter-claimed for payment of sums that Virgin Mobile claimed had been improperly withheld by T-Mobile UK in relation to Virgin Mobile customers who had not made an outbound call for a certain period of time. Virgin Group has filed a separate proceeding against T-Mobile UK seeking certain declarations that alleged breaches by T-Mobile UK of the Shareholders Agreements governing the joint venture arrangement have occurred and that the Virgin Group is consequently entitled to serve on T-Mobile UK a compulsory sale notice requiring it to sell its shares in Virgin Mobile to Virgin Group for a nominal sum. The Virgin Group statement of claim also asks for further or other relief and costs but no quantification of these has been made. On March 6, 2003, the High Court in London rendered a decision in the action filed by T-Mobile UK and the counter claim filed by Virgin Mobile and held, in relevant part, that T-Mobile UK did not have the right to terminate the joint venture arrangement, and that it was unreasonable to expect T-Mobile UK to continue to pay Virgin Mobile with respect to customers that have been inactive for a significant period. Accordingly, under the judgment, the joint venture arrangement continues, but T-Mobile UK s payment obligations with respect to Virgin Mobile inactive customers have been resolved in T-Mobile UK s favour. The payments claimed by Virgin Mobile in respect of inactive customers have not been paid by T-Mobile UK but appropriate financial provisions have been and continue to be made. Oral applications for leave to appeal were made on March 14, 2003 by both T-Mobile UK and Virgin Mobile but were declined. Those applications for leave to appeal are likely to be renewed before the Court of Appeal, but T-Mobile UK is still assessing the full impact of both decisions and is in the process of determining whether or not to pursue the appeal of certain aspects of the ruling. The declarations action for alleged breach filed by the Virgin Group will not be heard by the Court until late 2003.

The Bonn public prosecutor is conducting an investigation (*Ermittlungsverfahren*) into allegations in the press and elsewhere asserting that the book values the Company recorded for its real property portfolio and fixed assets in general, including technical equipment and machinery, have been improperly established and maintained under applicable accounting principles and so were substantially overvalued in the 1995 opening balance sheet and in later balance sheets. The Bonn public prosecutor has notified the Company that his investigation also goes into whether the Company underpaid its German corporate income and trade taxes because amortization and depreciation were higher than they should have been as a result of the alleged overstatement. The Company believes that the book values of the fixed assets have been correctly presented in accordance with applicable accounting principles, and dispute allegations to the contrary. The Company has nonetheless been cooperating fully in the investigation and is interested in seeing it expeditiously resolved. According to press reports, the public prosecutor indicated in early 2003 that his investigation would also cover the allegations described in the preceding paragraph. The Company cannot offer assurances as to the timing or outcome of the prosecutor s investigation. Deutsche Telekom believes that the investigation is being conducted with regard to certain individuals and is not directed against it. Adverse consequences for Deutsche Telekom could follow if any of the individuals who are or who become the subject of the investigation were found to have violated the law.

The Bonn public prosecutor is also conducting other investigations. One investigation concerns alleged breaches of duty by members of the Supervisory Board and past and present members of the Management Board with regard to our 2001 stock option program, the issuance of stock options and other management compensation arrangements with the Management Board, benefits paid or to be paid to the former Management Board chairman in connection with his withdrawal from the company and other circumstances of his withdrawal. Another investigation concerns allegations that members and former members of the

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Company s Management Board breached their duties by causing the Company to pay excessive consideration for VoiceStream and Powertel. The Company understands both of these investigations are being conducted with respect to individuals and are not directed against the Company as a corporate entity. In each case, the Company believes that the Company and its board members acted appropriately. Adverse consequences for the Company could follow from these investigations, however, if the individuals who are the subjects of the investigations are found to have violated the law. The Company is cooperating in the investigations.

The Bonn public prosecutor is further investigating allegations in the press and elsewhere asserting that the Company is involved in systematic wrongful billing. The Company has denied these allegations, but has been cooperating fully in the investigation and is interested in seeing it expeditiously resolved. The Company cannot offer assurances as to the timing or outcome of the prosecutor s investigations.

In September 1998, Deutsche Post AG commenced an arbitration proceeding seeking contributions from the Company relating to the cost of employee housing for former Deutsche Bundespost employees, including a number of its employees. In 1995, responsibility for the housing of former employees of Deutsche Bundespost was assigned to Deutsche Post AG. The parties have different views as to the amount the Company is obliged to pay as cost reimbursement for the use of such employee housing for its employees. Deutsche Post AG currently is seeking payment in the amount of EUR 114 million from the Company, although the Company expects that Deutsche Post AG may claim further amounts in the event that its initial claim is successful. In March 2000, the Company raised counterclaims in the amount of EUR 62.6 million reclaiming down payments from 1995 and 1996. The outcome of the arbitration proceeding is uncertain.

Media reports have suggested that radio frequency emissions from wireless handsets and cell sites may raise various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. Whether or not such research or studies conclude there is a link between radio frequency emissions and health, these concerns over radio frequency emissions may discourage the use of wireless handsets and may result in significant restrictions on the location and operation of cell sites, either or both of which could have a material adverse effect on the Company s or on T-Mobile USA s results of operations. T-Mobile USA is subject to current, and potentially future, litigation relating to these health concerns. Several amended class action lawsuits have been filed against T-Mobile USA and several other wireless service operators and wireless phone manufacturers, asserting products liability, breach of warranty and other claims relating to radio frequency transmissions to and from wireless handsets. The complaints seek substantial money damages as well as injunctive relief. The defense of these lawsuits may divert management s attention, and T-Mobile USA may be required to pay significant awards or settlement and may incur significant expenses in defending these lawsuits. In addition, T-Mobile USA could be subject to potential litigation, legislation or adverse publicity relating to damage caused by persons who use mobile telephones while driving.

In April 2001, QPSX Europe GmbH filed suit for a permanent injunction with the District Court in Munich (*Landgericht Munich*) against the Company and Siemens AG, alleging that the companies are both infringing on plaintiff s patent by providing services using Asynchronous Transfer Mode (ATM) technology. Since ATM technology is used in a number of products and services which the Company offers, e.g. T-DSL and T-ATM, an adverse outcome in this proceeding could have a substantial adverse effect on its business.

(34) Derivative Financial Instruments

The Company uses derivative financial instruments for the purpose of hedging interest rate and currency exposures which arise from its ongoing business operations. The Company s policy is to hold or issue derivative financial instruments to eliminate risk exposures instead of creating new risk. Derivative financial instruments are subject to internal controls.

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

The main interest rate instruments used are interest rate swaps. These are entered into with the aim of transforming the coupons on bonds, and the interest rates on loans and financial assets, in accordance with a

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mix of fixed and floating rate interest instruments that is laid down once a year. Interest rate swaps are designated as hedging instruments for specific liabilities or groups of similar liabilities. Cross currency interest rate swaps usually synthetically convert foreign currency bonds or medium-term notes into target currencies.

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

The Company uses foreign currency forward contracts and foreign currency options purchased as well as cross currency interest rate swaps to reduce fluctuations in foreign currency cash flows related to capital expenditures and financial liabilities. Foreign currency forward contracts hedging firm commitments to invest in a foreign entity are not recognized at the balance sheet date. The investment in the purchased entity is capitalized using the foreign exchange rate fixed by the foreign currency forward contract. The Company purchases options to hedge firm commitments to invest in a foreign entity. A purchased option is included in other assets and measured at historical cost. Upon exercise of the option, the premium is included in the purchase cost of the asset. Gains and losses resulting from foreign currency forward contracts, cross currency interest rate swaps and foreign currency financing which relate to the net investments in foreign entities are recorded in the cumulative translation adjustment account.

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

The forward foreign exchange contracts fix amounts the Company is required to pay in the future in euro for a contractually fixed amount of foreign currency forward contracts and currency options.

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The following is a summary of the contract or notional principal amounts outstanding and the average interest paid/received at December 31, 2002 and 2001:

	As of December 31, 2002				As of December 31, 2001			
	Maturity	Notional amount	Average interest rate paid	Average interest rate received	Maturity	Notional amount	Average interest rate paid	Average interest rate received
		(millions of)				(millions of)		
Interest rate swaps (EUR)								
Receive fixed, pay variable	2003-2010	12,019	3.26%	4.44%	2002-2010	9,686	3.72%	4.69%
Forward receive fixed, pay variable	2005	820	EURIBOR6M	4.21%				
Receive variable, pay fixed	2003-2010	4,652	5.23%	3.07%	2002-2010	3,251	5.73%	3.25%
Interest rate swaps (USD)								
Receive fixed, pay variable	2003-2008	1,144	2.11%	8.00%	2002-2030	11,249	2.08%	7.92%
Receive variable, pay fixed					2002-2008	595	6.23%	2.44%
Forward receive variable, pay fixed	2007	2,859	5.07%	USDL6M				
Interest rate swaps (GBP)								
Receive variable, pay fixed	2003-2006	1,575	5.91%	3.94%	2002-2030	9,243	6.37%	4.20%
Forward receive variable, pay fixed	2005	307	6.04%	GBP6MLibor	2004-2005	1,642	6.06%	GBP6MLibor
Interest rate swaps (JPY)								
Receive fixed, pay variable	2005	723	0.32%	1.50%	2005	778	0.34%	1.50%
Interest rate swaps (CZK)								
Receive fixed, pay variable	2004	13	3.18%	8.14%	2004	13	4.88%	8.14%
Interest rate swaps (HUF)								
Forward receive variable, pay fixed	2006	269	9.25%	BUBOR6M				
Interest rate caps / collars	2003	38			2002-2003	400		
Cross currency interest rate swaps sold	2003-2032	6,437	5.29%	3.05%	2002-2030	15,129	4.00%	1.52%
Forward cross currency interest rate swaps sold	2006	252	BUBOR6M	EURIBOR6M				
Foreign currency forward contracts								
Forward purchases	2003-2008	1,955			2002-2008	229		
Forward sales	2003-2006	2,917			2002-2004	12,336		
Currency options	2003	4			2002	15		

The notional amounts of the derivative financial instruments do not generally represent amounts exchanged by the parties and, therefore, are not a direct measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated through reference to the notional amounts and by other terms of the derivatives, such as interest rates, exchange rates or other indices.

(35) Segment Reporting

Deutsche Telekom applies SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* and the German Accounting Standard Segment Reporting (DRS 3) for the calculation of segment information. In accordance with the aforementioned, companies must disclose information on their operational segments in accordance with their internal reporting structures. Under SFAS No. 131 and DRS 3, Deutsche Telekom has the following operational segments for which reporting is required: T-Com, T-Systems, T-Mobile and T-Online. The segments for which reporting is required are strategic divisions which differ in their products and services, their relevant sub-markets, the profile of their customers and their regulatory environment.

The valuation methods used for the Group segment reporting correspond mainly to those used in the German consolidated financial statements. Deutsche Telekom evaluates the segments performance based on income before taxes; the operational figures EBIT and EBITDA are also used. Based on income before taxes, EBIT does not include extraordinary income (losses) or net financial income (expense). EBITDA additionally excludes depreciation and amortization. As in 2001, no single matter in the 2002 financial year was shown in the Deutsche Telekom Group s consolidated financial results as extraordinary income / loss; the expenses for the initial public offering of T-Online and the planned initial public offering of T-Mobile International AG accounted for the extraordinary loss of EUR 159 million in 2000.

Revenues generated and goods and services exchanged between segments are, as far as possible, calculated on the basis of market prices. Income taxes and taxes chargeable as expense are not assigned to individual segments. With the exception of depreciation and amortization, no major noncash items are shown

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in the segments. The income (loss) related to associated and related companies relates to income from investments and associated companies, as well as write-downs of financial assets and marketable securities.

Segment assets under segment reporting include the remaining book value of property, plant and equipment, intangible assets and financial assets. Segment investments are defined as additions to noncurrent assets. In addition, the segment assets and segment investments are shown by geographical regions; assignment to the individual regions is generally by the location of the asset. Refer to note (1) for the presentation of revenue by regions. In accordance with DRS 3, liabilities have been assigned to the segments since the 2000 financial year. As part of Group segment reporting, these liabilities include debt and other liabilities, excluding tax liabilities.

		Net revenue	Revenue between segments	Depreciation and amortization	Net interest income (expense)	Income (loss) related to associated and related companies	Income (loss) before taxes	Segment assets	Segment investments	Segment liabilities	Employees[(1)]
						(millions of)					
T-Com	2002	25,422	4,776	(5,537)	(565)	(304)	3,539	33,778	3,272	12,983	152,836
	2001	25,028	4,391	(5,443)	(350)	(509)	4,614	36,109	6,128	13,266	148,247
	2000	24,455	4,927	(6,417)	(793)	(214)	4,904				
T-Systems	2002	7,793	3,517	(2,616)	(98)	(20)	(1,981)	6,646	3,551	5,268	43,482
	2001	8,316	3,583	(1,372)	102	13	(382)	5,807	1,525	5,022	41,994
	2000	6,021	3,791	(807)	(114)	15	2,420				
T-Mobile	2002	18,229	1,506	(27,285)	(1,005)	(427)	(23,679)	57,655	5,766	20,224	38,943
	2001	12,994	1,643	(6,324)	(3,008)	(204)	(6,399)	86,704	28,418	21,657	30,124
	2000	8,994	1,362	(2,337)	(1,370)	(127)	(2,350)				
T-Online	2002	1,672	158	(208)	131	(121)	9	934	171	265	2,765
	2001	1,338	111	(189)	168	(134)	(233)	983	118	258	3,008
	2000	1,038	90	(93)	127	(9)	2,628				
Other	2002	573	3,838	(1,298)	(2,510)	(1,093)	(4,454)	12,978	551	34,539	17,870
	2001	633	4,481	(1,447)	(1,102)	(375)	352	17,237	1,618	38,846	18,287
	2000	431	4,770	(1,324)	(1,018)	2,188	701				
Reconciliation	2002		(13,795)	64	(1)	(9)	(220)	(465)	(149)	(853)	
	2001		(14,209)	(446)	52	(1)	(456)	(124)	(109)	(2,198)	
	2000		(14,940)	(2,013)	71	14	(1,970)				
Group	2002	53,689		(36,880)	(4,048)	(1,974)	(26,786)	111,526	13,162	72,426	255,896
	2001	48,309		(15,221)	(4,138)	(1,210)	(2,504)	146,716	37,698	76,851	241,660
	2000	40,939		(12,991)	(3,097)	1,867	6,333				

(1) Average figures for the year

Segments by Geographic Area

	Segment assets		Segment investments	
	December 31, 2002	December 31, 2001	December 31, 2002	December 31, 2001
		(millions of)		
Germany	51,707	55,490	6,883	7,669
European Union (excluding Germany)	20,370	26,499	2,694	1,908
Rest of Europe	12,006	12,218	1,173	1,952
North America	26,448	51,527	2,228	25,519
Other	995	982	184	650

Group	**111,526**	**146,716**	**13,162**	**37,698**

T-Com

The T-Com division is one of the largest fixed-network operators in Europe, operating around 57.5 million lines including ISDN channels. In Germany, T-Com serves residential customers and small and medium-sized business customers with 51 million lines including ISDN channels and a broad range of products and services. As a full-service provider, T-Com offers approximately 440,000 small and

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medium-sized companies integrated solutions consisting of information technology and telecommunications. T-Com is present in the markets of Central and Eastern Europe with shareholdings in Matav (Hungary), Hrvatske telekommunikacije (Croatia) and Slovenske Telekommunikacie (Slovakia). At the end of the year under review, the division had approximately 148,900 employees throughout Europe.

The increase of EUR 394 million in net revenue to EUR 25,422 million relates mainly to the first full-year consolidation of Hrvatske telekomunikacije in the 2002 financial year. Furthermore, decreases in call revenues were offset in the period under review by the increase in access revenues, particularly as a result of the growth in the number of advanced ISDN channels and T-DSL lines. This positive development of net revenue was offset by price measures for domestic traffic terminating in the mobile and fixed networks, direct network interconnection between mobile communications carriers and competitors, as well as the deconsolidation of the cable company in Baden-Wuerttemberg in 2001.

Revenue from business with other segments amounting to EUR 4,776 million relates mainly to network and support services billed by T-Com to other segments and the provision of fixed-network terminal equipment for other segments.

Depreciation and amortization in the period under review was slightly higher than in the previous year. This is mainly attributable to the first full-year consolidation of Hrvatske telekomunikacije in the 2002 financial year. The net interest expense reflects the level of financial liabilities assigned to the segment. The increase in net interest expense compared with the previous year is predominantly a result of less favorable interest rates. The decrease in the loss related to associated and related companies is mainly attributable to lower valuation adjustments for loans to associated companies of Kabel Deutschland GmbH compared with the previous year. Excluding these factors in 2002 and 2001, the result related to associated and related companies remained almost stable at the level of the previous year.

Income before taxes of EUR 3,539 million in this segment was lower than in the previous year. Besides the aforementioned changes in revenue, depreciation and amortization, results related to associated and related companies and net interest expense, this development is particularly attributable to other operating income relating to the sale of the cable companies in Baden-Wuerttemberg and the regional Kabelservice companies in North-Rhine Westphalia and Hesse in 2001 for EUR 997 million. There were no comparable activities in the year under review.

The decrease in segment assets to EUR 33,778 million relates in particular to a decrease in property, plant and equipment at T-Com. This development is mainly attributable to scheduled depreciation of property, plant and equipment. The investments in T-Com s segment assets were mainly made in technical equipment and advance payments and construction in progress, as in the previous year. Capital expenditure decreased in comparison with the previous year. Segment liabilities consist mainly of financial liabilities.

T-Systems

T-Systems serves Deutsche Telekom s domestic and international systems customers. T-Systems offers comprehensive services from the field of information technology (IT) and telecommunications (TC) as well as e-business solutions from the IT / TC convergence sector. The legal integration of T-Systems ITS GmbH (formerly debis Systemhaus) was completed in the year under review; Deutsche Telekom acquired the remaining 49.9% of the shares in the company from DaimlerChrysler and merged T-Systems ITS GmbH with T-Systems International GmbH at the end of 2002. The area Carrier Services National has been part of the T-Com division since January 1, 2002. In return, the area Carrier Services International, previously part of T-Com, has been reassigned to the T-Systems segment. The figures for the previous year have been adjusted accordingly.

Net revenue in 2002 was EUR 7,793 million, EUR 523 million lower than the previous year s figure of EUR 8,316 million. This decrease is mainly attributable to price reductions in the area of international carrier services, limited orders from key account customers due to the difficult economic situation and the slow development of data communications business in network service business. Furthermore, the sale of businesses in France and in the Netherlands had a negative impact on the development of net revenue.

Revenue from business with other segments also decreased slightly to EUR 3,517 million. T-Systems CSM and T-Systems Nova in particular contributed to the decrease in revenue. T-Systems CSM and T-Systems Nova mainly bill IT / development services to the other segments.

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The increase of EUR 1,244 million in depreciation and amortization is particularly attributable to nonscheduled depreciation and amortization of goodwill and property, plant and equipment amounting to EUR 600 million. Furthermore, effects were also recorded from the increased level of capital expenditure in 2001 and the correspondingly increased level of depreciation and amortization in 2002, and the nonscheduled depreciation and amortization of submarine cables in the North Atlantic / Pacific as well as additional amortization of goodwill relating to the acquisition of the remaining 49.9% of the shares in T-Systems ITS GmbH. Net interest expense in the year under review amounted to EUR 98 million, compared with net interest income of EUR 102 million in the previous year. This was mainly attributable to the loan-based financing of the acquisition of the remaining shares in T-Systems ITS GmbH.

Segment assets amounting to EUR 6,646 million consist mainly of intangible assets, in particular goodwill relating to T-Systems ITS. The increase in segment assets in 2002 is mainly attributable to the considerably increased investment in intangible assets compared with the previous year as a result of the acquisition of the remaining shares in T-Systems ITS GmbH in the first quarter of 2002. Segment liabilities consist mainly of financial liabilities.

T-Mobile

The business of T-Mobile combines all the activities of the T-Mobile International group. Via its subsidiaries, T-Mobile offers a transatlantic GSM mobile communications network and thus the advantages of a uniform technical platform, mainly for a broad range of customers in Germany, the United Kingdom, the USA, Austria, the Czech Republic and the Netherlands. T-Mobile International also holds stakes in Poland, Russia and Canada. Besides T-Mobile International AG as the parent company, the companies fully consolidated include T-Mobile Deutschland, T-Mobile UK, T-Mobile USA / Powertel, T-Mobile Austria, RadioMobil, and Ben.

The increase in net revenue by EUR 5,235 million to EUR 18,229 million reflects in particular the considerable increase in the number of subscribers in almost all the mobile communications networks under T-Mobile s majority control. Furthermore, the full-year consolidation of T-Mobile USA, Inc./ Powertel and RadioMobil also had a positive impact on net revenue in 2002. These companies were only consolidated for seven months (T-Mobile USA, Inc./ Powertel) and nine months (RadioMobil) respectively in 2001. The consolidation of Ben for the first time at the end of September 2002 contributed to the remaining increase.

Revenue of EUR 1,506 million from business with other segments was primarily generated within Germany through network interconnection services (so-called mobile terminated calls).

The increase in depreciation and amortization in the 2002 financial year is mainly attributable to the need for write-downs on goodwill at T-Mobile USA and Ben and on mobile communications licenses at T-Mobile USA and T-Mobile UK, amounting to EUR 20,795 million, resulting from the strategic review. In the previous year, by contrast, this figure consisted merely of a nonscheduled amortization of goodwill of EUR 1,040 million relating to the establishment of the name T-Mobile as a global brand for mobile communications at T-Mobile UK and T-Mobile Austria. Furthermore, changes in the composition of the T-Mobile group, relating to the acquisition of T-Mobile USA / Powertel and RadioMobil in 2001 and the consolidation of Ben Nederland Holding B.V. for the first time in 2002, also contributed to the increase.

The improved net interest expense, from EUR 3,008 million in the previous year to EUR 1,005 million in 2002, is mainly attributable to a reduction in interest expense at T-Mobile International AG relating to the conversion of loans from Deutsche Telekom AG to shareholders equity in the previous year. In this respect, the early repayment penalty of EUR 569 million included in the interest payments in the previous year no longer applies in the year under review. Changes in the composition of the T-Mobile group had an offsetting effect in 2002, leading to increased interest expense.

The consolidation of Ben for the first time in the 2002 financial year and the first full-year consolidation of T-Mobile USA / Powertel and RadioMobil in 2002 also had an impact on income before taxes. The increase in subscriber numbers at T-Mobile USA and the corresponding increase in advertising and marketing expenses also continued to have an impact on the development of income before taxes.

The decrease in segment assets is mainly attributable to the need for write-downs on intangible assets, resulting from the strategic review. Investments in the segment in 2002 relate in particular to investments in property, plant and equipment and intangible assets. The decrease in segment liabilities is mainly a result of the considerable reduction of debt.

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T-Online

The T-Online segment is one of the leading online providers in Europe, measured in terms of subscriber numbers and revenue. It is represented with companies in France, Spain, Portugal, Austria and Switzerland. T-Online operates a combined business model comprising access and non-access activities (advertising / e-commerce). Besides the T-Online group, the T-Online segment also includes DeTeMedien.

The net revenue of the T-Online segment increased further in the year under review by EUR 334 million to EUR 1,672 million and thus continued the trend of 2000 and 2001. The positive developments in both the access and non-access business areas make particular contributions to the revenue growth in 2002. The increase in the number of subscribers in the access area and increased portal revenues in the non-access area made particular contributions to the continued positive development of revenues in 2002.

T-Online also recorded a slight increase in revenue of EUR 47 million from the internal provision of services between segments.

The segment generated income before taxes of EUR 9 million in 2002, compared with a loss before taxes of EUR 233 million in 2001. This development is mainly attributable to the increase in revenues, which had a positive impact on income before taxes despite increased depreciation and amortization and the increase in net interest expense in the period under review.

The assets of the T-Online segment consist mainly of intangible assets, which relates to the capitalization of goodwill. The increase in investments in segment assets relates mainly to the acquisition of the shareholding in Bild.T-Online AG, recorded under financial assets. The liabilities of the segment are at approximately the same level as in the previous year and consist mainly of liabilities to subsidiaries.

Other

Other includes all Group units which cannot be allocated to an individual segment. These include the Deutsche Telekom Group headquarters, as well as the subsidiaries and shared services assigned to it, such as real estate, billing services, fleet management and the newly established Personnel Service Agency (PSA), as well as various competence centers and other subsidiaries, associated and related companies of the Group. The real estate area was restructured in 2002. Furthermore, fleet management was established as a separate company, DeTeFleetServices GmbH, in the third quarter of 2002 for the development, provision and operation of corporate fleet solutions. The business of the Central and Eastern European telecommunications companies MATAV, Slovenske Telekommunikacie and Hrvatske telekommunikacije, previously assigned to the segment Other in the 2001 financial statements, have been re-assigned to T-Com since January 1, 2002. The figures for the previous year have been adjusted to reflect this change in structure.

The net revenue of the segment Other, EUR 573 million, consists to a considerable extent of the revenues generated by the real estate companies. The decrease compared with the previous year is attributable to the deconsolidation of DeTeSat.

The decrease of EUR 643 million in revenue from business with other segments is mainly the result of lower intra-Group revenues. On the one hand, cost savings in the area of customer billing were passed on to the divisions, on the other hand, use of real estate services by the divisions was lower than in the previous year.

The decrease in depreciation and amortization is mainly attributable to the nonscheduled depreciation on real estate in the previous year, for which there are no comparable measures in 2002. The increase of EUR 1,408 million in net interest expense is due to a considerable extent to the conversion of receivables from T-Mobile International AG into shareholders equity in 2001. The interest income generated by this measure is offset by a corresponding decrease in interest expense in the segment T-Mobile. Furthermore, the loss related to associated and related companies increased from EUR 375 million in 2001 to EUR 1,093 million in 2002. This development is mainly attributable to the valuation adjustment of EUR 613 million on the shares held in France Telecom and a valuation adjustment on investments in noncurrent securities of EUR 384 million.

The development of results continued to be influenced to a considerable extent by the high level of proceeds from the sale of the Sprint FON and PCS shares in the previous year, for which there are no comparable proceeds in the year under review. The increase in other operating expenses, which relates mainly to expenses associated with the sale of receivables and expenses relating to the standardization of the names

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of individual mobile communications operators, also contributed to the decline of the result before taxes to a loss of EUR 4,454 million in the 2002 financial year.

The decrease in segment assets to EUR 12,978 million is attributable in particular to the decrease in property, plant and equipment and financial assets. This was the result in particular of the sale of a first tranche of real estate assets and the sale of the shares held in France Telecom. The considerable decrease in liabilities in the period under review is mainly attributable to the reduction of debt.

Reconciliation

The items included in the reconciliation column relate mainly to consolidation measures. The reconciliation does not include any additional items for the period under review. In 2001, this included a final nonscheduled write-down in the form of a general valuation adjustment amounting to EUR 466 million, made as part of Deutsche Telekom s strategy to separate itself more quickly from a considerable proportion of its real estate portfolio. This valuation adjustment, which does not affect the operational segments, has no effect on the internal operation of the segments.

(36) Information on the Board of Management and the Supervisory Board of Deutsche Telekom AG

In the 2002 financial year, the Supervisory Board was paid remuneration and meeting attendance fees of EUR 555,702. Members of the Supervisory Board do not receive performance-related compensation.

Board of Management members receive fixed and variable, performance-based remuneration and the Presiding Committee of the Supervisory Board may decide to extend stock options from the applicable Deutsche Telekom AG Stock Option Plan to members of the Board of Management. The ratio of fixed and variable remuneration in the past financial year was approximately 60%: 40%. The intention is to attach an equal weighting to both elements of Board of Management remuneration. Performance-based remuneration is determined on the basis of the targets agreed between the Supervisory Board Presiding Committee and the Board of Management members and the extent to which these targets are achieved. This is assessed by the Presiding Committee on closure of the financial year.

Provided that the 2002 financial statements of Deutsche Telekom AG are approved in their current form:

The remuneration of the Board of Management will amount to EUR 14,478,818.28 for the past financial year. No stock options were granted to the members of the Board of Management in the 2002 financial year. Remuneration paid to former members of the Board of Management and their surviving dependents totaled EUR 26,437,713.11. The figure reported here increased considerably compared with the previous year on account of the reorientation of the Group Board of Management and the resulting personnel changes on the Board of Management, including the position of Chairman, as described in the Supervisory Board s report to the 2003 shareholders meeting. The Company published the amounts to be expensed in conjunction with the restructuring of the Board of Management on November 28, 2002. The accrual set up for ongoing pensions and pension entitlements for this group of persons amounted to EUR 38,089,883. Pension obligations to such persons for which no accrual had to be established amounted to EUR 3,368,531.

The members of the Board of Management and former members of the Board of Management, respectively, have not received any loans from the Company.

(37) Proposal for Appropriation of Net Income (Loss) of Deutsche Telekom AG

The statement of operations of Deutsche Telekom AG reflects a net loss of EUR 3,001 million. Including the unappropriated net income of EUR 23 million carried forward from 2001 and the withdrawal of EUR 2,978 million from retained earnings in 2002, the cumulative unappropriated net income is nil.

(38) Declaration of Compliance with the German Corporate Governance Code in Accordance with § 161 of the AktG

In accordance with § 161 of the AktG, the Board of Management and the Supervisory Board submitted the mandatory declaration of compliance, and made it available to shareholders on Deutsche Telekom s site on the Internet on December 19, 2002.

The declaration of compliance of the publicly traded subsidiary T-Online International AG was made accessible for shareholders on T-Online International AG s Internet site.

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(39) Fair Value

The following table presents fair values and carrying amounts for certain account balances.

	As of December 31, 2002		As of December 31, 2001	
	Fair value	Net carrying amount	Fair value	Net carrying amount
	(millions of)			
Assets				
Other investments in related companies	1,169	1,021	2,024	1,895
Other long-term loans	109	107	534	534
Other investments in noncurrent securities	238	238	880	879
Receivables	6,258	6,258	6,826	6,826
Liquid assets	1,905	1,905	2,868	2,868
Other investments in marketable securities	413	413	702	702
Liabilities				
Bonds and debentures	60,144	56,752	60,568	58,301
Liabilities to banks	6,368	6,292	8,730	8,730
Other liabilities	10,541	10,541	12,020	12,020
Derivative financial instruments[1]				
Interest rate swaps	67	(230)	532	(34)
Interest rate caps / collars purchased	0	0	(3)	(1)
Cross currency interest rate swaps sold	(488)	(190)	(152)	270
Foreign currency forward contracts	12	28	(250)	(81)

(1) Amounts in parentheses represent liabilities.

Fair values were determined as follows:

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

The fair value of debt which is publicly traded, primarily bonds and debentures, is estimated based on quoted market prices at year end. The fair value of liabilities to banks is estimated using discounted cash flows. The fair value of off-balance sheet financial instruments generally reflects the estimated amount the Company would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains and losses of open contracts. The estimated fair values of derivatives used to hedge or modify the Company s risk will vary substantially with future changes in interest rates or with fluctuations in foreign exchange rates. These changes in fair values should not be viewed in isolation, but rather in relation to changes in the values of the hedged item in the transaction.

At December 31, 2002 and 2001, the carrying values of investments in other related companies were EUR 1,021 million and EUR 1,895 million, of which the carrying value of companies whose shares are publicly traded was EUR 752 million and EUR 734 million, respectively. The fair values of investments in other related companies that are not publicly traded are not practicably determinable.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Reconciliation to U.S. GAAP

The consolidated financial statements of Deutsche Telekom AG have been prepared in accordance with German GAAP, which differs in certain respects from generally accepted accounting principles in the United States (U.S. GAAP). Application of U.S. GAAP would have affected the results of operations for each of the years in the three-year period ended December 31, 2002 and the balance sheets as of December 31, 2002 and 2001 to the extent described below.

Reconciliation of Net Income (Loss) from German GAAP to U.S. GAAP:

		For the year ended December 31,		
		2002	2001	2000
			(millions of)	
Net income (loss) as reported in the consolidated financial statements under German GAAP		(24,587)	(3,454)	5,926
U.S. GAAP reconciling adjustments				
Differences in long-lived assets:				
Differences in fixed assets	(a)	422	401	2,792
Mobile communications licenses	(b)	4,519	2,098	865
Internally developed software	(c)	40	166	95
Goodwill and asset differences	(d)	(2,292)	(285)	(97)
Write-down of tradenames	(e)	(1,038)	1,040	
Effects of dilution gains	(f)	(260)	(396)	1,741
Derivatives and related foreign exchange differences	(h)	(48)	(31)	(146)
Implementation of SFAS 133	(h)		370	
Accruals for personnel restructuring	(i)	294	10	(125)
Deferral of gains on divestitures	(j)	321	27	(348)
Deferred income	(k)	(97)	(168)	48
Implementation of SAB 101, cumulative to December 31, 1999	(k)			(869)
Capital raising and financing costs	(l)			120
Asset-backed securitizations	(m)	175	(71)	
Investments in equity investees	(n)	345	(182)	62
Effects of full consolidation of debis, net of tax	(o)	(28)	(294)	(116