DEUTSCHE TELEKOM AG
Form 20-F
March 30, 2004
As filed with the Securities and Exchange Commission on March 30, 2004

SECURITIES AND EXCHANGE COMMISSION

Form 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

for the fiscal year ended December 31, 2003

OR

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

Commission file number 1-14540

Deutsche Telekom AG

(Exact Name of Registrant as Specified in its Charter)

Germany

(Jurisdiction of Incorporation or Organization)

Friedrich-Ebert-Allee 140, 53113 Bonn, Germany

(Address of Registrant's Principal Executive Offices)

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

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

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

NONE

(Title of Class)

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

NONE

(Title of Class)

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

Ordinary Shares, no par value: 4,195,081,597 (as of December 31, 2003)

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

Yes No

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

Item 17 Item 18

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

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DEFINED TERMS

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

GERMAN GAAP

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with the requirements of the German Commercial Code (HGB — German GAAP). See notes (41) through (44) to our consolidated financial statements for the years ended December 31, 2003, 2002 and 2001 included in this Annual Report for a description of the principal differences between German GAAP and U.S. generally accepted accounting principles (U.S. GAAP), as they relate to us and our consolidated subsidiaries, and a reconciliation of net income and shareholders' equity to U.S. GAAP.

FORWARD-LOOKING STATEMENTS

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

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

Forward-looking statements generally are identified by the words "expects," "anticipates," "believes," "intends," "estimates," "aims," "plans," "will," "will continue," "seeks" and similar expressions. The "Risk Factors" discussion in Item 3, "Strategy" discussion in Item 4, "Operating and Financial Review and Prospects — Outlook for 2004" discussion in Item 5 and "Quantitative and Qualitative Disclosures About Market Risk" discussion in Item 11 in particular contain numerous forward-looking statements, although such statements also appear elsewhere in this Annual Report.

Forward-looking statements are based on current plans, estimates and projections, and therefore you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events, although we intend to continue to meet our ongoing disclosure obligations under the U.S. securities laws (such as our obligations to file annual reports on Form 20-F and reports on Form 6-K) and under other applicable laws. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. These factors include, among other factors:

- risks and uncertainties relating to the benefits anticipated from our international expansion, particularly in the United States;
- risks and costs associated with integrating our acquired businesses and with selling or combining businesses or other assets;

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

- the level of demand in the market for our debt instruments and our shares and for the debt instruments and shares of our subsidiaries and associated companies, as well as for assets which we may decide to sell, which may affect our financing and acquisition strategies;
- the development of the German real estate market in view of our goal of monetizing a portion of our real estate portfolio;
- our ability to achieve cost savings and realize productivity improvements;
- our ability to attract and retain qualified personnel, particularly in light of our cost reduction efforts;
- risks of infrastructure failures or damage due to external factors, including natural disasters, intentional wrongdoing, sabotage, acts of terrorism or similar events;
- the effects of foreign exchange rate fluctuations, particularly in connection with subsidiaries operating outside the euro zone; and
- changes in general economic conditions, government and regulatory policies, new legislation and business conditions in the markets in which we and our affiliates operate.

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

Certain information in this Annual Report was provided by external sources. Due to the rapid changes in our industry, it is possible that some of this information is no longer accurate. Assessments

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of market share in particular involve the use of information released or estimated by regulatory authorities, our competitors, third parties or us.

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

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PART I

ITEM 1. Identity of Directors, Senior Management and Advisors

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable

Not applicable.

ITEM 3. Key Information

SELECTED FINANCIAL DATA

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

The selected consolidated financial information as of and for each of the five years ended December 31, 1999 through 2003 are extracted or derived from our consolidated financial statements and the notes thereto, which have been audited by Ernst & Young Deutsche Allgemeine Treuhand AG Wirtschaftspruefungsgesellschaft and PwC Deutsche Revision Aktiengesellschaft Wirtschaftspruefungsgesellschaft in the case of the periods ended and at December 31, 2003, 2002 and 2001, and by PwC Deutsche Revision Aktiengesellschaft Wirtschaftspruefungsgesellschaft in the case of the periods ended and at December 31, 2000 and 1999.

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Selected Consolidated Financial Data of the Deutsche Telekom Group

	% Change 2003/2002[1][2]	2003	2002	2001	2000	1999
		(billions of €, except as otherwise indicated)				
Income Statement Data						
Net revenue	4.0%	55.8	53.7	48.3	40.9	35.5
Results from ordinary business activities	n.m.	1.4	(27.2)	(2.5)	6.4	3.1
Net income (loss)	n.m.	1.3	(24.6)	(3.5)	5.9	1.3
Balance Sheet Data						
Total assets	(7.7)%	116.1	125.8	164.5	124.2	94.6
Debt (in accordance with the consolidated balance sheet)	(12.1)%	55.4	63.0	67.0	60.4	42.3
Shareholders' equity	(4.5)%	33.8	35.4	66.3	42.7	35.7
Cash Flow Data[3]						
Net cash provided by operating activities	14.9%	14.3	12.5	11.9	10.0	9.6
Net cash used for investing activities	79.4%	(2.1)	(10.0)	(5.4)	(27.7)	(18.7)
Net cash provided by (used for) financing activities	(52.1)%	(5.2)	(3.4)	(4.8)	17.9	8.0
U.S. GAAP Data						
Net income (loss)	n.m.	2.9	(22.1)	0.5	9.3	1.5
Shareholders' equity	(0.9)%	45.0	45.4	73.7	46.1	37.6
Total assets	(2.3)%	145.9	149.4	180.7	135.2	97.5

Ratios and Selected Data						
Investment in intangible assets (excluding goodwill) and property, plant and equipment	21.4%	(6.2)	(7.9)	(11.2)	(23.5)	(5.9)
Capital expenditures	20.9%	(6.0)	(7.6)	(10.9)	(23.5)	(6.0)
Equity ratio (%)(4)	3.6%	29	28	39	33	36
Number of employees averaged over the year (full-time employees excluding trainees) (thousands)	(1.8)%	251	256	242	205	198
Revenue per employee (thousands of euro)(5)	5.7%	222	210	199	201	183
Earnings (loss) per share/ADS in accordance with German GAAP — basic and diluted (euro)(6)	n.m.	0.30	(5.86)	(0.93)	1.96	0.43
Earnings (loss) per share/ADS in accordance with U.S. GAAP — basic and diluted (euro)(6)	n.m.	0.70	(5.31)	0.14	3.06	0.53
Dividend per share/ADS (euro)(7)	—	—	—	0.37	0.62	0.62
Dividend per share/ADS (USD)(7)(8)	—	—	—	0.34	0.53	0.58

n.m. — not meaningful

(1) Change from 2002 to 2003 on the basis of the more exact figures expressed in millions.

(2) Increases in the size of negative numbers are expressed in percentage terms with negative percentage amounts, and decreases are expressed with positive percentage amounts.

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

(4) Total stockholders' equity divided by total assets.

(5) Calculated on the basis of the average number of employees for the year without trainees/student interns.

(6) Based on dividing net income (loss) by the weighted average number of ordinary shares outstanding. The share/ADS ratio is 1:1.

(7) Dividends per share are presented on the basis of the year in respect of which they are declared, not the year in which they are paid.

(8) Dividend amounts have been converted into U.S. dollars at the noon buying rate for the relevant dividend payment date, which occurs during the second quarter of the following year.

Exchange Rates

Beginning the first quarter of 1999, we began publishing our consolidated financial statements in euros and, unless otherwise indicated, all amounts in this document are expressed in euros. Amounts stated in euros appearing in this document for periods prior to December 31, 1998, have been converted from Deutsche marks at the official fixed conversion rate of EUR 1.00 = DM 1.95583.

As used in this document, "euro" or "EUR" means the single unified currency that was introduced in the Federal Republic of Germany (referred to as the Federal Republic) and ten other participating member states of the European Union on January 1, 1999. "Deutsche mark" or "DM" means the currency that was the lawful currency of the Federal Republic before it was replaced by the euro. "U.S. dollar" or "USD" means the lawful currency of the United States of America. As used in this document, the term "noon buying rate" refers to the rate of exchange for either Deutsche mark or euro, expressed in U.S. dollar per Deutsche mark or euro, as announced by the Federal Reserve Bank of New York for customs purposes as the rate in The City of New York for cable transfers in foreign currencies. Unless otherwise stated, conversions of euro into U.S. dollars have been made at the rate of EUR 1.00 to USD 1.2597, which was the noon buying rate on December 31, 2003.

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

In order that you may ascertain how the trends in our financial results might have appeared had they been expressed in U.S. dollars, the table below shows the average noon buying rates in The City of New York for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York for U.S. dollar per euro for the fiscal years presented.

The following table sets forth, for the periods indicated, the average, high, low or period-end noon buying rates for the euro expressed in U.S. dollars per EUR 1.00.

Year or month	Average(1)	High	Low	Period-End
		(in USD per €)		
1999	1.0588	1.1812	1.0016	1.0070
2000	0.9207	1.0335	0.8270	0.9388
2001	0.8909	0.9535	0.8370	0.8901
2002	0.9495	1.0485	0.8594	1.0485
2003	1.4111	1.2597	1.0361	1.2597
2003				
October		1.1833	1.1596	1.1609
November		1.1995	1.1417	1.1995
December		1.2597	1.1956	1.2597
2004				
January		1.2853	1.2389	1.2452
February		1.2848	1.2426	1.2441
March (through March 26, 2004)		1.2428	1.2088	1.2092

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

On March 26, 2003, the noon buying rate was USD 1.2092 per EUR 1.00.

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

RISK FACTORS

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

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

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

Our business depends on general economic conditions in Germany, other European countries and the United States. The climate for and values of investments in the telecommunications sector have worsened in recent years. This was reflected in particular in the restrained investment activities by key customers. Although there were signs of a moderate revival in activity in our sector during the second half of 2003, there is a risk that key customers' willingness to invest in information and communication technology services will not increase to the extent we expect, which may adversely affect our business plan and outlook for 2004, including possibly resulting in a reduction in revenues.

If the economy remains weak and consumer behavior does not improve, the achievement of our growth targets will be endangered especially with regard to the level of demand for innovative services such as multimedia services in mobile communications and higher-value accesses in the fixed-line network. Over the medium- and long-term this could have a negative impact on our results of operations.

Since we operate in a heavily regulated environment, decisions by regulatory authorities may impose significant limits on our flexibility to manage our business and may force us to offer services to competitors and reduce prices of our products and services, which may have a material negative impact on our revenues and our market shares.

T-Com (fixed-line telephony networks)

The German Regulatory Authority for Telecommunications and Post (Regulierungsbehoerde fuer Telekommunikation und Post) (the "German telecommunications regulator"), considers us, through our T-Com division, to be a market-dominant provider in several markets, especially in the market for fixed-line telephony services. In 2003, many decisions of the German telecommunications regulator were implemented to increase competition in the markets for local calls and for narrow and broadband access to the T-Com fixed-line telecommunications network. These regulatory decisions have had and others that may follow are expected to have significant effects on the level of competition in the markets for regional and local calls and local access to our fixed-line network and will continue to have a negative impact on T-Com's revenues in these markets. Risks also emanate from the possible regulatory authorization of an increase in charges for the termination of calls from our T-Com network into the networks of city carriers without a corresponding increase in charges for the termination of calls from city carriers into our T-Com network (through the elimination of reciprocity for call termination charges).

Additionally, the German government is required to amend the German Telecommunications Act to implement the new European Union telecommunications regulatory framework. We believe the proposed amendments will considerably extend regulation, particularly in the area of access service obligations, which could have a material negative impact on our revenues. Even though the new EU regulatory framework is aimed at reducing government regulation, the proposed amendments to the German Telecommunications Act may result in additional legal obligations for us and a continued reduction in pricing and market share.

We are also subject to the laws and regulations of other countries where we or our affiliates have fixed-line network operations. The business impact of increased regulation on our subsidiaries in Eastern Europe will depend on the way in which national regulatory authorities use their newly acquired powers and on whether competitors take advantage of regulatory decisions designed to foster increased competition. New telecommunications legislation has been or will be adopted in Hungary, Croatia and Slovakia in 2004, which will have the effect of reducing prices and market share in these countries.

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T-Mobile (mobile communications)

Although the current draft of the German Telecommunications Act does not explicitly provide for regulation in the area of mobile communication, regulatory intervention, particularly with respect to call termination charges, cannot be excluded. Regulatorily mandated reductions in call termination charges in the United Kingdom and elsewhere have already had a negative impact on revenues for call termination.

Our mobile communications operations in the United States, the United Kingdom, the Netherlands, the Czech Republic, Croatia, and Austria are supervised by regulatory authorities. We expect possible tightening of regulatory control in the area of mobile communications by the European Union with a probable negative effect of price reductions in international roaming and call termination charges. In the United States, potential new consumer protection regulations could cause T-Mobile USA to incur considerable additional expenses in the future in the area of customer data administration.

Our telecommunications systems and operations in the United States are regulated by the U.S. Federal Communications Commission (FCC) and by various other federal, state and local government bodies. Various other federal, state and local governmental agencies may also exercise jurisdiction over mobile communications operators. Any of the aforementioned agencies could adopt regulations or take other actions that could adversely affect our business. If we fail to comply with applicable regulations, we may be subject to sanctions, which may have an adverse effect on our wireless business in the United States. FCC regulations applicable to mobile communications operators include, among other things, regulations concerning required service features and capabilities, such as number pooling and portability and emergency 911 service.

T-Mobile USA's capacity and coverage expansion is dependent on its ability to acquire additional spectrum licenses, which are granted by the FCC or otherwise regulated by the FCC if acquired from third party operators. The failure to obtain sufficient capacity and spectrum coverage would have a material adverse impact on the quality of services in the United States and our ability to provide future services in some markets.

T-Online (internet access)

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

For further information regarding these requirements and other aspects of the regulatory regimes to which our businesses are subject, see "Item 4. Information on the Company — Regulation."

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

T-Com (fixed-line networks)

Our fixed-line network voice telephony service revenues have been declining in recent years due to price reductions imposed by regulatory authorities to increase competition and also due to substitution of fixed-line usage by mobile communications. Although we expect the increasing trend towards broadband lines and other forms of upgraded access lines to continue, such increase could be affected by entry of new competitors and saturation of the market. Competition has become fiercer due to decisions of the German telecommunications regulator in 2003 (in particular, the launch of "call-by-call" and "carrier pre-selection" in the local network in Germany). This increased competition may result in a further drop in prices and continued loss of our market share. The increase in competition from mobile operators and other fixed-line carriers is expected to continue for the foreseeable future, resulting in an erosion in our market share in certain areas and also resulting in continued decrease in revenues from these markets.

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

T-Mobile (mobile communications)

Despite its disproportionately strong growth in terms of customer additions, T-Mobile USA still maintains a relatively small market share in the United States compared to other national mobile operators. Consolidation among U.S. mobile telecommunications operators, such as the recently announced acquisition by Cingular of AT&T Wireless, may have a negative effect on growth and profitability for the company over the medium- and long- term. T-Mobile USA shares a network with Cingular Wireless in California, Nevada and the New York City metropolitan area, through a joint venture. T-Mobile USA would likely have to incur significant capital expenditures or other costs to service its customers in California and Nevada and to enhance the network in the New York City market if this joint venture terminates as a result of the merger between Cingular and AT&T Wireless announced in February 2004 or otherwise. The joint venture has a two-year service tail after termination. We are monitoring the potential effects of the merger between Cingular and AT&T Wireless very closely. However, we have not as yet determined the effect, if any, that this merger will have on the operations of T-Mobile USA or its arrangement with Cingular. Unanticipated termination of the joint venture with Cingular could have a material adverse effect on our North American mobile operations.

In most of our European markets, competition based on handset subsidies has diminished, but competition based on price, subscription options offered, applications offerings, coverage and service quality remains intense. As European markets have become increasingly saturated, the focus of competition has been shifting from customer acquisition to customer retention. Since customer acquisition and retention expenses are substantial, significant customer defections would have an adverse effect on our results of operations. See also "Item 4. Information on the Company — Description of Business and Divisions — T-Mobile."

T-Systems (information and communication technology)

In its capacity as a provider of solutions covering the entire value chain of information and communications technology, T-Systems is subject to risks associated with the general and regional economies of its customers and the willingness of its customers to invest in information and communication technology services and products. Additionally, the current economic climate has resulted in a decrease in prices and longer sales cycles, which results in lower revenues and higher costs due to under-utilization of capacity and infrastructure.

In addition, the growth potential of our T-Systems division may be limited by its limited international presence compared to some of our other competitors, especially as it relates to maintaining and increasing business with multinational companies. See also "Item 4. Information on the Company — Description of Business and Divisions — T-Systems."

T-Online (internet access)

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

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

As a result of rapid technological progress and the trend towards technological convergence, there is a danger that new and established technologies or products will not only complement one another, but that they also serve as substitutes for one another. Voice over IP and W-LAN are new technologies that have the potential to replace existing technologies and products and reduce our market share and revenues.

Potential risks arise from our dependence on suppliers in each of our divisions, especially in conjunction with the launch of UMTS services ("UMTS" stands for "Universal mobile

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telecommunications system" and is a next generation mobile telecommunications standard). The roll-out of UMTS services in certain markets has been delayed as a result of, among other things, technical issues relating to handsets and as a result of the unavailability of handsets in sufficient quantity and quality. Continued significant delays could adversely affect the level or timing of revenues generated by UMTS services. The lack of market acceptance of UMTS services, which could also have a negative impact on revenues and results of operations, including the possibility of impairment of the value of UMTS licenses.

In addition, there is a risk that we will not succeed in making customers sufficiently aware of existing and future value added new services and creating customer acceptance of these services. This risk exists in particular with respect to our anticipated future growth drivers in the mobile communications area (e.g. mobile data services provided via

UMTS or other technologies) and in the fixed line communications area (e.g. broadband and T-DSL). If our marketing strategy is to be successful, a crucial element will be to make it possible for consumers to experience the value-added offered by our new products and services. This also applies to the area of paid content at T-Online.

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

In September 2002, Deutsche Telekom AG, DaimlerChrysler Services AG, and Compagnie Financière et Industrielle des Autoroutes S.A. (Cofiroute) (individually, the "partners" and collectively, the "consortium") entered into an agreement with the Federal Republic of Germany (represented by the Federal Ministry of Transport) relating to a project to create and operate an innovative system for the collection of highway toll charges for heavy vehicles (the "operating agreement"). The toll collection system is to be created and operated by the joint venture Toll Collect GmbH ("Toll Collect"). DaimlerChrysler Services and we each hold a 45% stake in Toll Collect, with the remaining 10% being held by Cofiroute. Our involvement with Toll Collect includes our equity interest in Toll Collect that is recognized in our consolidated financial statements using the equity method of accounting, and certain financial guarantees. Additionally, certain of our divisions may act as sub-contractors of services to Toll Collect.

The start of operations initially was scheduled for August 31, 2003, but was delayed. On February 25, 2004, we received a 60-day notice of termination of the operating agreement. Although the consortium members reached an agreement with the Federal Republic on February 29, 2004 to continue the toll collection project, there still exist certain risks and uncertainties until the definitive details have been worked out.

Our involvement in Toll Collect entails a range of risks for us which could have a negative impact on our net worth, financial position, and results of operations. We believe our maximum exposure to loss as a result of our interest in Toll Collect could extend beyond the amounts we have invested because of other risks associated with the financial guarantees issued for Toll Collect. This includes the possibility of contractual penalties due to further postponement of the start of operations, claims for damages and losses of revenue from the project, as well as additional expenses. The termination of the agreement by the Federal Ministry of Transport would also have a considerable negative impact on our net worth, financial position, and results of operations. Additionally, it may have a negative effect on our image.

For further information about Toll Collect, see also "Item 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources — Guarantees and Commitments" and "Item 8. Financial Information — Litigation."

Failures in the planned reduction of our staff levels could negatively affect our financial objectives.

We are continuing with our planned reductions in the number of staff. A majority of our staff in Germany, however, are protected against dismissal as a result of their status as civil servants or under statutory provisions and collective bargaining agreements, which situation is having a negative affect on our ability to reduce staff and associated costs.

There is also a risk that individual placements of employees and apprentices transferred to Vivento, our personnel services agency, to jobs in the external labor market will not be possible to the extent originally planned due to the difficult current economic and labor situation in Germany. This would jeopardize our goal to reduce personnel costs. The transfer of employees to Vivento may improve the cost structure of the divisions from which they are transferred, but does not immediately reduce our overall employee costs since the transferred employees remain on our payroll. It is, therefore, important to our cost reduction efforts that employees transferred to Vivento either find alternative productive employment within the group or with third parties. In the case of employees with civil servant status, however, it may be difficult to induce them to surrender their protected status for employment elsewhere in the private sector.

In order to reduce the group's personnel cost ratio, we reached a new collective bargaining agreement with the main labor unions representing employees in March 2004. This agreement includes, among other things, a reduction in wages beginning in March 2004. We intend to simultaneously implement this agreement also for civil servants. There are various risks to meet this target, especially because of the need for a required change in existing statutory regulations to accomplish this.

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

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

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 transmission facilities and antennae "base stations" either or both of which could have a material adverse effect on our mobile communication services business. T-Mobile USA is involved in certain litigation relating to these issues. See "Item 8. Financial Information — Litigation — Other Proceedings."

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

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

For further information about health effects of wireless handsets, wireless data devices and cell sites, see also "Item 4. Information on the Company — Regulation — International Mobile Regulation — USA: T-Mobile USA."

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

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

We are continuously involved in other disputes and litigation with regulators, competitors and other private parties. We cannot guarantee that the ultimate outcome of such legal proceedings will not have a material adverse effect on our results of operations or financial condition.

We are subject to numerous risks relating to legal and regulatory proceedings in which we are currently a party or that could develop in the future. We cannot guarantee that the ultimate outcome

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of such legal proceedings will not have a material adverse effect on our results of operations or financial condition. For information concerning some of the litigation in which we are involved, see "Item 8. Financial Information — Litigation." For information concerning our regulatory environment, see "Item 4. Information on the Company — Regulation."

Future sales of our shares by the Federal Republic or Kreditanstalt fuer Wiederaufbau ("KfW") may adversely affect the trading price of our shares and ADSs.

The Federal Republic, together with KfW, a public-sector entity 80% of which is owned by the Federal Republic, owns approximately 43% of our shares at December 31, 2003.

The Federal Government has sold shares of Deutsche Telekom in the past and may sell additional shares in the future. Significant sales of Deutsche Telekom shares by the Federal Republic or KfW or rumors to that effect could have a negative impact on the market price of our shares and ADSs.

Risks related to changes in exchange rates and interest rates may have an adverse effect on our financial situation

We are exposed to currency risks due to our international business activities. Generally, our treasury department hedges currency risks that have an impact on cash flows. We are also exposed to interest risks primarily in the euro, U.S. dollar and British pound sterling currencies. Interest rate risks arise as a result of fluctuations in interest rates affecting the level of interest payments due in each of these currencies. Once per year, our Board of Management specifies the ratio of fixed and variable debt in these three currencies. Our treasury department takes appropriate measures using derivative instruments to implement the interest-risk management decisions of the Board of Management.

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

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

We review on a regular basis the value of each of our subsidiaries and their assets. In addition to our regular valuations, whenever indications exist (due to changes in the economic, regulatory, business or political environment) that goodwill, intangible assets or fixed assets may be impaired, we consider the necessity of performing certain valuation tests that may result in impairment charges. The recognition of impairments of tangible, intangible and financial assets could cause us to take large non-cash charges against net income, which may lead to a drop in the trading price of our shares.

In 2002, we recognized substantial impairment charges primarily related to T-Mobile USA and our UMTS licenses. The impairment charges related primarily to nonscheduled amortization of goodwill and other intangible assets of certain of our subsidiaries. Such charges were based on changes in expectations of future cash flows attributable to these assets. These nonscheduled amortization charges became necessary as we considered the fair value of these assets to be below their respective carrying values. In 2003 we did not recognize substantial impairment charges.

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

ITEM 4. Information on the Company

INTRODUCTION

The legal and commercial name of our company is Deutsche Telekom AG. We are a private stock corporation organized under the laws of the Federal Republic of Germany. Our registered office is at Friedrich-Ebert-Allee 140, 53113 Bonn, Germany, telephone number +49-228-181-0. Our agent in the United States is Deutsche Telekom, Inc., 101 East 52nd Street, 17th Floor, New York, NY, 10022.

HISTORICAL BACKGROUND

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

The operation of networks (including cable networks) for all telecommunications services other than public fixed-line voice telephony was opened to competition in Germany on August 1, 1996. The telecommunications sector in Germany was further liberalized on January 1, 1998. Since then, we have faced intense competition and have been required to offer competitors access to our fixed-line network at regulated interconnection rates.

Other important events in the development of our business include:

- the expansion and modernization of the telecommunications infrastructure in the former East Germany in the 1990s;
- the complete digitalization of our German telecommunications network in 1997;
- the expansion of our business in Eastern Europe through the acquisition in 1993 of a substantial interest in Matáv, the Hungarian national telecommunications company, and the acquisition of telecommunications subsidiaries in Slovakia, Macedonia, the Czech Republic and Croatia during 2000 and 2001;
- a joint venture with France Telecom and Sprint from 1996 through 2000 and a cooperation agreement with France Telecom from 1998 through 2000;
- the acquisition of One 2 One (now T-Mobile UK) in 1999;

- disengagement from our former strategic alliance with France Telecom and Sprint Corporation commencing in 1999;
- the acquisition of debis Systemhaus (now T-Systems IT-services) in 2000 and 2002;
- the initial public offering of T-Online International in 2000;
- the purchase of licenses allowing T-Mobile to operate UMTS wireless networks in Germany, the United Kingdom, Austria and the Netherlands in 2000 and the Czech Republic in 2001;
- the divestment of our cable assets in 2001 and 2003;
- the acquisition of VoiceStream and Powertel in 2001 (now T-Mobile USA);
- the acquisition of Ben Nederland Holding in 2000/2002 (now T-Mobile Netherlands); and
- the refocusing of our business on our core divisions and debt reduction in 2002 and 2003.

STRATEGY

One of our strategic objectives for the coming years is to become the leading service company in the telecommunications and information technology industry. Another of our strategic objectives is to build on our position as one of the world's leading connectivity providers for fixed and mobile telecommunications services. We also want to capitalize on our online portal and information technology businesses. To accomplish these goals, we have organized our businesses into four main divisions:

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- T-Com (for fixed-line network access and services),
- T-Mobile (for mobile communications),
- T-Systems (for data communications and systems solutions for large business customers) and
- T-Online (for Internet services).

In 2003, we reduced debt, increased cash flows and improved our liquidity position. We reorganized our headquarters to increase the operational responsibility of our divisions. For 2004, we have developed our "Agenda 2004," program consisting of six cross-divisional initiatives:

- Broadband – expand T-DSL penetration in Germany.
- Personnel – increase personnel cost efficiencies through Vivento (our internal personnel service agency) and working hour reductions in the fixed-line segment.
- Innovation – generate new revenues from new services and supply state-of-the-art technologies.
- Quality – provide higher quality to the customer.
- Efficiency – further tighten cost controls and realize synergies in IT, platforms, and procurement.
- Corporate Customers – focus on the growth potential of domestic small and medium sized firms, as well as global accounts.

Although debt reduction remains an important part of our planning, the measures we have already taken in 2003 provide us now with additional flexibility to make capital expenditures and pursue acquisitions, joint ventures or combinations of businesses on a selective basis, where we perceive real opportunity for profitable growth. Transactions may be conducted using newly issued shares of Deutsche Telekom or shares of our affiliates, cash or a combination of cash and shares, and may individually or in the aggregate be material to us. Discussions with third parties may be commenced, on-going or discontinued at any time or from time to time.

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SIGNIFICANT SUBSIDIARIES

The following table shows significant subsidiaries, in terms of revenues, we owned, directly or indirectly, as of December 31, 2003.

Name of Company	Percentage Holding
T-Mobile Deutschland GmbH (T-Mobile Deutschland)(1)	100.00
T-Mobile USA, Inc. (T-Mobile USA)(1)	100.00
T-Mobile Holdings Ltd. (T-Mobile UK)(2)	100.00
T-Mobile Austria GmbH (T-Mobile Austria)(3)	100.00
T-Mobile Netherlands B.V. (T-Mobile Netherlands)(2)	100.00
T-Mobile Czech Republic a.s. (T-Mobile Czech Republic)(4)	60.77
T-Systems International GmbH (T-Systems International)	100.00
T-Systems CDS GmbH(5)	100.00
T-Online International AG (T-Online International)	73.94
DeTeImmobilien, Deutsche Telekom Immobilien und Service GmbH	100.00
GMG Generalmietgesellschaft mbH (GMG)	100.00
Deutsche Telekom Network Projects and Services GmbH	100.00
Magyar Tavkoezlesi Rt. (Matáv)(6)	59.49
Slovak Telecom (formerly: Slovenske Telekomunikacie)	51.00
Hrvatski Telecom HT-Hrvatski telekomunikacije d.d. (Hrvatski Telecom)	51.00

(1)Indirect shareholding via T-Mobile International AG & Co. KG (Deutsche Telekom share: 100%). For purposes of this Annual Report, T-Mobile USA includes T-Mobile USA, Inc. (formerly Voicestream Wireless Corporation) and Powertel, Inc.

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

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

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

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

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

Please refer to our consolidated financial statements for a list of our principal subsidiaries. A list of our subsidiaries as of December 31, 2003 is filed as Exhibit 8.1 to this Annual Report.

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DESCRIPTION OF BUSINESS AND DIVISIONS

T-Com

Our T-Com division is responsible for our fixed-line telecommunications services in Germany and Eastern Europe. Our Eastern Europe subsidiaries also provide mobile and online telecommunications services.

Principal Activities

The principal services offered by our T-Com division are narrow and broadband access to our fixed-line telecommunications network, and domestic and international public fixed-line network voice telephony products and services for individual and business customers (small- to medium-sized enterprises). T-Com operates one of the largest fixed-line networks in Europe with approximately 57.9 million access channels (thereof 51.1 million access channels in Germany, including 23.6 million Integrated Services Digital Network, or ISDN, channels) as of December 31, 2003.

T-Com's telecommunications products and services include:

- network communications services (products and services relating to the fixed-line network, including access and other ancillary telecommunications services, such as Internet protocol-based services and wireless local area networks (W-LAN connections));
- data communications services and solutions to business customers;
- value-added and enabling services (special purpose telephony services);
- terminal equipment sales (the sale, lease and service of telecommunications equipment to its customers and third party maintenance services);
- other fixed-line network services (i.e. installation, maintenance, educational and cable services);
- domestic carrier services (wholesale products (i.e., interconnection services)) to domestic network operators and service providers);
- systems integration and consulting;
- other domestic services, including publishing services and customer programs; and
- network communications, mobile and online services to certain countries in Eastern Europe, through its subsidiaries Matáv (Hungary), Slovak Telecom (Slovakia) and Hrvatski Telecom (Croatia).

Most of T-Com's revenues in 2003 were derived from fixed-line network telephony services (access and call revenue) provided within Germany. For more information, see "Item 5. Operating and Financial Review and Prospects — Segment Analysis — T-Com." On March 13, 2003, T-Com sold its remaining cable television operations. For more information, see "— Broadband Cable."

In August 2003, we began marketing our fixed-line network services in Germany under the "T-Com" brand to create a more distinct market profile for our fixed-line services.

Germany

Network Communications

Network Infrastructure

T-Com has made substantial investments in its telecommunications networks since 1990, including the installation of a new network in the former East Germany. T-Com has introduced asynchronous transfer mode (ATM) technology and wavelength division multiplexing (WDM) technology. ATM is a special type of technology which permits the transmission of a large amount of data (voice, text, audio and video) in high quality using a standard platform. T-Com offers it under the brand name "T-ATM." WDM technology multiplies the transmission capacity of existing fiber optic cables by allowing higher bandwidths than most other technologies.

As of December 31, 2003, T-Com's domestic fixed-line telephone network and ISDN network in Germany consisted of approximately 5,200 local networks (local exchange areas) with approximately

7,900 access areas connected by a long-distance transmission network containing approximately 600 switched network nodes. Local networks, access areas and switched network nodes are the basis for setting tariffs for the local and long-distance calls in Germany.

As of December 31, 2003, the transmission network linking T-Com's German local networks consisted of approximately 195,000 kilometers of fiber optic cable. During 2003, T-Com continued to expand the use of WDM and Synchronous Digital Hierarchy (SDH) infrastructure in its network. SDH is the transport platform upon which T-Com will base its primary digital communications services in the future.

Network Access

In Germany, T-Com offers access to its transmission network for individual customers and business customers. Typically, T-Com customers have access to the transmission network by means of a copper wire that runs from the transmission network into the home or office of a customer. These access lines can either be standard analog access lines or digital access lines. Digital access lines also are called ISDN lines. In addition, analog and digital access lines can be enhanced by increasing broadband capacity through asymmetric digital subscriber line or ADSL technology, which T-Com markets under the brand name "T-DSL." In the larger German cities, T-Com offers its customers access via glass fiber access networks capable of higher bit rates, which increase broadband capacity.

T-Com offers its customers a variety of line packages that generally consist of a monthly fixed payment for access and a variable, usage-based component for traffic volumes. With T-DSL services, T-Com offers an access connection for a monthly fixed payment to its individual customers, who — in addition — have to sign a contract with Internet Service Providers, such as T-Online, in order to get access to the Internet. For business customers using T-DSL, T-Com not only offers basic access but also ISP services.

In addition to making access lines available to our direct customers, we are also required to make access lines available to competitors at rates that are below the rates we charge to our customers.

Analog Access Lines

An analog access line — the traditional telephone line — provides a single telecommunications channel. As of December 31, 2003, approximately 27.5 million analog lines were connected to T-Com's network platform, marketed under the brand name "T-Net."

As of February 1, 2003, regulatory price cap provisions governing the prices for the provision of our fixed-line services resulted in a decrease in traffic charges and an increase in access charges. The monthly access charge for an analog telephone line increased by EUR 0.39 to EUR 13.72. The German telecommunications regulator approved a change of the price cap regime as of September 1, 2003. This allowed T-Com to make a further increase in the access charge for analog lines. Since September 1, 2003, the basic monthly access charge for a T-Net analog line has been EUR 15.66. As part of this price measure, the basic monthly charge for T-Net 100 (a T-Net analog line including an optional call plan) increased to EUR 18.45. Since September 1, 2003, the one-time activation fee has been EUR 59.95 and the charge for assuming service on an existing line is EUR 29.94. These prices apply both to analog and ISDN lines. As part of the price cap-related changes, however, there have been decreases in traffic and call charges mandated by the German telecommunications regulator. We expect this rebalancing trend to continue for the foreseeable future. For more information, see "— Regulation."

To protect our customer base and market shares in Germany, T-Com offers a range of calling plans. For example, for an additional monthly fee, customers can take advantage of particularly low tariffs for local and national calls within Germany or get an allowance of free minutes. To be eligible for most of these new rate plans, customers must have either an analog T-Net or T-ISDN line from T-Com. Some of our competitors have filed complaints relating to two T-Com rate plans ("AktivPlus xxl" and "AktivPlus basic call time 120") approved by the German telecommunications regulator. For further information, see "Item 8. Financial Information — Litigation."

The number of analog lines has decreased in the last few years, primarily as a result of the migration to ISDN. The decline in the number of T-Net lines can also be attributed, to a lesser extent, to losses of market share to other providers and substitution effects from mobile communications. We expect that the number of analog lines will continue to decline due to the migration to more advanced lines, increased competition, and substitution by mobile phones.

The following table provides information concerning the number of T-Com analog and digital access lines in Germany at the dates indicated.

	At December 31,			% change	
	2003	2002	2001	2003/2002	2002/2001
		(in millions)			
Analog access lines (including public phones)	27.5	28.9	30.3	(4.8)%	(4.6)%
ISDN digital access lines (including public phones)	10.4	9.8	8.7	6.1%	12.6%

ISDN Access Lines

T-Com's ISDN services are marketed under the brand name "T-ISDN," and permits a single access line with 64k/bit per second to be used simultaneously for multiple products and services, including voice, data and facsimile transmission. T-ISDN also provides highly reliable connections with faster transmission of signals and increases the capacity of the access network. T-ISDN also offers various convenient features such as caller identification and T-NetBox, the network-based virtual answering machine.

T-Com offers two types of T-ISDN access lines- basic and primary. Basic T-ISDN access lines provide two telecommunications channels per access line and are offered to individual customers and to business customers. Primary T-ISDN access lines provide thirty telecommunications channels per access line and are offered primarily to business customers. In 2003, the number of basic T-ISDN access lines increased approximately 6.1% to 10.3 million as at December 31, 2003. As of December 31, 2003, T-Com had installed approximately 98,000 primary T-ISDN access lines. Through these basic and primary access lines, T-Com provided a total of 23.6 million T-ISDN channels. The number of ISDN lines has continuously grown in the last few years. We expect that the growth in T-ISDN lines will slow down as the market becomes saturated.

The following table shows the number of ISDN access lines and channels currently used by T-Com customers in Germany.

Year	Basic connections	Primary connections	Total ISDN channels
2001	8.6 million	105,000	20.4 million
2002	9.7 million	102,000	22.4 million
2003	10.3 million	98,000	23.6 million

Increasing T-ISDN penetration is a part of T-Com's strategy. Therefore, to attract T-ISDN customers, protect its customer base and market share, T-Com offers multiple ISDN tariff models.

T-DSL

ADSL is a telecommunications technology that permits the transmission of data at very high rates. Most T-DSL customers use 768 k/bit per second connections. T-Com offers standard analog and ISDN access lines enhanced by means of ADSL technology under the brand name "T-DSL." At December 31, 2003, there were approximately 4.0 million T-DSL lines currently in operation.

Year	T-DSL lines in operation
2001	1.8 million
2002	2.8 million
2003	4.0 million

One of the principal benefits of DSL technology is that it permits customers to use standard copper access lines for high-speed access to the Internet. As T-Com expects the Internet to grow in importance as a means of communication in the future, T-Com considers continued growth in the number of T-DSL access lines to be an important strategic priority. In this regard, its broadband product portfolio was expanded to meet the varying demands of individual and business customers and the marketplace through the introduction of additional T-DSL service features.

To further increase broadband penetration throughout Germany, T-Com is required by the German telecommunications regulator to make DSL resale offerings to its competitors in Germany. T-Com competitors will thus be able to market DSL products under their own brands to their customers. In addition, T-Com currently offers line-sharing at no cost. These offerings to its

competitors are aimed at strengthening Germany's position in the European and international broadband market. These line-sharing and DSL pricing measures are also a reaction to the critical view of the European Commission concerning the margin between our DSL and line-sharing tariffs.

In April 2004, T-Com expects to offer its individual and business customers "T-DSL with 1, 2 or 3 megabit/s downstream." The asymmetric T-DSL Business product variations with download speeds of 1, 2 or 3 Mbit/s are designed especially for small and medium-sized businesses. The complete Internet solution from T-Com makes it possible to search cost-effectively on the Internet, send and receive e-mails quickly and create webpages. T-Com also offers corresponding attractive flat rate offers for all asymmetric T-DSL Business product variations. T-Com is in the process of migrating its customer base to new DSL products.

Under the T-DSL Business brand, T-Com also offers a product variation using SDSL (symmetric digital subscriber line) technology that permits upstream and downstream transmission of data at the same (symmetric) high speeds. This product was introduced in 2002 and has been available nationally since 2003 in all existing T-DSL service areas.

Wireless LAN

T-Com offers to individual and business customers a range of products for wireless local area networks (LAN) and complete Internet solutions. Wireless LAN services provide wireless communications based on international broadcasting standards. Transmission rates of up to 54 Mbit/s provide customers with high levels of network performance. A number of the wireless LAN technologies offered complement T-Com's T-DSL broadband offerings. Wireless LAN was until recently an alternative only for business customers. However, recent price reductions for wireless LAN products have made wireless LAN increasingly affordable for individual customers.

In December 2003, T-Com launched a public wireless LAN service aimed at individual customers. In the pilot project, 30 T-Com "Hotspots" were launched. The primary intention is to equip buildings open to the public, such as restaurants and hotels, with wireless LAN in order to give customers wireless access to the Internet. T-Com offers maintenance and equipment to the location owners. Through attractive customer tariffs and simplicity of use, T-Com wants to achieve a high level of acceptance. T-Com intends to introduce a standard tariff with a monthly fee and usage-based pricing. In addition, credit card vouchers will be offered for "try only" use. For the implementation of this service, T-Com cooperates with T-Mobile. Both, T-Com and T-Mobile will offer a networked public wireless LAN service to their customers based on one common network. This means that T-Com customers can also use T-Mobile's Hotspots. T-Com views wireless LAN as another broadband service and an extension of its T-DSL product offerings.

Calling Services

T-Com provides comprehensive local and regional calling services as well as national and international long-distance calling services for individual and business customers that have access to T-Com's fixed-line network.

In the market for long-distance and international calls, T-Com's competitors have made considerable inroads into the market since 1998. Fixed terms for interconnection, which particularly favor competitors that have not invested heavily in infrastructure, enabled competitors to benefit from our infrastructure investments. In Germany, individual and business customers have been free since 1998 to choose providers either through pre-selection (selecting one long-distance carrier to handle all domestic long-distance and international calls on a default selection basis) or through call-by-call selection (selecting a carrier when such a call is made by dialing the carrier's numeric prefix before dialing the telephone number) for long-distance and international calls.

Pre-selection and call-by-call selection for local calls commenced in 2003, which inevitably led to reduced market share for local calls.

We have countered the challenge posed by competitors and alternative networks with reduced tariffs and innovative, customer-oriented and reliable products and services.The introduction of calling plans (calling plans provide customers with attractive, reduced call charges for a monthly fee) was an important element, particularly with regard to call charges, of the response to the competitive environment.

Under the regulatory framework applicable to the German telecommunications sector, T-Com's tariffs for fixed-line network calling services are subject to regulatory approval for as long as we are

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considered to be a market-dominant provider. Furthermore, competitors have taken legal action against the new rate plans. For further information, see "— Regulation."

Data Communications

T-Com offers business customers a full portfolio of data communications services, including:

- Leased lines (marketed under the brand names "SFV" and "DDV") — SFV and DDV are trunk lines offering high levels of security and predefined bandwidths for the construction of corporate networks.
- Ethernet products — The new Ethernet product line, including DDV-M Ethernet 100 and HSE (High Speed Ethernet), provides business customers with innovative, low-priced plug-and-play products for interconnecting customer sites in line with the worldwide Ethernet standard and with high transmission rates (up to 1,000 Mbit/sec).
- VPN products — which connect customer sites as if they were in a private closed network. Many attractively priced or individually tailored services are possible, from standard solutions to large, individually configurable ATM or IP networks, offering high-speed transmission rates and elevated security standards.
- Internet communications applications (marketed under the brand name "CompanyConnect") — CompanyConnect is a professional broadband Internet connection with numerous line variants, such as high availability, guaranteed bandwidth and fixed IP addresses. In addition, IP-Transit, a professional paid peering service, offers worlwide Internetconnectivity for Internet service providers. Intranet communications applications are also part of our data services.
- TDN (installation and operation of customized voice and data communications networks for individual and business customers).

Value-Added Services

In Germany, T-Com offers a range of value-added telephone services for business and private use. These services include toll-free numbers and shared cost numbers for customer relationship management as well as directory assistance numbers and public telephones.

T-Com provides contact routing solutions, primarily to large call center operators. In the media sector, TV and radio stations use T-Com's services, such as "T-VoteCall," to enable viewers and listeners to participate actively in programs and to extend audience loyalty. T-VoteCall and the "Mass Calling Platform" are used to process a large volume of calls. In the entertainment sector, T-Com's premium rate services (0190 and 0900 exchanges) enable information and entertainment packages to be sold and billed by telephone or via the Internet.

Terminal Equipment

Through its terminal equipment business, T-Com distributes an extensive range of telecommunications equipment under its own brand. Products range from individual telephone sets and facsimile machines, targeted at individual customers, to more complex telephones, private branch exchanges (PBXs) and complex network systems (including DSL access devices), targeted at business customers.

T-Com's terminal equipment can be purchased or rented.

Other Fixed-Line Network Services

T-Com also provides installation, maintenance, hotline, customer education, software installation and network management services. Product-related maintenance service levels are offered to individual customers under the brand names "Compact-Service" and "Comfort-Service." Tailored services are available to business customers.

Broadband Cable

On March 13, 2003, T-Com sold its interest in the six remaining regional cable companies in Hamburg/Schleswig-Holstein/Mecklenburg-Western Pomeranian, Lower Saxony/Bremen,

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Berlin/Brandenburg, Rhineland-Palatinate/Saarland, Bavaria and Saxony/Saxony-Anhalt/Thuringia. In July 2003, T-Com also sold its remaining 40% interest in the regional cable company in Baden-Wuerttemberg.

Domestic Carrier Services (Wholesale Services)

T-Com's business with other telecommunications carriers is conducted through T-Com and T-Systems. Since January 1, 2002, T-Com has had business responsibility for services for domestic network operators and service providers. T-Systems has been responsible for the international carrier services business.

Wholesale Services not only provides the products and services for domestic network operators and service providers (or carriers), but also supplies — subject to regulatory constraints — Deutsche Telekom's other divisions. Wholesale services consist primarily of interconnection services for operators of fixed-line networks and mobile communications networks, carrier-specific transmission paths, access to the unbundled subscriber lines that run into an end-customer's premises (the "unbundled local loop") and IP-services, these being the transport of broadband and narrowband internet traffic to Internet service providers.

In the domestic market, the German telecommunications regulator determines the terms on which T-Com provides interconnection to competitors as well as access to the unbundled local loop so that competitors have direct access to customers. The terms for interconnecting T-Com's telephone network with the networks of other national network operators and service providers are contained in bilateral contracts. At December 31, 2003, T-Com had 93 interconnection partners; interconnection agreements existed with 61 of these partners, while in 32 cases interconnection was conducted on the basis of an interconnection order from the German telecommunications regulator.

There was slight growth in leased lines provided to other carriers. Our method of determining the number of leased lines changed within Wholesale Services during 2003. Prior to 2003, the number of leased lines was calculated in accordance with the total number of channels provided over all lines. In 2003, we began a new method of counting only the lines (products) irrespective of the number of channels. For more information, see "— Regulation — Regulation in Germany — Special Network Access and Interconnection — Fixed-Fixed Interconnection."

System Integration and Consulting

T-Lan

T-Com offers local area networking and communications services to increase planning and operation services for computer networks.

E-Business

T-Com offers e-business products to business customers. Revenues from e-business services have been increasing in recent years. T-Com offers business customers web hosting products and solutions designed to provide our customers with an Internet presence (websites) and facilitate e-business for T-Com's customers. T-Com provides the platforms and manages the software needed for integration into the relevant communications networks. The e-business products and solutions provided to T-Com's customers are modular in structure, affording flexibility and ease with respect to the incorporation of additional modules and features. We see particular potential for growth in the areas of eHealth (an introduction of patient records management in Germany in 2004), eGovernment (a solution for local and state governments targeted at public administration), and eTraffic (a solution targeted at intregrated traffic control from techonology and freight carriers).

Other Domestic Services

Publishing Services

Our business activities focus on the marketing of advertising in paper and online telephone directories and the publication and distribution of telecommunications directories in Germany in cooperation with small and medium-sized publishing companies. These products are published in a

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variety of media formats, including print, online and CD-ROM. We receive most of its revenues from advertisements contained in these products. In recent years, our products have been subject to increasing pressure from competitors.

Sales Channels

T-Com provides toll-free numbers where customers can obtain information and order products and services. This sales channel is mostly used by individual customers. Additionally, T-Com markets its products and services to individual and business customers through its network of "T-Punkt" retail outlets. The T-Punkt outlets offer an extensive product portfolio including T-ISDN and T-DSL business products, as well as products from T-Online and T-Mobile. Furthermore, products from leading IT manufacturers are offered. At December 31, 2003, T-Com had 412 T-Punkt outlets in Germany, of which 102 were business outlets. T-Com also markets its products and services in Germany via its website.

T-Com also serves business customers through a direct sales force. For targeted customer canvassing geared to specific business needs, business customers are assigned to three defined sales units. Within these sales units, the customer approach ranges from telephone support/canvassing (outbound/inbound) to personal calling and direct meetings with customers.

Furthermore, T-Com markets its domestic carrier services, as well as individual and business products and services to network operators and service providers (and internal divisions) through a special sales unit with six regional offices. Specific managers maintain a customer relationship with carrier customers.

In addition, T-Com offers its products and services through a broad range of sales partners.

Eastern Europe

Matáv

We hold a 59.5% equity interest in Matáv, the leading (in terms of revenues) full service telecommunications provider in Hungary. Matáv also owns Westel, a Hungarian mobile communications provider. Westel maintained its leading position in an expanding mobile market characterized by intense competition. Westel's customer base was 3.8 million subscribers at December 31, 2003, an increase of 10.8% as compared with 2002. In addition, in 2000, Matáv acquired a 51% interest in Stonebridge, a company that owns 86.5% of the Macedonian telecommunications company Makedonski Telekommunikacii (Maktel). On June 30, 2003, Matáv's share in Stonebridge was increased to 89.51%. Maktel is the sole fixed-line and the leading mobile operator in Macedonia with 0.6 million fixed-lines (including ISDN channels) and 0.5 million mobile customers.

In 2003, Matáv's fixed-line network penetration and the total number of access channels marginally declined. The total number of access channels decreased by 1.8% from 2.88 million to 2.83 million year over year due to increased competition mainly from mobile services. However, the number of ISDN channels increased to approximately 528,000, a 3.2% increase year over year. At December 31, 2003, approximately 18.6% of Matáv's total fixed lines were ISDN channels. Matáv was successful in broadband applications, with the number of installed ADSL lines growing from 34,127 in 2002 to 103,803 in 2003.

Matáv's Internet subsidiary, Axelero, maintained its leading position among ISPs in the Hungarian dial-up market with a market share of approximately 44% and almost 211,000 Internet subscribers at December 31, 2003.

Although T-Com has the power to appoint a majority of Matáv's board of directors, the Republic of Hungary retains significant influence over Matáv's activities as the holder of the Series B share, the regulator of the Hungarian telecommunications sector and Matáv's largest customer. The Series B share gives the Hungarian state certain rights exercised through the Minister of Informatics and Telecommunications. These rights include, among others, the right to nominate and have elected one member of the Management Board, one member of the Supervisory Board, and to require the Ministry's consent for certain decisions (listed in the Articles of Association) taken at the general shareholders' meeting.

Matáv's monopoly in the Hungarian market for long-distance and international telecommunications services expired at the end of 2001. Even though alternative carriers emerged,

Matáv retained its leading role in the voice services market. Matáv's data transmission services continue to be subject to strong competition since a number of Hungarian companies have set up private data transmission networks.

Slovak Telecom

In July 2000, we acquired a 51% equity interest in the state-owned Slovak Telecom, the leading full-service telecommunications service provider in Slovakia, for a purchase price of EUR 1 billion. Slovak Telecom offers local, long-distance and international fixed-line telephone services, data communications services, distribution and broadcast radio and television signals and mobile communications services via its majority-owned subsidiary, Eurotel, which is not fully consolidated within T-Com. Although, pursuant to Eurotel's Shareholders Agreement, Slovak Telecom has a 51% economic interest in the profits and net assets of Eurotel, control of Eurotel is shared between Slovak Telecom and another company (Atlantic West B.V.) and neither party has unilateral control over major decisions affecting Eurotel. Therefore, this investment is considered a joint venture.

In May 2003, the other Slovak Telecom shareholders and T-Com signed an agreement relating to further cooperation, including providing for the extension of the deadline for the fulfillment of the initial investment commitments from the year ending 2003 to the year ending 2005.

Fixed-line network penetration and the total number of access channels declined in 2003. Due to the increased competition from mobile services, the number of access channels decreased by 4.9% year over year from 1.4 million to 1.3 million at the end of 2003. While analog access lines decreased by 7.2% from 1.3 to 1.2 million, the number of ISDN channels increased by 42% to approximately 75,600 from 53,000. Since July 1, 2003, Slovak Telecom has offered broadband applications and at December 31, 2003, had installed approximately 4,200 ADSL lines.

Slovak Telecom is the leading provider of online services in Slovakia through its subsidiary, ST Online. As of December 31, 2003, ST Online had a 56.2% market share of dial-up traffic and approximately 91,620 customers, a 35.8% increase year on year.

A new Slovak Telecommunications Act based on the European regulatory framework became effective on January 1, 2004. Slovak Telecom had a 99% market share of local and national calls in 2003.We expect that Slovak Telecom will be subject to increased regulation and that revenues and market share with respect to calls and interconnection will decline significantly as a result of the new Slovak Telecommunications Act. For more information, see "— Regulation."

Hrvatski Telecom

In October 1999, T-Com acquired a 35% equity interest in the then state-owned Hrvatski Telecom, the leading (in terms of revenues) full-service telecommunications service provider in Croatia for USD 850 million. In October 2001, T-Com acquired an additional 16% interest in Hrvatski Telecom for EUR 500 million and increased its aggregate ownership to 51%.

Hrvatski Telecom operates mainly digitalized fixed-line and mobile networks. Hrvatski Telecom pursued restructuring and market repositioning projects in 2002 and 2003, including the transformation of telecommunications centers, the continuation of the outsourcing of non-core business activities and defining a "go to market" strategy in order to counter erosion of market share by competitors. The mobile business was separated out into a self-supporting wholly owned subsidiary of Hrvatski Telecom.

The number of access channels increased by 2% from approximately 1.8 million in 2002 to approximately 1.9 million in 2003 due primarily to a shift of customers from analog access to ISDN lines. HT Mobile's subscriber base increased from approximately 1.19 million in 2002 to approximately 1.34 million in 2003, with a mobile market share of approximately 52.5% in 2003, a slight increase as compared to 2002. Hrvatski Telecom's online subscribers increased to approximately 480,000 in 2003 from approximately 370,000 in 2002.

A new Telecommunications Act in Croatia based on the European regulatory framework became effective on January 1, 2003. We expect that Hrvatski Telecom's will be subject to increased regulation, which will have an adverse effect on revenues and market share. For more information, see "— Regulation."

Toll collection system

As previously reported, in September 2002, Deutsche Telekom AG, DaimlerChrysler Services AG, and Compagnie Financière et Industrielle des Autoroutes S.A. (Cofiroute) (individually, the

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"partners" and collectively, the "consortium") entered into an agreement dated September 2002 and last amended in November 2002 (the "operating agreement") with the Federal Republic of Germany (represented by the German Federal Ministry of Transport, Building and Housing) relating to a project to create and operate an innovative system for the collection of toll charges for the use by heavy vehicles of the German high-speed highway system. We refer to this project as the "Toll Collect project." The toll collection system is to be created and operated by the joint venture Toll Collect GmbH ("Toll Collect"). DaimlerChrysler Services and we each hold a 45% stake in Toll Collect, with the remaining 10% being held by Cofiroute. Our involvement with Toll Collect includes our equity interest in Toll Collect that is recognized in our consolidated financial statements using the equity method of accounting, and certain financial guarantees. Additionally, certain of our divisions may act as sub-contractors of services to Toll Collect. We believe our maximum exposure to loss as a result of our interest in Toll Collect could extend beyond the amounts we have invested because of other risks associated with the financial guarantees issued for Toll Collect.

Pursuant to the provisions of the operating agreement, we, together with our partners, have, on a joint and several basis, guaranteed that Toll Collect will duly perform its duties in line with the operating agreement for the period of one year after the agreed start of operations.

The start of operations initially was scheduled for August 31, 2003, but has been delayed. Commencing on December 2, 2003, the consortium, or Toll Collect (provided it joins as a party to the operating agreement) has become liable for contractual penalties of EUR 250,000 per day until the end of February 2004 and EUR 500,000 per day thereafter until the toll collection system is operational.

Specific circumstances may entitle the parties to terminate the operating agreement. For termination to be effective, notice of termination must generally be given at least two months before the termination takes effect. This period may be used to rectify the reasons for termination. Termination of the operating agreement may have significant consequences for us as financial guarantor of certain obligations of Toll Collect. On February 17, 2004, the Federal Ministry of Transport sent us a letter advising that a notice of termination of the operating agreement was imminent. On February 25, 2004, we received such notice of termination of the operating agreement, dated February 19, 2004. While the notice of termination has not been formally retracted, on February 29, 2004, the consortium members reached an agreement with the Federal Republic to continue the Toll Collection project on the basic terms described in "Item 5. Operating and Financial Review and Prospectus — Liquidity and Capital Resources — Guarantees and Commitments."

Toll Collect and the consortium are currently in discussions with the Federal Ministry of Transport to implement the agreement reached on February 29, 2004.

For information relating to possible arbitration proceedings with the Federal Republic, see "Item 8. Financial Information — Litigation — Other Proceedings."

Seasonality

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

Suppliers

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

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

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

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

Competition

Fixed-Line Network Voice Telephony and Local Access

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

Effect of Regulatory Decisions

In the market for international and domestic long-distance calling services, the level of competition is influenced by the fact that we are required to permit other telecommunications companies to interconnect with our fixed-line network at rates that are set by the German telecommunications regulator. As a result, decisions of the German telecommunications regulator regarding the maximum rate that we are permitted to charge for interconnection have a very significant impact on the level of competition in the market for fixed-line network voice telephony. When the maximum permitted interconnection rate is below the price charged by us for calling services, competitors can interconnect with fixed-line network and offer calling services for a lower price, forcing us to lower our prices for calling services or to lose market share or both. The price structure for interconnection rates particularly benefits those competitors that have not made substantial investments in their own infrastructure. As a result of several decisions of the German telecommunications regulator between 1998 and 2003 that reduced the maximum permitted interconnection rate, we reduced our tariffs substantially from 1998 on, particularly in the areas of international and domestic long-distance calls. After large-scale price reductions in the standard rate at the start of 1999, we introduced optional tariffs that enable the customer to make inexpensive local, regional and international calls for a monthly fee.

In 2003, we further reduced our prices of city calls as a result of mandatory (regulatory) price-cap targets. T-Com's fixed-line network market share as measured by call time in minutes declined from approximately 67.2% in 2001 to 61.2% in 2002, and continued to fall to 57.6% in 2003.

Future decisions of the German telecommunications regulator could require us to lower our prices further, cause us to lose additional market share, or both. The German telecommunications regulator has issued a decision that reduced the permitted fixed-fixed interconnection rate by an average of approximately 14% in 2002 and by an additional average of 9.5% in 2003. A reduction in interconnection rates means more advantageous advance payment costs for competitors and thus the opportunity to reduce end user prices or to increase their margins. Some competitors have used the reduction to increase their own margins on calls, and other competitors have passed these reductions on to end users. As part of the current price cap regime (2002–2004), we will again be required to reduce charges for long distance calls. In order to meet requirements of the EU Commission relating to an alleged unfair pricing practice in connection with the provision of local access to our fixed-line telecommunications network, we requested that the German telecommunications regulator approve a modification of the price cap regime that would allow us to increase the monthly fee for basic charges for analog access. On July 28, 2003 the regulator approved our application. For further information regarding actions of the German telecommunications regulator and the new price cap, see "— Regulation."

Regulatory decisions also play a critical role in the level of competition in the markets for regional and local calls and for local access. We are required by law to rent subscriber access lines to competitors at prices determined by the German telecommunications regulator. We are required to permit "line sharing," which means renting to a competitor only that portion of the subscriber access line that is required for high-bandwidth services, such as high-speed Internet access. As a result of a decision by the German telecommunications regulator, we are also required to offer local access and local call minutes to competitors at wholesale prices for purposes of resale. In addition, we were implemented local carrier selection alternatives for our customers commencing on April 25, 2003, as well as preselection of local call carriers by our customers beginning from July 9, 2003. For further information in this regard, see "— Regulation — Regulation in Germany — Special Network Access and Interconnection — Fixed-Fixed Interconnection

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Further regulatory initiatives in Germany or the European Union aimed at increasing competition in the markets for local calls and for access may be expected in the coming years, which may have an adverse impact on our operations and our competitive position. For further information on these regulatory requirements and initiatives, see "— Regulation."

Effect of Investments by Other Companies

We also face significant competition in the markets for international and domestic long-distance calls, regional calls and access lines from competitors that have made investments in their own infrastructure, such as Arcor AG & Co., Colt Telecom Group Plc., MCI Worldcom Inc. and BT Group Plc. In addition, national network operators, such as Arcor AG & Co., and local network operators, such as HanseNet Telekommunikation GmbH, KomTel GmbH and NetCologne Gesellschaft fuer Telekommunikation mbH, have made substantial investments in local network infrastructure and compete with us in major urban centers throughout Germany. Furthermore, as prices for mobile telephony decline, our local and other calling services, as well as access services, face increasing competition from mobile telephone operators. Additionally, as alternative technologies, such as voice-over-IP and use of the Internet, gain market acceptance, our fixed-line network telephone usage may be adversely affected.

Other Fields of Business Activity.

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

T-Systems

T-Systems International GmbH provides information and communication technology (ICT) services worldwide to large German and international accounts, non-profit organizations and governmental agencies. T-Systems commenced operations under its reorganized structure in 2000 by combining a number of Deutsche Telekom business units, including debis Systemhaus (50.1% of which was acquired in October 2000 and the remaining 49.9% was acquired in the first quarter of 2002).

During 2003, T-Systems continued its strategy of divesting non-core businesses, including TeleCash Kommunikations-Service GmbH, T-Systems SIRIS S.A.S., T-Systems MultiLink SA and T-Systems Card Services AG. For further information, see "Item 5. Operating and Financial Review and Prospects — Segment Analysis — T-Systems."

Principal Activities

T-Systems' ICT services and solutions are targeted primarily at large national and international corporations. The servicing of major national and international accounts also benefits other divisions of the Deutsche Telekom group with respect to the provision of additional services to these customers. In this way, T-Systems plays a key strategic role within the Deutsche Telekom group.

T-Systems uses advanced information technology and telecommunications expertise to supply the required ICT infrastructure to its customers, to provide tailored ICT solutions and, if required, to take over complete business processes based on these solutions. T-Systems provides support for customers through its global telecommunications network in more than twenty countries.

T-Systems' international business units support many German-based multinational customers as well as customers headquartered outside of Germany. Although the majority of T-Systems' customers are headquartered in Germany, as of December 31, 2003, roughly one quarter of T-Systems' 40,833 employees are based outside of Germany. T-Systems' primary markets are in Western Europe, North America and Asia. In 2003, German-based operations contributed approximately 73% of total revenues. For the year ended December 31, 2003, the telecommunications (TC) services group contributed approximately 47.4% of T-Systems' total revenues and the information technology (IT)

services group contributed approximately 52.6% of T-Systems' total revenues. Total revenues include inter-segment revenues from other Deutsche Telekom divisions and affiliates. For more information, see "Item 5. Operating and Financial Review and Prospects — Segment Analysis — T-Systems."

Business Model

In 2003, T-Systems established and implemented a strategic program referred to as "Focus & Execution." Through this program, T-Systems focused on both its structure and its go-to-market model in four industry sectors or Industry Lines (ILs). T-Systems combines competencies in the ILs: Telecommunications, Services & Finance, Public & Healthcare and Manufacturing.

Sales and service teams assigned to these ILs are responsible for supporting high-revenue customers, focusing on key account management, and ensuring that customers receive ICT services that are oriented to their specific industry-sector requirements. Innovative solutions form the basis for long-term business relationships with these customers, not only for T-Systems but for the entire Deutsche Telekom group. All other customers, who for the most part use disparate as well as combined T-Systems services, are maintained by sales and service teams assigned by Service Lines (SLs).

T-Systems' Service Lines include International Carrier Sales & Solutions, Network Services, Computing and Desktop Services and Systems Integration. These Service Line teams have the ICT expertise to develop top-quality solutions for both the customers they service directly, as well as to the Industry Lines' key accounts. The following graphic illustrates this new business model.

Another important component of the strategic program is the establishment of Strategic Project Acquisition Teams (S-PAT), responsible for winning large orders. These project groups possess all the skills needed to win large orders in the national and international markets.

Additionally, T-Systems restructured its service offering in the fourth quarter of 2003. This new portfolio addresses three increasing value-added levels:

- ICT Infrastructure Management: customers receive tailored and cost-optimized services through flexible management of ICT infrastructures, such as complete management of SAP applications, including operating and maintaining mainframe computers and desktop systems.
- Business Solution Design & Implementation: Customers are provided with complete ICT solutions for their business processes. These applications contribute to optimizing their specific processes and raising their value added, such as providing turnkey applications and systems that permit efficient operation and oversight of entire supply chains (supply chain management) for the automotive industry.
- Business Process Management: T-Systems assumes responsibility for customers' complete process chains, enabling them to concentrate on their core business while at the same time benefiting from improved processes and cost optimization. For example, complete responsibility for management and operation of invoicing and payroll accounting functions on behalf of a customer, including equipment and personnel.

These value-added levels or Focus Solutions are the primary drivers of the T-Systems solutions portfolio. They offer customers a high degree of flexibility and enable them to concentrate on their core business. Thus they contribute significantly to a customer's success.

Also in 2003, T-Systems' decided to align international expansion more closely to providing services to globally active customers. The focus is not on global physical presence, but on global reach and deliverability. T-Systems provides this through international account management in each of the Industry Lines and Service Lines.

Telecommunications Services (TC)

Telecommunications Services encompass a global network infrastructure for voice and data communications and a range of related solutions and consulting services, including "Network Services" (NWS), which consists of "Hosting and ASP Services" (H&ASP), "Global Synergy, Strategy and Solutions" (GSSS) and "Media and Broadcast" (MB). Telecommunications services also include "International Carrier Sales and Solutions" (ICSS) and "Global Network Factory" (GNF).

The Deutsche Telekom group (other than T-Systems) accounted for approximately 18.3% of the total revenues of the TC services area in 2003 and 25.7% in 2002. For further information, see "Item 5. Operating and Financial Review and Prospects — Segment Analysis — T-Systems."

Network Services (NWS)

The Service Line, Network Services, is responsible for the installation and operation of customized voice and data communications networks for T-Systems' customers, including large corporate accounts, non-profit organizations and governmental agencies. NWS provides fast, secure and reliable communications solutions for customers worldwide, with a special focus on Western Europe and North America.

The services offered by NWS include the IP/VPN (Internet Protocol-based Virtual Private Networks) and voice VPN solutions combined with hosted services such as:

- "Global Frame Relay/Global ATM" – a high-speed communications technology that provides businesses with a cost-effective, flexible way to connect local area networks, system network architecture, voice and Internet protocol-based applications.
- "Global Business Link" – an international private leased circuit ("private" = point to point connection for retail customers at the customer location) service with a bandwidth range from 64/56 Kbps to 622 Mbps that provides high-speed, high-quality leased-line connectivity between two endpoints.
- "IntraSelect MPLS" (Multi Protocol Label Switching) – a virtual private network (VPN) solution for any-to-any connectivity (each location in a network can communicate with the other), Internet access, dedicated firewall services, encryption services and remote dial-in services with standardization class of services (class of services = differentiated quality parameters for different applications, such as voice, data and multimedia) backed up with cross services level agreements (connectivity, IP access, firewall, etc.)
- "Global Internet" – Internet connectivity at a range of access speeds which complements the "IntraSelect MPLS" service by extending it to provide public Internet services, such as e-mail and file-transfer, together with private Intranet services within a VPN.

NWS also offers a broad range of services, including customized voice communication networks and complex call center solutions that assist customers with management of their incoming calls, faxes and e-mails.

Contracts relating to NWS have an average duration of approximately three years. Voice services provided are billed on a per minute basis, while data services are billed in terms of bandwidth provided per month.

Hosting and ASP Services (H&ASP)

Hosting and ASP Services (H&ASP) enable customers to employ Internet technologies in their businesses. H&ASP

services provide the underlying infrastructure that enables a customer's business to operate more efficiently and seamlessly.

The H&ASP services group arranges (or "hosts") the Internet presence of customers by providing a reliable connection to T-Systems' network and manages the customer's website. In addition, H&ASP services provide the software necessary to maintain a reliable Internet connection.

The collaborative services provided by the H&ASP group also enable electronic marketplaces and portals to conduct business transactions electronically, either within a single industry or between enterprises from different industries. With these electronic marketplaces and portals, customers can enhance their relationships with suppliers ("supply chain management") or with their customers ("customer relationship management").

T-Systems is one of the market leaders in Germany for hosted solutions. Internationally, T-Systems has expanded its footprint for hosted solutions to Austria, Switzerland and Spain. In 2004, T-Systems will introduce its hosting solutions products and services to the North American market.

In Germany, T-Systems' H&ASP services are also marketed by the T-Com division to business customers not directly addressed by T-Systems. Outside Germany, these services are also marketed through arrangements with third parties.

Contracts involving H&ASP services have an average duration of approximately three years.

Global Synergy, Strategy and Solutions (GSSS)

In January 2003, T-Systems established the Global Synergy, Strategy and Solutions (GSSS) unit, which is responsible for the growing and innovative business of telecommunications outsourcing. Since July 2003, GSSS is also responsible for indirect sales of retail telecommunications products through reselling arrangements with other telecommunications operators.

The GSSS mission is to leverage T-Systems to become the leading global telecommunications outsourcing partner and synergy provider.

In furtherance of its mission, the GSSS team is responsible for obtaining and managing outsourcing (transfer of operation of networks and network services to T-Systems) and outtasking (transfer of business functions such as international traffic routing to T-Systems) arrangements with telecommunications operators. GSSS also manages the implementation of these agreements and provides partner sales management and sales support.

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

Additionally, GSSS contracts and manages the relationship with telecommunications operators relating to the resale of T-Systems' retail telecommunication products and services. Through this arrangement, telecommunications operators and system integrators can offer many more products and services to their customer base and expand their reach by leveraging T-Systems' global operations. This indirect sales channel is a strategic complement to T-Systems' international direct sales force and strengthens the relationship with outsourcing and outtasking customers.

Media and Broadcast (MB)

In Europe, T-Systems is one of the largest service-providers of broadcast services, including analog and digital terrestrial broadcasting, satellite broadcasting and innovative digital applications. As of December 31, 2003, the broadcast network of T-Systems in Germany included more than 8,000 analog television and radio transmitters and 97 digital television and radio transmitters. T-Systems has expertise in providing systems equipment technology and digital radio transmitters.

Media and Broadcast provides services, such as broadcast contribution networks, distribution networks and studio and production solutions, to public broadcasters and private companies that provide content for broadcast media, including traditional (analog and digital) terrestrial broadcasting, satellite broadcasting and innovative digital applications. Media and Broadcast also provides services relating to planning, building and operating multi-media platforms for customers. In order to provide optimal service and retain customers, Media and Broadcast emphasizes the maintenance of a dedicated service and sales staff.

T-Systems' Media and Broadcast customers consist of public and private broadcast companies in Germany, as well as television production companies and international audio broadcasters. Customers pay for media and broadcast services corresponding to the use of the services offered. Most contracts have an average duration of four to six years.

International Carrier Sales and Solutions (ICSS)

ICSS provides wholesale customers – typically other fixed-line and mobile carriers as well as Internet service providers (ISPs) – with direct access to T-Systems' international telecommunications networks, including those networks that are leased from other carriers. During 2003, ICSS managed total worldwide voice traffic of more than 14 billion minutes. In addition, ICSS provides innovative solutions based on IP. For example, IP Transit provides the customer with a transport medium for worldwide access to Internet content, and Carrier Managed Network Solutions provides voice and wireless access to telecommunications carriers (including former incumbent or dominant regional/national carriers, emerging regional and long-distance carriers, Internet service providers and mobile carriers).

Competitive rates and individual leases allow ICSS to provide customized solutions targeted to individual carriers' needs. The primary responsibility of ICSS is its bilateral business, where T-Systems and another carrier agree to terminate international voice traffic into Germany on Deutsche Telekom's network and to purchase termination arrangements of outgoing traffic to international destinations from these same carriers. ICSS also provides carrier termination and transit services to other fixed-line and mobile carriers for calls that originate outside Germany and are routed through T-Systems International's networks for termination in Germany or a third country. ICSS purchases termination services from foreign carriers for termination of T-Systems' outbound international traffic. ICSS offers international carriers wholesale solutions via T-Systems International's networks. These solutions are offered to fixed and mobile carriers, ISPs, ASPs (Application Service Providers), content providers and cable TV operators. In 2003, ICSS had arrangements with approximately 900 major international carrier customers in 192 countries.

Supporting this range of solutions and services is a modern network infrastructure that connects major international business centers over a fiber optic network (more than 150,000 kilometers) worldwide. Network operators can access T-Systems' global backbone network from all over the world. As T-Systems continues to build its international network infrastructure, ICSS will be able to offer expanding global network coverage.

Global Network Factory (GNF)

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

Information Technology Services (IT)

The information technology (IT) services group has broad expertise relating to computer software and hardware and information technology systems solutions. The IT group provides information technology services, including both Systems Integration (SI), including consulting services, and Computing and Desktop Services (CDS), to large and multinational enterprises. CDS encompasses three delivery units, called "factories" — the "Global Computing Factory" (GCF), the "Global Desktop Operations" (GDO) and the "Product Supply Center" (PSC).

In 2003, other divisions of the Deutsche Telekom group accounted for approximately 45.0% of total revenues of the IT services group as compared to 41.4% in 2002. For further information, see "Item 5. Operating and Financial Review and Prospects — Segment Analysis — T-Systems."

Systems Integration and Consulting (SI)

The Service Line, Systems Integration (SI), which includes consulting services, provides customers with consulting, implementation and applications support relating to systems solutions in the areas of information and communications technology (ICT). SI develops software solutions customized for the needs of individual customers and integrates those solutions into the customer's ICT infrastructure. Examples of the services offered include security solutions, migration services, application management, software development, as well as solutions that assist users in managing their business processes (e.g., supply chain management solutions that enable businesses to use ICT to organize and optimize their relationships with suppliers).

In cooperation with other Service Lines, SI supports T-Systems' "Plan-Build-Run" process. This process covers with individually tailored end-to-end solutions the entire value chain from strategic business consulting ("Plan") to systems development and implementation ("Build"), right through to the on-going management of entire application and network systems ("Run"). "Plan-Build-Run" means a turn-key solution for the customer's planning, construction and operating ICT needs on a global basis. Based on cutting-edge project-management methods, projects of any size and level of complexity can be managed successfully.

In order to improve its ability to service customers' core processes and secondary business processes such as billing, SI has recently consolidated its 22 business units in Germany. These consist of technology and software development centers, as well as branch offices. SI will continue reorganizing its structures and process model in 2004.

Contracts involving SI services have an average duration of approximately one year and are charged on the basis of hourly rates or a fixed payment agreed upon in advance.

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

Computing and Desktop Services (CDS)

CDS is responsible for the operation of complete or partial customer IT infrastructures. Externally, CDS consists of two service lines, Computing Services (CS) and Desktop Services (DS). However, internally, both service lines are managed as one due to the overlap and bundling of services provided by these two service lines. CDS manages centralized and distributed information systems, infrastructure components, applications and business software solutions.

CDS is represented in a considerable number of locations throughout Germany and throughout the world. It has a total of about 17,000 employees, approximately two-thirds of whom are based in Germany. It is organized centrally and consists of five customer service units that are organized around industry sectors and regions and the three delivery units – GCF, being the CS delivery unit, and GDO and PSC, being the DS delivery units.

Computing Services (CS)

The IT unit provides our customers with the ability to outsource their entire information technology operations. The services offered include the operation of data centers, applications management, user support and network management. CS can also facilitate the transfer of information technology assets and personnel from the customer to T-Systems. The primary goal for such outsourcing of complete IT solutions and data centers to T-Systems is the creation of a competitive advantage for customers. Services offered by CS also include the installation, operation and administration of central computer systems (mainframes), open computer systems (UNIX, Windows NT) including billing-services, data center infrastructure services and business applications on behalf of the customers.

Generally, contracts involving computing services have an average duration of four years or more. Customers pay for computing services based on contractually agreed service levels. These agreements describe the quantity and quality of services to be provided (for example, 99.9% reliability) and the extent of services to be provided. Customer contracts are serviced by customer service units.

Desktop Services (DS)

The Service Line, Desktop Services, provides the services of its delivery units, GDO and PSC, to T-Systems' customers. These services include development and implementation of complete office systems solutions for customers with wide-ranging responsibility for the IT infrastructure. Other core competencies are office systems solutions, including desktop operations, call center and help-desk services, as well as the operation of computing services infrastructures, consulting and IT design. These services may include sales or leasing contracts of desktop computer hardware produced by third parties.

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

Global Computing Factory (GCF)

T-Systems operates a very large computer network, called the "Global Computing Factory," as a platform for the information technology services offered to customers. The primary responsibilities of the GCF include the operation of mainframe computers, open system servers and storage arrays for outsourcing projects, including operating systems, database software, data communication software, systems automation. The Global Computing Factory provides the personnel, servers and infrastructure necessary to operate the information technology resources of its customers. For further information about the Global Computing Factory, see "— Description of Property, Plant and Equipment — Global Computing Factory."

Global Desktop Operations (GDO)

The business mandate and objective of GDO is to provide desktop services that are cost-effective and meet market demands primarily for large customers and nationwide orders. Services provided by GDO cover the entire life-cycle of the workstations provided to the customer. GDO ensures the proper operation of the workstations and services hardware and software products. More than 300,000 workstations in Germany are serviced by GDO.

GDO is responsible for providing help-desk services primarily through a services office platform and call center platform management (CCPM). The services office platform supports one of the largest and most sophisticated Microsoft exchange applications worldwide with more than 230,000 mailboxes and file, fax and SMS services. CCPM includes services that are required for the smooth operation of a call center platform. In addition to constantly monitoring essential components, GDO provides all operating and support relating to help-desk services.

Product Supply Center (PSC)

Desktop Services also provides Product Supply, Product Life Cycle and E-Supply services through its Product Supply Center. PSC is the central IT hardware purchasing unit for customers and also for divisions and affiliates within our group. PSC is responsible for the logistics of delivery of products (product supply) and for the transportation of desktop hardware and software from the supplier to the customer (product life cycle). In this way, PSC is able to achieve significant efficiencies and cost savings with regard to product purchasing.

To minimize supply chain costs, PSC provides an electronic link between customers and suppliers so that orders can be routed directly to the manufacturer or dealer (E-Supply), thereby reducing manual work and improving efficiency as well as enhancing error prevention.

Principal Markets

T-Systems' business model is primarily focused on large business customers, German and non-German multinational corporations, and international telecommunication carriers and broadcasters (including companies that provide content for broadcast media). During 2003, T-Systems provided services to more than 1,500 large business customers (and approximately 10,000 subsidiaries of such customers) in Germany. T-Systems services customers according to T-Systems' Industry Lines: manufacturing, public and healthcare, services and finance and telecommunications. Most of these customers are German or European-based with operations in various countries around the world.

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Manufacturing — includes manufacturers of automobiles, aircraft, electronics and manufacturers of component parts used by other manufacturers. T-Systems provides electronic supply chain management, product life cycle management and information technology outsourcing services.

- Public and Healthcare — includes government agencies, state pension funds, the armed forces of the Federal Republic of Germany, research and teaching institutions, as well as international organizations. T-Systems enables public entities (e.g., Federal Ministries and state agencies) to establish innovative business processes, such as services to individuals through the Internet and the management of data and voice networks.

- Services and Finance — includes banks and insurance companies as well as services business such as wholesale distribution, air transport, rail transport, logistics and retail industry. T-Systems develops a variety of solutions, including sales support systems for banking and insurance companies, electronic banking solutions, billing solutions, shops for direct sales via the Internet, Internet-based reservation and booking systems and data management systems.
- Telecommunications — includes other network operators and companies offering fixed-line, mobile and Internet telecommunications services. T-Systems provides, among other services, customer relationship management systems, customer care and call center systems and billing systems.

Seasonality

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

Suppliers

The principal goods and services purchased by the T-Systems division are computer hardware for client servers and mainframes, computer standard and applications software, network capacity and network services, telecommunications network components and IT consulting services. T-Systems manages, on behalf of customers, the risk in the supplier relationship as well as quality and cost considerations. We do not believe that T-Systems is dependent on any single supplier.

Dependence on Intellectual Property

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

Dependence on Material Contracts

T-Systems aims to become less dependent on internal customers and to improve its market position with external customers. In 2003, other operating divisions of Deutsche Telekom (primarily T-Com and T-Mobile) accounted for approximately 32% of total revenues of T-Systems. No other customer accounted for a significant portion of

T-Systems' total revenues in 2003.

Competition

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

The principal competitors of T-Systems in the telecommunications area include AT&T, MCI, France Telecom/ Equant, British Telecom, Cable & Wireless and Colt. The principal competitors of T-Systems in the information technology area include IBM Global Services, EDS, CSC, Cap Gemini Ernst & Young and Siemens Business Services (Siemens SBS).

T-Systems holds different market positions in different regions of the world. In Germany, T-Systems is the market leader in the IT and TC areas. In Western Europe, T-Systems is one of the five largest vendors, together with IBM Global Services, EDS and Siemens SBS in IT, and with BT Global Services, FT/ Equant and Telefonica in the telecommunication industry. Globally, T-Systems ranks among the top ten IT and TC companies. IT competitors include IBM, EDS, CSC, Cap Gemini Ernst & Young and Siemens SBS. In the TC area, T-Systems competes with AT&T, MCI, NTT, FT/ Equant and BT-Global Services.

Competition in the telecommunications area (including IP services, network services, voice and data communications) is very intense. The competitive landscape in 2003 was characterized by suppliers attempting to reduce their indebtedness and increase profitability by a strategic refocusing and concentrating on their core businesses, increased efficiency and processes. In the marketplace, customers view financial stability as important criteria for choosing a supplier. In addition to the concentration on core businesses, all global competitors, including T-Systems, developed a portfolio of IP-based (Internet Protocol) business solutions on a quality-of-service platform (IP-MPLS). The IP-based solutions are more efficient and cost-effective and provide a high level of flexibility.

In the information technology area, competition is intense and the current market is characterized by strong pricing pressures, reduced IT budgets of customers and an extension of customers' sales cycles. As a result of these competitive pressures, many companies, including T-Systems, are attempting to maintain or expand market share through improved productivity, cost-cutting and efficiency measures, reliance on IT expertise and maintenance of existing customer relationships. This situation has also led to consolidation of the IT sector, which is expected to continue for the foreseeable future. T-Systems believes, based in part on independent market analyst reports, that global IT services markets during 2004 will recover slowly with higher market growth rates thereafter. However, T-Systems believes that markets will not achieve growth rates of the past and that competition will remain intense.

Like many of its competitors, T-Systems provides outsourcing services to large enterprises and therefore must allocate significant resources to projects for these customers. Although the allocation of resources in this way has not adversely affected T-Systems' business in the past, it is possible that intensified competitive and cost reduction pressures may result in reduced profit margins and/or loss of market opportunities.

T-Systems believes that it can compete effectively, largely due to its strategy of providing comprehensive solutions (planning, building and operating) to its customers' needs across a broad spectrum of IT and telecommunications activities. T-Systems believes that through its focus on solutions with higher margin potential and in which the company has substantial industry specific expertise, it can respond to customers' requirements acting as a telecommunications and information technology partner able to support customers in the most effective and efficient manner possible.

T-Mobile

Principal Activities

The principal services offered by the T-Mobile division are digital mobile telephony services based on the mobile telecommunications technology known as GSM (or Global System for Mobile Communications) and non-voice services such as SMS (Short Message Services), MMS (Multimedia Messaging Services) and other data services to residential and business subscribers based on CSD (Circuit Switched Data) or GPRS (General Packet Radio Service) technologies. T-Mobile also operates "HotSpots" (wireless local area networks or W-LAN) which can be used currently by customers in more than 4,500 public locations in Germany, Austria, the Czech Republic, the United Kingdom, the Netherlands and the United States.

Our T-Mobile division offers international roaming services for GSM and GPRS to subscribers through a large number of international roaming agreements with third-party operators, so that subscribers can access mobile services while they are outside their home network service area. The T-Mobile division also sells mobile handsets to subscribers in conjunction with its service offerings.

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

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

Global Branding, Integration and Alliances

Following the introduction of the T-Mobile brand across international markets in 2002 and 2003, the key focus for 2003 has been to achieve a strong and uniform brand positioning and customer experience in all of the markets where T-Mobile has a majority shareholding.

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

In July 2003, T-Mobile entered into an alliance with Telefonica Moviles, Telecom Italia Mobile (TIM) and Orange S.A. The alliance came into effect with the establishment of an association as legal entity in the Netherlands in December 2003. It is open to other mobile communication companies. The alliance aims to make mobile services more widely available and seamless in all countries in which the alliance members operate. Alliance members seek to cooperate in several key areas, including the development of joint services relating to roaming, voice, data and the development and purchasing of handsets. Initial products of the alliance include seamless services across markets like GPRS, Virtual Direct Interconnect and MMS, and the alliance focuses on multi-national customers across Europe.

New Services

T-Mobile launched its mobile data services across our European markets and in the United States between 2000 and 2003. In April 2003, T-Mobile's mobile multimedia services, such as surfing, messaging, and downloads, were bundled and branded as "t-zones." Messaging (SMS and MMS), Internet browsing and downloads are the main portion of mobile data services.

SMS is still the most widely used data service with 22 billion SMS sent worldwide in 2003. Within the t-zones, the entertainment channels (t-news, t-sport, t-games, t-movies and t-music) are the most frequented zones and account for over 70% of the t-zone traffic across all European markets.

Mobile data services can be used through handsets using GSM/GPRS and in the future also Universal Mobile Telecommunications System or "UMTS." T-Mobile, as an international network operator, has various technologies in place that all support the network evolution. We aim to provide mobile broadband access across these and other relevant technologies. In the United States, the company is upgrading its network with Enhanced Data Rates for Global Evolution (with EDGE) capabilities. In addition, T-Mobile uses W-LAN to offer mobile data services.

T-Mobile has made substantial investments in the next generation mobile communications standard known as UMTS. T-Mobile invested EUR 8.5 billion in UMTS licenses in Germany, EUR 171 million in Austria, EUR 395 million in the Netherlands, EUR 6.6 billion in the United Kingdom and EUR 103 million in the Czech Republic. These investments in licenses do not include the costs of UMTS network build-out in these countries. Through 2003, T-Mobile has invested over EUR 300 million in UMTS networks. We expect to invest amounts in excess of our 2003 investments during each of the next three years. The investments should enable us to meet the minimum coverage requirements established under our UMTS licenses. To reduce costs and increase efficiency, T-Mobile has entered into network sharing agreements with other operators.

T-Mobile has met or exceeded all regulatory requirements with respect to its UMTS licences in the United Kingdom, Germany and Austria. Regarding regulatory approval and for further details with respect to roll-out requirements and network sharing, please see "— Regulation." For information regarding tax refund proceedings relating to the purchase of UMTS licenses, see "Item 8. Financial Information — Litigation — Other Proceedings."

Principal Markets

The T-Mobile division's principal markets include Germany, the United States, the United Kingdom, Austria, the Czech Republic, the Netherlands, Poland and Russia.

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

Germany

Through T-Mobile Deutschland, we offer mobile communications services to individual and business subscribers in Germany. At December 31, 2003, T-Mobile Deutschland had approximately 26.3 million subscribers as compared to approximately 24.6 million subscribers at December 31, 2002. Of the total subscribers at December 31, 2003, approximately 12.6 million were contract subscribers, as compared to approximately 11.5 million at December 31, 2002. T-Mobile Deutschland had approximately 13.8 million prepay subscribers at December 31, 2003, as compared to approximately 13.1 million at December 31, 2002.

T-Mobile Deutschland's average churn rate for 2003 was 1.4% per month compared to 1.5% per month in 2002. In 2003 for the first time, the average prepay churn rate did not exceed the average contract churn rate. This is mainly due to the fact that, after years of fast prepay growth, the portfolio of prepay subscribers has become more stable.

Generally, a prepay customer in Germany is churned after a period of 15 months if the customer has neither originated nor received a data or voice communication in that period.

North America

In May 2001, we acquired all of the outstanding equity securities of VoiceStream Wireless Corporation and of Powertel, Inc., two formerly independent U.S. mobile operators, in exchange for an amount of our shares having a market value on the acquisition date of EUR 28.7 billion plus EUR 4.9 billion in cash. As of May 31, 2001, these companies became fully consolidated within the T-Mobile division. VoiceStream Wireless Corporation was renamed T-Mobile USA, Inc. in August 2002. Shortly thereafter, both T-Mobile USA and Powertel began marketing their services under the T-Mobile brand. On December 31, 2003, Powertel, Inc., became a wholly owned subsidiary of T-Mobile USA, Inc. As used in this Annual Report, T-Mobile USA refers to both T-Mobile USA, Inc. and Powertel, Inc.

Through T-Mobile USA, we offer mobile communications services to individual and business subscribers in the United States. At December 31, 2003, T-Mobile USA had approximately 13.1 million subscribers, as compared to approximately 9.9 million at December 31, 2002. Of the total subscribers at December 31, 2003, approximately 11.7 million were contract subscribers, as compared to approximately 8.6 million at December 31, 2002, and approximately 1.4 million were prepay subscribers, approximately the same as at December 31, 2002.

T-Mobile USA's average churn rate for 2003 was 3.1% per month, down from 4.0% per month in 2002. The improvement reflects lower churn of prepay subscribers as the average churn rate for contract subscribers was stable at 2.5% in both 2003 and 2002. During 2003, T-Mobile USA introduced a number of changes in its prepay service offering that were successful in extending subscriber tenure and thereby reduced the prepay churn rate. One such change, introduced in September 2003, was the extension of expiry periods for certain denominations of prepay vouchers. Prior to September 2003, vouchers with a value of USD 10 expired 15 days after activation and vouchers with a value of USD 25 expired 30 days after activation. Vouchers with a value of USD 10 now expire 30 days after activation and vouchers with a value of USD 25 expire 60 days after activation. As a result, prepay churn rate decreased in the fourth quarter to 6.8%, compared to the 2003 annual average of 7.6%. This decrease in the prepay churn rate in the fourth quarter caused the annual churn rate for prepay and contract combined to decline from 3.2% to 3.1%.

Generally, the churn result in 2002 was negatively affected by the integration of Powertel, whose subscriber base was mainly prepay. The higher average churn rate of our U.S. operations compared to our European operations is primarily a reflection of a higher average churn rate for the U.S. wireless industry compared to Europe. Competitive differences, differences in features and services due to the

use of multiple wireless technologies and general differences in consumer behavior between the United States and Europe factor in to the higher industry churn rate seen in the U.S. The churn rate of our U.S. operations is higher than the U.S. industry average due in part to the higher proportion of prepay subscribers in T-Mobile USA's customer base relative to its U.S. competitors. Prepay subscribers in the United States typically churn at substantially higher rates than contract subscribers.

Wireless Local Number Portability (WLNP) was started in late November 2003 for the 100 largest markets in the United States. WLNP enables customers to keep their number when changing their wireless provider and when changing from fixed-line service to wireless service. T-Mobile, the other U.S. wireless carriers and the fixed-line carriers have all experienced technical and other execution problems in implementing this process, which prevented or slowed a significant number of porting transactions. These problems are being addressed by the carriers and the other parties supporting the porting process and significant progress has been made toward their resolution, as evidenced by significant improvements in porting execution. To date, T-Mobile has experienced fewer problems than other carriers based on published reports of the number of complaints received by the FCC. To date, WLNP has had a positive net effect on T-Mobile because more customers have ported their numbers to and signed up for service with T-Mobile, than have ported from T-Mobile to other carriers. For more information see "— Regulation."

T-Mobile USA entered into an agreement with Cingular Wireless LLC ("Cingular") in November 2001 to share in the ownership and operation of certain GSM network infrastructures. We contributed our network assets in the New York City market, and Cingular contributed its network assets which cover most of California and parts of Nevada (the "California/Nevada market"), to a newly formed joint venture entity, GSM Facilities. Both parties retained the ownership and control of their spectrum licenses. T-Mobile USA and Cingular manage and maintain the assets previously owned by each company on behalf of the joint venture. The monthly cash operating expenses of GSM Facilities are shared by T-Mobile USA and Cingular based on the proportionate minutes of use by each party's subscribers in each market. Non-cash expenses, including depreciation on the network assets and interest charges on capitalized tower leases, are not recovered by GSM Facilities and result in net losses to the entity. These losses are shared by T-Mobile USA and Cingular based on their relative economic interests in GSM Facilities and are reported as loss from companies accounted for under the equity method. Capital expenditure requirements of the joint venture are funded through capital contributions from T-Mobile USA and Cingular based generally on incremental minutes of use by each parties' subscribers in each market.

Contractual termination provisions provide for an orderly unwinding of GSM Facilities over a two year period in the event of notice of termination by either party following a change in control of a party, material breach or at the discretion of either party. In an unwinding, the New York City market network assets would be returned to T-Mobile USA and the California/Nevada market network assets would be returned to Cingular, with a settlement between the parties to adjust for contribution differences. Under some circumstances, an unwinding would also include the exchange of certain predetermined spectrum licenses between Cingular and T-Mobile USA, although the spectrum licenses are not held by GSM Facilities. Additionally, an unwinding caused by certain actions of either party may result in a substantial cash termination payment by that party. In the event of such termination, T-Mobile USA would incur substantial capital expenditures or other costs to service its customers in the California/Nevada market and to enhance the network in the New York City market which could materially impact the company's operating results and debt levels. In February 2004, Cingular announced an agreement to acquire AT&T Wireless. We are not able to judge if and when this transaction will close. Such transaction may be deemed a qualifying consolidation event permitting Cingular to exercise its right to terminate the GSM Facilities arrangement, as noted above. Thus, as further noted above, such proposed acquisition by Cingular of AT&T Wireless may require T-Mobile to incur substantial capital expenditures or other costs to service its customers in the California/Nevada market and to enhance the network in the New York City market which could materially impact the company's operating results and debt levels.

United Kingdom

In October 1999, we purchased T-Mobile UK (formerly One 2 One) in the United Kingdom, for a purchase price of EUR 10.9 billion (including the assumption of outstanding shareholder loans).

Through T-Mobile UK, we offer mobile communications services to individual and business subscribers in the United Kingdom. At December 31, 2003, T-Mobile UK had approximately 13.6

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million subscribers, as compared to approximately 12.4 million at December 31, 2002. Of the total subscribers at December 31, 2003, approximately 2.7 million were contract subscribers, as compared to approximately 2.2 million at December 31, 2002, and approximately 11.0 million were prepay subscribers, as compared to approximately 10.2 million at December 31, 2002.

Of the total number of T-Mobile UK subscribers at December 31, 2003, approximately 3.6 million were subscribers of Virgin Mobile, a joint venture between T-Mobile UK and the Virgin Group. Virgin Mobile is a so-called mobile virtual network operator (MVNO) established jointly by T-Mobile UK and the Virgin Group. As a virtual network operator, Virgin Mobile purchased airtime minutes and basic mobile services from T-Mobile UK and resells these minutes and services under the "Virgin Mobile" brand name. On January 29, 2004, T-Mobile UK, Virgin Group and Virgin Mobile entered into a new agreement pursuant to which Virgin Group acquired T-Mobile's stake in Virgin Mobile. At the same time, all outstanding litigation are settled and a new telecom supply agreement was signed running for a minimum of 10 years, including improved access to GPRS and UMTS services for Virgin Mobile and the end of the monthly marketing support contribution by T-Mobile. Under the new agreement, Virgin Mobile will receive inbound and outbound call revenues. In addition, in the event Virgin Mobile consummates a public offering of its equity securities, we will receive a specified amount of the proceeds up to certain limits.

T-Mobile UK's average monthly churn rate during 2003 was 2.9%, as compared to 2.2% per month in 2002. The increase in churn was predominantly caused by a significant clean up of the inactive prepay customer base. Prepay churn rate was 3.1% on average in 2003 compared to 2.0% in 2002. Contract churn decreased to 2.3% in 2003 compared to 2.7% in 2002.

Austria

Through T-Mobile Austria, the T-Mobile division offers mobile communications services to individual and business subscribers in Austria. At December 31, 2003, T-Mobile Austria had approximately 2.0 million mobile communications subscribers, essentially unchanged as compared to the number of subscribers at December 31, 2002. Of the total subscribers at December 31, 2003, approximately 1 million were contract subscribers and approximately 1 million were prepay subscribers.

T-Mobile Austria's average churn rate during 2003 was 1.7% per month, as compared to 2.3% in 2002. The churn rate in 2002 was significantly affected by the disconnection of a high number of prepay subscribers. T-Mobile Austria churns prepay subscribers twelve months after their last charged data/voice communication and last reload of their prepay cards.

Czech Republic

T-Mobile International holds an equity interest of approximately 92% in Cmobil, which owns an equity interest of 61% in the Czech mobile communications network operator T-Mobile Czech Republic. Until April 2001, Cmobil owned 49% of T-Mobile Czech Republic (then RadioMobil). T-Mobile Czech Republic has been fully consolidated in our financial statements since April 1, 2001. As of May 2003, RadioMobil was rebranded to T-Mobile Czech Republic.

At December 31, 2003, T-Mobile Czech Republic had approximately 3.9 million subscribers, as compared to approximately 3.5 million at December 31, 2002. Of the total subscribers at December 31, 2003, approximately 0.9 million were contract subscribers, as compared to approximately 0.7 million at December 31, 2002. T-Mobile Czech Republic had approximately 3.1 million prepay subscribers at December 31, 2003, as compared to approximately 2.8 million at December 31, 2002.

T-Mobile Czech Republic's average churn rate during 2003 was 1.0% per month, as compared to 0.9% in 2002. The overall rise was driven by an increase in the prepay churn rate, while a lower contract churn rate partly compensated for this effect. Generally, a prepay customer is churned after a period of twelve months if no originating or receiving communication is recorded.

The Netherlands

In October 2000, T-Mobile International acquired an equity interest of 50.0% minus one share in Ben Nederland Holding, B.V., whose wholly-owned subsidiary, Ben Nederland B.V. was one of five operators in the Dutch mobile communications market. In September 2002, T-Mobile acquired the remaining share in Ben. T-Mobile Netherlands (formerly Ben) has been fully consolidated in Deutsche Telekom's financial statements since October 1, 2002.

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At December 31, 2003, T-Mobile Netherlands had approximately 2.0 million subscribers, as compared to approximately 1.4 million at December 31, 2002. At the end of 2003, about 0.9 million subscribers were on contract and 1.1 million on prepay compared to 0.6 million contract subscribers and 0.8 million prepay subscriber end of 2002.

The average churn rate for 2003 was 2.6% per month, as compared to an average churn rate of 2.8% in 2002. Improved network quality in the Netherlands is the main reason for this reduction. If they have not originated or received a call for a period of 180 days, prepay subscribers at T-Mobile Netherlands are churned and removed from the subscriber base.

Minority Shareholdings: Poland

T-Mobile International holds a 49.0% equity interest in Polska Telefonia Cyfrowa Sp. z o.o. ("PTC"). At December 31, 2003, PTC had approximately 6.2 million subscribers, as compared to approximately 4.9 million at December 31, 2002.

On August 25, 2003 we made the other shareholders of PTC a cash offer to acquire the remaining shares of PTC. A general agreement was reached on September 14, 2003 concerning a revised offer for EUR 1.1 billion. On September 26, 2003 we announced that no definite agreement on increasing our stake in PTC had been reached. For a discussion of a dispute concerning our investment in PTC, please refer to "Item 8. Financial Information — Litigation."

Minority Shareholdings: Russia

T-Mobile International currently holds an equity interest of approximately 25.1% in Mobile TeleSystems OJSC ("MTS"), a Russian mobile telecommunications company. On April 15, 2003, T-Mobile sold a 5% stake in MTS as part of a block trade. In addition, on April 21, 2003, T-Mobile's co-shareholder of MTS, AFK Sistema JCSC (Sistema) exercised a call option granted in March 2003 to purchase approximately 10% of the MTS shares held by T-Mobile. The total proceeds from these two transactions amounted to approximately EUR 500 million.

At December 31, 2003, MTS had approximately 16.7 million subscribers, as compared to approximately 6.6 million at December 31, 2002. The large increase in subscriber base was primarily attributable to several acquisitions made in 2003 and organic growth.

Seasonality

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

Suppliers

T-Mobile purchases IT and network components, as well as mobile handsets for purposes of resale, from a number of different suppliers. T-Mobile seeks to address the risk of delays in the supply of equipment and other technologies by using multiple suppliers where appropriate and by negotiating contractual penalties to be enforced if the supplier does not meet the agreements in time and quality. Such penalty provisions, even if obtained, may not fully mitigate the harm to our business by such delays or poor quality.

T-Mobile believes it has reduced its technological risks by contracting with multiple suppliers who have a significant market share in UMTS infrastructure and handset business.

Marketing

Each of the principal subsidiaries in our T-Mobile division uses its own combination of distribution channels to market products and services to customers. In each of the principal markets, third-party distributors, who typically market the products and services of multiple mobile phone network operators, play a significant role in marketing. Our mobile communications subsidiaries use a variety of incentives to encourage third-party vendors to sell T-Mobile products and services, such as payment of marketing expenses and special commissions. In addition, T-Mobile markets its products and services to retail customers through direct sales outlets, particularly in Germany and Austria, and markets products and services to business customers through a direct sales force. The T-Mobile Internet pages being predominantly used for customer relationship management are also access routes to sales and services. T-Mobile also sells products and services through its Internet pages. In Germany, an important distribution channel is our group's T-Punkt retail shops. Mobile telecommunications re-sellers are also an important distribution channel. Mobile telecommunications re-sellers purchase network access at wholesale conditions as well as handsets at a discount from network operators, resell packaged services and handsets under their own brand through their own distribution channels, charge their customers at rates that they set independently and provide customer service and technical support.

T-Mobile provides access to third party content services to its customers through its mobile data service called "t-zones." Content provided to customers is either standard content, in which case the customer only has to pay the normal transportation charges to view or surf the content, or it is premium content, where a customer pays a specific charge through the customer's mobile phone bill for the content.

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

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

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

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

Competition

General

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

In the past, competition in the European mobile communications market has been conducted at the national level. Increasingly, however, competition in this market is being conducted on a more international basis as international services are being introduced and as the number of mobile brands in Europe is shrinking.

In Germany, the United Kingdom, Austria, the Czech Republic and the Netherlands, the rate of mobile phone penetration is quite high. As a result, growth in the number of T-Mobile subscribers in these markets is expected to be significantly lower than in past years, and the focus of competition will shift from customer acquisition to customer retention and to increasing average revenues per user by stimulating demand for voice usage and new data products and services. In this connection, the timely introduction of new technologies that permit faster data transmission and enhanced services is highly significant. Churn rates could rise as mobile network operators seek to acquire subscribers of other mobile network operators. While the focus of competition is shifting, we expect that competition will intensify. Large numbers of subscribers in Europe have taken advantage of prepay tariff packages. Since these prepay subscribers are not bound to T-Mobile or other operators by contract, this trend may generate additional competitive pressure in the future.

The global mobile communications industry has been undergoing consolidation in recent years, which may increase competitive pressure and it is expected that consolidation will continue in the coming years.

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

Germany

In Germany, T-Mobile Deutschland faces intense competition from the network operators Vodafone D2 (formerly Mannesmann D2), E-Plus and O2 (formerly Viag Interkom). In 2003, T-Mobile Deutschland maintained its market leadership position in terms of number of subscribers, although our competitors gained some ground.

We believe T-Mobile Deutschland had a subscriber market share of approximately 40.6% at December 31, 2003, while Vodafone D2 had a subscriber market share of approximately 38.1%, E-Plus had a subscriber market share of approximately 12.7% and O2 had a subscriber market share of approximately 8.6% at that date. The penetration rate in the German mobile communications market was approximately 78.3% at December 31, 2003.

In 2003, T-Mobile and Vodafone tended to focus on subscriber growth and increasingly on the improvement of subscriber quality. E-Plus offered prepay and contract products comparable to those of T-Mobile and Vodafone. O2 emphasized niche products, such as O2Genion. As a result of its strategy, O2 is the only German mobile network operator having more contract than prepay subscribers.

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

In August 2000, six UMTS licenses were awarded to the four existing mobile communication network operators, the reseller Mobilcom and Quam, a joint venture owned by Telefonica and Sonera. On December 23, 2003, Mobilcom returned its UMTS license to the German telecommunications regulator. For futher details, see "— Regulation — Regulation in Germany."

North America

T-Mobile USA faces intense competition in the United States mobile telecommunications market from the other five national mobile providers, Verizon Wireless, Cingular, AT&T Wireless, Sprint PCS and Nextel, and from various regional operators. The six national carriers are estimated to represent over 80% of the total U.S. mobile telephony subscriber base. T-Mobile USA's subscriber market share measured against the other nation-wide operators was approximately 10.3% at December 31, 2003, as compared to approximately 8.9% at December 31, 2002. Most of these competitors had been operating in the U.S. mobile telecommunications market for a considerable time prior to the entry of T-Mobile USA's predecessors into the market.

In February 2004, Cingular announced an agreement to acquire AT&T Wireless. Although we are not able to judge if and when this transaction will close, the completed transaction would create the largest wireless services provider in the United States based on the number of subscribers. A combined Cingular/AT&T and Verizon Wireless, our largest competitors in the United States, have potential advantages of size and scale that could allow them to deliver services in a more cost efficient manner and thereby negatively affect our competitive situation. As described above, the potential unwind of our network sharing joint venture with Cingular may also negatively affect our competitive situation.

The U.S. mobile telecommunications market is quite different in a number of respects from the European telecommunications mobile markets. The nationwide network operators use no single communications standard. T-Mobile USA was the only national mobile provider using GSM, prior to the initiation by Cingular Wireless and AT&T Wireless of the overlay of their existing networks with GSM networks. Licenses to provide wireless services cover numerous localities, rather than the entire nation. It can be difficult for network operators to obtain the spectrum needed in some localities to expand subscriber bases, upgrade the quality of service and add new services, particularly in densely populated urban areas. Low population density in other areas can cause problems with network efficiency and result in large geographic areas with no or limited coverage. For these and other reasons, including the extremely high penetration level of reliable, low cost, fixed-line telephony services, penetration levels for mobile telephony services in the United States are generally lower than penetration levels in Western European countries, with an estimated 55% mobile penetration rate as of December 31, 2003. As a result, operators in the United States market generally continue to invest heavily in order to encourage and capture growth in subscriber numbers.

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

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

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

United Kingdom

In the United Kingdom, T-Mobile UK faces intense competition, principally from Vodafone, mmo2 and Orange, a subsidiary of France Telecom. We believe T-Mobile UK had a subscriber market share of approximately 25.0% at year end 2003 compared to 24.0% at the end of 2002. Compared to its competitors, T-Mobile UK's customer base, including customers of Virgin Mobile, has a lower proportion of business subscribers. The penetration rate in the British mobile communications market was approximately 86.2% at December 31, 2003.

In the retail market, in addition to competition from other network operators, T-Mobile UK faced significant competition from resellers and virtual network operators.

In addition to the existing mobile operators, T-Mobile UK faces competition from "3" (a brand name of Hutchison 3G UK Limited), which started operation in 2003, aiming mainly at customers for UMTS services.

Austria

In Austria, T-Mobile Austria faces competition from Mobilkom (A1), Connect Austria (One), tele.ring, H3G and tele2. We believe T-Mobile Austria's year-end 2003 subscriber market share to be 31%, decreasing from 32% at the end of 2002 mainly due to strong and price aggressive competition from tele.ring and due to the entrance of H3G and tele2 in the Austrian mobile market. We believe the subscriber market shares of A1 to be 40%, 20% for One and 9% for tele.ring. The penetration rate in the Austrian mobile communications market was approximately 83% at December 31, 2003, compared to approximately 80% at December 31, 2002.

Czech Republic

In the Czech Republic, T-Mobile Czech Republic faces competition from Eurotel Praha, spol s.r.o. and Cesky Mobil. We believe T-Mobile Czech Republic had a subscriber market share of approximately 41%, which is the same as in 2002. Eurotel Praha, spol s.r.o. had about 43% compared to 45% in 2002 and Cesky Mobil had 16% compared to 14% at the end of 2002. The penetration rate in the Czech mobile communications market was approximately 94% at December 31, 2003, up by approximately 10 percentage points in comparison to December 31, 2002.

The Netherlands

In the Netherlands, T-Mobile Netherlands faces intense competition from KPN Mobile, Vodafone, Telfort (formerly O2) and Orange (formerly Dutchtone). We believe KPN Mobile and Vodafone had subscriber market shares of 38% and 26% at the end of 2003, compared to 42% and 27% at December 31, 2002. The subscriber market share of T-Mobile Netherlands increased to approximately 15% at December 31, 2003, compared to approximately 12% at December 31, 2002. Compared to its competitors, T-Mobile Netherlands has a higher proportion of contract subscribers, generally leading to a more stable subscriber base, and higher average usage and revenues per user. The penetration rate in the Dutch mobile telecommunications market was approximately 78% at December 2003, compared to 76% at December 31, 2002.

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

T-Online

General

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

T-Online International AG was first listed on the Neuer Markt segment of the Frankfurt Stock Exchange in April 2000 through a public offering of newly issued shares representing approximately 10% of its then equity capitalization. Our interest was subsequently diluted through new share issuances to approximately 81.7%. In December 2002, we sold an additional 9.81% of our T-Online shares. As of December 31, 2002, we had a controlling ownership interest of approximately 71.9 % in T-Online. On November 12, 2003, we acquired the 2% stake (approximately 24.9 million shares) in T-Online previously held by Commerzbank under the terms of a contractual agreement between Commerzbank and us. Pursuant to the terms of the agreement, Commerzbank was required to offer these shares to us if Commerzbank wanted to sell them. Accordingly, as of December 31, 2003, we had a controlling ownership interest in T-Online International AG of approximately 73.9%.

On March 24, 2003, T-Online's stock was incorporated into the TecDAX index established in the course of segment restructuring by the operator of the Frankfurt Stock Exchange, Deutsche Boerse AG.

On December 10, 2003, the supervisory board of T-Online International AG approved the acquisition of 100% of the shares of the Internet portal operator Scout 24 AG from Beisheim Holding Schweiz. Subject to agreed closing adjustments, the total purchase price for Scout 24 AG is expected to be approximately EUR 180 million, including the purchase price of a shareholder loan.

Principal Markets

The T-Online division includes the activities of our majority-owned T-Online International AG subsidiary in Germany, which contributes almost 90% of the revenues of the division. T-Online also operates through wholly owned subsidiaries in France, Spain and certain other European countries.

With more than 13.1 million subscribers at December 31, 2003, T-Online is one of the largest European Internet service providers, or ISPs, based on revenues and number of subscribers. T-Online estimates that approximately 3.6 million, or 27.2%, of its total customers had broadband access to the Internet in 2003.

Broadband refers most commonly to the new generation of high-speed transmission services, which allow users to access the Internet and Internet-related services at significantly higher speeds than traditional dial-up service is capable of supporting. T-Online uses the term "broadband " to refer to high-speed access to the Internet based on ADSL technology ("Asymetric Digital Subscriber Line"). Broadband access is generally fast enough to support new applications, such as high quality streaming video. T-Online, like other ISPs, defines broadband as any ADSL connection for which the data rate is greater than 128 kbit/s. The Deutsche Telekom T-DSL service offering starts at 768 kbit/s. Deutsche Telekom T-DSL service offering is expected to migrate to a minimum of one Mbit/s during 2004. Narrowband usually refers to a dial-up connection and offers a transmission rate of up to 128 kbit/s (ISDN with channel bundling).

Subscribers

	December 31,		
	2003	2002	2001
	(in thousands)		

Broadband			
Germany	3,308	2,642	1,358
Rest of Europe	264	156	28
Group	3,572	2,798	1,386
Narrowband			
Germany	7,477	7,320	7,406
Rest of Europe	2,084	2,127	1,867
Group	9,561	9,447	9,273
Total	13,133	12,245	10,659

Germany

In the past year, T-Online International AG retained its leading position in the German ISP market with 10.8 million subscribers at December 31, 2003. By the end of 2003, T-Online's broadband customer base in Germany had increased to approximately 3.3 million, representing over 30% of T-Online's total customer base in Germany. These customers generally use the Internet more frequently and for longer periods of time than narrowband users. They are also heavier users of e-commerce. T-Online considers broadband customers one of the key growth drivers in the Internet industry.

The high level of demand for the T-DSL flat rate plan — unlimited usage for a monthly fee — continued during 2003. The T-DSL flat rate subscriber base increased by 21% to approximately 2.0 million at the end of 2003 as compared to the end of 2002. Narrowband access continued the trend of slower growth in 2003 compared to broadband access due to increasing demand for broadband access.

T-Online continues to offer Internet access via wireless local area networks (W-LANs) in specific public places. The focus of the W-LAN strategy is cooperation with strong regional and national partners, with T-Online relying on these partners' existing technologies rather than setting up its own W-LAN infrastructure. T-Online's W-LAN partners include MainSurf, the leading local W-LAN supplier in the Rhine-Main region, and BerlinNet. In the future, T-Online plans to cooperate with T-Com and T-Mobile to provide greater W-LAN coverage. Customers of all three divisions will be able to use HotSpots branded with the "T-HotSpot" logo.

Since 2000, T-Online has focused on becoming Europe's leading Internet media network. In this context, T-Online developed its own portal into a multi-access theme portal. Numerous content offers of T-Online are available not only through personal computers, but also on mobile devices such as mobile phones, smart phones and PDAs. Themed content with respect to news, sport, finance, entertainment and games are available for mobile users as well.

In August 2003, T-Online presented the new structure and graphic design of its homepage to conform to T-Online's combined business model, which focuses on access, content, services, and e-commerce. T-Online's Internet portal now combines new product areas for current topics, services, and shopping, offering information and entertainment, services and access products, and a variety of e-commerce services.

The goal of these measures is to increase the amount and quality of the content provided on T-Online's portal and thereby to increase the time spent on the portal by visitors. Accordingly, T-Online seeks to provide attractive content and new services through its portal network. T-Online's content partners include ZDF television, Axel Springer publishers and the Burda People Group. In 2003, T-Online expanded its media network strategy and benefited from the increase in paid content and service offers.

The product portfolio of the broadband portal, T-Online Vision, was expanded to include for the first time productions of the major U.S. film studios Dreamworks, Metro-Goldwyn-Mayer and Universal, as well as Germany's Constantin

Film AG. Through the broadband portal, T-Online Vision — (www.t-online-vision.de), T-DSL users can access films in streaming mode and view them for a fee.

T-Online believes that e-commerce is going to become more important over the next few years and is therefore a key element in its strategy. For direct trading with consumers, T-Online established its T-Online Shop in December 2002, which offers a range of computer and multimedia products. T-Online will be seeking to increase the value-creation potential of its T-Online Shop by trading directly in a few selected areas. As a pure marketplace activity, T-Online offers its e-commerce partners the opportunity to reach their targeted groups through its shopping portal for a prearranged fee.

With the launch of the new www.musicload.de portal, T-Online has its own offering for the legal downloading of digital music. With musicload, T-Online provides its users in Germany with a product range from the catalog of major record companies, such as Sonymusic, BMG EMI, Warner, Kontor and EDEL, and is strengthening its position in the e-commerce sector and lending important momentum to the digital distribution of music products.

T-Online also offers e-mail, online banking, chatting and international access, among other services. The strategic importance of these services is to strengthen customer relationships. During 2003, the existing service portfolio was expanded and new Internet services were developed and launched, such as web-hosting, office applications, security and business information.

Rest of Europe

The T-Online division took a significant step in the development of its international business in March 2000, when T-Online acquired a 99.9% equity interest in T-Online France, the online service business of the French Lagardère group, in exchange for 5.69% of T-Online's shares (after giving effect to the listing of T-Online shares that took place in April 2000 and to the acquisition of an interest in comdirect). In May 2003, T-Online acquired the remaining 0.1% of T-Online France's shares from Lagardère.

T-Online France, operating under the name of Club Internet, has continued to develop its Internet business beyond simple Internet access. In September 2002, Club Internet was the first ISP in France to present a live portal with ADSL-specific content ("Club Haut Débit"). The product range of this portal includes video-on-demand, music download and games-on-demand, and has been expanded with products such as web-radio and live streaming TV channels. Club Internet's cooperation with the Internet shopping platform "Best of micro-Buy-central" is intended to grow its e-commerce revenues. This shopping platform encompasses the product range of more than 300 retailers. Club Internet also launched a range of new services on a pay-per-use basis, such as firewall software, antivirus software, mobile e-mail, paid services (horoscopes, IQ-tests) and photo services.

In October 2000, T-Online acquired Ya.com in exchange for cash and approximately 1.25% of T-Online shares. Ya.com is one of the three leading ISPs in Spain. Besides providing narrowband and broadband Internet access in Spain, Ya.com develops content, services and e-commerce offerings for Internet users in Spain and Portugal. In addition to its main portal (www.ya.com), the Ya.com network in Spain is comprised of several integrated portals, such as travel (Viajar.com), music and DVDs (Discoweb.com), finances (Finanzas.com), automotive (supermotor.com) and computer sales (TiendaPC.com), aimed at generating revenues from Internet traffic.

Through its Ya.com Travel S.L. subsidiary, operating under the name Viajar.com, Ya.com has already become one of Spain's top three online travel agencies in terms of revenues. During 2003, Ya.com also extended the scope of its paid services. The introduction of downloadable cell phone logos, for example, was very popular among Spanish users.

T-Online France and Ya.com also capitalized on the expansion of the broadband market in their respective countries to increase their customer bases. At December 31, 2003, the broadband customer base in our activities in the rest of Europe was approximately 264,000 subscribers, compared with approximately 156,000 at the end of 2002. T-Online France increased its base of ADSL subscribers by approximately 67% compared with the same period last year, while Ya.com's ADSL customer base increased by more than 72% in 2003 compared with 2002.

Competition

The German and European markets for Internet access and portal services have been and will continue to be highly competitive. In the market for Internet access services, competition occurs in several areas, including pricing, brand recognition, network speed and reliability, customer support and

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timely introduction of new products and services. The regulatory environment can also exert a significant influence on the level of competition. For Internet access providers, the terms on which they and their customers are able to secure telecommunications network services from carriers are important factors in the development of the market, and these services are generally regulated to promote competition. In the market for portal services, T-Online faces competition from websites maintained by Internet service providers, Internet information retrieval services, online community websites, home page services, e-commerce retailers and shopping portals, among others, as well as from traditional media, including newspapers, magazines, radio and television.

Group Headquarters and Shared Services

As part of our four-pillar strategy, we assigned our telecommunications industry activities to our four corresponding divisions. Our internal reorganization was completed, both in terms of organization and staffing, in the first half of 2003. Accordingly, although our T-Com division and a number of our departments do not have legal identity separate from that of Deutsche Telekom AG, we manage them as though they are separate legal entities or assigned to specific divisions. As part of our strategic reorganization, many of the central departments (e.g., treasury, legal and accounting) were included in "Group Headquarters and Shared Services" (formerly "Other Activities"). Managing our group headquarters in this way is intended to enhance the competitive strength of all divisions in our group. Under the division of responsibilities between Group Headquarters and Shared Services and the operating divisions, the latter assume full responsibility for managing operational businesses, while Group Headquarters and Shared Services is now primarily responsible for strategic and cross-divisional management functions. Group Headquarters and Shared Services, through various departments, focuses on administrative, governance, treasury and finance matters relating to the group as a whole. Operating activities not directly related to the core businesses of the divisions, such as the administration of our real estate within Germany, domestic billing services, domestic fleet management, Vivento (formerly known as the Personnel Services Agency (PSA)) and our domestic training center, are also included in Group Headquarters and Shared Services.

Activities in Germany

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

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

For more information about our real estate management activities and portfolio, please refer to "— Description of Property, Plant and Equipment — Real Estate."

The Billing Services unit provides billing services for our divisions (except T-Mobile) within Germany. In 2004, the Billing Services unit intends to broaden its service portfolio by integrating our accounts receivable department, our debt collection business (SAF Forderungsmanagement GmbH), and our risk and credit rating provider (Solventec GmbH). This will enable the Billing Services unit to operate as a full service provider with end-to-end capabilities in business process management for the billing and management of accounts receivable.

Our fleet management company, DeTeFleetServices GmbH, was established in July 2002 to capitalize on synergy effects throughout our company. It manages fleet operations with approximately 39,000 vehicles throughout all our divisions in Germany. It operates as a full service provider of fleet management and mobility services.

With the goal of efficiently implementing our staff restructuring measures in a socially responsible manner, we established the PSA in the fourth quarter of 2002. In the second half of 2003, the PSA was repositioned under the name Vivento, with new management and a new business mandate. The agency employs displaced workers, and trains and equips them with other employment qualifications for redeployment within the Deutsche Telekom group or other companies, or for project or temporary assignments. In addition to individual placements, Vivento staffs major projects and workforce-intensive operations and services. In 2004, Vivento took over the call center unit operations of T-Com and intends to expand this operation as a new service within the group and externally.

Through December 31, 2003, approximately 19,240 of our employees had been transferred to Vivento. Approximately 75% of our employees transferred to Vivento originated from T-Com, and were transferred as part of that division's program to increase efficiency. The remaining transferred employees were primarily apprentices who had finished their professional training within the group.

Through December 31, 2003, of approximately 3,710 employees had left Vivento, of which approximately 2,200 were placed outside the group. As of December 31, 2003, approximately 3,300 additional employees had been given temporary employment within the group, and a further 700 outside the group. At the end of 2003, approximately 15,530 employees were in Vivento, and a further 440 were Vivento's permanent staff.

	As of[1]			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
Number of transferred employees[2]	5,150	8,240	11,770	19,240
Number of employees leaving[2]	250	860	2,000	3,710
Actual number of employees in Vivento	4,900	7,380	9,770	15,530
Operational staff of Vivento	200	310	350	440

(1)Figures are rounded.
(2)Including 2002 figures.

For more information on Vivento, please refer to "Item 6. Directors, Senior Management and Employees — Employees and Labor Relations — Other Employees."

In the second quarter of 2003, the activities of the Telekom Training Center and T-Systems Deutsche Telekom Trainings GmbH were merged and renamed Telekom Training. The Telekom Training unit is responsible for providing professional training and qualification services for our employees within Germany. It trains existing staff and employees of Vivento, and provided training for approximately 10,000 apprentices during 2003.

The treasury unit is primarily responsible for cash management, investments in securities, leasing arrangements and the refinancing of indebtedness through a variety of financial arrangements, including, among other things, bank loans and other credit arrangements, as well as the issuance of debt in the capital markets, the handling of payments and clearing transactions, and foreign exchange and hedging activities.

T-Venture Holding GmbH ("T-Venture") is also included in the Group Headquarters and Shared Services. T-Venture's mission is to scout for new products, technologies and services and to acquire access to them. Accordingly, a corporate venture capital investment fund has been established to make investments beyond those made directly by our divisions.

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

International Activities

In 2003, we continued to sell certain of our minority and non-core shareholdings. In December 2003, we sold our interest in the satellite operator Inmarsat Venture Plc. In October 2003, we sold most of our interest in Globe Telecom in the Philippines. The remaining shares of our interest in Globe Telecom were sold in February 2004. In June 2003, we sold our remaining interest in Celcom (Malaysia) Berhad. Additionally, in February 2003, we sold our interest in Eutelsat S.A. and the UMC (Ukrainian Mobile Communications) joint venture. The sale of those minority interests generated aggregate proceeds of approximately EUR 0.7 billion.

INNOVATION MANAGEMENT (RESEARCH AND DEVELOPMENT)

Innovation management focuses on innovation strategy, research and development, innovation transparency throughout our group, intellectual property rights, asset management and T-Venture. Our research and development activities are performed primarily in the divisions and are coordinated centrally. Corporate innovation was repositioned within our headquarters and works closely with corporate strategy and corporate technology under the responsibility of our CEO.

Research and Development Expenditures

In 2003, we incurred approximately EUR 0.9 billion of innovation expenditures. As in the preceding years, the majority of such expenditures was invested in the development and upgrading of the necessary software systems and architectures relating to our T-Com and T-Mobile divisions. This amount was similar to the expenditures invested in 2002. In 2003, central innovation management focused on restructuring and reorganizing the central research and development project portfolio. The time horizon for these research and development projects was refocused from 5-10 years to 2-5 years. The divisions are responsible for product roadmaps and the research and development pipeline for the next two years. All projects and activities combined involved approximately 6,400 employees.

Intellectual Property

More then 400 patent applications were submitted in 2003 in Germany. The number of assigned patents (intellectual property rights), which have been filed increased by approximately 70% in comparison to the previous year (2003: 308; 2002: 182). At the end of 2003, we held approximately 5,000 intellectual property rights. Many of these intellectual property rights have been strategically implemented within our company and the marketing of others to third parties has been successfully continued.

ACQUISITIONS AND DIVESTITURES

As part of our strategic plans, we have been selling certain non-core assets to reduce our indebtedness and improve liquidity. We have announced our intention to sell, in whole or in part, certain other non-core assets, including various real estate holdings in Germany. The following list contains each of the principal acquisitions and dispositions made by us since January 1, 2000.

Year	Segment	Event	Amount (billions of €)
2003	T-Systems	Sale of shares in TeleCash	0.1
2003	GHS	Sale of shares in Inmarsat	0.1
2003	GHS	Purchase of additional shares of T-Online International AG	0.2

2003	GHS	Sales of shares in Celcom	0.1
2003	GHS	Sales of shares in Globe Telecom	0.4
2003	T-Systems	Purchase of PragoNet	0.01
2003	T-Com	Sale of interest in Kabel Baden-Wuerttemberg	0.1
2003	T-Systems	Sale of SIRIS, Multilink, T-Systems Card Services	0.04
2003	GHS	Sales of shares in Eutelsat and Ukrainian Mobile Communications	0.2
2003	T-Mobile	Sale of receivables in an asset-backed securitization transaction	0.5
2003	T-Mobile	Sale of shares in MTS	0.5
2003	GHS	Sales of real estate	0.8
2003	T-Com	Sale of six regional cable companies	1.7
2002	GHS	Sales of real estate	1.3
2002	GHS	Sale of shares in T-Online International AG to institutional investors	0.7
2002	T-Systems	Sale of receivables in an asset-backed securitization transaction	0.3
2002	GHS	Sale of interest in Satelindo	0.3
2002	GHS	Sale of interest in France Telecom	0.3

Year	Segment	Event	Amount (billions of €)
2002	T-Mobile	Exercise of call option to acquire 51% of Ben Nederland Holdings B.V	(1.7)
2002	T-Systems	Acquisition of remaining 49.9% of debis Systemhaus	(4.7)
2001	T-Com	Sale of receivables in an asset-backed securitization transaction	1.4
2001	GHS	Sales of real estate	0.7
2001	T-Com	Sale of interest in regional cable television company for Baden-Wuerttemberg	0.9
2001	GHS	Sale of interests in Sprint, FON and PCS	3.4
2001	GHS	Sale of interest in WIND (net of withholding tax)	2.1
2001	T-Com	Acquisition of interest in Hrvatski Telecom (Croatia)	(0.5)
2001	T-Mobile	Acquisition of T-Mobile USA and Powertel	(33.8)*
2001	T-Mobile	Acquisition of interest in RadioMobil	(0.6)
2001	T-Com	Acquisition of interest in Macedonia Telecom (Maktel)	(0.3)
2000	GHS	Sale of logistic center	0.4
2000	T-Com	Sale of interest in the regional cable television companies for North Rhine-Westphalia and Hesse	3.0
2000	GHS	Sale of interest in Global One	2.9
2000	T-Mobile	Acquisition of UMTS licenses in Germany, UK and Austria	(15.3)
2000	T-Mobile	Initial investment in T-Mobile USA	(5.6)
2000	T-Com	Acquisition of interest in Slovak Telecom	(1.0)
2000	T-Mobile	Acquisition of interest in Ben Nederland Holdings BV	(1.1)
2000	T-Com	Acquisition of interest in Matáv	(2.3)
2000	T-Online	Acquisition of Club Internet	(1.9)*
2000	T-Online	Acquisition of interest in comdirect	(0.7)*

2000	T-Online	Acquisition of ya.com	(0.4)*
2000	T-Mobile	Acquisition of interest in PTC	(1.1)
2000	T-Com	Acquisition of interest in Westel 900 (Media One)	(1.0)

* amount invested includes market values of shares exchanged.

REGULATION

Regulation in Germany

Our T-Com division, in particular, is influenced by the decisions of the Regulatory Authority for Telecommunications and Post (Regulierungsbehoerde fuer Telekommunikation und Post) (the "German telecommunications regulator"), a supervisory body established within the German Economics Ministry (Bundesministerium fuer Wirtschaft und Arbeit) to carry out regulatory functions under the German Telecommunications Act. The German telecommunications regulator considers T-Com to be a market dominant provider in several markets, especially in fixed-line networks calling services. In 2003, many of the decisions of the German telecommunications regulator were implemented to increase competition in the markets for local calls and for narrow and broadband access to the T-Com fixed-line telecommunications network. These regulatory decisions have had and will continue to have significant effects on the level of competition in the markets for regional and local calls and local access to our fixed-line network.

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

Liberalization

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

In March 2004, the Federal Parliament approved a draft bill relating to amendments to the German Telecommunications Act to take into account the changed market conditions in Germany and the new EU regulatory framework. For further information on the EU framework see "— The European Union Regulatory Framework—The New Regulatory Framework." These proposed amendments to the German Telecommunications Act are likely to affect our business materially. The future regulatory and competitive environment for Deutsche Telekom in Germany will be largely determined by the implementation and interpretations relating to the proposed amendments to the German Telecommunications Act, which are difficult to predict. The draft bill has yet to be approved by the Chamber of Federal States. The amended German Telecommunications Act is not expected to become effective prior to mid-2004.

The following sections refer primarily to the present telecommunication laws in Germany. However, where appropriate, we will also refer to the recently proposed amendments to the German Telecommunication Act.

The Regulatory Framework

The German Telecommunications Act allows virtually unrestricted market access by qualified entrants. The principal objectives of the German Telecommunications Act are to promote competition in the telecommunications sector through regulatory measures, to guarantee appropriate and adequate telecommunications services throughout Germany and to provide for the regulation of frequencies. The German Telecommunications Act aims to achieve these objectives principally by requiring licenses for the carrying out of certain telecommunications activities, allocating frequencies, securing universal service and subjecting enterprises having dominant positions in particular telecommunications markets (so-called "market-dominant providers", such as Deutsche Telekom) to a special regulatory framework.

Regulatory Supervision

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

Licensing and Notification Requirements; Allocation of Frequencies

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

- the operation of transmission lines for mobile telecommunications services for the public (Class 1 licenses),
- the operation of transmission lines for satellite services for the public (Class 2 licenses),
- the operation of transmission lines for public telecommunications services (Class 3 licenses), and
- the provision of voice telephony services to the public on the basis of self-operated telecommunications networks (Class 4 licenses).

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

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

Under the proposed amendments to the German Telecommunications Act, regulatory fees may be imposed based on the revenues of telecommunication companies. Although still under discussion, this proposal, if adopted, may have a disproportionate effect on large companies like Deutsche Telekom, and may have a material adverse effect on our results of operations.

Since 1992, T-Mobile Deutschland has held a mobile (class 1) license to establish and operate a public digital telecommunications network based on the GSM standard with 2x12.5 MHz spectrum in the 900 MHz band. This license was originally awarded to Deutsche Telekom (then called Deutsche Bundespost Telekom) in 1990. Following an auction in 1999, T-Mobile Deutschland's GSM license was extended by 2 x 5 MHz in the 1800 MHz band. The license will expire on December 31, 2009. Procedures relating to the extension of this license beyond its current expiration date have not yet been established.

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

The proposed amendments to the German Telecommunications Act contain rules relating to spectrum trading. It is not known at this time whether and how this will affect the use of spectrum rights under 2G and 3G licenses by us and our competitors.

One of the six UMTS licenses that were allocated in 2000 was returned to the German telecommunications regulator at the end of 2003. The relevant spectrum (2 x 5 MHz paired spectrum and 5 MHz unpaired spectrum) will be reallocated in the future. However, it is not yet known under what timeframe and conditions such reallocation will take place.

Special Requirements Applicable to Market-Dominant Providers

General

Market-dominant providers and their affiliates are subject to special rules and obligations, including the following:

- The prior approval or retroactive review of tariffs and tariff-related general business terms and conditions by the German telecommunications regulator, insofar as such tariffs and conditions relate to a market in which the provider is dominant. See "— Pricing."
- The obligation to offer competitors unbundled special network access (including interconnection) as well as access to essential services and facilities used by the market-dominant provider internally on a non-discriminatory basis. See "— Special Network Access and Interconnection."
- Potentially, the obligation to provide universal services in a market. See "— Leased Lines — Universal Services."
- The possible inclusion of restrictive conditions in licenses, such as, in the case of scarce frequencies, a condition not to cooperate with another provider in the same market or the rejection of bids for licenses and frequencies in case of scarce frequency capacity to the extent that equal competition on the relevant market is endangered.

In addition, market-dominant providers must maintain segregated accounting systems to allow for transparency with respect to various licensed telecommunications services, and between such services and license-free services, in order to prevent, among other things, the cross-subsidization of services. In this regard, the German telecommunications regulator may specify the structure of internal accounting for particular telecommunications services subject to licenses. Furthermore, under general competition law principles, market-dominant enterprises may not abuse their dominant position. See "— Competition Law."

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Market dominance under the German Telecommunications Act is determined by reference to the German Act Against Restraints of Competition (Gesetz gegen Wettbewerbsbeschraenkungen). See "— Competition Law."

Current law provides that a company is presumed to have a dominant position if its share of a particular market equals or exceeds one-third of such market. The determination of the product and geographic markets affected and the criteria relating to market-dominance under the German Telecommunications Act are made by the German telecommunications regulator in agreement with the German Federal Competition Authority.

Pursuant to the proposed amendments to the German Telecommunications Act, the concept of market dominance will likely be replaced by the EU concept of significant market power. Accordingly, if this concept is adopted, the German telecommunications regulator and those companies affected will have to look to European law and practice for additional guidance in this area. The question of which telecommunications markets the German Telecommunications Act applies will for most aspects not be governed in the act itself anymore but will be subject of a market analysis procedure which shall be revised on a two years cycle. The starting point for this market analysis procedure is the "EU recommendation on relevant markets" that specifies a list of telecommunications markets which shall be subject to sector specific regulation. The first recommendation concerns retail markets for fixed public telephone service and leased lines and wholesale markets for unbundled local loop, fixed network interconnection, broadband access, mobile termination/access + origination/international roaming and broadcasting transmission services (see also "— The European Union Regulatory Framework — The New Framework."). The German telecommunications regulator is in the process of reviewing these markets with the results expected by the end of 2004.

We believe that for the foreseeable future, the German telecommunications regulator is likely to view us as holding a dominant position in the German market for public voice telephony services in the fixed network and in other markets, including most of those in which we held monopoly rights in the past. As a result, we expect that the provisions of the German Telecommunications Act relating to the regulation of market-dominant providers will be applied to our activities in those markets. Considering that in many markets our competitors are unlikely to reach dominant positions in the near future, we expect that we will have to compete in significant markets with providers not subject to the requirements applicable to market-dominant providers (or those with significant market power). These competitors may therefore have more flexibility than we have in terms of the selection of services offered and customers served, pricing and the grant of access to their networks.

At the end of 2003, the German telecommunications regulator and the Monopoly Commission (Monopolkommission) reported to the German federal legislature on the developments of competition in the German telecommunications market. Although both reports state that overall competition is developing positively in the German telecommunications market, they conclude that promotion of competition through regulatory intervention continues to be necessary.

Pricing

Under the German Telecommunications Act, tariffs and tariff-related business terms and conditions for the telecommunications services of market-dominant providers and their affiliates are subject to regulation insofar as they relate to a market in which such dominance is determined to exist. Other tariffs are essentially unregulated under the German Telecommunications Act. The tariffs of all providers in Germany are, however, generally subject to European and German law, including competition and consumer protection laws and ordinances. In addition, tariffs for universal services must be set at an "affordable price." See "— Leased Lines — Universal Services."

The German Telecommunications Act distinguishes between tariffs that require prior regulatory approval and tariffs which do not require prior approval but are subject to retroactive review. Prior approval is required for the tariffs of a market-dominant provider in the areas of public voice telephony services, the operation of transmission lines for telecommunications services to the public, and access and interconnection services. All other tariffs, including tariffs in respect of mobile telephony, subscription fees for cable transmission services and fees for satellite services, may be established without prior approval. However, in markets in which a provider is considered to have a market-dominant position, such tariffs are subject to retroactive review to the extent that facts become known which indicate that the tariffs are inconsistent with the German Telecommunications Act.

With regard to pricing issues regulatory, changes are likely to occur according to the draft for a new telecommunication law. In the future, prices for end-customers are in general likely not to require

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prior approval anymore. Nevertheless, the regulatory authority may oblige market dominant providers to notify new end-customer prices two months before they become effective. Any such price change will also remain subject to retroactive review by the German telecommunications regulator. Finally the draft embodies an obligation for market dominant providers to simultaneously offer with the introduction of end-customer prices corresponding wholesale products to competitors.

Prior Approval of Tariffs

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

Tariffs may not be approved if they (1) contain surcharges which prevail solely as a result of the applicant's market-dominant position, (2) include discounts which prejudice the competitive opportunities of other companies in a telecommunications market or (3) discriminate among customers for the same or similar services in a telecommunications market, unless such surcharges, discounts or discriminatory features are objectively justified.

Price-Cap Approach

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

In December 2001, the German telecommunications regulator established the second price-cap regime that was intended to be applicable to the years 2002 through 2004, being divided into three one-year periods. On December 19, 2002, the German telecommunications regulator approved (amongst other pricing measures) price increases as to the monthly retail charge for analogue lines from EUR 11.49 (excluding VAT) to EUR 11.82.

In July 2003, the German telecommunications regulator approved a modification of the price-cap regime that increased our scope for pricing measures within the access basket substantially. In the same month Deutsche Telekom applied for allowance to further increase the monthly fee for analog access by EUR 1.68 (excluding VAT) to EUR 13.50 in addition to increases in one-time charges. These measures became necessary because of a decision of the EU Commission alleging that we abused our dominant position of local access to our fixed-line telecommunications network. The European Commission obliged us to end the allegedly unfair pricing practices immediately. For further information in this regard, see "The European Regulatory Framework — Competition Law." On July 28, 2003, the German telecommunications regulator approved the above mentioned measures with effect from September 1, 2003.

On December 15, 2003, we applied for new pricing measures to take effect on April 1, 2004. These pricing measures generally include an extension of the currently approved tariffs, except with respect to long-distance calls, which are subject to a price reduction of 1% in 2004. The regulator approved our application without any changes on January 29, 2004.

Cost-Based Approach

Tariffs requiring prior approval that are not subject to the price-cap approach are based on the costs of efficient provision of the relevant service. The German telecommunications regulator bases its

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determination of the costs of efficient provision of service on the long-run incremental costs of providing a particular service, with an additional amount in respect of overhead costs (including an appropriate return on capital employed), to the extent such costs are necessary for the provision of the service. The applicant is required to submit extensive documentation as to its costs and the methods and parameters on which its determination of costs is based in respect of the service. The German telecommunications regulator has broad discretion in deciding whether to accept an applicant's attribution of costs to a particular service. In recent years, in determining tariffs under the cost-based approach, the German telecommunications regulator has declined to take into account costs that we believe were properly attributed to certain services. Discussions continue concerning the appropriate methodology to be used in the calculation of the long-run incremental costs of the services subject to cost-based pricing. In the proposed amendments to the German Telecommunication Act, service prices are not only to be based on the costs of efficient provision of the relevant service, but are also not allowed to exceed the costs of efficient provision of the relevant service.

Retroactive Review of Tariffs

All tariffs of market-dominant providers in markets in which such dominance occurs are subject to retroactive regulatory examination, even if the tariffs were initially subject to prior approval. The German telecommunications regulator must initiate examination proceedings if it becomes aware of facts indicating that tariffs that were initially subject to prior approval contain discounts or discriminatory features that are not objectively justified. In addition, with respect to tariffs not subject to prior approval, the German telecommunications regulator may initiate examination proceedings if it becomes aware of facts indicating that such tariffs contain surcharges, discounts or discriminatory features that are not objectively justified. The German telecommunications regulator may object to such tariffs and declare them invalid.

In 2001, the German telecommunications regulator decided that the rates for external telecommunications services for closed user group members are subject to regulatory approval. We initiated legal proceedings seeking to enjoin this decision and for other relief. The Cologne Administrative Court granted the requested injunction, which was affirmed by the Appellate Court in Muenster. The proceedings in the main action are still pending. For further information in this regard, see "Item 8. Financial Information — Litigation."

In December 2002, the German telecommunications regulator imposed on us the obligation to raise our contractually-agreed rates with two closed user groups. The German telecommunications regulator decided that part of the tariff structure does not comply with cost-based standards. The application of such standards could affect the competitiveness of our services in this market and could lead to a material loss in market share. We initiated legal proceedings seeking to enjoin this decision and for other relief. The Cologne Administrative Court granted us injunctive relief, which decision was affirmed by the Appellate Administrative Court. The proceedings in the main action are still pending. For further information in this regard, see "Item 8. Financial Information — Litigation."

Special Network Access and Interconnection

The German Telecommunications Act imposes specific obligations concerning access to networks and interconnection. The Network Access Ordinance (Netzzugangsverordnung) under the German Telecommunications Act provides details concerning these obligations and specifies the manner in which special network access (including interconnection) is to be accomplished.

General Principles and Practice

Every operator of a public telecommunications network, irrespective of the operator's market position, is obligated, upon request, to make an offer to other network operators for interconnection to its network. If the parties cannot reach an agreement on such interconnection, the German telecommunications regulator will order the interconnection upon application of one of the parties. To date, numerous interconnection orders have been issued. The contents of all agreements on special network access must comply with certain requirements of the Network Access Ordinance. Under the proposed amendments to the German Telecommunication Act, the Network Access Ordinance will be integrated into the German Telecommunication Act which will, among other changes, enumerate specific access obligations (for example resale, billing and collection).

Provisions Applicable to Market-Dominant Providers

A network operator that offers telecommunications services to the public and is market-dominant in a particular market must allow every user access to its network or parts thereof. Such access may be granted via connections provided for all users (general network access) or via special connections (special network access), which includes the interconnection of networks. Limitations on access may be based only on the "essential requirements" set forth in the Open Network Provision Directive of the European Union, which include the preservation of the security of network operations, the maintenance of network integrity, the interoperability of services and the protection of data.

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

A market-dominant provider generally is required to unbundle its services for special network access, and must therefore offer its internally used essential services, including transmission, switching and operational interfaces, in such a way that other users need not purchase services they do not want. In addition, a market-dominant provider generally is obligated to allow other network operators to use transmission, switching and operational interfaces to its network on its premises on the same conditions it applies to itself.

Agreements on special network access (including interconnection) must be provided to the German telecommunications regulator immediately following their execution. Conditions in such agreements must be based on objective criteria, be comprehensible and guarantee equal access.

Fixed-Fixed Interconnection

Since January 2002, we have in Germany an "element-based" interconnection tariff system, which is the international norm. Under this system, the tariff for transmission of traffic is based on the number and type of network elements used in transmission and not on the distance over which the traffic is transmitted. As a result of the implementation of the element-based tariff system, we had to lower our interconnection rates by an average of approximately 14%, enabling our competitors to lower their prices for fixed-line international and domestic long-distance calls. We initiated legal proceedings against the implementation of the element-based tariff system, which proceedings are still pending. For further information, see "Item 8. Financial Information — Litigation."

The German telecommunications regulator approved the current interconnection pricing level in November 2003. The tariffs are valid from December 1, 2003 until May 2006. The decision has required us to lower our interconnection rates by an average of approximately 9.5%. For more information, see "Item 8. Financial Information — Litigation." The decision of the German telecommunications regulator favors those competitors who do not invest in their own infrastructure. See "— Description of Business and Divisions — T-Com."

Additionally, 15 local carriers have applied to the German telecommunications regulator to increase their call termination charges. Deutsche Telekom pays these charges for calls that terminate in the network of the other carrier. These charges were always billed on a reciprocal basis, i.e. at the respective rate approved for Deutsche Telekom. A unilateral increase in termination charges by the local carriers would mean a potentially significant rise in Deutsche Telekom's costs for such services without a corresponding rise in price for the local carriers for the reciprocal service. Accordingly, Deutsche Telekom's costs would increase. On December 5, 2003, the German telecommunications regulator approved the application of the 15 local carriers for higher termination charges. With effect from December 15, 2003 until October 31, 2004 local carriers would be allowed to charge 0.5 cent per minute more for their termination calls than Deutsche Telekom can charge such carriers for the same service. We filed a complaint seeking to enjoin this action and for other relief with respect to this decision. The Cologne Administrative Court granted the injunction in February 2004. In case the injunction will be withdrawn in the main action, we will examine whether price increases for our end-customers will become necessary. For further information, see "Item 8. Financial Information — Litigation."

Fixed-Mobile Interconnection

Following major price cuts in 1998 and in 2000, national termination rates of the German GSM mobile network operators have remained stable since the beginning of 2001. Termination rates of T-Mobile Deutschland are among the lowest in Europe. Further price cuts may be required as a result of the ongoing market analysis procedure currently being conducted by the German telecommunications regulator. For more information see "— Provisions Applicable to Market-Dominant Providers." Such regulatory intervention may have a material impact on our termination revenues.

T-Com is required to offer interconnection partners access to all German mobile operators at regulated rates. These rates consist of the termination rate paid to the mobile operator plus an amount for transport within the fixed network at the level of fixed interconnection rates. Since mobile operators have interconnected with each other and allow for direct termination of alternative fixed network operators, we consider T-Com's transit service for interconnection no longer to be an essential facility for competitors. However, the German telecommunications regulator still insists upon prior approval of these rates.

Local Loop Access

As indicated above with regard to special network access, market-dominant providers are obligated to unbundle their service offerings to the extent demanded by their competitors in a public telecommunications market unless the market-dominant provider can demonstrate that unbundling is not objectively justified under the particular circumstances. In light of this obligation, various competitors have asked us to provide unbundled access to our subscriber lines (i.e., the local loop). By allowing competitors to connect to customer access lines in local networks, unbundling of the local loop allows competitors to gain direct access to subscribers without having to build local networks of their own. In this way, competitors are able to use our customer access lines to offer a wide range of local services directly to the customer. The proposed amendments to the German Telecommunications Act do not appear to change the general obligation to offer competitors fully unbundled access to the local loop.

There are a number of legal proceedings pending relating to decisions of the German telecommunications regulator concerning access charges to the local loop that resulted in severe reductions of our charges for such access. We believe that the German telecommunications regulator did not take into account a number of costs that were justifiable costs for these services. For more information, see "Item 8. Financial Information — Litigation."

On April 29, 2003, the German telecommunications regulator reduced monthly line rental charge to competitors from EUR 12.48 to EUR 11.80. The new charges are valid from May 1, 2003 until March 31, 2005. Furthermore, on June 30, 2003, the German telecommunications regulator decided upon the one-time charges that we may collect from competitors with respect to customers switching out of our network. With effect from July 1, 2003, the one-time basic fee we may charge to competitors when German fixed-line customers switch from using Deutsche Telekom to another carrier for certain telephone services (switching without installation or access work performed at the customer's point of access) was reduced from EUR 70.56 to EUR 56.60. Also with effect from July 1, 2003, the fee we may charge to competitors terminating use of the local loop was reduced from EUR 34.94 to EUR 31.21 (from EUR 50.71 to EUR 47.09 if there is no concurrent switch to another carrier).

Since January 2001, we have been making line sharing offers (i.e. using a single access line for multiple purposes, including sharing access with competitors), in accordance with European Union requirements. In September 2003, the German telecommunications regulator approved our application for the extension of the current monthly line sharing tariff of EUR 4.77 while at the same time requiring us to slightly reduce certain one-time tariffs. In 2002, following a competitor's complaint with respect to an alleged price squeeze between line sharing and T-DSL tariffs, the EU Commission approached us with several requests for information. The EU Commission requested extensive data on the tariffs for cost of line sharing and T-DSL services. On the basis of the provided data, the EU Commission came to the conclusion that there was a negative margin between our line sharing and T-DSL tariffs. The Commission informed us that in its preliminary view the charging of those tariffs was abusive pursuant to Article 82 of the EC Treaty since they would not allow our line sharing customers to effectively compete with us in the DSL-retail market. In order to remedy the EU Commission's concerns, we committed ourselves vis-à-vis the EU Commission to close the alleged price squeeze by (i) refraining from charging the line sharing fees from April 1, 2004 until December 31, 2004, (ii) restructuring our T-DSL tariffs and (iii) applying at the regulator for a reduction of our (monthly and/or one-off) line sharing fees effective as of January 1, 2005. In return the EU Commission informed us that it would not open formal proceedings provided that we comply with the commitments.

In July 2002, the German telecommunications regulator set rules for fair access to the unbundled local loop within our network. Among other things the regulator introduced penalties in order to enforce the time limits set for the provision of local loop access and required us to give competitors

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access to certain elements of our electronic information systems. We initiated legal proceedings in order to cancel a few of the obligations the regulator imposed upon us (especially the contractual penalties). We obtained injunctive relief, but the proceedings in the main action are still pending. For more information, see "Item 8. Financial Information — Litigation."

Local Carrier Selection

Commencing on April 25, 2003, we were required to implement local carrier selection alternatives for our customers (referred to as "call-by-call"). In addition, pre-selection of local call carriers by our customers commenced on July 9, 2003. On June 4, 2003 the German telecommunications regulator approved a fee of EUR 4.40 for the service of pre-selection for local calls, pre-selection for long-distance calls and for a service where pre-selection for local and long-distance calls are ordered together.

Leased Lines

In May and July 2002, the German telecommunications regulator imposed upon us the obligation to modify our contractual conditions for the provision of leased lines. We are required, among other things, to include in our contracts clauses to pay penalties in the case of delays, to expand wholesale supply, and to warrant certain delivery periods. We initiated legal proceedings. Our request for an injunction was granted by the Cologne Administrative Court and affirmed by the Appellate Administrative Court in Muenster. Both courts confirmed explicitly that Deutsche Telekom's leased line provisioning practices are not discriminatory. The proceedings in the main action are still pending. For more information, see "Item 8. Financial Information — Litigation."

Resale

The German telecommunications regulator decided in 1999 that regulatory approval is required for our offers of services for purposes of resale. In May 2001, the German telecommunications regulator issued an order requiring us to offer subscriber network services (i.e., access and local services including DSL) to a particular competitor for purposes of resale. We initiated legal proceedings with respect to this decision. In July 2002, the Cologne administrative court corroborated the regulator's position towards the obligation of Deutsche Telekom to offer wholesale products for the purpose of resale in the main legal proceeding. We appealed this decision before the German Federal Administrative Court, which confirmed our obligation on December 3, 2003. Accordingly, we now must offer our access and local call services, including DSL access, for resale by our competitors.

On July 18, 2003, in response to an impasse in discussions with a competitor regarding the resale of telecommunications services, the German telecommunications regulator imposed on us the formal obligation to submit an offer that would permit telecommunications services resellers in Germany to acquire from us line access services (including DSL) unbundled from conveyance services. On December 1, 2003, we submitted the offering containing the demanded features to the competitor. The offering is still being scrutinized by our competitor. In the end, the possible reduction of revenues and margins for us will depend on the discount we will have to grant our competitors on the prices of our retail products. The amount of the discount is likely to be determined in the course of a regulatory proceeding.

These decisions relating to resale allow our competitors effectively to engage in the risk-free arbitrage of price differentials in a market where Deutsche Telekom and other network operators have made considerable investments in telecommunications access infrastructure. The decision may therefore provide a disincentive to further investment in infrastructure and future technologies.

Although the demand for resale products is small today, this may change as a result of proposed amendments to the German Telecommunications Act. As currently proposed, the German telecommunications regulator would be authorized, at its option, to require us to offer to our competitors conveyance services or line access services bundled with conveyance services for purposes of resale by those competitors. It is possible that in the ongoing parliamentary process a provision requiring us to provide such services to resellers will be reintroduced into the draft legislation. We would expect that the financial consequences of our becoming required by statute or regulatory order to provide such services would be significant, because resale enables our competitors without their own networks to compete quickly with our retail products by offering one of our products at a lower cost.

Tariff Packages

There were no requirements concerning prior approvals of tariff packages by the German telecommunications regulator in the past (packages including tariffs, access charges and additional features). The German telecommunications regulator is currently considering complaints from our competitors that call for the regulatory prior approval of certain tariff packages in the future. We believe that regulator is questioning whether the additional features and hardware bundles that are included in some of packages are actually being priced based on cost, and so is questioning whether the tariffs are cross-subsidizing these elements of the packages. A misuse of market-dominant power is in the future likely to be presumed if products are packaged unreasonably. According to the proposed amendments to the German Telecommunication Act, prices for end-customers are likely no longer to require prior approval.

Internet Access

On December 15, 2000, we began offering access to our public switched telephone network to Internet platform providers at flat ("unmetered") rates in response to a decision of the German telecommunications regulator requiring us to offer such a flat rate product. In March 2001, we successfully applied for a preliminary injunction against the obligation to offer a flat rate to Internet platform providers, with the effect that we are currently not obliged to offer such a flat rate product. We still offer unmetered access to our public switched telephone network to Internet platform providers voluntarily. The German telecommunications regulator has suspended the related proceeding at present. The proposed amendments to the German Telecommunications Act contain an option for the German telecommunications regulator to obligate market dominant providers to offer access using certain tariff arrangements (for example, flat rate tariffs).

Apart from access to the unbundled local loop and shared access/line sharing, we are currently offering several DSL wholesale products which provide competitors different opportunities for their own individual DSL-offers depending on their own network structure. To meet market demand, we plan to introduce further wholesale DSL products this year, such as DSL-Resale and Bitstream Access. A DSL resale offer is already being negotiated with competitors. Bitstream Access will be a combined product including T-DSL resale (as the access part of Bitstream Access) and one of the existing wholesale products.

T-Online is not subject to the regulation of its tariffs under the German Telecommunications Act. However, Internet subscribers are indirectly affected by the regulation of tariffs, including wholesale costs and charges for telecommunications services. In June 1999, the German telecommunications regulator ruled that the Internet access charges of T-Online are not subject to price regulation because the dominant feature of online services is not telecommunications, but so-called "tele-services" (Teledienste). Nevertheless, there are some indications that the German telecommunications regulator may change its regulation of prices for access to online services in the future. In the new regulatory framework, an extension of sector-specific regulation to online communications markets cannot be ruled out.

Universal Services

The German Telecommunications Act includes provisions to ensure the availability of certain basic telecommunications services (referred to as "universal services") throughout Germany. Additional details concerning universal service requirements are provided in the Universal Service Ordinance and in the Telecommunications Customer Protection Ordinance. For more information, see "— Customer Protection Ordinance."

The Universal Service Ordinance defines "universal services" to include public fixed-network voice telephony with certain ISDN features, directory services, telephone books, public pay phones and certain categories of transmission lines. These services must be universally available to all customers at a price determined by the German telecommunications regulator to be an "affordable price."

Under the German Telecommunications Act, if a universal service in a particular product and geographic market is not being appropriately and adequately provided, or where there is reason to believe that such provision will not be accomplished, each licensee with a share of at least 4% of the product market for such service or a dominant position in the relevant product and geographic market

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can be required to contribute through payments to the cost of providing such universal service. Contributions are required if the provider of a universal service proves that the long-term additional costs of providing the service efficiently in the relevant geographic market, including adequate interest on capital employed, exceed the revenues from providing that service at an affordable price.

Under the Universal Service Ordinance, which came into effect at the beginning of 1998, market-dominant providers in the relevant markets may be required to provide universal services. We provide customers with voice telephony and other universal services within the framework of the law and our General Terms and Conditions. We currently provide the universal services specified by the Universal Service Ordinance without compensation. If we decide to stop providing any of the services referred to in the Universal Service Ordinance, we must give at least one year's advance notice. We expect that we will, for some time to come, be the only provider considered suitable to be subjected to the obligation to offer universal services. Accordingly, it may prove difficult for us to cease providing universal services in some markets, although we may be able to claim special compensation.

If we become required to offer a universal service, and if the revenues from providing that service are insufficient to cover its additional costs, the compensation granted under the German Telecommunications Act may be insufficient to cover our full costs of providing that service. This results from the fact that we, like other licensees, are required to contribute to the cost of providing these services in proportion to our market share.

Amendments to the German Telecommunications Act that change the scope of universal service obligations are a possible outcome of the ongoing legislative process. Currently, however, we do not expect such changes, since the current draft of such proposed amendments does not materially extend or curtail the scope of universal service obligations.

Customer Protection Ordinance

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

Under the provisions of the Customer Protection Ordinance, market-dominant providers must make their services available to everyone on the same terms. Exceptions must be objectively justified. Further, although telecommunications providers generally have some flexibility in determining whether to offer services in "bundles," the dominant provider is required to offer individual services on an unbundled basis when there is a "general demand" for those individual services in the market. This requirement applies to the description of individual services and the relevant service specifications, as well as the billing for such services. However, offering individually listed services as a package is still allowed.

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

The Customer Protection Ordinance is currently under legislative review. In April 2003, the Ministry of Economics published a first draft of a revised Customer Protection Ordinance. Upon review of this draft legislation it is possible that the new Customer Protection Ordinance will expand certain customer rights, such as the right to receive free itemized bills for services beyond voice telephony calls.

The Federal Government enacted separate legal requirements in response to the misuse of certain value-added and premium rate services by some of our customers, who offer such services under specific prefixes within our network.

Such services are billed directly to the customer. The

new law adopted in the summer of 2003 gives expanded monitoring powers to the German telecommunications regulator and imposes strict and potentially costly requirements on network operators and providers. In view of the forthcoming amendment of the German Telecommunications Act, and the lobbying of consumer protection associations, further tightening of existing legal regulations in the coming months cannot be ruled out.

Billing and Collection

Contrary to our view that mandatory billing services under the Customer Protection Ordinance do not include the collection of bills on behalf of competitors, the German telecommunications regulator ruled on February 21, 2000 that we must continue to offer billing and collection services for dial-up voice telephony, directory inquiry, value-added services and dial-up Internet-by-Call. According to these rulings, however, we were no longer obligated to manage customer complaints, send late payment warnings or enforce late payments on behalf of competitors after January 1, 2001. We initiated legal proceedings, which are still pending. For more information, see "Item 8. Financial Information — Litigation." The proposed amendments to the German Telecommunications Act provide an explicit option for the German telecommunications regulator to require us to offer billing and collection services. The proposed amendments to the German Telecommunications Act are likely to clarify the range of the obligation to offer billing and collection services and to deliver customer data for accounting purposes. The draft explicitly excludes an obligation to send and enforce late payment warnings. It expands the range of billing services to products that are only based on telecommunication services and sets upper Euro-limits for the billing and collection of unmetered services. According to the proposed amendments to the German Telecommunications Act, prices for billing and collection are not regulated if an agreement is concluded with the predominant part of the relevant market.

Use of Public Rights of Way

Under the pre-German Telecommunications Act laws, we were entitled to utilize the Federal Republic's rights of way over public property free of charge. Pursuant to the German Telecommunications Act, the Federal Republic's right to use such rights of way free of charge was transferred to licensed operators of transmission lines for public telecommunications services. Our right to utilize such rights of way has been carried over under our license. The German Telecommunications Act requires that operators of transmission lines obtain the consent of the authority responsible for the maintenance of the relevant public ways before laying new transmission lines or modifying existing transmission lines. We have agreed on a cost-saving and delay-avoiding procedure with federal associations of municipal authorities to simplify the process of obtaining the required consent.

Under the German Telecommunications Act, if the establishment of new transmission lines by an operator through the use of public rights of way is not feasible or technically possible or if the cost is disproportionately high, an operator of an existing transmission line using those public rights of way may be obligated to grant to the operator of those new transmission lines the joint use of its installations, such as ducts, for adequate compensation, provided no major construction work is required and such joint use is economically feasible.

Competition Law

The requirements imposed upon us by German competition law should also be viewed in the context of European Union competition rules. For more information in this regard, see "— The European Union Regulatory Framework —

Competition Law."

The German Act Against Restraints of Competition prohibits the abuse of a market-dominant position as well as the distortion of competition through agreements or collusive behavior by market participants.

Notice of mergers, including the creation of joint ventures, must be provided to the German Competition Authority before they can be executed if the concerned undertakings' turnover reaches a certain threshold but remains below the threshold above which proposed mergers must be notified to the EU Commission. The German Competition Authority will prohibit mergers if they create or strengthen a market-dominant position. The German Competition Authority is empowered to enforce these laws and may impose sanctions if their orders are contravened. Before taking action against

abuses of a market-dominant position in the telecommunications sector, the German Competition Authority must consult with the German telecommunications regulator. Market participants damaged by abusive practices on the part of a market-dominant provider may sue for compensation under the German Telecommunications Act as well as under the German Act Against Restraints of Competition.

On August 8, 2003, the German federal competition authority opened formal proceedings against us following a complaint by Vodafone D2 and info.portal. The German telecommunications regulator opened parallel proceedings. We provided the complainants and other parties with access to the "NDIS" online directory information database. The operators of Vodafone D2 and info.portal use this database for providing voice directory services. In June 2003, we installed a filter in NDIS that grants access only to external users for whom the German Telecommunications Act obliges us to make directory services openly available. Hence, directory information that we do not obtain in our function as a carrier but from other sources is not being provided to external NDIS users. The complainants assert that this practice limits their possibilities to provide operator-based voice directory services and thus constitutes an abuse of a dominant position. Seeing that most companies providing operator-based voice directory services use the NDIS technology or comparable software of at least two other companies we have argued that we do not have a dominant position in the first place. Furthermore, we contend that the filter complies with the relevant article of the German Telecommunications Act. If the complainants succeed, we would be obliged to adapt the filter in accordance with the regulator's decision and deliver value added data to third parties.

The European Union Regulatory Framework

General

Germany is a member state of the EU. As such, it is required to enact EU legislation in its domestic law and to take EU legislation into account in applying its domestic law. EU legislation can take a number of forms. Regulations have general application, and are binding in their entirety and directly applicable in all member states. Directives are also binding, but national authorities may choose the form and method of implementation.

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

Between 1989 and 2001, the European Union adopted a number of directives and recommendations regarding open and efficient access to, and use of, public telecommunications networks and services. These were intended to harmonize technical interfaces, usage conditions, mandatory minimum service standards for all fixed-line users, and a general framework for tariffs throughout the European Union. Specific measures have been adopted in a number of areas including licensing and interconnection. Additional obligations in relation to special network access, interconnection charging, accounting separation and cost accounting, publication and non-discrimination are imposed on operators which are designated by the national regulatory authorities (NRAs) in the telecommunications sector as having significant market power in a telecommunications market.

The New Regulatory Framework

At the end of 1999, the EU Commission initiated a review of the European Union telecommunications regulatory framework focusing on the development of competition in the European telecommunications sector and the increasing convergence of media, telecommunications and information technology. In February and July 2002, legislative measures were adopted consisting of a general framework directive and four specific directives regarding (i) access to and interconnection of electronic communications networks, (ii) mandatory minimum service standards for all users ("universal service") and users' rights, (iii) authorization and licensing regimes and (iv) telecommunications data protection as well as a decision on a regulatory framework for radio spectrum policy in the European Union. Member states are under an obligation to implement the directives into their domestic law within 15 months of adoption. So far, the directives have been adopted in 8 of 15 member states. All other member states, including Germany, are expected to implement these directives in the course of 2004. See "— Provisions Applicable to Market-Dominant Providers — General."

The directives of the EU Commission are intended to:

- establish the rights, responsibilities, decision-making powers and procedures of the NRAs and the EU Commission, including an NRA's obligation to submit to the EU Commission and the NRAs of other European Union member states, prior to adoption, proposed regulatory measures relating to market definition and significant market power, and the EU Commission's power to require NRAs to withdraw such proposed measures to the extent the EU Commission considers such measures to form a barrier to the single European market or are incompatible with EU law.
- identify specific policy objectives that NRAs must achieve in carrying out their responsibilities (namely, to promote an open and competitive European market for communications services, to promote the interests of European citizens and to consolidate the European Union's internal market in a converging technological environment).
- provide that operators with significant market power in relevant communications markets can be subject to certain obligations, such as obligations relating to the cost-orientation of prices, transparency, non-discrimination between their own subsidiaries and competitors, accounting separation and mandated access to, and use of, network facilities as set out in the directives on universal service and access. Significant market power is defined on the basis of the concept of dominance as developed in the case law of the European Court of Justice and the Court of First Instance of the European Communities.

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

The EU Commission issued a recommendation on relevant product and services markets in February 2003. The recommendation identifies certain markets having characteristics which may justify the imposition of regulatory obligations. The first recommendation concerns retail markets for fixed public telephone service and leased lines and wholesale markets for unbundled local loop, fixed network interconnection, broadband access, mobile termination/access + origination/international roaming and broadcasting transmission services. NRAs are obliged to carry out new market analyses on all communications markets included in the EU Commission's recommendation or that NRAs have decided to include in the scope of sector-specific regulation with the agreement of the EU Commission. The EU Commission will regularly review its recommendation. The preparation of the first review may start at the end of 2004.

Whether the new regulatory framework will increase or decrease our regulatory burden will largely depend on the manner in which the directives are implemented in member states, how the new framework will be applied by the EU Commission and NRAs and how the newly established European Regulators Group (ERG), a body composed of representatives of NRAs, will influence the NRAs' decisions.

In the context of the new regulatory framework, pressure is also rising to regulate wholesale broadband access as the EU Commission has identified "wholesale broadband access" as a separate market. The EU Commission has also stated that "bitstream access," which is considered as one alternative of the wholesale broadband access market, has not been made available to all participants in Germany. The ERG is currently investigating whether a harmonized approach by the NRAs is necessary. In November 2003, the ERG determined that bitstream access is essential to the development of competition in the wholesale broadband access market and that the NRAs should mandate a bitstream access product. The German telecommunications regulator is in the process of reviewing bitstream access, thereby commencing the process of market analysis in the German broadband access market. The findings of the ERG, to be finalized in the second half of 2004, may result in additional pressure on the German telecommunications regulator to adopt further regulation relating to bitstream access and products. Any such actions may have negative effects on our operations and market share in this area.

The new regulatory framework will result in increased co-operation between the EU Commission and the ERG and NRAs, with the EU Commission taking a lead role in determining key regulatory issues, such as market definition and market power analysis. The ERG assists in establishing a joint approach with the EU Commission relating to the application of specific regulatory remedies to operators with significant market power. This will in turn influence NRA decisions on the imposition

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of regulatory obligations for specific market failures. The currently discussed joint proposal of the EU Commission and the ERG contains several specific recommendations (e.g., relating to mobile termination rate regulation and wholesale access regulation) that would result in a more rigid regulatory regime.

The new telecommunications data protection directive allows member states to adopt legislative measures concerning traffic data retention where it is proportionate and necessary to, among other things, safeguard national and public security and to prevent and prosecute criminal offences or unauthorized uses of electronic commerce systems. An obligation to retain traffic data could, depending on scope and duration of the retention, result in significant costs for us as a network operator. The proposed amendments to the German Telecommunications Act — as proposed by the Federal Parliament — do not currently contain data retention obligations. However, European Union member states as well as the federal states in Germany are currently discussing whether to adopt legislation on traffic data retention for law enforcement purposes.

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

The EU Commission has recently launched a consultation concerning the Legal Framework for Payment in the Internal Market. Financial regulation was originally designed to deal with high-value payments, person-to-person transactions and higher risks for consumers. Current EU legislation already provides for regulation of e-money but has been interpreted in many different ways by national financial regulators. The purpose of the EU Commission's consultation is to harmonize the application of the existing framework. Harmonization could lead to an intensified application of financial regulation in countries in which we are active. As a result it, may become necessary for companies in our group to obtain banking or e-money licences. Increased regulation could have a detrimental effect on current business models, such as prepaid mobile services, premium rate services or micropayment systems, as well as potentially also on future business models.

Infringement Proceedings Against Germany

The EU Commission has launched infringement proceedings against Germany, which can also affect the regulatory situation of Deutsche Telekom.

On October 30, 2000, the EU Commission commenced proceedings against the Federal Republic alleging that the Federal Republic has failed to fully implement the European Union interconnection directive with regard to local carrier selection. The German government required us to offer carrier pre-selection and call-by-call selection for local calls from December 1, 2002. Following a suspension of this obligation for technical reasons by the German telecommunications regulator, Deutsche Telekom has offered call-by-call since April 2003 and local pre-selection since July 2003. The EU Commission has announced that it intends to close the proceedings relating to local carrier selection.

In December 2002, the EU Commission commenced a further proceeding against Germany, claiming that the partial revision of the German Telecommunications Act with regard to carrier selection unduly limits the obligation to offer carrier pre-selection and call-by-call selection for local calls because operators that want to offer local calls on the basis of carrier selection are obliged to connect with the local network operator on a local level. The EU Commission is of the view that a network operator connected at any level of the network should be able to offer carrier selection for local calls. In July 2003, the EU Commission extended its proceedings relating to the imposition of access deficit charges. These proceedings may have a negative impact on the regulatory environment with respect to local competition. Since the proposed amendments to the German Telecommunications Act do not provide for access deficit charges to be levied, we believe that this portion of the proceedings will be closed.

Competition Law

The European Union competition rules have the force of law in the member states and are therefore applicable to our operations. The main principles of the European Union competition rules are set forth in Articles 81 and 82 of the Treaty of Rome and in the European Merger Regulation.

Article 81(1) of the Treaty of Rome prohibits concerted practices or other agreements between competitors that may affect trade between member states and which restrict, or are intended to restrict, competition within the European Union. Article 82 prohibits any abuse of a market-dominant position within a substantial part of the European Union that may affect trade between member states. The EU Commission enforces these rules in cooperation with the national competition authorities (in Germany, the German Competition Authority). The German Competition Authority may also directly enforce the competition rules of the Treaty of Rome. In addition, the national courts have jurisdiction over alleged violations of European Union competition law.

We periodically receive requests for information from the EU Commission. Through inquiries of this kind, the EU Commission monitors the development of competition in the telecommunications markets in all member states of the European Union. Further investigations and other remedial measures of the EU Commission aimed at promoting competition in the European telecommunications sector may be expected. Other telecommunications providers and we are currently subject to sector-specific inquiries in the fields of local loop unbundling, leased lines and roaming.

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

On July 11, 2001, the EU Commission issued a press release confirming that EU Commission inspectors and officials from national competition authorities had started carrying out simultaneous inspections at the premises of nine European mobile telephony operators located in the United Kingdom and Germany. Our subsidiaries T-Mobile Deutschland and T-Mobile UK were among the companies inspected. The EU Commission asserted that a European Union-wide sector inquiry had established serious competition concerns regarding pricing practices for mobile roaming services that warranted further investigations, particularly in the United Kingdom and Germany. The EU Commission statement indicated that the inspections in the United Kingdom and Germany were to ascertain whether there is consumer price fixing by mobile operators in both countries. The statement further indicated that the inspections intended to verify whether German operators have illegally fixed the wholesale prices they charge to other operators, and whether these prices are excessive or discriminatory. The EU Commission has been focusing its inquiry on the UK operators, resulting in a number of further requests for information. While the EU Commission has not yet opened formal proceedings against any of the operators, it has alluded that it may do so in the course of 2004. We are cooperating fully in the investigation. If the EU Commission were to establish that any anti-competitive activities have occurred, it could impose fines of up to 10% of prior year group global sales on each company participating in the violation, although we believe that the EU Commission has not as of yet imposed a fine to the maximum extent permissible. In addition, we could be obliged to lower the wholesale prices we charge to other operators. We do not believe that our subsidiaries T-Mobile Deutschland or T-Mobile UK have engaged in anti-competitive activities regarding mobile roaming services. This proceeding, however, if determined adversely, or if it results in other regulatory action relating to mobile roaming services, could have a negative impact on T-Mobile's and our results of operations. Lower wholesale prices to other operators may also result from a market analysis procedure regarding the market position of T-Mobile Deutschland and T-Mobile UK with respect to wholesale international roaming services. For more information, see "— The European Regulatory Framework."

T-Mobile and mmO2 have concluded an agreement concerning UMTS infrastructure sharing and roaming arrangements for their operations in Germany and the United Kingdom. The arrangements have been cleared by the

EU Commission in April/July 2003, subject to time limits for roaming in the areas where UMTS licenses require licensees to build out their own network infrastructure. Similar arrangements have been put in place by T-Mobile's T-Mobile Austria and T-Mobile Netherlands

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subsidiaries. The arrangement in Austria, which has a limited scope, is currently not subject to notification with the Austrian national competition authority. The arrangement in the Netherlands has been cleared by the Dutch Competition Authority.

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

On March 17, 1999, Mannesmann Arcor filed a complaint with the EU Commission against the Federal Republic and against us. The complaint is primarily related to our prices for unbundled access to the local loop, which were set by the German telecommunications regulator, and to our subscriber line prices which are subject to the German price-cap regime. Other competitors jointly filed two further complaints to the EU Commission containing similar allegations. On May 21, 2003, the EU Commission adopted a decision against us for allegedly abusing our dominant position by charging to our competitors and end-users unfair monthly and one-off charges for access to our local network. The EU Commission directed us to end the alleged unfair pricing practices immediately and to refrain from repeating the alleged abusive behavior. In addition, the EU Commission imposed a fine of EUR 12.6 million. To comply with the EU Commission's decision, we requested that the German telecommunications regulator approve a modification of the price cap regime that would allow us to increase the monthly fee for basic charges for analog access, which request was granted. Additionally, in July 2003, we filed a lawsuit with the Court of First Instance of the European Communities to obtain reversal of the EU Commission's decision and fine.

International Regulation

Regulatory Regime

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

Licenses

To provide services and to operate our network internationally, a network operator license or a service provider's license, or both, is required from the regulatory authorities in the respective countries in which we are offering services and/or have network operations. The duration of any particular license depends, in part, on the requirements of the respective countries. In some countries, there are no time restrictions, and in others the duration of the license is between 3 and 25 years. Normally, the renewal of a license in Europe and in the United States and Canada will be granted at low cost upon application. We do not anticipate any significant difficulties in renewing our licenses.

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

The new regulatory framework of the European Union, which was required to be implemented by July 2003 by European Union member states, but which has not yet been implemented in Germany, is expected to have significant impact on our operations.

Eastern Europe

Central and Eastern European states that are candidates for accession to the European Union by May 1, 2004, are required to implement the new European Union regulatory framework by this date. For further information regarding this new legal regime, see "— The European Union Regulatory Framework — New Regulatory Framework." We are subject to the laws and regulations of other countries where we or our affiliates have operations. For fixed-line communications, these countries are Slovakia, Hungary, Croatia and Macedonia. Deutsche Telekom's fixed-line subsidiaries in Central and Eastern Europe are facing strong competition from mobile phone operators and, to a lesser degree, from Voice-over-Internet Protocol operators.

The business impact of increased regulation on Deutsche Telekom's subsidiaries in Central and Eastern Europe will depend on the way in which national regulatory authorities use their newly acquired powers and on whether competitors take advantage of regulatory decisions in their favor. However, increased pressure on prices and market shares is to be expected.

Slovakia

Slovakia, an EU accession country, is required to implement the EU's New Regulatory Framework no later than the date of accession, which is scheduled for May 2004. On December 3, 2003, the Slovak Parliament adopted a new Slovak Telecommunications Act as part of the preparation for EU accession. This new Slovak Telecommunications Act became effective on January 1, 2004. Under the new legislation, the regulatory authority in Slovakia can now impose the full range of remedies provided by EU law, especially those contained in the Access Directive on telecommunications providers with significant market power. Among the remedies available are obligations to disclose information on the terms of interconnection and network access to competitors, to treat competitors in a non-discriminatory manner, to keep separate accounts for activities related to interconnection and network access, to grant competitors network access, and to comply with wholesale and — under certain additional conditions — retail price controls. Furthermore, operators with significant market power may be required to implement carrier selection and carrier pre-selection, which allow end users to choose a provider other than the incumbent to route and bill their calls. However, all of these remedies may only be applied after the national regulatory authority has conducted a market analysis showing that regulatory intervention is justified and proportionate. Given that competition within the fixed network is only beginning in Slovakia, it is likely that Slovak Telecom will be found to have significant market power on a large number of the markets subject to regulation. As a consequence, it is likely that certain obligations to grant network access at regulated terms and conditions will be imposed on the company. Network access obligations are likely to also include, for the first time, access to the unbundled local loop. For interconnection and access to the unbundled local loop, Slovak Telecom will have to submit reference offers, which are currently being prepared. In this manner, the new Slovak Telecommunications Act facilitates market entries of alternative carriers. In the event of increased competition, Slovak Telecom is likely to lose market shares in at least some segments of the markets in which the company is operating. That fixed line competition is about to start is underlined by the fact that several competitive carriers are currently negotiating interconnection agreements with Slovak Telecom.

Hungary

Hungary, also an EU accession country, is required to implement the EU's new regulatory framework no later than the date of its accession, which is scheduled for May 1, 2004. On November 24, 2003 the Hungarian Parliament adopted a new Hungarian Telecommunications Act, most of which became effective on January 1, 2004. Under the new legislation, the Hungarian regulatory authority can impose the full range of remedies provided by EU law, especially those contained in the Access Directive on telecommunications providers with significant market power. Among the remedies available are obligations to disclose information on the terms of interconnection and network access to competitors, to treat competitors in a non-discriminatory manner, to keep separate accounts for activities related to interconnection and network access, to grant competitors network access, and to comply with wholesale and — under certain additional conditions — retail price controls. Furthermore, operators with significant market power may be required to implement carrier selection and carrier pre-selection, which allow end users to choose a provider other than the incumbent to route and bill their calls. However, all of these remedies may only be applied after the national regulatory authority has conducted a market analysis showing that regulatory intervention is justified

and proportionate. In addition to the aforementioned remedies, the Hungarian regulatory authority is empowered to check whether the relationship between Matáv's wholesale and retail prices constitutes a "price squeeze" for competitors. If a price squeeze were found to exist, the company would have to change its prices correspondingly, and could be fined for its past behavior.

Although some competition within the fixed network has existed in Hungary for several years now, Matáv still possesses substantial market shares in many telecommunications markets. Therefore, it is likely that Matáv will be found to have significant market power on a large number of the markets subject to regulation. As a consequence, it is likely that regulatory obligations, especially regarding network access at regulated terms and conditions, will be imposed on the company. In this manner, the new Hungarian Telecommunications Act facilitates market entries of alternative carriers. In the event of increased competition, Matáv is likely to lose market shares in at least some segments of the markets in which it is operating. However, many of the regulatory instruments provided by the new Act are not new. Already under the Hungarian Telecommunications Act of 2001, Matáv was required, for example, to grant access to the unbundled local loop and has concluded a number of interconnection agreements with competitors. To this end, the company was and is under an obligation to submit reference offers, which are subject to regulatory approval.

Croatia

Croatia has officially submitted an application to join the European Union, but is not yet scheduled for accession. A new Croatian Telecommunications Act was adopted on August 1, 2003. It confers new powers on the regulatory authority, bringing the country's legal framework roughly in line with the pre-2002 regulatory framework of the European Community.

The scope of these new powers is somewhat less far-reaching than in Hungary and Slovakia. The new Croatian Telecommunications Act does not allow the regulatory authority to impose unbundling of the local loop, carrier pre-selection, and number portability before January 1, 2005. However, the authority can, among other things, regulate access and connection charges as well as conditions for interconnection, which may have a detrimental impact on revenues especially as competition in the fixed network begins to unfold. Finally, Hrvatski Telecom is negatively affected by provisions of the new Croatian Telecommunications Act that exclude financial compensation for universal service if the obligated provider has a market share of more than 80%, and require telecommunications network operators to carry out wiretapping requests without getting their costs reimbursed.

Macedonia

Macedonia is not a candidate for EU accession at the present time. A new Macedonian Telecommunications Act is in preparation, but Makedonski Telekomunikacii still benefits from monopoly rights until January 1, 2005. However, interconnection agreements have already been concluded with mobile phone operators. Moreover, the need to prepare for a competitive environment could require some rebalancing of the company's retail prices.

International Mobile Regulation

USA: T-Mobile USA

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

The FCC allocates spectrum licenses for radio frequency spectrum through competitive bidding, or auctions. T-Mobile USA operates exclusively in the PCS frequency bands at 1900 MHz. The FCC

generally allows all qualified applicants to bid on spectrum licenses, with the exception of certain spectrum licenses that are reserved. The FCC divided the United States into 51 Major Trading Areas (MTAs) and 493 Basic Trading Areas (BTAs) for purposes of auctioning PCS spectrum, with the result that six or more CMRS licensees frequently compete against one another in a given market. Spectrum licensees are generally allowed to divide their licenses further, either spectrally ("disaggregation"), geographically ("partitioning"), or both, in private transactions after an auction, subject to certain restrictions.

T-Mobile USA's ability to expand coverage and provide additional capacity to handle its growing customer base and new service offerings is limited to those markets where we have obtained or can obtain licenses with sufficient spectrum to provide voice, data and other services, or where we economically can become resellers of these services or enter into roaming arrangements with other GSM carriers. T-Mobile USA will continue to seek opportunities where appropriate to acquire additional spectrum licenses, systems and/or operators, or enter into joint ventures, which will add to our current footprint or increase our spectrum capacity. The FCC periodically makes additional spectrum available via competitive bidding, and has specifically identified 90 MHz of spectrum in the 1.7 GHz/2.1 GHz range for "advanced wireless services," including third generation wireless services, that it intends to auction.

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

- Renewal and construction requirements of spectrum licenses: Spectrum licenses have a ten-year term, after which they must be renewed with the FCC. The renewal generally will be granted to a spectrum licensee that has: (1) provided substantial service during its past spectrum license term and (2) substantially complied with applicable FCC rules and policies and the Acts. The FCC also mandates that spectrum licensees construct facilities that provide adequate service to a certain percentage of the population of their spectrum licensed service areas within five, and in some cases, ten years of the initial spectrum license grant.
- Compliance with antenna structure and other technical requirements: PCS systems are subject to certain Federal Aviation Administration regulations with respect to location, lighting and construction of transmitter towers and antennas and are subject to regulation under the National Environmental Policy Act and environmental regulations of the FCC. The FCC also mandates various technical parameters, and state or local zoning and land use regulations also apply to wireless systems.
- Transfers and assignments of spectrum licenses: Subject to certain exceptions, the FCC's approval must be obtained prior to assigning or transferring control of a spectrum license. Any acquisition or sale of spectrum licenses may also require prior review by the Federal Trade Commission and the Department of Justice if the transaction is over a certain size, as well as state or local regulatory authorities having jurisdiction.
- FCC wireless spectrum cap: Although the FCC eliminated effective January 1, 2003 the restrictions on holding spectrum licenses totaling more than 55 MHz in all markets where there was a significant overlap in a particular geographic area, the FCC indicated that it would engage in a case-by-case review of any anti-competitive effects of spectrum acquisitions to determine whether a particular transaction is in the public interest, balancing the benefits of the transaction against potential harms. It is not clear at this time what specific criteria the FCC will use in reviewing the competitive impacts of spectrum acquisitions.
- Foreign ownership: The U.S. Communications Act limits direct foreign ownership in a FCC spectrum license to 20%. The U.S. Communications Act also mandates that no more than 25% of a FCC spectrum licensee's capital stock may be indirectly owned or voted on by non-United States citizens or their representatives, by a foreign government, or by a foreign corporation, absent an FCC finding that a higher level of foreign ownership is not inconsistent with the public interest. In connection with the VoiceStream and Powertel mergers, the FCC authorized indirect foreign ownership of T-Mobile USA's licenses in access of 25%.
- Enhanced 911: The FCC has established timetables for making emergency 911 services available by cellular, PCS, and other commercial mobile service providers, including enhanced 911 ("E911") services that provide the caller's telephone number, location and other useful information. Fundamentally, such carriers have an ongoing obligation to comply with various

implementation standards and deadlines imposed by the FCC relating to E911. In July 2003, T-Mobile USA entered into a consent decree with the FCC governing the deployment and provision of E-911 Phase II services, and the FCC required as part of the decree that T-Mobile USA make a voluntary contribution in the amount of USD 1.1 million to the U.S. Treasury. The consent decree contains a number of equipment deployment activation benchmarks commencing in 2004 and stretching into 2005. Failure to meet the benchmarks contained in the consent decree could result in initiation of additional enforcement actions against T-Mobile USA, including significant monetary fines.

• Local Exchange Carrier (LEC)/CMRS interconnection: FCC rules require LECs to provide CMRS carriers interconnection within a reasonable time after it is requested, unless such interconnection is not technically feasible or not economically reasonable. Interconnection allows the completion of calls between wireless and wireline phones. CMRS providers are entitled to reciprocal compensation arrangements with LECs, in which CMRS providers can collect the same charges for terminating wireline-to-wireless traffic on their systems that the LECs charge for terminating wireless-to-wireline calls, or are entitled to the Internet Service Provider ("ISP") rate, whichever is lower, and prohibits LECs from charging CMRS providers for terminating LEC-originated traffic in its local area. The FCC is currently re-examining all of its currently regulated forms of intercarrier compensation, including the existing reciprocal compensation mechanism for LEC-CMRS interconnection, which may result in substantial modification of its interconnection rules, and may materially affect our U.S. operations. The impact of such modifications cannot be determined until the FCC issues its decision in this proceeding.

• Universal service: The goal of universal service is to ensure the provision of basic and enhanced telecommunications services to all areas in the United States, including high-cost and low-income areas. Wireless service providers are eligible to receive universal service subsidies, but are also required in a number of states to contribute to universal service funds. At this time, all 50 states have created universal service programs covering, at a minimum, services for deaf or disabled customers. Contributions are based on a percentage of interstate and international end-user revenues as determined on a quarterly basis by the FCC.

• Wireless local number portability/Numbering resources: CMRS carriers are required under FCC rules to provide wireless local number portability ("LNP"), which enables customers to migrate their landline telephone numbers to a CMRS carrier and vice versa, and to migrate their CMRS telephone numbers from one CMRS carrier to another CMRS carrier. CMRS carriers were required to implement LNP in the top 100 Metropolitan Service Areas (MSAs) by November 24, 2003. We have incurred substantial costs in complying with this requirement, and it is too early to ascertain what the long-term impact on our business will be of the increased ability of customers to change their wireless service providers. Regulators have closely monitored the initial deployment of wireless portability and operators' compliance with the LNP rules, and such scrutiny will continue throughout 2004.

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

- Regulation on the state and local level: Some states, through their public service or utility commissions, or through other means, have taken, or are seeking to take actions to regulate various aspects of wireless operations, including customer billing, termination of service arrangements, advertising, the filing of "informational" tariffs and certification of operations. For example, the California Public Utilities Commission ("PUC") has proposed extensive consumer protection and privacy regulations for all telecommunications carriers. If adopted, the rules will significantly alter T-Mobile USA's business practices in California with respect to nearly every aspect of the carrier-customer relationship, including solicitations, marketing, activations, billing and customer care. The California PUC is also contemplating rules to address other service quality issues, including service repair, service outages and toll operator

answering time that could apply to CMRS providers. Such regulations, if approved, could expose carriers to increased risk of litigation and may materially impact operating costs. At the local level, wireless facilities typically are also subject to zoning and land use regulation, and may be subject to fees for use of public rights-of-way.
- Mobile termination rates: On March 11, 2004, the FCC announced that it would initiate a Notice of Inquiry ("NOI") later this year to evaluate the effect of high foreign mobile termination rates on U.S. consumers and competition. Mobile termination rates are the charges a mobile operator charges for completing calls originating on another carrier's network. It is still too early to determine whether this proceeding will ultimately result in any material change to termination rates outside the United States including those charged by Deutsche Telekom.

United Kingdom: T-Mobile UK

Legal Framework

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

Under the CA, implementing the new EU regulatory framework, Oftel undertook a market review of mobile access and call origination and has concluded in its submission to the EU Commission on August 4, 2003 that no supplier has significant market power, either individually or in combination with one or more other suppliers. The findings of the market review were provided to the EU Commission on August 4, 2003 and subsequently accepted by the EU Commission. The final results of the market review on call termination were provided to the EU Commission in December 2003. A further market review conducted by Oftel on wholesale termination is described below.

Licensing and Frequency Allocation

T-Mobile UK holds a WTA license to operate digital telecommunications systems for frequencies in the 1800 MHz band. Following an auction, T-Mobile UK was awarded a UMTS license allocating frequency packages of 2 x 10 MHz paired spectrum and 5MHz unpaired spectrum.

WTA GSM License

T-Mobile UK GSM license will remain in force until T-Mobile UK surrenders it, and is subject to variation or revocation on one year's notice by the U.K. Secretary of State in the event of failure to pay license fees, in the interests of national security, to comply with EU obligations, for breach of the license terms or for reasons relating to the management of the radio spectrum. T-Mobile UK is also licensed under the WTA to run microwave links.

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

WTA licences are not currently transferable although Ofcom is currently consulting on the introduction of spectrum trading. The current proposals are that spectrum trading would be introduced for GSM and UMTS licences in 2007.

T-Mobile UKs most recent annual license fee for GSM spectrum was GBP £16.6 million. T-Mobile UKs most recent annual license fee for microwave links was GBP £3.5 million. Ofcom is expected to consult on proposals to revise fees in 2004; this could result in increased fees.

WTA UMTS License

T-Mobile's UMTS license was one of five licenses issued following the UMTS auction in the UK. T-Mobile's license was issued on May 9, 2000 and will remain in force until December 31, 2021, unless

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it is revoked by the Secretary of State or surrendered earlier. The UMTS license may be revoked in similar circumstances to the WTA GSM license but also due to material breach of the UK UMTS auction rules or if the UMTS network does not cover 80% of the UK population by the end of 2007. It cannot be revoked for reasons relating to the management of radio spectrum.

T-Mobile UK does not have any obligations to provide national roaming to third parties. However, Oftel in 2003 undertook a consultation on proposals to require T-Mobile and other operators to offer national roaming if requested by 3. All UK GSM licensees objected to this proposal and it is unclear if Ofcom will proceed with this consultation.

Interconnection and Price Regulation

Oftel published the results of its EU market review of call termination on December 19, 2003. The period for public comment expired on February 6, 2004. Ofcom is expected to publish its final proposals soon. Under the December 2003 proposals, T-Mobile UK would be required to reduce its termination rates as follows:

For the year April 1, 2004 to March 31, 2005, the average termination rates should be at or below 6.38 pence per minute; and

For the year April 1, 2005 to March 31, 2006, the average termination rates should be below 6.38 pence per minute less RPI (U.K. retail price index) minus 11 percentage points (around 5.8 pence per minute).

In addition, the Director General of Telecommunications proposed imposing conditions requiring the provision of network access for GSM call termination, no undue discrimination in the provision of such access, a requirement to provide Ofcom with copies of new or amended access agreements and prior notification of price changes.

UK Competition Law

The Competition Act 1998 became effective on March 1, 2000 and the Enterprise Act 2002 became effective on June 20, 2003. The U.K. Office of Fair Trading and other sector-specific regulators, including Ofcom, are responsible for applying and enforcing both Acts. The Competition Act prohibits agreements between undertakings or decisions by associations of undertakings or concerted practices that have the effect of preventing or distorting competition in the United Kingdom, and also prohibits conduct that amounts to abuse of a dominant position in a market in the United Kingdom. The Enterprise Act prohibits cartels and creates criminal offenses for breach of provisions of the Act, including for directors and other officers involved in prohibited conduct. T-Mobile UK has implemented a Competition Act Compliance, Program which includes procedures to review agreements and conduct to ensure that they are lawful.

Both the Enterprise Act and the Competition Act give Ofcom and the Office of Fair Trading concurrent jurisdiction to apply and enforce the Acts in the telecommunications sector. Ofcom is, among other things, empowered to carry out investigations into suspected breaches, including requiring the production of documents and information and searching premises. The Competition Act also enables affected third parties to bring enforcement actions directly against telecommunications operators who are in breach of the Act's prohibitions in the UK courts and seek damages.

The Netherlands: T-Mobile Netherlands

Regulatory Framework

Regulatory supervision of the Dutch Telecommunications Act (1998) is mainly carried out by the Independent Post and Telecommunications Authority ("OPTA"). The Dutch Telecommunications Act is based on the European Open Network Directives from the European Union. The Dutch Ministry of Economic Affairs is now in the process of implementing the new EU regulatory framework for electronic communications by amending the Dutch Telecommunications Act. The new framework is expected to become effective by the beginning of the second quarter of 2004.

Following the new regulatory framework, OPTA will have to analyze several markets within the mobile telecommunications market, which could have negative consequences for T-Mobile Netherlands' business. For example, the analysis of the market for wholesale voice call termination may lead to regulation of T-Mobile Netherlands' mobile termination tariffs by OPTA.

Licensing and frequency allocation

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

In 2000, T-Mobile Netherlands was granted one of five national UMTS licenses, which license will expire in 2016. Coverage is required to reach all cities with more than 25,000 inhabitants as well as all major highways by January 1, 2007.

Since the granting of T-Mobile Netherlands' UMTS license, Versatel (a fixed-line operator that has entered the mobile market in March 2004 as a service provider on the Telfort network) has been trying to have the results of the auction annulled. In 2002, Versatel appealed a decision by the Rotterdam court upholding the grant of the license to T-Mobile Netherlands. The case is now pending before the Trade and Industry Appeals Board, where we have submitted our view as an interested third party. We expect a final decision in the second quarter of this year.

The Ministry of Economic Affairs has indicated that it is considering a change to the Dutch Telecommunications Act, in order to facilitate the desires of several parties regarding broader possibilities to trade, transfer and combine all or a portion of frequency lots. We expect the Ministry to present proposals during 2004.

Interconnection

Since December 2001, in response to complaints by fixed-line operators, both the Dutch telecommunications regulator OPTA as well as the Dutch competition authority have been investigating mobile call termination tariffs with respect to suspected excessive pricing. OPTA issued rules on March 28, 2002, indicating the levels at which OPTA was intending to regulate the mobile call termination tariffs. This led to a number of legal proceedings which, in April 2003, resulted in the suspension by the Court of Rotterdam of OPTA's intervention. The Court ruled that OPTA was not authorized to regulate indirect interconnection relationships. OPTA appealed this decision before the Trade and Industry Appeals Board, which appeal is still pending.

In August 2002, the Dutch competition authority determined that call termination on each mobile network is a separate market, leaving further regulatory interventions to the jurisdiction of OPTA. As of April 2003, after suspension of OPTA's intervention by the Court of Rotterdam, the Dutch competition authority reopened the investigation into call termination practices and required detailed information on costs from the mobile operators. Indications by the Dutch competition authority that it would issue a report on excessive pricing coming out against the mobile operators resulted in an agreement between the mobile operators in which they voluntarily agreed to regulate call termination tariffs from January 1, 2004 to December 1, 2006. Under this agreement the Dutch mobile operators may not exceed flat rate/minute tariffs in accordance with a specific schedule.

As a result of these voluntary decreases, the Dutch competition authority has formally ceased its investigation into suspected excessive pricing. OPTA has decided to adhere to the voluntarily set tariffs until December 1, 2005, and has adopted the voluntary tariffs in its own policy recommendations. After December 1, 2005, on the basis of the New Regulatory Framework, OPTA may impose further decreases based on market analysis. Other fixed operators may try to challenge this voluntary decrease and continue to request lower tariffs retroactively and in the future.

Access

On December 1, 2001 T-Mobile Netherlands was required by OPTA to negotiate an interconnection agreement with Yarosa (a SMS service provider), both for providing originating access and terminating access services. Measures against this decision (various legal proceedings against OPTA's decisions) are pending or currently being prepared. If Yarosa is ultimately successful, this would give SMS services providers a "carrier preselect" status on the T-Mobile Netherlands network and create a precedent for other services providers to demand origination or termination services thereby having a material adverse affect on the business of T-Mobile Netherlands due to increased competition and possibly lower wholesale tariffs.

Competition Law

The Dutch Competition Act became effective January 1, 1998 and simultaneously the Netherlands Competition Authority (NMa) was created. The Dutch Competition Act is based on and

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closely linked to European competition law. The Act is based on a system very similar to that of Articles 81 and 82 of the EC Treaty. The Dutch Competition Act also includes a system of preventive concentration control, which is very similar to the EC Merger Regulation.

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

As part of the enforcement of the Dutch Competition Act, the Netherlands Competition Authority can impose fines which may not exceed the higher of Euro 450,000 or 10% of the undertaking's turnover, which makes Dutch competition law consistent with European competition law. In addition to the imposition of administrative fines, the Netherlands Competition Authority is authorized to impose interim measures and sanctions that are designed to ameliorate a violation.

According to a decision by the Netherlands Competition Authority on December 30, 2002, T-Mobile Netherlands will be fined EUR 15.2 million for alleged involvement in an anti-competitive scheme regarding dealer commissions carried out together with the four other Dutch mobile phone operators. T-Mobile Netherlands and other affected companies have filed an appeal relating to the decision of the Netherlands Competition Authority on a variety of grounds. T-Mobile Netherlands and other affected companies believe that, even if the findings of the Netherlands Competition Authority are upheld, the fines imposed with respect to the alleged violation are disproportionate.

Czech Republic: T-Mobile Czech Republic

Legal Framework

The legal framework for telecommunications is set by the Telecommunications Act No. 151/2000 which introduced full liberalization of the telecommunications sector in the Czech Republic on January 1, 2001. Regulatory supervision is carried out by the independent Czech Telecommunication Office ("CTO"). The Chairman of the CTO is appointed and dismissed by the Government at the recommendation of the Minister of Informatics. The CTO is a two-tier administrative body (first tier consisting of department Directors of the CTO, whose decisions can be reversed or amended by the Chairman as the second tier). The decisions of the CTO can be challenged in Court (with the exception of price regulation decisions, which are issued by the Chairman and are final).

The Czech Republic is obliged to implement the new EU regulatory framework for electronic communications by May 1, 2004 (day of accession to the European Union). The Ministry of Informatics has been preparing a draft bill but its implementation will most likely be delayed. Once the new framework is implemented, the CTO will start market analysis procedures on the three mobile markets included in the recommendation on relevant product and services markets. See "— The European Union Regulatory Framework."

Licensing and Frequency Allocation

Frequencies and numbers are to be allocated upon request on a non-discriminatory basis. There is a one-off allocation fee and further usage fees paid to the CTO. The CTO can refuse frequency allocation if there are more requests than available number of frequencies. In that case, an auction or a beauty contest must be held. Frequency and number allocations are non-transferable and there is no secondary market for allocations. T-Mobile Czech Republic holds allocation of frequencies in the 900 and 1800 MHz band and based on an auction was awarded a UMTS license for 2x19.8 MHz FDD + 5 MHz TDD of spectrum and a part of the 28 GHz band. UMTS services must be launched by January 1, 2006, covering at least 90 % of the city of Prague.

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

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

Significant Market Power Designations

Operators designed as having a significant market power on a relevant market are subject to specific regulation:

- Provision of universal service (only fixed network SMP),
- Obligation to allow access to the network.

In the Czech Republic, T-Mobile Czech Republic is considered to have significant market power by the CTO relating to the market for the operation of a public mobile telephony network and the provision of public telephony service via public mobile telephony network. This designation obliges T-Mobile Czech Republic to agree on access to its network for all authorized service providers. There is no authorization/license for "non-infrastructure" mobile telephony providers. As a result, virtual mobile network operators cannot be introduced through this obligation.

Interconnection

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

Price Regulation

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

Termination and origination charges for fixed networks are currently set upon long term incremental costs, whereas termination and origination charges for mobile networks are currently based upon fully allocated historical costs. In

March 2004, CTO has lowered mobile termination charges by 13% as compared to the price level determined in November 2001 based upon fully allocated historical costs. Further price decreases could be the result of the implementation of the EU regulatory framework in the Czech Republic which is not expected until 2005.

Competition Law

The competition law framework in the Czech Republic is defined by the Act on Protection of Economic Competition No. 143/2001. This Act focuses on the protection of economic competition, restrictive or other practices endangering economic competition by: (1) agreements between competing companies, (2) abuse of a dominant position by competing undertakings, or (3) concentrations of competing companies. The Act prohibits the conclusion of agreements between competing undertakings leading to, or which may lead to, the distortion of economic competition. This Act also prohibits abuse of a dominant position by competing companies. The protection of economic competition falls within the competence of the Antimonopoly Office. The Antimonopoly Office is entitled, in particular, to impose sanctions for the breach of obligations under the Act. The penalty may amount to as much as 10% of the net turnover of the breaching entity.

The issue of the protection of economic competition is also included in the Act on Prices No. 526/1990 Coll. This Act stipulates that price regulation may be applied only in cases in which the market is threatened by the effects of restriction of economic competition or if an extraordinary market situation requires such regulation. If the defined conditions are met, prices are most often regulated in the form of an issued price decision which stipulates the maximum price. In the Czech Republic, the prices for interconnection are frequently regulated.

Austria: T-Mobile Austria

Legal Framework

On August 20, 2003, the EU New Regulatory Framework was implemented in Austria through the new Austrian Telecommunications Act. Regulatory supervision is carried out by a regulatory authority that consists of the Telekom-Control-Kommission (TCK) and the Rundfunk und Telekom Regulierungs-GmbH (RTR).

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

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

Depending on the outcome of these investigations, the regulatory authority may impose remedies against operators with significant market power. See "— The European Regulatory Framework — The New Regulatory Framework."

Mobile Number Portability

The new Austrian Telecommunications Act required implementation of mobile number portability in Austria. The experience in other European countries shows that number portability had no significant effect on churn.

Allocation of Frequencies

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

Licensing and Frequency Allocation

T-Mobile Austria holds GSM frequencies in the 900 and 1800 MHz bandwidth as well as UMTS frequencies. In accordance with the license conditions, T-Mobile Austria took up UMTS commercial service in December 2003. T-Mobile Austria's population coverage obligations under the license is 25% by December 31, 2003 (which has been achieved) and 50% by December 31, 2005.

Price Regulation and Interconnection

Price regulation may be applied to wholesale and retail prices. Currently there is no price regulation for retail prices in the Austrian mobile market. In terms of wholesale prices, the regulatory authority regulated T-Mobile Austria's call termination prices until September 30, 2003. As of October 1, 2003, T-Mobile Austria signed bilateral agreements with the main mobile and fixed operators. Further regulatory measures relating to termination prices may be the result of either applications before the regulatory authority by other operators or the market analysis procedure.

Other International Matters

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

In complaints filed by U.S. associations in January 2004, the U.S. Trade Representative (USTR) has been asked to determine whether certain aspects of the telecommunications regulatory situation in Germany comply with Germany's obligations under the BTA. The criticism involved relates to, among other things, long provisioning times for leased lines, excessive and discriminatory fixed-to-mobile termination rates, and no regulated bitsteam access offer. Concerning the proposed amendments to the German Telecommunications Act, the criticism is related, inter alia, to the "functional competition" and "double dominance" tests and the lack of an independent regulator. The USTR probably will publish its 2004 annual report in April 2004.

In April 2004, the OECD is expected to publish a report about regulatory reforms in Germany that investigates, among other sectors, the telecommunications sector. It can be expected that the

OECD will be influential as to the development of competition, the market behaviour of Deutsche Telekom and regulatory policy in Germany.

In October 2002, the U.S. Federal Communications Commission (FCC) commenced another review of termination rate policies for international calls. Such policies define how telephone companies offset tariffs charged for terminating calls within their network that originated in a competitor's network. On March 11, 2004, the FCC announced that it will issue a notice of inquiry to evaluate the effect of high foreign mobile termination rates on U.S. consumers and competition.

DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

Network Infrastructure

We have made substantial investments in our telecommunications and cable networks since 1990, including the installation of a new network in the former East Germany. As a result, our fixed-line network in Germany is one of the most technologically advanced networks in the world, with full digital switching and nearly 100% digital transmission. We have introduced asynchronous transfer mode (ATM) technology and wavelength division multiplexing (WDM) technology on the basis of our advanced network. These advanced technologies provide much faster voice and data transmissions.

As of December 31, 2002, our domestic fixed-line telephone network and ISDN network in Germany consisted of approximately 5,200 local networks (including approximately 8,000 local exchange areas) connected by a long-distance transmission network. As of December 31, 2002, the transmission network linking our German local networks consisted of approximately 173,000 kilometers of fiber optic cable. The transport network is based on the WDM and SDH (Synchronous Digital Hierarchy) backbone. In the fall of 2002, the 10,000th network element for SDH was connected to the Deutsche Telekom network. SDH is the transport platform of our T-Com division upon which practically all digital communications (from leased lines through the Internet to traditional telephone traffic) are based. SDH provides nearly 100% availability to the network.

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

In 1998, T-Systems' Global Network Factory commenced the development, building and operation of telecommunications networks outside Germany, including its own 2.5Gb SDH-network to major European cities. These international networks have partially migrated onto fiber optic and WDM systems. These newer networks include leased wavelengths up to multiples of 10GB leased capacity (e.g. leased lines from providers other than Deutsche Telekom), with state of the art SDH, Sonet, IP, MPLS and ATM Frame Relay, as well as digital Voice and VoIP, platforms.

Cable and Satellite Transmission Infrastructure

T-Systems' international transmission infrastructure consists of both cable (underground and submarine cables) and satellite transmission systems, which, as of December 31, 2003, link its German national network directly to approximately 900 other telecommunications service providers worldwide. T-Systems owns substantially all of the technical equipment, such as switches and routers, for this transmission network.

As of December 31, 2003, T-Systems held interests in approximately 80 fiber-optic submarine and terrestrial cable networks worldwide. Restoration contracts with other cable operators and telecommunications carriers are entered into to prevent network failures from affecting the company's network availability. T-Systems' German domestic telecommunications network is connected to submarine cables via five cable landing points, the largest being in the city of Norden, Germany. T-Systems also operates and maintains for third parties the submarine cables in German landing stations.

T-Systems operates two large satellite earth stations in Usingen and Raisting (both situated in Germany), which are connected directly to the company's German telecommunications network. The station in Usingen is mainly used for media and broadcast services and the station in Raisting is mainly used as a gateway for international telecommunications services (voice, data and IP).

In 2002, T-Systems finalized the extension of our wholly-owned terrestrial network in major European countries as well as in the Americas and in Asia. This network is mainly a so-called

international backbone and has a ring structure that ensures high performance and connectivity throughout the network. It consists of both purchased and leased network capacities and of technical equipment that is installed at various points of presence locations ("PoP," a space or room in a building where technical equipment is stored and maintained). T-Systems is the primary owner of the technical equipment (fixed assets). The worldwide total leased space housing the technical equipment within all of the PoPs amounts to approximately 3,630 square meters. As of December 31, 2003, T-Systems was a party to an aggregate of approximately 570 PoPs (owned or leased), including 149 PoPs of the Telekom Global Net. These PoPs are situated in 52 countries worldwide (including Germany), of which 33 countries are located in Europe, 12 countries in Asia, and 5 countries in the Americas, Australia and South Africa. Over this network, voice, data and IP services are provided for domestic customers, large national and international corporations, and other telecommunications carriers.

Currently, T-Systems does not have plans to extend its existing international transmission facilities or network to anticipate future growth that has not yet materialized. T-Systems expects that if the coverage of the network needs to be extended to accommodate new customers, this will be done either by partnering (network to network interface with other major carriers) or by actual customer demand-driven expansion of the network.

T-Systems leased some parts of our international network backbone from Global Crossing which had filed for Chapter 11 bankruptcy protection in the United States. Global Crossing has since emerged from bankruptcy protection. Due to the availability of sufficient cable capacity for the rerouting of network traffic, we do not anticipate that the loss of parts of our international network backbone as a result of prior or future bankruptcies of network operators would result in disruptions for our customers. However, securing such alternative capacity may result in increased costs for T-Systems.

Internet Platforms

The number of broadband users (cable and DSL) in Germany has increased from 638,000 in 2000 to 4,000,000 in 2003. To serve broadband users, T-Systems has employed extensive switching differentiated services in the global IP network that provide Internet solutions incorporating Internet platforms throughout Germany with high-capacity bandwidth connections into Western and Eastern Europe and North America, as well as certain high-capacity connections into Asia. T-Systems has a network presence in major North American cities such as New York, Washington, San Francisco, Los Angeles, Miami and Toronto. A further milestone has been reached for T-Systems' business customers with the deployment of MPLS (multi-protocol label of service principles). MPLS allows different applications (e.g. e-mail, file transfer) to be assigned priorities to maximize performance over shared network resources. T-Systems MPLS backbone carries 32 petabytes of IP traffic per month. A petabyte is a unit of measurement for physical data storage (32 petabytes = 32 billion megabytes).

To allow the free exchange of Internet traffic with other IP networks, T-Systems negotiated interconnection agreements with other carriers operating IP networks of similar size, scope and reach. T-Systems has settlement free peering agreements with approximately 60 major IP carriers around the world and has established a total peering capacity of 100+ Gbps (gigabytes per second). A peering agreement is an agreement to directly interconnect to another carrier's network and thus carry each others traffic. The following table sets forth our peering capacity in the regions and for the periods indicated:

Year	Peering Capacity (Gbps) US/ Europe
2001 (since 06/2001)	2,488/14,768
2002	44,966/52,873
2003	45,213/64,746

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

Global Computing Factory (GCF)

GCF possesses the server equipment, software tools and expertise employed in the operation of the computer network infrastructure described above. As of December 31, 2003, the GCF's global mainframe systems performance had combined total computing power of 113,723 millions of instructions per second (MIPS).

The mainframe computing power in Germany, Austria and Switzerland (approximately 81% of T-Systems' total worldwide computing power) is based on a leasing contract with IBM. T-Systems only purchases the computing capacity actually required following a flexible demand-driven business agreement.

The mainframe systems are located in Germany, Italy, Switzerland, South Africa, Austria, France, Brazil, Spain and the United Kingdom.

As of December 31, 2003, a total of 28,399 servers (most of which are not leased) were operated worldwide in the following countries: Germany, Italy, Switzerland, Austria, Spain, Czech Republic, the United States, South Africa, France, Denmark, Brazil, Hungary, Turkey, Singapore, Benelux, Australia, the United Kingdom, Philippines, Russia and Poland.

Mobile Network Infrastructure

At December 31, 2002, the mobile communications network of Deutsche Telekom's controlled mobile subsidiaries in Germany, the United States, the United Kingdom, Austria, the Czech Republic and the Netherlands consisted of approximately 50,000 base station cells.

Real Estate

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

The real estate portfolio of our consolidated group had a book value of EUR 10.4 billion at December 31, 2003. Approximately 81% of the book value of the real estate portfolio (EUR 8.4 billion) of the Deutsche Telekom group relates to properties held directly by Deutsche Telekom AG (on an unconsolidated basis) and are allocated to the division "GHS." The majority of the remaining book value of real estate in the Deutsche Telekom group is related to the T-Mobile division and Eastern European subsidiaries of the T-Com division. For more information with respect to Deutsche Telekom AG's real estate portfolio, please refer to "Item 5. Operating and Financial Review and Prospects — Segment Analysis — Group Headquarters and Shared Services."

The real estate portfolio of Deutsche Telekom AG consists of approximately 11,000 properties. The total area of land on which these properties are situated amounts to approximately 48.0 million square meters. The total rentable area relating to these properties amounts to approximately 10.3 million square meters. Our rentable area in leased properties adds up to approximately 5.0 million square meters. These do not include the rentable area in technical buildings and facilities managed by DFMG. The majority of these properties are used for telecommunications installations, research centers, service outlets, computer centers and offices.

To improve operational efficiencies, achieve our goal of disposing of non-core assets to support investment in core growth areas, and increase our ability to reduce our debt, we continued our strategy to monetize certain of our real estate assets and to terminate some of our existing leases in 2003. Such monetization may be accomplished by direct sales, through the use of structured transactions, sale-and-lease-back transactions, or through the application of various other financing techniques. The pace and manner of this strategy depends on a number of factors, including, among other things, prevailing market conditions within Germany, and the demand for the types and locations of properties we have available.

In 2003, we entered into agreements for the sale of certain properties for an aggregate of about EUR 553 million. Of the EUR 779 million in proceeds received in 2003, EUR 507 million related to properties transferred in 2003, EUR 272 million related to transactions in 2002 and prior years. The sold properties are located on land with an area of approximately 1.6 million square meters and have 0.5 million square meters of rentable area. We leased back a part of these properties. Although we will incur rent expense related to the leased back properties, we will have a reduction in interest payments and other costs related to the properties sold. For more information with respect to these

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transactions, please refer to "Item 5. Operating and Financial Review and Prospects — U.S. GAAP — Reconciling Differences between German GAAP and U.S. GAAP."

The headquarters of Deutsche Telekom AG are located in a leased building in Bonn, Germany.

Our radio transmission sites in Germany, including towers, masts and rooftops, are owned or leased by our subsidiaries DFMG Deutsche Funkturm GmbH as well as Erste DFMG Deutsche Funkturm Vermoegens — GmbH & Co. KG and Zweite DFMG Deutsche Funkturm Vermoegens Gmbh & Co. KG respectively. DFMG manages these radio transmission sites and the related technical infrastructure facilities to provide antenna space for T-Mobile Deutschland, T-Com and T-Systems in Germany. DFMG also offers these services to third party radio network operators. DFMG currently manages and owns approximately 22,000 radio transmission sites. Excluded are radio transmission sites for AM, short and long wave radio transmission owned by T-Systems.

ITEM 5. Operating and Financial Review and Prospects

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

The strategies and expectations referred to in this discussion are considered forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives we implement and other factors. We cannot provide assurance that the strategies and expectations referred to in this discussion will come to fruition. Forward-looking statements are based on current plans, estimates and projections, and therefore you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. Please refer to "Forward-Looking Statements," "Item 3. Key Information — Risk Factors" and "Item 5. Operating and Financial Review and Prospects — Factors Affecting Our Business" for descriptions of some of the factors relevant to this discussion and other forward-looking statements in this report.

INTRODUCTION

The 2003 financial year was very satisfactory overall for Deutsche Telekom. Our group achieved one of its most important goals for the year well before year's end. The objectives of the "6 plus 6" debt reduction program launched in the fourth quarter of 2002 was achieved in the third quarter of 2003. The success of our debt reduction efforts was mainly due to strong net cash provided by operating activities, reduced investments, cash inflows from the sale of non-core activities, and exchange rate effects. By the end of the year, we had reduced our debt by EUR 7.6 billion to EUR 55.4 billion.

Our net revenues increased by EUR 2.1 billion year-on-year in 2003 to EUR 55.8 billion. This increase is primarily a result of growth in the T-Mobile, T-Systems, and T-Online divisions. The Group's main growth and revenue driver was once more the T-Mobile division, which recorded a double-digit percentage increase in revenue despite unfavorable exchange rate trends. In addition to the effect of the first full-year consolidation of T-Mobile Netherlands, the considerable increase in the number of T-Mobile subscribers also a positive impact. Our T-Systems division succeeded in increasing its revenue year-on-year despite the unfavorable economic environment and the effects of the sale of shareholdings in 2003. The increase at T-Systems was mainly driven by the Telecommunication services unit, which offset the slight decline in information technology business. Revenue growth at T-Online was driven by continued growth of the customer base, especially for broadband services, coupled with stronger demand for content and services, and the resulting increase in time spent online. The development of T-Com's revenue was significantly affected by a weak economic environment and regulatory and competition-related influences. Lower call revenues in particular — partly as a result of the introduction of call-by-call and carrier preselection in the local network and the ensuing losses of market share — led to a decrease in revenues that even the dynamic trend towards more advanced lines such as T-DSL could not offset. The drop in net revenue was exacerbated by the deconsolidation of the cable companies.

Deutsche Telekom generated net income amounting to EUR 1.3 billion in the 2003 financial year. This represents a year-on-year improvement of EUR 25.9 billion from a net loss of EUR 24.6 billion in 2002. This development is mainly the result of the nonscheduled write-downs on goodwill and licenses at mobile communications companies in 2002, for which there were no comparable write-downs in 2003. Other factors contributing to this development were efficiency enhancements, increased levels of income from the disposal of noncurrent assets, and a considerable improvement in net financial expense.

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Following on from our considerable progress in debt reduction during 2003, our focus for the 2004 financial year will be on profitable growth. For 2004, we intend to position our group as a growth leader in the IT/TC sector. But this growth is not to be at the expense of profitability. To achieve our goal, we have developed our "Agenda 2004." This agenda defines six cross-divisional areas that will be our top priorities during 2004: broadband, human resources, innovation, quality, efficiency, and business customers. We expect that, as "Agenda 2004" is implemented, it will significantly enhance the business potential of our group's divisions. We expect that it will also play an active role in strengthening coordination among our divisions. We intend to maintain the position of our T-Mobile and T-Online divisions as growth drivers in their respective markets. At the same time, we expect the T-Com division to benefit from the intensified broadband drive and once again to generate significant revenues for the Group. With an additional contribution from the T-Systems division, we currently expect net revenue to grow again this year. We also expect an increasing proportion of revenue growth to come from our international affiliates, especially T-Mobile USA.

OUTLOOK FOR 2004

In 2004, we intend to focus on profitable growth. We expect to employ our cash flows flexibly to take advantage of possibilities that present themselves, including to further reduce debt and — if we perceive opportunities to further enhance the group's value — to increase capital expenditures and also make selective acquisitions. We intend to accomplish our financial and operating objectives by, among other things, increasing consolidated net revenues and operating efficiencies. Accordingly, we intend to invest in areas of our business that we believe offer the best potential for sustainable and profitable growth. A central part of our strategy to accomplish these objectives consists of six cross-divisional initiatives: broadband, personnel, innovation, quality, efficiency and corporate customers. The following discussion provides a brief explanation of our outlook for 2004.

Net Revenues

In keeping with our strategy of profitable growth, we expect a further increase in our consolidated net revenues for 2004, based on our current outlook and current market and regulatory conditions. However, since each division is affected by its individual business environment, and we are subject to circumstances and events as yet unforeseen or beyond our control. The following reflects our current expectations with respect to our divisional plans and initiatives for 2004.

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