

Deutsche Telekom IFRS and New Structure. April 2005.

Investor Relations



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This presentation contains forward-looking statements that reflect the current views of Deutsche Telekom management with respect to future events. The words “anticipate”, “believe”, “estimate”, “expect”, “intend”, “may”, “plan”, “project” and “should ” and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on current plans, estimates, and projections, and therefore you should not place too much reliance on them. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom`s control, including, without limitation, those factors set forth in “Forward-Looking Statements” and “Risk Factors” contained in Deutsche Telekom’s annual report on Form 20-F. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, Deutsche Telekom’s actual results may be materially different from those expressed or implied by such statements. Deutsche Telekom does not intend or assume any obligation to update these forward-looking statements.

This presentation contains a number of non-GAAP figures, such as EBITDA and EBITDA adj. for special influences, EBITDA margin, OIBDA, adj., capex, adj. net income, free Cash-Flow, and gross and net debt. These non-GAAP figures should not be viewed as a substitute for our GAAP figures. Our non-GAAP measures may not be comparable to non-GAAP measures used by other companies. To interpret the non-GAAP measures, please refer to the Backup materials accompanying this presentation and the “Reconciliation to pro forma figures” posted on Deutsche Telekom’s investor relations website under www.deutschetelekom.com.

Disclaimer 2.

The Committee of European Securities Regulators recommends that selected IFRS financial information be disclosed in the reporting on the 2004 financial year. In line with this recommendation, we are presenting here the preliminary consolidated balance sheets, consolidated income statements and net debt under IFRS as well as the preliminary reconciliation of shareholders' equity, net income and net debt from German GAAP (HGB) to IFRS for the 2003 and 2004 financial years. The disclosure of net debt is not based on any IFRS guidance. This measure is disclosed voluntarily. In accordance with IFRS 1, the assets and liabilities carried in the preliminary consolidated balance sheets and consolidated income statements under IFRS that are presented here are measured in line with the relevant IFRS standards, compliance with which is mandatory as of December 31, 2005, the date on which the consolidated financial statements under IFRS are prepared for the first time, to the extent that these statements were published up until December 31, 2004. Deutsche Telekom has applied IFRIC 4 since January 1, 2003. The resulting differences between the IFRS carrying amounts and the carrying amounts of the assets and liabilities in the consolidated balance sheet under German GAAP for the period ended December 31, 2002 are recognized directly in equity at the time of the transition to IFRS.

There can be no guarantee that the final consolidated balance sheets, consolidated income statements and net debt under IFRS will not deviate from the preliminary consolidated balance sheets, consolidated income statements and net debt presented here, because the IASB may make further pronouncements before the final consolidated financial statements as of December 31, 2005 are prepared. Moreover, the EU Commission has yet to endorse individual pronouncements by the IASB that have already been taken into account in the financial information presented below. We would also like to point out that the statements presented here are not a full set of consolidated financial statements under IFRS as defined by IAS 1. In this respect, there are no first-time consolidated financial statements under IFRS within the meaning of IFRS 1. Deutsche Telekom will prepare its first set of consolidated IFRS financial statements as defined by IFRS 1 for the period ended December 31, 2005. IFRS will replace German GAAP in Deutsche Telekom's external reporting from the first quarter of 2005.

It should also be noted that the figures provided for the business units are preliminary and could be subject to change.

IFRS and New Structure.

Background to the reporting changes.

- DT is required to move to IFRS accounting from 2005 onwards.
- Change of group structure following strategic realignment towards three strategic business units rather than four divisions.
- Q1 2005 will be the first interim report under IFRS and the new group structure.

IFRS and New Structure.

A different philosophy behind German GAAP and IFRS.

German GAAP	IFRS
Protection of debt holders	Protection of equity holders
Prudence principle	Matching principle over prudence principle
Historical Cost Accounting	(Partial) Fair Value Accounting

IFRS.

Revenue recognition.

- Activation fees

Revenue from activation fees is – different to German GAAP – spread over the average duration of customer relationship.

- Construction contracts (percentage-of-completion method)

Under German GAAP revenue recognition is not allowed before completion of the contract. IFRS requires revenue recognition according to the stage of completion.

- Multiple element arrangements

German GAAP allows revenue recognition with partial delivery. Under certain circumstances IFRS allows revenue recognition only after full delivery.

- Leasing of equipment

Certain products on a rented basis are classified under IFRS as leasing. The expected contract revenue is discounted to a net present value and split in financing part and revenue part. The financing part is presented as interest income. The revenue part is presented as revenue.

IFRS.

Revenue recognition.

Impact on Equity	31.12.2004	31.12.2003	01.01.2003
€ billion (IFRS)			
Revenue recognition	-1.2	-1.1	-1.1

Impact of revenue recognition on P&L	FY 2004	FY 2003
€ billion (IFRS)		
On revenue	-0.5	-0.3
On EBITDA	-0.1	0.0
On net income	-0.1	0.0

IFRS.

Goodwill and mobile licenses (1).

Goodwill:

- No amortization of goodwill under IFRS (similar to US GAAP) (impairment-only approach).
- Annual impairment test.
- In contrast to US GAAP one-step impairment test.
 - Same approach to evaluate whether impairment is necessary, but different approach to quantify amount of impairment charge.
- Transition from German GAAP to IFRS:
 - German GAAP goodwill as of 01.01.2003 as base (no retrospective application of IFRS 3).
 - Impairment test on 01.01.2003 under IFRS (as required by IFRS 1).
 - No further adjustments of Goodwill as required by IFRS 1 necessary at the date of transition.

IFRS.

Goodwill and mobile licenses (2).

UMTS Licenses:

- German GAAP: amortization starting at date of acquisition.
- IFRS (similar to US GAAP): amortization with start of network operation.
- Under IFRS no recognition of borrowing costs (similar to German GAAP, different to US GAAP).

Impact UMTS Licenses:

- Reversal of amortization charged under German GAAP.
- Start of amortization with start of network operation.

IFRS.

Goodwill and mobile licenses (3).

FCC Licenses (mobile licenses USA):

- German GAAP: amortization.
- IFRS (similar to US GAAP): “impairment-only approach” due to indefinite useful life.

Impact FCC Licenses:

- Reversal of amortization and impairments charged under German GAAP.
- Impairment test as of 1.1.2003: Reversal of impairment from strategic review 2002. Instead impairment of goodwill.

IFRS.

Goodwill and mobile licenses (4).

Impact on Equity	31.12.2004	31.12.2003	01.01.2003
€ billion (IFRS)			
Goodwill	-3.1	-3.5	-6.0
Mobile licenses	+9.8	+13.1	+14.0

Impact on P&L	FY 2004	FY 2003
€ billion (IFRS)		
Goodwill amortization	+0.1	+1.6
Mobile licenses amortization	-3.1	+1.1

IFRS.

Provisions.

Pension provisions:

- No additional minimum liability under IFRS.
- Different treatment of actuarial gains and losses under IFRS: recognition in shareholders' equity at the date of transition (IFRS 1).
- Interest costs presented in financial result, not in operating result.
- Reduction of shareholders' equity in the IFRS opening balance sheet and increase in the other reporting dates presented; net profit increases in the two periods presented.

Other provisions:

- Recognition of restructuring provisions is subject to stricter criteria under IFRS.
- Furthermore, provisions for future internal expenses that have been recognized under German GAAP should not be recognized under IFRS.
- Increase of shareholders' equity; net profit under IFRS remains largely unaffected.

IFRS.

Provisions.

Impact on Equity € billion (IFRS)	31.12.2004	31.12.2003	01.01.2003
Provisions	+1.6	+1.5	+1.1

Impact of provisions on P&L € billion (IFRS)	FY 2004	FY 2003
EBITDA (adj.)	0.0	+0.4
Net income (adj.)	-0.4	+0.1
Net Income (unadj.)	+0.1	+0.4

IFRS.

Internally generated software and borrowing costs.

Software:

- Recognizing internally generated software, which is not permissible under German GAAP, increases shareholders' equity under IFRS in all of the periods presented. In the periods following the recognition, net profit under IFRS remains largely unaffected.

Borrowing costs:

- Deutsche Telekom does not make use of the option under IFRS to recognize borrowing costs. Under German GAAP, borrowing costs accounted for during the construction period were recognized. Not recognizing borrowing costs reduces shareholders' equity under IFRS in all periods. The lower amortization than under German GAAP increases net profit.

Impact on P&L	FY 2004	FY 2003
€ billion (IFRS)		
Internally generated software (EBITDA-impact)	+0.3	+0.2
Internally generated software (net profit-impact)	0.0	0.0
Borrowing costs (net profit-impact)	+0.1	+0.2

IFRS.

Deferred Taxes.

- Differences between IFRS and German GAAP relate in particular to Deutsche Telekom's "contribution goodwill", tax loss carryforwards and general recognition and measurement differences between IFRS and German GAAP:
 - Deferred tax asset: "contribution goodwill" recognized in tax accounts but not recognized under IFRS.
 - Deferred tax asset: future expected tax reductions from the deduction of tax loss carryforwards.
 - Deferred tax liabilities: in particular realization of hidden reserves for US mobile licenses; furthermore, net effect of all other temporary differences.

Deferred Taxes in balance sheet	31.12.2004	31.12.2003	01.01.2003
€ billion (IFRS)			
Deferred tax assets	8.3	9.3	10.2
Deferred tax liabilities	9.7	10.6	10.7

IFRS. ABS.

- As part of asset-backed securities (ABS) transactions, mostly financial assets are sold to a special-purpose entity (SPE). The SPE refinances itself on the capital market.
- Under IFRS, SPEs must generally be consolidated by the economic beneficiary. In total, there are three SPEs arising from ABS transactions that have to be consolidated by Deutsche Telekom. The capital market liabilities recognized by the SPEs increase Deutsche Telekom's net debt.

Impact on net debt	31.12.2004	31.12.2003	01.01.2003
€ billion (IFRS)			
ABS	+1.6	+1.2	+1.2

IFRS. Leasing.

- A considerably larger number of leases tends to be classified as finance leases under IFRS. While in an operating lease it is the lessor that recognizes the asset, it is the lessee that recognizes the asset in a finance lease.
- Deutsche Telekom has entered into sale and leaseback transactions in connection with its real estate portfolio. Under German GAAP, these transactions were usually treated as a sale of real estate that was subsequently leased back, whereas under IFRS the buildings must be classified as finance leases and the land as operating leases.
- Under IFRS, this results in the recognition of interest expense and a depreciation charge for the buildings and the recognition of rental expense for the land; the disposal gain must be spread over the term of the lease.
- Under German GAAP, gains or losses from the sale of real estate are recorded, as rental expense.
- This reduces shareholders' equity, net profit and increases net debt under IFRS in all of the periods presented.

IFRS. Leasing.

Impact on net debt	31.12.2004	31.12.2003	01.01.2003
€ billion (IFRS)			
Leasing	+2.5	+2.4	+1.8

Impact on P&L	FY 2004	FY 2003
€ billion (IFRS)		
Leasing (EBITDA-impact)	+0.1	0.0
Leasing (net profit-impact)	-0.1	-0.3

IFRS.

Measurement of investments not fully consolidated and not accounted for in the consolidated financial statements under the equity method.

- Investments not fully consolidated and not accounted for in the consolidated financial statements under the equity method must be measured at fair value according to IAS 39. As a rule, the resulting unrealized gains and losses are recognized directly in equity.
- According to German GAAP, these assets are measured at amortized cost or, if appropriate, at the lower fair value. As a result of the different accounting policies used under IFRS and German GAAP, the IFRS shareholders' equity increases in all of the periods presented. Net profit under IFRS remains unaffected.

IFRS.

In a nutshell.

€ billion	IFRS 2004	German GAAP 2004	IFRS 2003	German GAAP 2003
Revenue	57.4	57.9	55.5	55.8
Adj. EBITDA	19.6	19.4	18.6	18.3
Adj. net income	3.7	2.2	2.3	0.2
Net income	1.6	4.6	1.9	1.3
Shareholders' Equity	45.9	37.9	43.8	33.8
Net debt	39.6	35.2	50.7	46.6
Free Cash Flow	10.3	10.2	8.7	8.3

IFRS.

Impact on adj. EBITDA.

€ billion	FY 2004 Excl. special effects	FY 2003 Exc. Special effects
EBITDA (German GAAP)	19.4	18.3
Leasing (Regrouping in depreciation and net interest expense)	0.1	0.0
Interest pension provisions/PBeaKK (Regrouping into net interest expense)	0.2	0.3
Valuation pension provisions (AML)	0.1	0.2
Other taxes (under German GAAP not part of EBITDA)	-0.2	-0.2
Internally generated software	0.3	0.2
Reversal/usage of provisions for contingent losses/other accruals	-0.2	0.0
Reversal/usage of provisions for restructuring	-0.1	-0.1
ABS	0.1	0.0
Revenue recognition	-0.1	0.0
Other IFRS adjustments	0.0	-0.1
EBITDA (IFRS)	19.6	18.6
Delta IFRS – German GAAP	0.2	0.3

IFRS.

Net income reconciliation 2004 and 2003.

€ billion	Full year 2004		Full year 2003	
	Incl. SE	Excl. SE	Incl. SE	Excl. SE
Net income under German GAAP	4.6	2.2	1.3	0.2
Income applicable to minority shareholders	0.3	0.4	0.4	0.4
Income after taxes under German GAAP	4.9	2.6	1.6	0.6
Goodwill	0.1	2.6	1.6	2.6
Reversal of scheduled amortization	2.6	2.6	2.6	2.6
Non-scheduled write-downs	-2.5	0.0	-1.0	0.0
Mobile licenses	-3.1	0.6	1.1	1.1
FCC Reversal German GAAP amortization	0.5	0.5	0.5	0.5
FCC IFRS Amortization (non-scheduled)	-1.3	0.0	0.0	0.0
FCC Reversal German GAAP write-ups	-2.4	0.0	0.0	0.0
UMTS-Amortization (scheduled)	0.1	0.1	0.6	0.6
Software	0.0	0.0	0.0	0.0
Borrowing costs	0.1	0.1	0.2	0.2
Measurement of investments not fully consolidated and not accounted for in the consolidated financial statements under the equity method	0.0	0.0	0.0	0.0
Leasing	-0.1	-0.1	-0.3	-0.3
Provisions	0.1	-0.4	0.4	0.1
Pension provisions	0.1	0.1	0.4	0.2
Other provisions	0.0	-0.5	0.0	0.0
Revenue recognition	-0.1	-0.1	0.0	0.0
Other IFRS adjustments	0.0	-0.1	-0.2	-0.4
Deferred taxes	0.1	-1.0	-2.0	-1.2
Income after taxes under IFRS	2.0	4.1	2.4	2.7
Minorities	-0.4	-0.5	-0.5	-0.5
Net income under IFRS	1.6	3.7	1.9	2.3



Preliminary and unaudited figures

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IFRS.

Reconciliation of Cash Flow.

€ million	FY 2004	FY 2003
Net cash provided by operating activities (German GAAP)	16,307	14,316
Net cash provided by operating activities (IFRS)	16,721	15,053
Net cash used for investing activities (German GAAP)	-4,318	-2,073
Net cash used for investing activities (IFRS)	-4,502	-2,249
Net cash provided by (used for) financing activities (German GAAP)	-12,652	-5,226
Net cash provided by (used for) financing activities (IFRS)	-12,882	-5,797
Net increase (decrease) in cash and cash equivalents (German GAAP)	-663	6,974
Net increase (decrease) in cash and cash equivalents (IFRS)	-663	6,974
Free Cash Flow (German GAAP)	10,180	8,285
Free Cash Flow (IFRS)	10,311	8,691

IFRS.

Reconciliation of equity.

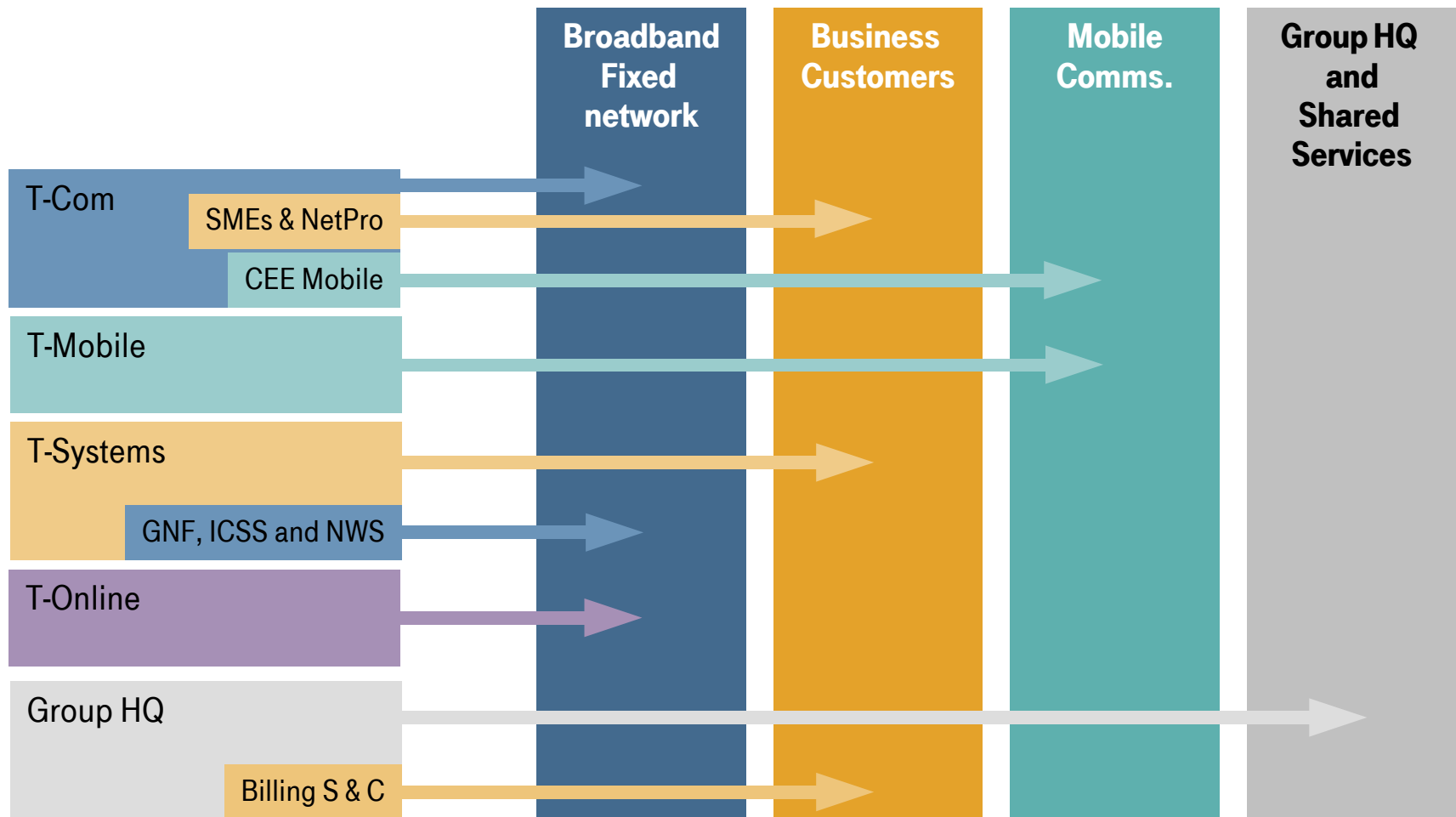
€ billion	31.12.2004	31.12.2003	01.01.2003
Shareholders equity under German GAAP	37.9	33.8	35.4
Goodwill	-3.1	-3.5	-6.0
Mobile licenses	+9.8	+13.1	+14.0
Provisions	+1.6	+1.5	+1.1
Revenue recognition	-1.2	-1.1	-1.1
Deferred tax assets	+6.4	+7.4	+9.1
Deferred tax liabilities	-6.6	-7.8	-7.9
Other	+1,1	+0,4	+0.6
Shareholders' equity under IFRS	45.9	43.8	45.2

IFRS.

Net debt.

€ billion	31.12.2004	31.12.2003	01.01.2003
Net debt under German GAAP	35.2	46.6	61.1
ABS	+1.6	+1.2	+1.2
Leasing	+2.5	+2.4	+1.8
Other	+0.3	+0.5	+0.2
Net debt under IFRS	39.6	50.7	64.3

New structure. In a nutshell.



New Structure.

The Strategic Business Unit Broadband/Fixed network .

FY 2004	T-Com [German GAAP Old]	Changes IFRS and Mobile CEE	Impact Changes SMEs, ICSS, NWS, GNF and consolid.	T-Com New IFRS	T-Online IFRS	Broadband/ Fixed Network
€ million						
Total Revenue	27,814	-1,561	-652	25,601	2,012	27,010
EBITDA	10,240	-702	-34	9,504	463	9,953
EBITDA-Margin	36.8%	n.m.	n.m.	37.1%	23.0%	36.8%
Adj. EBITDA	10,466	-704	-39	9,723	464	10,173
Adj. EBITDA-Margin	37.6%	n.m.	n.m.	38.0%	23.1%	37.7%
Income (loss) before income taxes	5,525	51	-34	5,542	479	6,024
Capex	2,330	-302	-30	1,998	121	2,119
Number of employees	125,395	-3,192	-9,875	112,329	2,963	115,292

New Structure.

The Strategic Business Unit Mobile.

FY 2004 € million	Mobile [German GAAP Old]	Changes Mobile CEE	Changes IFRS	Mobile Commu- nications
Total Revenue	24,995	1,582	-50	26,527
EBITDA	10,596	676	-2,809	8,463
EBITDA-Margin	42.4%	42.7%		31.9%
Adj. EBITDA	7,668	676	51	8,395
Adj. EBITDA-Margin	30.7%	42.7%		31.6%
Income (loss) before income taxes	4,636	368	-3,423	1,581
Capex	2,411	299	184	2,894
Number of employees	44,226	3,192	0	47,418

New Structure.

The Strategic Business Unit Business Customers.

FY 2004	T-Systems [German GAAP Old]	Changes IFRS	Impact Changes SMEs, NetPro, GNF, NWS, Billing S&C and consolid.	Business Customers
€ million				
Total Revenue	10,537	-168	2,588	12,957
EBITDA	1,357	-48	208	1,517
EBITDA-Margin	12.9%	n.m.	n.m.	11.7%
Adj. EBITDA	1,473	-48	213	1,638
Adj. EBITDA-Margin	14.0%	n.m.	n.m.	12.6%
Income (loss) before income taxes	-211	222	170	181
Capex	720	99	49	868
Number of employees	39,880	0	12,098	51,978