

Reconciliation of pro forma figures.

- Pro forma figures include EBITDA, EBITDA adjusted for special factors, the EBITDA margin, the EBITDA margin adjusted for special factors, free cash flow, and gross and net debt.
- Pro forma figures are not governed by German or U.S. GAAP. As other companies may not compute the pro forma figures presented by Deutsche Telekom in the same way, Deutsche Telekom's pro forma figures are only comparable with similarly designated disclosures by other companies to a limited extent.
- Pro forma figures should not be viewed in isolation as an alternative to net income/loss, results from ordinary business activities, net cash provided by operating activities, debt (in accordance with consolidated balance sheet), or other Deutsche Telekom figures reported under German or U.S. GAAP.

EBITDA and EBITDA adjusted for special factors.

EBITDA

EBITDA of the divisions and the Group as a whole is derived from the results from ordinary business activities. This measure of earnings before minority interest in income/loss and before income taxes is additionally adjusted for other taxes, net financial income/expense, and depreciation and amortization. It should be noted that Deutsche Telekom's definition of EBITDA may differ from that used by other companies.

In this definition, net financial income/expense includes net interest expense, income/loss related to associated and related companies, and write-downs of financial

assets and marketable securities. As it is based on the results from ordinary business activities, this method of computation allows EBITDA to be derived in a uniform way on the basis of an accepted accounting measure of earnings published for the divisions and the Group as a whole.

EBITDA is an important indicator used by Deutsche Telekom's senior operating decision-makers to manage Deutsche Telekom's operating activities and measure the performance of the individual units.

Adjusted EBITDA

Deutsche Telekom defines EBITDA adjusted for special factors as the results from ordinary business activities excluding other taxes, net financial income/expense, amortization and depreciation, and before the effects of any special factors. Deutsche Telekom uses EBITDA adjusted for special factors as an internal performance indicator for the management of its operational busi-

ness activities, and in order to better evaluate and compare developments over several reporting periods. More detailed explanations of the effects of special factors on Group EBITDA, the EBITDA of the divisions, and net income/loss are contained in the following section "Special factors."

EBITDA margin

In order to compare the EBITDA earnings power of results-oriented units of different sizes, the EBITDA margin is presented in addition to EBITDA. The EBITDA

margin represents the ratio of EBITDA to net revenue (EBITDA divided by net revenue).

Special factors.

- Deutsche Telekom's net income and the EBITDA of the Group and of the divisions were affected by a range of special factors in both the reporting period and the comparative periods.
- The underlying concept involves the elimination of special factors that affect ordinary business activities and thus impair the comparability of EBITDA

and net income/loss with previous years. The adjustments are made irrespective of whether the relevant income and expenses are reported in the results from ordinary business activities, in extraordinary income/loss, or in tax expense. Income and expenses directly relating to the items being adjusted are also adjusted.

The tables under "Divisions" and "Deutsche Telekom at a glance" show how Deutsche Telekom derives EBITDA adjusted for special factors for the Group as a whole and for its divisions from the results from ordinary busi-

ness activities. The special factors are presented for the reporting period, the comparative prior-year period, and for the previous full year.

Special factors affecting EBITDA

Special factors affecting EBITDA positively in the first three quarters of 2004 included income from the write-up of U.S. mobile communications licenses at T-Mobile USA (EUR 2.4 billion) and gains totaling EUR 0.1 billion (including transaction costs) from the sale of part of the stake in the European satellite operator SES Global SA and from the sale of the T-Systems subsidiary cc-chem-plerer Limited. The sale of the stake in Virgin Mobile also generated retroactive gains of EUR 0.1 billion.

These positive special factors were offset, in part, by expenses of approximately EUR 0.2 billion consisting, for example, of voluntary redundancy payments in the T-Com division and at Group Headquarters & Shared Services, and by the recognition of accruals for contingent losses of EUR 0.6 billion relating to the dissolution of the mobile communications joint venture between T-Mobile USA and Cingular Wireless.

Intragroup staff transfer payments to Vivento had an EBITDA-neutral effect on a consolidated basis.

Special factors that positively affected EBITDA in the prior-year period include gains of EUR 0.4 billion in the T-Com division from the sale of the remaining cable companies. In conjunction with the sale of the cable business, these gains were partly offset by additions to accruals and transaction costs totaling EUR 0.1 billion, which reduced EBITDA. Income from the sale of the T-Systems subsidiaries TELECASH Kommunikations-Service GmbH and T-Systems SIRIS S.A.S. (totaling EUR 0.1 billion) and EUR 0.4 billion from the sale of the stake in Mobile TeleSystems (MTS) in the T-Mobile division also had a positive effect on EBITDA. Additional gains totaling EUR 0.1 billion, reported under Group Headquarters & Shared Services, resulted from the sale of minority interests in Eutelsat S.A., Ukrainian Mobile Communications (UMC), and Celcom Bhd.(Malaysia).

Special factors reducing EBITDA in the prior-year period were the recognition of an additional minimum liability (AML), the loss on the sale of T-Systems MultiLink SA and restructuring expenses in the T-Com division due to personnel reduction at the Croatian subsidiary T-Hrvatski Telekom totaling EUR 0.3 billion. Furthermore, the T-Com division recognized accruals for voluntary redundancy payments totaling EUR 0.1 billion that were also shown as special factors.

In addition, the intragroup sale of t-info to DeTeMedien (T-Com division) had an EBITDA effect in the T-Online division in the prior-year period that, however, had a neutral impact at Group level. An expense at the T-Com division and a gain at Group Headquarters & Shared Services resulting from internal staff transfer payments to Vivento also had a neutral effect in the Group in 2003.

Special factors not affecting EBITDA

A special factor not affecting Group EBITDA in the reporting period was the tax expense of EUR 0.6 billion mainly attributable to deferred tax liabilities recognized in the write-up of U.S. mobile communications licenses at T-Mobile USA.

Special factors not affecting EBITDA in the first three quarters of the prior year were the write-up of EUR 0.1 billion on the net carrying amount of the interest in comdirect AG, as well as separate special

factors in the form of tax income totaling EUR 0.3 billion, resulting in particular from the change of T-Mobile International AG into a limited partnership (AG & Co. KG) (EUR 0.4 billion), and deferred taxes recognized on the additional minimum liability (EUR 0.1 billion). These were offset by tax effects from the reduction in deferred tax assets relating to sales of deferred payments (cable business in Baden-Württemberg and Hesse) amounting to EUR -0.2 billion.

Reconciliation
of the statement
of income

	Q1 – Q3 2004	Special factors in Q1 – Q3 2004	Q1 – Q3 2004 without special factors	Q1 – Q3 2003	Special factors in Q1 – Q3 2003	Q1 – Q3 2003 without special factors	2003 ^a
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Net revenue	42,922		42,922	41,288		41,288	55,838
Cost of sales	(23,185)		(23,185)	(23,138)	(132) ^e	(23,006)	(31,402)
Gross profit	19,737		19,737	18,150	(132)	18,282	24,436
Expenses	(17,285)	(784) ^b	(16,501)	(17,307)	(382) ^f	(16,925)	(23,565)
Other operating income	4,858	2,628 ^c	2,230	3,674	1,026 ^g	2,648	4,558
Operating results	7,310	1,844	5,466	4,517	512	4,005	5,429
Financial expense, net	(2,584)		(2,584)	(2,734)	89 ^h	(2,823)	(4,031)
Results from ordinary business activities	4,726	1,844	2,882	1,783	601	1,182	1,398
Income taxes	(1,221)	(577) ^d	(644)	137	278 ⁱ	(141)	225
(Income) losses applicable to minority shareholders	(294)		(294)	(303)		(303)	(370)
Net income effect of special factors	3,211	1,267	1,944	1,617	879	738	1,253
Results from ordinary business activities	4,726	1,844	2,882	1,783	601	1,182	1,398
Financial expense, net	(2,584)		(2,584)	(2,734)	89	(2,823)	(4,031)
Depreciation and amortization	(9,022)		(9,022)	(9,646)		(9,646)	(12,884)
Other taxes	(144)		(144)	(134)		(134)	(162)
EBITDA	16,476	1,844	14,632	14,297	512	13,785	18,475
EBITDA margin (%)	38.4		34.1	34.6		33.4	33.1

^a For detailed explanation of special factors in the 2003 financial year, please refer to Deutsche Telekom's 2003 Annual Report, "Reconciliation of pro forma figures," page 96 et seq.

Special factors in the first three quarters of 2004.

^b Accruals for contingent losses attributable to the dissolution of the mobile communications joint venture between T-Mobile USA and Cingular Wireless (EUR 0.6 billion) (T-Mobile division) and expenses totaling approximately EUR 0.2 billion consisting, for example, of accruals for voluntary redundancy payments in the T-Com division and at Group Headquarters & Shared Services.

^c Gains from the write-up of U.S. mobile communications licenses at T-Mobile USA (EUR 2.4 billion) and gains totaling EUR 0.2 billion from the sale of SES Global (Group Headquarters & Shared Services), the disposal of cc-chemplorer (T-Systems) and retroactive gains from the sale of Virgin Mobile (T-Mobile).

^d Primarily deferred taxes from the write-up of U.S. mobile communications licenses at T-Mobile USA.

Special factors in the first three quarters of 2003.

^e Recognition of an additional minimum liability (AML) (T-Com, T-Mobile, T-Systems, and T-Online divisions) and restructuring expenses in the T-Com division.

^f Additions to accruals and transaction costs relating to the sale of the remaining cable businesses (T-Com division) and the recognition of an additional minimum liability (AML) (in all divisions and at Group Headquarters & Shared Services).
Restructuring expenses at the T-Com division.
Loss on the sale of T-Systems MultiLink.

^g Gains from the sale of cable businesses (T-Com division), and from the sale of the T-Systems subsidiaries TELECASH and SIRIS, and from the sale of the stake in MTS (T-Mobile division) and interests in Eutelsat, UMC, and Celcom (Malaysia) (Group Headquarters & Shared Services).

^h Write-up of the net carrying amount of the shareholding in comdirect AG.

ⁱ Primarily tax income of EUR 0.4 billion from the change of T-Mobile International AG into a limited partnership (AG & Co. KG), and deferred taxes recognized on the additional minimum liability (EUR 0.1 billion). Additional tax effects from the reduction in deferred tax assets relating to sales of deferred payments (cable activities in Baden-Württemberg and Hesse) (EUR-0.2 billion).

Free cash flow.¹¹

- Deutsche Telekom defines free cash flow as cash generated from operations minus interest paid and cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment.
- Deutsche Telekom is of the opinion that free cash flow is used by investors as a measure to enable them to assess the Group's cash generated from operations (after deductions for interest paid and cash outflows for intangible assets (excluding

goodwill) and property, plant and equipment), in particular with regard to investments in associated and related companies, and the repayment of liabilities. Free cash flow should not be used to determine the financial position of the Group. A further factor to be noted is that Deutsche Telekom's definition of free cash flow and methods of calculating this measure are only comparable with similarly designated measures and disclosures by other companies to a limited extent.

Reconciliation of the Group's free cash flow

	Q1 - Q3 2004 millions of €	Q1 - Q3 2003 millions of €	2003 millions of €
Cash generated from operations	13,620	13,766	18,132
Interest paid	(2,812)	(2,722)	(3,816)
Net cash provided by operating activities	10,808	11,044	14,316
Cash outflows from investments in property, plant and equipment, and intangible assets (excluding goodwill)	(4,223)	(3,651)	(6,031)
Free cash flow before dividend payments	6,585	7,393	8,285
Dividends paid	(178)	(79)	(92)
Free cash flow after dividend payments	6,407	7,314	8,193

¹¹ The reconciliation of the Group's free cash flow is based on the amounts reported in the consolidated statement of cash flows prepared in accordance with International Accounting Standard (IAS) No. 7, Cash Flow Statements, and German Accounting Standard (GAS) No. 2, Cash Flow Statements.

Gross and net debt.

- In the consolidated financial statements, the items “bonds and debentures” and “liabilities to banks” are reported as “debt (in accordance with consolidated balance sheet).”
- **Gross debt** includes not only “debt (in accordance with consolidated balance sheet),” but also liabilities to non-banks from loan notes, cash collateral received for positive fair values from derivatives, and necessary settlement amounts for interest rate and cross currency swaps for loans taken out in foreign currencies summarized under “Other liabilities” in the balance sheet. Gross debt is the basis for total net interest expense incurred.
- In addition to this key figure, Deutsche Telekom shows “**net debt.**” Net debt is generally calculated by subtracting liquid assets, other investments in noncurrent securities and in marketable securities, as well as discounts on loans, which are contained in the balance sheet item “Prepaid expenses and deferred charges.” In addition, the following items (which are reported under the balance sheet item “other assets”) are subtracted in the same way as for the liabilities side: cash collateral paid for negative fair values from derivatives and necessary settlement amounts for interest rate and cross currency swaps for loans taken out in foreign currencies.
- Deutsche Telekom considers **gross and net debt** to be common indicators in the competitive environment, although definitions may vary, and they are used by Deutsche Telekom’s senior operating decision-makers to manage and monitor debt.

Reconciliation of the Group’s gross and net debt

	Sept. 30, 2004 millions of €	Dec. 31, 2003 millions of €	Sept. 30, 2003 millions of €
Bonds and debentures	43,542	51,613	55,223
Liabilities to banks	3,147	3,798	4,357
Debt (in accordance with consolidated balance sheet)	46,689	55,411	59,580
Liabilities to non-banks from loan notes	763	799	803
Miscellaneous other liabilities	345	287	275
Gross debt	47,797	56,497	60,658
Liquid assets	5,907	9,127	10,688
Other investments in marketable securities	177	173	141
Other investments in noncurrent securities	22	86	87
Other assets	698	271	303
Discounts on loans (prepaid expenses and deferred charges)	214	264	283
Net debt	40,779	46,576	49,156