Consolidated financial statements


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XING

Consolidated statement of income.

	Notes	2002 millions of €	2001 millions of €	2000 millions of €
Net revenue	1	**53,689**	**48,309**	**40,939**
Change in inventories and other own capitalized costs	2	534	879	864
Total operating performance		**54,223**	**49,188**	**41,803**
Other operating income	3	3,901	6,619	11,002
Goods and services purchased	4	(14,418)	(13,477)	(11,950)
Personnel costs	5	(13,480)	(12,114)	(9,718)
Depreciation and amortization	6	(36,880)	(15,221)	(12,991)
Other operating expenses	7	(14,110)	(12,151)	(10,424)
Financial income (expense), net	8	(6,022)	(5,348)	(1,230)
Results from ordinary business activities		**(26,786)**	**(2,504)**	**6,492**
Extraordinary income/(losses)	9	–	–	(159)
Taxes	10	2,483	(808)	(318)
Income/(loss) after taxes		**(24,303)**	**(3,312)**	**6,015**
Income/(losses) applicable to minority shareholders	11	(284)	(142)	(89)
Net income/(loss)		**(24,587)**	**(3,454)**	**5,926**
Earnings/(loss) per share in €		(5.86)	(0.93)	1.96

Consolidated balance sheet.

	Notes	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Assets			
Noncurrent assets			
Intangible assets	12	53,402	80,051
Property, plant and equipment	13	53,955	58,708
Financial assets	14	4,169	7,957
		111,526	**146,716**
Current assets			
Inventories, materials and supplies	15	1,556	1,671
Receivables	16	6,258	6,826
Other assets	17	3,392	4,966
Marketable securities	18	413	702
Liquid assets	19	1,905	2,868
		13,524	**17,033**
Prepaid expenses, deferred charges and deferred taxation	20	**771**	**813**
		125,821	**164,562**
Shareholders' equity and liabilities			
Shareholders' equity	21		
Capital stock	22	10,746	10,746
Additional paid-in capital	23	50,077	49,994
Retained earnings	24	248	5,179
Unappropriated net income carried forward from previous year		23	101
Net loss		(24,587)	(3,454)
Cumulative translation adjustment account		(5,079)	(1,572)
Minority interest	25	3,988	5,307
		35,416	**66,301**
Accruals			
Pensions and similar obligations	27	3,942	3,661
Other accruals	28	12,155	14,766
		16,097	**18,427**
Liabilities	29		
Debt		63,044	67,031
Other		10,541	12,020
		73,585	**79,051**
Deferred income		**723**	**783**
		125,821	**164,562**

Consolidated noncurrent assets.

millions of €	Acquisition or production cost Jan. 1, 2002	Translation adjustment	Changes in the composition of the Deutsche Telekom Group	Additions	Disposals	Reclassi-fications	Dec. 31, 2002
Intangible assets							
Concessions, industrial and similar rights and assets, and licences in such rights and assets	43,168	(4,318)	1,008	776	756	896	40,774
Goodwill statements	46,075	(4,509)	215	4,482	23	635	46,875
Advance payments	200	1	1	97	5	(160)	134
	89,443	**(8,826)**	**1,224**	**5,355**	**784**	**1,371**	**87,783**
Property, plant and equipment							
Land and equivalent rights, and buildings including buildings on land owned by third parties	19,901	(19)	191	177	1,569	98	18,779
Technical equipment and machinery	81,905	(830)	412	3,435	1,413	2,951	86,460
Other equipment, plant and office equipment	6,955	(116)	3	816	437	(648)	6,573
Advance payments and construction in progress	2,955	(149)	23	2,627	20	(3,162)	2,274
	111,716	**(1,114)**	**629**	**7,055**	**3,439**	**(761)**	**114,086**
Financial assets							
Investments in unconsolidated subsidiaries	297	0	27	29	39	(4)	310
Loans to unconsolidated subsidiaries	82	0	0	22	46	0	58
Investments in associated companies	4,776	(425)	(193)	551	566	(992)	3,151
Other investments in related companies	2,303	(8)	1	46	1,236	382	1,488
Long-term loans to associated and related companies	870	(4)	(25)	5	29	(17)	800
Other investments in noncurrent securities	903	(1)	0	50	319	(11)	622
Other long-term loans	535	(2)	(236)	49	257	32	121
	9,766	**(440)**	**(426)**	**752**	**2,492**	**(610)**	**6,550**
	210,925	**(10,380)**	**1,427**	**13,162**	**6,715**	**0**	**208,419**

Depreciation, amortization and write-downs								Net carrying amount	
Jan. 1, 2002	Translation-adjustment	Changes in the composition of the Deutsche Telekom Group	Additions	Disposals	Reclassi-fications	Reinstated depreciation	Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2001
3,914	(1,321)	512	14,242	732	329	7	16,937	23,837	39,254
5,478	(1,295)	74	13,108	23	97	0	17,439	29,436	40,597
0	0	0	5	0	0	0	5	129	200
9,392	**(2,616)**	**586**	**27,355**	**755**	**426**	**7**	**34,381**	**53,402**	**80,051**
6,838	(7)	38	928	434	55	1	7,417	11,362	13,063
41,958	(172)	94	7,607	1,171	110	0	48,426	38,034	39,947
4,212	(46)	(14)	989	366	(485)	3	4,287	2,286	2,743
0	0	0	1	0	0	0	1	2,273	2,955
53,008	**(225)**	**118**	**9,525**	**1,971**	**(320)**	**4**	**60,131**	**53,955**	**58,708**
69	0	28	102	32	0	6	161	149	228
0	0	0	0	0	0	0	0	58	82
832	(29)	1	316	137	(425)	0	558	2,593	3,944
408	(1)	0	678	937	319	0	467	1,021	1,895
475	0	1	322	1	0	0	797	3	395
24	0	0	384	24	0	0	384	238	879
1	0	0	13	0	0	0	14	107	534
1,809	**(30)**	**30**	**1,815**	**1,131**	**(106)**	**6**	**2,381**	**4,169**	**7,957**
64,209	**(2,871)**	**734**	**38,695**	**3,857**	**0**	**17**	**96,893**	**111,526**	**146,716**

Consolidated statement of cash flows.

	Notes	2002 millions of €	2001 millions of €	2000 millions of €
Net income (loss)		(24,587)	(3,454)	5,926
Income applicable to minority shareholders		284	142	89
Income (loss) after taxes		**(24,303)**	**(3,312)**	**6,015**
Depreciation and amortization		36,880	15,221	12,991
Income tax expense		(2,847)	751	194
Net interest expense		4,048	4,138	3,097
Net losses from the disposition of noncurrent assets		(428)	(1,106)	(4,796)
Results from associated companies		430	547	(1,890)
Other noncash transactions		1,144	(1,146)	(2,661)
(Increase)/decrease in capitalized working capital*		184	428	(1,791)
(Increase)/decrease in accruals		1,410	(136)	1,078
(Increase)/decrease in other working capital carried as a liability**		101	761	1,391
Income taxes (paid)/received		(15)	10	(871)
Dividends received		63	115	189
Cash generated from operations		**16,667**	**16,271**	**12,946**
Interest paid		(6,112)	(4,779)	(3,873)
Interest received		1,908	442	927
Net cash provided by operating activities	30	**12,463**	**11,934**	**10,000**
Cash outflows from investments in				
– intangible assets		(841)	(1,021)	(15,980)
– property, plant and equipment		(6,784)	(9,847)	(7,556)
– financial assets		(568)	(498)	(8,487)
– consolidated companies		(6,405)	(5,695)	(4,343)
Cash inflows from disposition of				
– intangible assets		14	208	10
– property, plant and equipment		1,304	1,146	655
– financial assets		1,130	3,514	4,474
– shareholdings in consolidated companies and business units		697	1,004	3,114
Net change in short-term investments and marketable securities		226	4,440	401
Other		1,187	1,384	6
Net cash used for investing activities	31	**(10,040)**	**(5,365)**	**(27,706)**
Issuance of short-term debt		(10,012)	(10,266)	(780)
Issuance of medium and long-term debt		11,677	13,949	19,708
Repayments of medium and long-term debt		(3,472)	(6,589)	(2,408)
Dividends		(1,582)	(1,905)	(1,914)
Proceeds from share offering		1	0	3,255
Change in minority interests		(47)	0	2
Net cash provided by (used for) financing activities	32	**(3,435)**	**(4,811)**	**17,863**
Effect of foreign exchange rate changes on cash and cash equivalents		(14)	(26)	(29)
Net increase/(decrease) in cash and cash equivalents		**(1,026)**	**1,732**	**128**
Cash and cash equivalents, at beginning of year		**2,738**	**1,006**	**878**
Cash and cash equivalents, at end of year		**1,712**	**2,738**	**1,006**

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

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

Statement of shareholders' equity.

(millions of €)	Deutsche Telekom AG: Capital stock nominal value	Additional paid in capital	Consolidated shareholders' equity generated: Retained earnings	Consolidated shareholders' equity generated: Unappr. net income/(loss) carried forward	Consolidated shareholders' equity generated: Net income/(loss)	Cumulative translation adjustment account	Shareholders' equity in acc. with cons. balance sheet	Treasury shares	Total	Minority interest: Minority interest capital	Cumulative translation adjustment account	Total in acc. with cons. balance sheet	Cons. shareholders' equity
Balance at Jan. 1, 2000	**7,756**	**24,121**	**1,842**	**13**	**1,253**	**(284)**	**34,701**	**(14)**	**34,687**	**1,545**	**(557)**	**988**	**35,675**
Changes in the comp. of the Group			(31)				(31)		(31)	3,058		3,058	3,027
Dividends for 1999			(621)		(1,253)		(1,874)		(1,874)	(25)		(25)	(1,899)
Unappropriated net income carried forward			(31)	31			–		–				–
Increase in nominal value of capital stock		169					169		169				169
Reduction of treasury stock			–				–	7	7				7
Income after taxes					5,926		5,926		5,926	89		89	6,015
Difference from currency translation						(477)	(477)		(477)		192	192	(285)
Balance at Dec. 31, 2000	**7,756**	**24,290**	**1,159**	**44**	**5,926**	**(761)**	**38,414**	**(7)**	**38,407**	**4,667**	**(365)**	**4,302**	**42,709**
Changes in the comp. of the Group										808		808	808
Dividends for 2000				(1,877)			(1,877)		(1,877)	(33)		(33)	(1,910)
Unappropriated net income carried forward			3,992	1,934	(5,926)		–		–				–
Proceeds from VoiceStream/ Powertel stock swap	2,990	25,704					28,694		28,694				28,694
Loss after taxes					(3,454)		(3,454)		(3,454)	142		142	(3,312)
Difference from currency translation			28			(811)	(783)		(783)		88	88	(695)
Balance at Dec. 31, 2001	**10,746**	**49,994**	**5,179**	**101**	**(3,454)**	**(1,572)**	**60,994**	**(7)**	**60,987**	**5,584**	**(277)**	**5,307**	**66,294**
Changes in the comp. of the Group										(1,586)		(1,586)	(1,586)
Dividends for 2001				(1,539)			(1,539)		(1,539)	(43)		(43)	(1,582)
Unappropriated net income carried forward			(4,915)	1,461	3,454		–		–				–
Proceeds from stock options		83					83		83				83
Loss after taxes					(24,587)		(24,587)		(24,587)	284		284	(24,303)
Difference from currency translation			(16)			(3,507)	(3,523)		(3,523)		26	26	(3,497)
Balance at Dec. 31,2002	**10,746**	**50,077**	**248**	**23**	**(24,587)**	**(5,079)**	**31,428**	**(7)**	**31,421**	**4,239**	**(251)**	**3,988**	**35,409**

Notes to the consolidated financial statements. Summary of accounting policies.

Description of business and relationship with the Federal Republic of Germany.
The Deutsche Telekom Group's (referred to as Deutsche Telekom, the Company or the Group below) business is structured in four divisions: T-Com, T-Systems, T-Mobile and T-Online.

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

T-Systems serves Deutsche Telekom's key account customers within Germany and internationally: companies from dedicated sectors, industrial conglomerates, international network operators (carriers) and public authorities and institutions at the national and regional state level. T-Systems is represented in over 20 countries around the world by branch offices and its own country offices.

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

T-Online is one of the largest European Internet service providers, with more than 12.2 million customers. In line with T-Online's strategy, its foreign subsidiaries T-Online.at (Austria), Ya.com (Spain), Club-Internet (France), and T-Online.ch (Switzerland) used the broadband market in 2002 as the basis of their subscriber growth and to extend the reach of their portals. Deutsche Telekom includes in the T-Online division not only the business of T-Online International AG, but also the business of DeTeMedien.

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

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

The Federal Republic of Germany's direct and indirect shareholding in Deutsche Telekom as at December 31, 2002 amounts to 42.77 %. In accordance with a letter dated January 27, 2003 from the Federal Republic of Germany, the direct shareholding amounts to 30.75 % (1,290,835,401 shares); a further 12.02 % (504,590,664 shares) are held by a federal corporation, the Kreditanstalt für Wiederaufbau (KfW), in accordance with a letter dated February 3, 2003 from the KfW. The Federal Republic administers its shareholding and exercises its rights as a shareholder through a public law entity, the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency), which is subject to supervision by the Federal Ministry of Finance (BMF).

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

The Federal Republic of Germany is one of Deutsche Telekom's customers; it sources services from the Company at market conditions. Charges for services provided to the Federal Republic and such departments and agencies are based on Deutsche Telekom's commercial pricing policies. Services provided to any one department or agency do not represent a significant component of Deutsche Telekom's net revenues.

Summary of significant accounting principles.
The annual financial statements and the management report of the Deutsche Telekom Group have been prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch – HGB), referred to as German GAAP below, and German Stock Corporation Law (Aktiengesetz – AktG). In general, Deutsche Telekom applies

the relevant German Accounting Standards (DRS). One exception is the non-application of the new valuation method for capital consolidation as required by DRS 4; Deutsche Telekom decided not to apply this standard in order to avoid differences in valuations between German GAAP and U.S. GAAP.

In addition to Frankfurt and other German stock exchanges, as well as Tokyo, Deutsche Telekom shares are also traded in the form of American Depositary Shares (ADS) on the New York Stock Exchange (NYSE). As a result of special reporting requirements, in particular to the U.S. Securities and Exchange Commission (SEC), the Company also uses accounting and valuation principles in line with those of U.S. GAAP (generally accepted accounting principles – GAAP) applicable at the balance sheet date. Deviations between the accounting principles in Deutsche Telekom's consolidated financial statements and those of U.S. GAAP are, in most cases, the result of binding rules of German GAAP which differ from those of U.S. GAAP.

These consolidated financial statements differ from financial statements prepared in accordance with U.S. GAAP primarily for those instances where the disclosure and classification requirements of German GAAP cannot be conformed to U.S. GAAP. Differences in accounting and valuation principles applied in Deutsche Telekom's financial statements and those of U.S. GAAP are shown in a separate reconciliation in addition to the consolidated financial statements and explained in detail in the "Annual Report on Form 20-F" filed with the SEC.

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

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

The consolidated financial statements are prepared in accordance with uniform accounting policies. The accounting policies used in the consolidated financial statements differ from those used in the unconsolidated financial statements of the parent company. Such differences, mostly applied to conform with U.S. GAAP, include the following:

- Property, plant and equipment leased under contracts for which, in accordance with U.S. GAAP and in contrast to the leasing provisions of tax law, the risks and rewards of ownership have been assumed (excluding sale and lease back transactions) are capitalized. Scheduled depreciation is recorded over the useful economic life of the asset or over the term of the lease. The present value of payment obligations resulting from future lease payments is included as liabilities.

- Interest incurred while items included in property, plant and equipment are under construction has been capitalized as part of the assets' costs.

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

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

The financial statements of Deutsche Telekom AG as well as the financial statements of the Deutsche Telekom Group, which have an unqualified audit opinion from Ernst & Young AG Deutsche Allgemeine Treuhand Wirtschaftsprüfungsgesellschaft, Stuttgart, and PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, are published in the Federal Gazette (Bundesanzeiger) and filed under HRB 6794 with the Commercial Registry of the Bonn District Court. This annual report and the Annual Report on Form 20-F, filed with the SEC due to Deutsche Telekom's listing on the NYSE, are available upon request from Deutsche Telekom AG, Bonn, Investor Relations and at the Internet site www.telekom.de.

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

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

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

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

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

The most significant subsidiary consolidated for the first time in the year under review is Ben Nederland Holding B.V. The changes in the composition of the Deutsche Telekom Group had the following effects on the consolidated financial statements in 2002:

Effects on the consolidated statement of income (millions of €):	
Revenue	3,296
Goods and services purchased	(902)
Personnel costs	(606)
Depreciation and amortization	(2,695)
Other income/(expenses)	(1,616)
Net loss	**(2,523)**

Effects on the consolidated balance sheet (millions of €):	
Assets	
Noncurrent assets	1,302
Current assets, prepaid expenses, deferred charges and deferred taxation	(97)
	1,205
Shareholders' equity and liabilities	
Shareholders' equity	(1,002)
Accruals	158
Liabilities and deferred income	2,049
	1,205

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

On September 25, 2002 T-Mobile International AG acquired the remaining 50.0001 % of the shares in the mobile communications company Ben Nederland Holding B.V. from the company's other shareholders Belgacom, TDC and Gringots (Crédit Suisse First Boston) for a purchase price of EUR 1.7 billion. In addition, T-Mobile International took over outstanding shareholder loans amounting to approximately EUR 0.3 billion. The goodwill generated by this transaction, EUR 1.7 billion, was subject to a nonscheduled write-down of EUR 1.0 billion adjusted as a result of the strategic review of net carrying amounts; the remaining amount will be amortized over a period of 12 years. Ben provides mobile communications services in the Netherlands; the company generated net revenues of EUR 552 million in the financial year under review (2001: EUR 448 million) and net loss of EUR 594 million (2001: EUR 199 million). Results excluding extraordinary items in 2002 amounted to EUR -578 million (2001: EUR -199 million). The Company was fully consolidated as a subsidiary for the first time on September 30, 2002.

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

In April 2001 Deutsche Telekom acquired a further shareholding in the Czech mobile communications company RadioMobil a.s., Prague (referred to as RadioMobil below) via Cmobil B.V., Amsterdam, a subsidiary of T-Mobile International AG, Bonn (referred to as T-Mobile International below). The acquisition costs for this additional 11.77 % stake amounted to EUR 598 million. Cmobil's shareholding thus increased to 60.77 %. The additional goodwill generated, EUR 444 million, will be amortized over a period of 12 years. RadioMobil was consolidated in full for the first time on April 1, 2001.

On May 31, 2001 Deutsche Telekom acquired 100 % of the shares in VoiceStream Wireless Corporation, Bellevue, USA, and Powertel, Inc., Bellevue, USA, for a total purchase price of EUR 39.4 billion including a cash component of EUR 4.9 billion and the initial investment in VoiceStream preferred stock amounting to EUR 5.6 billion, which Deutsche Telekom had made in September 2000. VoiceStream Wireless Corporation provides communications services for private households in urban areas of the United States on the basis of GSM (Global System for Mobile Communications) technology. Powertel Inc. provides communications services for private households, mainly in urban areas in the Southeast of the United States on the basis of GSM technology. VoiceStream shareholders received for each share of VoiceStream common stock either 3.6693 Deutsche Telekom shares and US$ 15.7262 in cash, 3.6683 Deutsche Telekom shares and US$ 15.9062 in cash or 3.7647 Deutsche Telekom shares. Each Powertel shareholder received 2.6353 Deutsche Telekom shares for each Powertel share. VoiceStream and Powertel were consolidated in full for the first time on May 31, 2001. The consolidation of VoiceStream and Powertel generated goodwill totaling EUR 23.6 billion. This will be amortized over a period of up to 20 years. A nonscheduled write-down on goodwill amounting to EUR 8.3 billion was recorded as a result of the strategic review in the second half of 2002. In conjunction with the acquisition of Voice-Stream and Powertel as described above, Deutsche Telekom granted rights for the acquisition of a total of 43,619,261 individual no par value Deutsche Telekom shares for options and bonds relating to the shares of these two companies (exchange rights of Cook Inlet and Eliska Wireless) on the basis existing agreements concerning the exchange of warrants.

Deutsche Telekom AG acquired an additional 16 % stake in the capital of the Croatian telecommunications company HT-Hrvatske telekomunikacije d.d., Zagreb, on October 25, 2001 for a purchase price of EUR 507 million. Deutsche Telekom AG is therefore now the majority shareholder with a stake of 51 % and includes the company in full in its consolidated financial statements from November 1, 2001. The goodwill generated, a total of EUR 240 million, will be amortized over a period of up to 20 years.

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

Pro forma information	2002	2001
Net revenue (billions of €)		
Reported	53.7	48.3
Pro forma	54.1	51.6
Net income/(loss) under German GAAP (billions of €)		
Reported	(24.6)	(3.5)
Pro forma	(24.9)	(6.9)
Earnings/(loss) per share under German GAAP (€)		
Reported	(5.86)	(0.93)
Pro forma	(5.93)	(1.85)

77 subsidiaries (Dec. 31, 2001: 83) were not included because they were not material to the net worth, financial position and results of the Deutsche Telekom Group. These subsidiaries accounted for less than 1 % of consolidated revenue, results and balance sheet total of the Deutsche Telekom Group.

In accordance with § 311 (1) HGB, 49 (Dec. 31, 2001: 50) companies over which Deutsche Telekom exercises significant influence have been classified as associated companies and are accounted for using the equity method. The remaining 35 (Dec, 31, 2001: 56) associated companies which have little or no effect on the net worth, financial position and results of the Deutsche Telekom Group were classified as other investments in related companies at acquisition cost less applicable write-downs.

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

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

Name and registered office	Deutsche Telekom share Dec. 31, 2002 %	Shareholders' equity Dec. 31, 2002 millions of €	Revenue 2002 millions of €	Income after taxes 2002 millions of €	Employees 2002 annual average
Subsidiaries					
T-Mobile Deutschland GmbH, Bonn[5]	100.00	1,447	7,801	3,564	9,226
T-Mobile Holdings Ltd., Borehamwood, United Kingdom[1, 5]	100.00	8,808	3,997	(3,425)	6,283
T-Mobile Austria GmbH, Vienna, Austria[1, 5]	100.00	389	1,034	23	2,675
T-Mobile USA, Inc., Bellevue, Washington, USA/ **Powertel Inc.**, Bellevue, Washington, USA[1, 5]	100.00	11,697	6,137	(18,122)	17,290
RadioMobil a.s., Prague, Czech Republic[7]	60.77	389	705	88	2,542
Ben Nederland Holding B.V., Amsterdam[1, 5]	100.00	15	552	(594)	1,379
T-Online International AG, Darmstadt[1]	71.90	5,366	1,584	(465)	1,620
T-Systems International GmbH, Frankfurt a. M.	100.00	1,244	3,828	(1,273)	10,938
T-Systems CSM GmbH, Darmstadt[6]	100.00	243	2,131	138	3,974
Detecon International GmbH, Bonn[6]	100.00	76	121	19	261
T-Systems SIRIS S.A.S., Paris, France[6]	100.00	46	237	(136)	333
GMG Generalmietgesellschaft mbH, Münster	100.00	151	2,862	(132)	7,126
DeTeImmobilien, Deutsche Telekom Immobilien und Service GmbH, Münster	100.00	17	771	(70)	5,644
T-Data Gesellschaft für Datenkommunikation mbH, Bonn[1]	100.00	502	565	39	1,110
Kabel Deutschland GmbH, Bonn[1]	100.00	4,601	919	(334)	2,863
MATÁV Magyar, Távközlési Rt., Budapest, Hungary[1, 4]	59.49	2,180	2,431	280	16,343
Slovenské Telekomunikácie, a.s., Bratislava, Slovakia[1]	51.00	1,131	441	81	9,804
HT-Hrvatske telekomunikacije d.d., Zagreb, Croatia[1]	51.00	1,765	1,001	249	10,773
Associated companies					
MTS, OJSC Mobile TeleSystems, Moscow, Russia[1, 2, 3, 9]	36.20	1,156	998	232	4,990
PTC, Polska Telefonia Cyfrowa Sp.z o.o., Warsaw, Poland[1, 2, 8]	49.00	285	1,183	116	3,399

[1] Consolidated subgroup financial statements.
[2] 2001 financial year.
[3] Indirect shareholding via T-Mobile Deutschland GmbH, Bonn (Deutsche Telekom share: 100 %).
[4] Held via MagyarCom Holding GmbH, Bonn (Deutsche Telekom AG share: 100 %).
[5] Indirect shareholding via T-Mobile International AG, Bonn (Deutsche Telekom share: 100 %).
[6] Indirect shareholding via T-Systems International GmbH, Frankfurt a. M. (Deutsche Telekom share: 100 %).
[7] Indirect shareholding via Cmobil B.V., Amsterdam (Deutsche Telekom indirect share: 92,14 %).
[8] Indirect shareholding via T-Mobile Deutschland GmbH, Bonn; Mediaone International B.V., Eindhoven and Polpager Sp.z o.o., Warsaw (Deutsche Telekom AG indirect share: 100 % each).
[9] Employees at balance sheet date at end of 2001.

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

Profits or losses generated by subsidiaries during their period of affiliation with the Group are included in retained earnings (deficit); furthermore, they include the effects of consolidation and the net income (loss) of subsidiaries.

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

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

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

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

Joint ventures are included using the equity method.

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

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

The exchange rates of certain significant currencies are as follows:

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

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

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

T-Systems.
Telecommunication Services.
Telecommunication services includes “network services”, “carrier services”, “hosting and ASP services” and “broadcast services.” Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of approximately three years. Revenues for voice, billed on a per minute basis, and data services, billed on a bandwidth basis, under such contracts are recognized when used by the customer. “Carrier services” revenue and “hosting and ASP services” revenues are recognized as the services are provided.

Information Technology Services and Consulting.
The terms of information technology service contracts generally range from less than one year up to ten years. Revenue from outsourcing contracts reflects the extent of actual services delivered in the period in accordance with the terms of the contract. Revenue from time and material service contracts is recognized as the services are provided. Revenue from systems integration contracts requiring the delivery of unique products and/or services is recognized using the completed contract method. These projects are generally covered by one of the following types of contracts:

fixed price, milestone or cost-related contracts. For fixed price contracts revenue is generally recognized when a project is completed and accepted by the customer. For milestone contracts revenue is recognized at the time a milestone is achieved and approved by the customer. Revenue for cost related contracts is recognized similar to time and material service contracts. Revenue from maintenance is recognized over the contractual period or as the services are performed.

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

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

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

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

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

Research and development costs are expensed in full as incurred.

Pension costs for defined benefit plans are actuarially computed using the Projected Unit Credit Method, which is consistent with SFAS 87, and are shown in accordance with SFAS 132. This method presupposes the total present value of the benefit obligations accumulated during the reporting period and takes into consideration the expected increases in wages and salaries and in retirement benefits. By contrast, the minimum accrual method in accordance with § 6a of the German Income Tax Act (Einkommensteuergesetz, EStG) is aimed at the recognition of the expense over the employees' entire working lives and does not take the expected increases in wages and salaries and retirement benefits into account (cf. (27) accruals for pensions and similar obligations).

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

Marketing expenses are expensed as incurred.

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

Earnings per share for each period are calculated by dividing net income/loss by the weighted average number of ordinary bearer shares outstanding during that period. The weighted average number of ordinary bearer shares in 2001 was ascertained after giving effect to the issuance of shares as part of the acquisition of VoiceStream/Powertel and the start of trading on June 4, 2001 in Frankfurt am Main.

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

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

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

Other property, plant and equipment is carried at acquisition or production cost, less scheduled depreciation. Construction costs include directly allocable costs, an appropriate allocation of material and production overhead and interest accruing during construction. General administration costs are not capitalized.

Nonscheduled write-downs are provided when an impairment in the value of assets occurs. In order to increase the informative value of the financial statements, accelerated depreciation recorded in the individual company financial statements for tax purposes has not been recognized in the consolidated financial statements.

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

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

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

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

Maintenance and repairs are expensed as incurred.

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

Financial assets are valued at the lower of cost or market value. Low-interest or non-interest bearing loan receivables are recorded at net present value. Nonscheduled write-downs are provided only if impairment of financial assets is assumed to be permanent.

Raw materials and supplies, and **merchandise** purchased and held for resale are valued at acquisition cost, while **work in process and finished goods** are stated at production cost. Based on normal capacity utilization, construction cost includes directly allocable costs such as material and labor costs as well as special production costs plus an appropriate pro rata allocation of material and production overhead and straight-line depreciation. General administration and selling costs, social amenities expenses as well as voluntary benefits to personnel including pensions are not included in construction cost. The carrying amount of inventories is reduced to the lower of cost or market value at the balance sheet date. To the extent that inventory values are impaired, obsolescence provisions are made.

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

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

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

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

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

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

Deferred taxes are calculated for the expected tax effects of temporary differences between the balance sheets prepared for financial reporting and tax reporting purposes, as well as for the temporary differences arising from consolidation entries. Deferred taxes are netted and either a net deferred tax asset or net deferred tax liability is recorded separately under tax accruals. For purposes of computing deferred taxes, Deutsche Telekom uses a combined tax rate for domestic companies, covering German corporate income taxes, trade taxes (at an average German national rate), and the solidarity surcharge (Solidaritätszuschlag); the respective local tax rate is used for foreign companies.

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

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

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

In line with the imparity principle, unrealized losses relating to **derivative financial instruments** that do not qualify for hedge accounting are recognized when incurred, whereas unrealized gains are deferred until realized.

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

Notes to the consolidated statement of income.

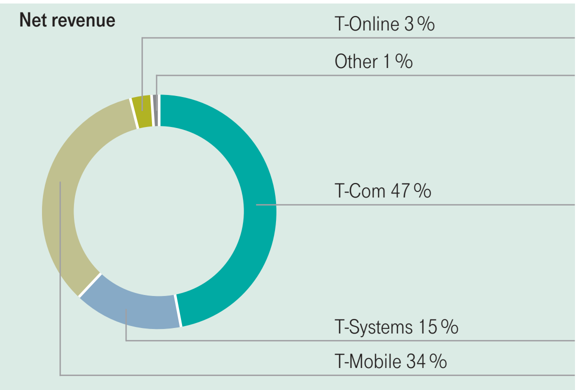
1 Net revenue.

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

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

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

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



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

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

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

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

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

2 Changes in inventories and other own capitalized costs.

	2002 millions of €	2001 millions of €	2000 millions €
Change in inventories of work in process	(289)	(7)	161
Own capitalized costs	823	886	703
	534	**879**	**864**

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

3 Other operating income.

	2002 millions of €	2001 millions of €	2000 millions of €
Reversal of accruals	791	1,139	386
Income from the disposition of noncurrent assets (including sale of investments)	818	1,584	5,928
Income from reversal of valuation adjustments (including asset-backed securities)	556	288	125
Cost reimbursements	388	255	305
Foreign currency transaction gains	222	533	309
Insurance compensation	77	46	51
Refund of value-added tax (§ 15a UStG)	68	85	169
Income from rental and lease agreements	41	32	11
Income from disposition of marketable securities	1	1,967	0
Income from capital increases of subsidiaries and associated companies	–	–	2,887
Other income	939	690	831
	3,901	**6,619**	**11,002**

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

Income from the disposition of noncurrent assets amounted to EUR 818 million. Of this figure, EUR 0.2 billion relates to the sale of Satelindo and EUR 0.3 billion to the sale of additional shares in T-Online. The decrease in comparison with the previous year relates mainly to the non-recurrence of proceeds from the sale of the Baden-Württemberg regional cable company (EUR 912 million).

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

Of the total amount of other operating income, EUR 1,342 million (2001: 1,897million; 2000: EUR 611 million) relates to other financial years.

4 Goods and services purchased.

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

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

5 Personnel costs/Average number of employees.

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

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

Number of employees (average for the year)

	2002 Number	2001 Number	2000 Number
Civil servants	52,961	56,707	65,217
Salaried employees (excl. civil servants)	202,935	184,953	139,815
Total Deutsche Telekom Group	**255,896**	**241,660**	**205,032**
Trainees/student interns	9,869	8,147	6,826

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

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

6 Depreciation and amortization.

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

Of the total depreciation and amortization in the year under review, nonscheduled write-downs were as follows:

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

Depreciation and amortization increased during the year under review by EUR 21,659 million to EUR 36,880 million. The increase in amortization of intangible assets is attributable mainly to the nonscheduled write-downs on goodwill at T-Mobile USA (EUR 8,288 million), Ben (EUR 958 million) and SIRIS at T-Systems (EUR 473 million) made as a result of the strategic review in the third quarter of 2002. In addition, nonscheduled write-downs were made on the mobile communications licenses of T-Mobile USA amounting to EUR 9,384 million and the UMTS license of T-Mobile UK (EUR 2,165 million). In total, the nonscheduled write-downs on intangible assets resulting from the strategic review amounted to EUR 21,268 million. Changes in the composition of the Deutsche Telekom Group in particular generated an increase in scheduled depreciation and amortization (EUR 1.7 billion). Most of this increase is attributable to the inclusion of T-Mobile USA in Deutsche Telekom's consolidated financial statements for the full financial year. Overall, as a result of changes in the composition of the Deutsche Telekom Group, scheduled amortization of goodwill increased by EUR 0.7 billion, amortization of UMTS and U.S. mobile communications licenses by EUR 0.5 billion and depreciation of property, plant and equipment by EUR 0.5 billion.

7 Other operating expenses.

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

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

The increase of EUR 0.6 billion in marketing expenses, advertising gifts and commissions is mainly attributable to the first full-year consolidation of T-Mobile USA. Rental and leasing expenses increased by EUR 519 million over the previous year. This development is mainly attributable to changes in the composition of the Deutsche Telekom Group within T-Mobile. Losses on accounts receivable and provisions for doubtful accounts increased by EUR 452 million, predominantly at Deutsche Telekom AG. This relates mainly to the discount for credit risks from the asset-backed securities.

Of the total amount of other operating expenses, EUR 463 million (2001: EUR 534 million, 2000: EUR 1,208 million) relates to other accounting periods.

8 Financial income (expense), net.

	2002 millions of €	2001 millions of €	2000 millions of €
Dividend income from investments	41	107	147
Results related to companies accounted for under the equity method (including amortization of goodwill)	(430)	(547)	1,890
Income/(loss) related to associated and related companies	**(389)**	**(440)**	**2,037**
Income from debt securities and long-term loan receivables	171	152	487
Other interest and similar income	1,781	408	511
Interest and similar expense	(6,000)	(4,698)	(4,095)
Net interest expense	**(4,048)**	**(4,138)**	**(3,097)**
Write-downs on financial assets and marketable securities	**(1,585)**	**(770)**	**(170)**
	(6,022)	**(5,348)**	**(1,230)**

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

9 Extraordinary income (losses).

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

10 Taxes.

Breakdown of income before taxes:

	2002 millions of €	2001 millions of €	2000 millions of €
Germany	1,034	2,953	8,291
International	(27,820)	(5,457)	(1,958)
	(26,786)	**(2,504)**	**6,333**

Breakdown of tax expense:

	2002 millions of €	2001 millions of €	2000 millions of €
Income taxes	(2,847)	751	194
Other taxes	364	57	124
	(2,483)	**808**	**318**

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

	2002 millions of €	2001 millions of €	2000 millions of €
Current taxes			
Germany	132	686	207
International	190	91	35
Deferred income taxes			
Germany	(150)	(30)	(57)
International	(3,019)	4	9
	(2,847)	**751**	**194**

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

The Group's loss before taxes increased to EUR 26.8 billion. The resulting income tax benefit amounts to EUR 2.8 billion, compared with an expense of EUR 0.8 billion in the previous year. This effect was mainly attributable to the reversal of deferred tax liabilities relating to the nonscheduled write-down of mobile communications licenses of T-Mobile USA/Powertel, which generated income from deferred taxes of EUR 3.0 billion. The Federal Finance Court confirmed Deutsche Telekom's legal position in a legal dispute concerning Deutsche Telekom AG's recognition of goodwill for tax reporting purposes. The backdated amortization of goodwill to be carried for the years 1996–1999 results in an income tax reduction of approximately EUR 1.0 billion for Deutsche Telekom AG. In addition, amortization of goodwill increases net operating loss carryforwards (corporate income tax and trade tax) for the years 2000–2002 by EUR 2.2 billion (EUR 741 million per year). The capitalization of the goodwill leads to an additional expense of EUR 0.2 billion for wealth tax and trade capital tax for the years 1996 and 1997, which is responsible for the increase in other taxes.

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

Differences between actual income taxes income of EUR 2,847 million for 2002 (2001: expense of EUR 751 million) and the imputed, "expected" corporate income tax expense (computed using the statutory corporate income tax rate for the parent company (combined income tax rate) of 39 % are as follows:

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

At December 31, 2002, Deutsche Telekom had net operating loss carryforwards affecting corporate income tax and similar carryforwards amounting to approximately EUR 22,198 million (2001: EUR 17,633 million) and trade tax net operating loss carryforwards amounting to approximately EUR 6,448 million (2001: EUR 4,580 million). With the exception of net operating loss carryforwards of EUR 11,432 million, the utilization of which is limited to various periods, these net operating loss carryforwards have an unlimited carry forward period under German and local tax law.

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

Notes to the consolidated balance sheet.

12 Intangible assets.

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

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

The decrease is also due to the effects of foreign currency translation from foreign Group companies. This development was offset by the increase in goodwill the year under review, EUR 2.7 billion of which was the result of the acquisition of the remaining shares in T-Systems ITS GmbH (formerly debis Systemhaus GmbH) and a further EUR 1.7 billion of which relates to the full acquisition of Ben.

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

13 Property, plant and equipment.

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

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

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

Leasing.

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

Year	Capital leases	Operating leases
2003	63	1,813
2004	58	1,609
2005	60	1,232
2006	58	924
2007	60	842
after 2007	666	3,630
Total minimum lease payments	**965**	**10,050**
Imputed interest	285	
Present value of net minimum lease payments	**680**	

Capital leases are primarily for office buildings and have terms of up to 25 years.

14 Financial assets.

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

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

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

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

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

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

The development of financial assets is shown in the table of noncurrent assets. The list of investment holdings is filed with the Commercial Registry of the Bonn District Court (HRB 6794). It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

Significant investments in associated companies are shown below:

	Dec. 31, 2002			Dec. 31, 2001		
Name	**Deutsche Telekom share %**	**Net carrying amount millions of €**	**of which: Net difference between carrying value and equity in net assets millions of €**	Deutsche Telekom share %	Net carrying amount millions of €	of which: Net difference between carrying value and equity in net assets millions of €
PTC	49.00	1,287	1,122	45.00	1,232	1,114
GSM Facilities	25.60	586	–	24.00	516	–
MTS[1]	36.20	455	11	36.20	435	16
Other		265	52		1,761	685
		2,593	**1,185**		**3,944**	**1,815**

[1] Proportional market value on December 31, 2002: EUR 1,277 million.

15 Inventories, materials and supplies.

	Dec. 31, 2002 Net carrying amount millions of €	Dec. 31, 2001 Net carrying amount millions of €
Raw materials and supplies	466	597
Work in process	350	458
Finished goods and merchandise	730	606
Advance payments	10	10
	1,556	**1,671**

Inventories, materials and supplies decreased compared with the previous year by EUR 114 million or 6.8 %. This figure includes offsetting effects of EUR 26 million resulting from changes in the composition of the Deutsche Telekom Group.

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

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

Advance payments relate primarily to orders for terminal equipment.

16 Receivables.

	Dec. 31, 2002 Net carrying amount millions of €	Dec. 31, 2001 Net carrying amount millions of €
Trade accounts receivable	5,840	6,173
Receivables from subsidiaries	171	423
Receivables from associated and related companies	247	230
	6,258	**6,826**

In December 2002 T-Systems International GmbH and its subsidiaries T-Systems PCM AG and T-Systems GEI GmbH sold certain trade accounts receivable amounting to EUR 276 million to a special purpose vehicle as part of asset-backed securities. The contract explicitly rules out the retransfer of the receivables sold. Appropriate discounts have been agreed to cover financing and program costs and possible bad debt losses. The contract provides for an interest bonus if the risks covered by the discounts are ultimately not realized to the detriment of the purchaser. The receivables sold are still collected by T-Systems on behalf of the purchaser.

Since December 2001, Deutsche Telekom AG has sold certain trade accounts receivable to a special-purpose vehicle as part of an asset-backed securitization program by way of global assignment. The contract explicitly rules out the retransfer of the receivables sold. The credit risks assumed by the purchaser and the remaining moral hazard are compensated by a corresponding discount. The contract provides for a bonus for the discounts if the risks covered by the discounts are ultimately not realized to the detriment of the purchaser. The receivables sold are still collected by Deutsche Telekom on behalf of the purchaser.

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

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

	2002 millions of €	2001 millions of €	2000 millions of €
January 1	988	790	493
Charged to costs and expenses	1,047	821	379
Amounts written off/ released	(680)	(623)	(82)
December 31	**1,355**	**988**	**790**

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

17 Other assets.

	Dec. 31, 2002 Net carrying amount millions of €	Dec. 31, 2001 Net carrying amount millions of €
Tax receivables	1,782	3,287
Accrued interest	390	352
Receivables from employees	46	34
Receivables from reimbursements and loans receivable	96	221
Miscellaneous other assets	1,078	1,072
	3,392	**4,966**

The decrease in other assets relates mainly to the decrease in tax receivables, which consist mainly of income taxes. The considerable decrease in income tax receivables relates mainly to the non-recurrence of the reimbursement of corporate income tax resulting from the dividend payment of T-Mobile International AG to Deutsche Telekom AG amounting to EUR 1.1 billion in the previous year. Furthermore, a claim for reimbursement shown in the previous year has been realized. Receivables in the year under review include tax refunds of approximately EUR 0.8 billion relating to the recognition of write-downs on Deutsche Telekom AG's goodwill.

18 Marketable securities.

	Dec. 31, 2002 Net carrying amount millions of €	Dec. 31, 2001 Net carrying amount millions of €
Treasury shares	7	7
Other marketable securities	406	695
	413	**702**

The level of treasury shares at the balance sheet date, 2,670,828, unchanged from the balance sheet date of the previous year, is made up as follows:

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

The shares are recorded in the balance sheet at an acquisition cost of EUR 2.56 per share. The shares not purchased by employees in 2000 (14,630) were initially shown in the balance sheet at an acquisition cost of EUR 0.9 million and written down to the lower market trading price applicable at the balance sheet date. The total proportion of treasury shares in capital stock is 0.07 %.

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

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

19 Liquid assets.

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

	Dec. 31, 2002 Net carrying amount millions of €	Dec. 31, 2001 Net carrying amount millions of €
Cash and cash equivalents Original maturity less than 3 months	1,712	2,738
Temporary cash investments (original maturity longer than 3 months)	193	130
	1,905	**2,868**

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

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

20 Prepaid expenses and deferred charges.

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

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

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

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

1995	1996	1997	1998	1999	2000	2001	**2002**
12,646	23,826	24,616	25,064	35,689	42,716	66,301	**35,416**

22 Capital stock.
In accordance with Article 5 (1) of the Articles of Incorporation, Deutsche Telekom AG's capital stock totaled EUR 10,746 million at December 31, 2002, representing 4,197.8 million registered ordinary no par value shares. Each share entitles the holder to one vote.

The Federal Republic's direct shareholding in Deutsche Telekom AG, represented by the Federal Agency, was 30.75 % at December 31, 2002; the KfW's shareholding was 12.02 % at December 31, 2002. Correspondingly, the Federal Republic held 1,291 million no-par value shares (EUR 3,304 million) of the capital stock as at December 31, 2002, while the KfW held 505 million no-par value shares (EUR 1,292 million). The remaining shares are in free float.

In the course of the acquisition of T-Mobile USA/Powertel, Deutsche Telekom AG granted options on Deutsche Telekom shares in exchange for the warrants in circulation between Deutsche Telekom and T-Mobile USA/Powertel at the time of the acquisition. As at December 31, 2002, the number of Deutsche Telekom shares lodged as collateral for the outstanding preemptive rights granted to T-Mobile USA/Powertel employees amounted to 26,769,950.

With the approval of the Supervisory Board, the Board of Management is authorized to increase the capital stock (share capital) by up to a nominal amount of EUR 3,865,093,163.52 by issuing up to 1,509,802,017 ordinary registered shares against non-cash contributions in the period up to May 25, 2005. The authorization may be exercised in full or in part. The preemptive right of shareholders is precluded. The Board of Management is authorized to determine the rights accruing to the shares in future and the conditions for issuing shares with the approval of the Supervisory Board.

The resolutions adopted by the shareholders' meeting on May 28, 2002 included the following:

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

23 Additional paid-in capital.

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

24 Retained earnings (deficit).

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

25 Minority interest.

Minority interest represents the minority shareholders' proportionate share of the equity of the consolidated subsidiaries and relates primarily to T-Online International AG, Croatian Telecom, MATÁV, Slovenské and RadioMobil.

26 Stock-based compensation.

Deutsche Telekom AG.
2000 Stock Option Plan.

In **the 2000 financial year**, Deutsche Telekom granted stock options to certain employees for the first time. On July 19, 2000, Deutsche Telekom granted 1,023,920.54 options for the purchase of 1,023,920.54 shares at an exercise price of EUR 62.69 to the beneficiaries of the 2000 Stock Option Plan on the basis of the resolution passed by the shareholders' meeting in May 2000. The quoted fair market value of Deutsche Telekom's common stock as quoted on Frankfurt am Main Xetra on the grant date was EUR 60.40 per share. The term of the options runs until July 20, 2005.

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

The absolute performance target is considered to have been reached when the moving average of the closing price of the shares in Xetra trading on the Frankfurt Stock Exchange exceeds the exercise price by more than 20 % for a period longer than 30 days.

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

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

As at December 31, 2002, the weighted average remaining time to maturity of the outstanding options from the 2000 Stock Option Plan was around 2.5 years.

The shareholders' meeting in May 2001 resolved that no further stock options would be granted on the basis of the 2000 Stock Option Plan.

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

2000 Stock Option Plan	2002		2001		2000	
	Stock options in thousands	Weighted-average exercise price (€)	Stock options in thousands	Weighted-average exercise price (€)	Stock options in thousands	Weighted-average exercise price (€)
Outstanding at beginning of year	1,001	62.69	1,022	62.69	–	–
Granted	0	–	0	–	1,024	62.69
Exercised	0	–	0	–	0	–
Forfeited	7	62.69	21	62.69	2	62.69
Outstanding at end of year	994	62.69	1,001	62.69	1,022	62.69
Exercisable at end of year under review	**0**	**–**	**0**	**–**	**0**	**–**

2001 Stock Option Plan.
For the 2001 Stock Option Plan, the shareholders' meeting in May 2001 resolved to increase the capital stock (share capital) of Deutsche Telekom AG by EUR 307,200,000 by issuing up to 120,000,000 new no-par value registered shares. This contingent capital increase is exclusively for the purpose of allowing up to 120,000,000 preemptive rights to be issued to members of the Board of Management and other executives of the Company and lower-tier affiliated companies as part of the Deutsche Telekom 2001 Stock Option Plan.

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

The exercise price is payable upon exercise of the options. The exercise price per share is 120 % of the reference price. The reference price corresponds to the non-weighted average of the closing price of the Deutsche Telekom shares in Xetra trading (or a comparable successor system) as operated by Deutsche Börse AG on the Frankfurt Stock Exchange over the last 30 trading days before the day on which the options are granted. If the average price calculated using this method is lower than the closing price of the Deutsche Telekom shares in Xetra trading (or a comparable successor system) as operated by Deutsche Börse AG on the Frankfurt Stock Exchange on the day on which the options are granted, this closing price shall be taken as the reference price. The exercise price may not be lower than the notional value of one share in the capital stock (share capital). The exercise price is also the performance target.

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

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

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

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

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

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

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

Furthermore, Deutsche Telekom AG granted 2,580 SARs to employees in countries in which it was not legally possible to grant stock options. As at December 31, 2002, 168,050 of the SARs granted in 2001 and 2002 were still outstanding.

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

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

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

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

2000 Stock Option Plan	2002		2001		2000	
	Stock options in thousands	Weighted-average exercise price (€)	Stock options in thousands	Weighted-average exercise price (€)	Stock options in thousands	Weighted-average exercise price (€)
Outstanding at beginning of year	117	37.65	177	37.65	n/a	n/a
Granted	0	–	0	–	214	37.65
Exercised	0	–	0	–	0	–
Forfeited	5	37.65	60	37.65	37	37.65
Outstanding at end of year	112	37.65	117	37.65	177	37.65
Exercisable at end of year under review	**0**	**–**	**0**	**–**	**0**	**–**

2001 Stock Option Plan.

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

The Stock Option Plan is structured as a "premium priced plan". The exercise price is payable upon exercise of the options. The exercise price per share is 125 % of the reference price. The reference price corresponds to the non-weighted average of the closing prices of the T-Online share in Xetra trading on the Deutsche Börse AG stock exchange in Frankfurt am Main (or a subsequent system in place of the Xetra system) over the last 30 trading days before granting of the options. If the average closing price calculated by this method is lower than the closing price of the T-Share in Xetra trading on the Deutsche Börse AG stock exchange (or a subsequent system) on the day of granting of the options, this closing price shall be taken as the reference price.

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

50 % of the options granted may only be exercised after a period of two years – calculated from the day the options are granted. The remaining 50 % of the options granted may only be exercised three years after the day the preemptive rights are issued. The options have a life of ten years from the date of granting, meaning that options granted in the first tranche in 2001 and the options granted in the second tranche in 2002 are forfeit without replacement of compensation at the latest on August 12, 2011 and July 14, 2012 respectively. As at December 31, 2002, the weighted average remaining time to maturity of the outstanding options from the 2001 Stock Option Plan was around 9 years.

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

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

2001 Stock Option Plan	2002		2001	
	Stock options in thousands	Weighted-average exercise price (€)	Stock options in thousands	Weighted-average exercise price (€)
Outstanding at beginning of year	2,348	10.35	0	–
Granted	2,067	10.26	2,369	10.35
Exercised	0	–	0	–
Forfeited	0	–	21	10.35
Outstanding at end of year	4,415	10.31	2,348	10.35
Exercisable at end of year under review	**0**	**–**	**0**	**–**

Stock Option Plan for the acquisition of Ya.com shares.
In connection with the acquisition of shares in Ya.com, employees of Ya.com were granted 1,863,886 options for T-Online shares, for which the capital stock of T-Online was increased by EUR 1.863.886 in accordance with a resolution passed on September 22, 2000.

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

Ya.com 2000 Option Plan	2002		2001		2000	
	Stock options in thousands	Weighted-average exercise price (€)	Stock options in thousands	Weighted-average exercise price (€)	Stock options in thousands	Weighted-average exercise price (€)
Outstanding at beginning of year	1,084	0.00	1,864	0.00	n/a	n/a
Granted	0	–	0	–	1,864	0.00
Exercised	376	0.00	692	0.00	0	–
Forfeited	342	0.00	88	0.00	0	–
Outstanding at end of year	366	0.00	1,084	0.00	1,864	0.00
Exercisable at end of year under review	**366**	**0.00**	**1,084**	**0.00**	**280**	**0.00**

In its function as conversion trustee, Dresdner Bank holds 430,000 forfeit options which may be sold upon instruction by T-Online International AG. As the clearance of the forfeit T-Online shares is to be seen as an indirect financial payment by Ya.com shareholders to T-Online International AG as a result of the issue of T-Online shares, the proceeds of the sale are allocated upon sale as a premium to additional paid-in capital.

T-Mobile USA.

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

At December 31, 2002, 25.0 million shares were available for outstanding options for the 1999 Management Incentive Stock Option Plan ("MISOP"), which was changed as a consequence of the acquisition on May 31, 2001. The MISOP provides for the issue of up to 8 million shares of Deutsche Telekom common stock, either as non-qualified stock options or as incentive stock options, plus the number of shares of common stock deliverable upon the exercise of the T-Mobile USA rollover options in accordance with the Agreement and Plan of Merger between Deutsche Telekom and T-Mobile USA. The vesting period and option term relating to the option plan are determined by the MISOP administrator. The options typically vest for a period of four years and have a term of up to 10 years.

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

	Year ended December 31, 2002	
	Stock options in thousands	Weighted-average exercise price (USD)
Outstanding, beginning of period	22,090	16.21
Granted	5,964	13.35
Exercised	2,133	3.35
Forfeited	941	19.51
Outstanding at end of year	24,980	16.41
Exercisable at end of year under review	**10,028**	**13.95**

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

Powertel.

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

The Powertel 2000 Stock Plan had 535,306 shares available at December 31, 2002. This plan was changed as a consequence of the acquisition. Under the terms of this plan, all employees, managers, directors, consultants and advisors may be eligible for the allocation of options, conditional share allocations or other allocations within the framework of the 2000 Stock Plan.

A total of 1,254,695 Deutsche Telekom shares were available for outstanding options at December 31, 2002 for the Powertel Employee Stock Option Plan in force since 1991 ("1991 Option Plan"). The Powertel Board of Directors has decided not to grant any further options in the 1991 Option Plan.

At December 31, 2002, there were no shares available for outstanding options for the Non-employee Stock Option Plan ("Non-employee Plan"). The Powertel Board of Directors has decided not to grant any further options in the Non-employee Plan.

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

	Year ended December 31, 2002	
	Stock options in thousands	Weighted-average exercise price (USD)
Outstanding, beginning of period	2,509	19.50
Granted	–	–
Exercised	446	5.39
Forfeited	273	27.27
Outstanding at end of year	1,790	21.85
Exercisable at end of year under review	**891**	**16.93**

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

MATÁV.

On April 26, 2002, the annual Shareholders' Meeting of Magyar Távközlési Részvénytársaság (MATÁV) approved the introduction of a new management share option plan.

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

On July 1, 2002, MATÁV used its authority under the shareholders' resolutions adopted in April 2002 to grant 3,964,600 options in respect of 3,964,600 shares of its stock to participants in its stock option plan at an exercise price of HUF 933 for the first tranche (exercisable 2003) and HUF 950 for the second tranche and third tranche (exercisable 2004 and 2005 respectively). The quoted fair market value of MATÁV common stock as quoted on BET (Budapest Stock Exchange) on the grant date was HUF 833 per share. The options have a contractual life of five years from the day of granting, meaning that the options are forfeited without replacement or compensation on June 30, 2007. The remaining contractual life as of December 31, 2002 was 4.5 years.

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

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

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

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

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

2002 Stock Option Plan	2002	
	Stock options in thousands	Weighted-average exercise price (HUF)
Outstanding, beginning of period	0	0
Granted	3,965	944
Exercised	0	0
Forfeited	0	0
Outstanding at end of year	3,965	944
Exercisable at end of year under review	**0**	**0**

27 Accruals for pensions and similar obligations.

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

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

A new regulation of VAP benefits was made by collective agreement in the year 2000 without affecting obligations. The pensioners covered by this collective agreement no longer receive their pension payments directly from the VAP as the provider of pension services, but, since November 2000, directly and with a legal claim from Deutsche Telekom. VAP's obligations are therefore suspended (parallel obligation). The VAP provides pension services for and on behalf of Deutsche Telekom. Pension accruals are made in the balance sheet for financial reporting purposes for the now direct pension obligations in accordance with U.S. GAAP SFAS 87. Due to the direct nature of the parallel obligation, these pension accruals must also be shown in the balance sheet for tax reporting purposes, valued according to § 6a of the Income Tax Act (EstG). Those pensioners remaining in the VAP continue to receive their benefits directly from the VAP as the provider of pension services.

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

The following table shows the composition of pension obligations:

	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Pension obligations:		
– Direct	2,927	2,683
– Indirect	1,007	966
Obligations in accordance with Article 131 GG	8	12
	3,942	**3,661**

The obligation amounts shown contain a so-called "additional minimum liability" for individual pension plans. An additional minimum liability is a step-up amount for pension obligations relating to individual pension plans, to be shown under German GAAP as affecting net income, but under U.S. GAAP as not. Excluding the additional minimum liability, the accrual for pensions amounts to EUR 3,465 million (2001: EUR 3,402 million).

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

Taking into consideration the assets transferred to other entities, the pension obligations were accounted for in full.

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

The amount of pension obligations was determined using actuarial principles that are consistent with U.S. GAAP SFAS 87 and using the assumptions at the respective balance sheet dates as shown in the following table:

	2002	2001	2000
Discount rate	5.75 %	6.00 %	6.25 %
Projected salary increase	2.75 % – 3.50 %	2.75 % – 3.50 %	2.75 % – 3.50 %
Expected return on assets	6.00 %	6.00 %	6.00 % – 6.50 %
Projected pension increase	1.50 %	1.50 %	1.50 %

Development of the projected benefit obligation:

	2002 millions of €	2001 millions of €
Projected benefit obligation, beginning of year (January 1)	**4,164**	**3,764**
Service cost	155	144
Interest cost	241	228
Change in obligations	(59)	(6)
Actuarial (gains)/losses	201	280
Total benefits actually paid	(230)	(246)
Projected benefit obligation, end of year	**4,472**	**4,164**

Development of plan assets at fair value:

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

Net periodic pension cost is summarized as follows:

	2002 millions of €	2001 millions of €	2000 millions of €
Service cost	155	144	119
Interest cost	241	228	208
Expected return on assets (return on plan assets)	(24)	(24)	(17)
Distribution amounts (payback)	7	0	–
Net periodic pension cost	**379**	**348**	**310**

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

In accordance with the provisions of the Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz – PTNeuOG), BPS-PT makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil servant status. The level of Deutsche Telekom AG's payment obligations to its special pension fund is defined under § 16 of the Law concerning the Legal Provisions for the Former Deutsche Bundespost Staff (PostPersRG). Since 2000, Deutsche Telekom AG has been legally obliged to make an annual contribution to the special pension fund amounting to 33% of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. This contribution is recognized as an ongoing expense in the respective year, and amounted to EUR 838 million in the year under review (previous year: EUR 845 million) (see (33) Guarantees and commitments, and other financial obligations).

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

28 Other accruals.

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

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

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

The Civil Service Health Insurance Fund (PbeaKK) provides services for its members mainly in cases of illness, birth or death and calculates the allowances. When Postreform II came into effect, the PBeaKK was closed to new members. Due to the aging of the group of people insured, there is an expected shortfall between the fund's sources of regular income and benefits paid. Deutsche Telekom AG has accrued the actuarially determined present value of this future deficit which Deutsche Telekom has to cover, taking the new 1998 life expectancy tables by Prof. Dr. Klaus Heubeck ("Richttafeln 1998") into account, which primarily reflect the increase in average life expectancy. The expense for the addition to this accrual was EUR 44 million in the year under review (2001: EUR 70 million; 2000: EUR 142 million).

Deutsche Telekom had, in response to competition, announced its intention to reduce its workforce by approximately 60,000 to 170,000 full-time equivalent employees by the end of the year 2000 (excluding employees of subsidiaries first consolidated after January 1, 1995) through natural attrition, early retirement and other programs. The planned reductions included an estimated 38,300 non-civil servants expected to leave under voluntary separation agreements. The personnel restructuring program has now been completed. There are, however, still contracts originating from this time which have to be completed. On the other hand, collective agreements in particular are still used for bridging allowances and old-age part time work and lead to the establishment of new accruals when a concrete contractual relationship is entered into.

In 2002 non-civil servants accepted the Company's severance offers. Natural attrition does not result in incremental costs for Deutsche Telekom AG. In 2002, unpaid restructuring costs amounting to EUR 261 million are included in accruals and EUR 3 million are included in other accounts payable.

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

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

Besides these historical measures, T-Systems decided to reduce the number of its employees by around 3,500 in 2002. An accrual totaling EUR 339 million was established, EUR 252 million of which relates to staff adjustments and EUR 87 million to other structural measures. The utilization of the accrual is expected to occur mainly in 2003.

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

The accruals for unused telephone units on phone cards sold are made for charges for telephone services as yet not performed which have already been recognized as income.

29 Liabilities.

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

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

Structure of the 2000 global bond:

Tranche	Nominal amount in currency	Nominal amount in €	Nominal interest rate	Maturity
EUR	2,250,000,000	2,250,000,000	6.625 %	2005
EUR	750,000,000	750,000,000	7.125 %	2010
GBP	625,000,000	960,218,750	7.625 %	2005
GBP	300,000,000	460,905,000	7.625 %	2030
USD	3,000,000,000	2,858,799,000	8.250 %	2005
USD	3,000,000,000	2,858,799,000	8.500 %	2010
USD	3,500,000,000	3,335,265,500	8.750 %	2030
JPY	90,000,000,000	722,952,000	2.000 %	2005

Structure of the 2001 eurobond:

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

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

Structure of the 2002 global bond:

Tranche	Nominal amount in currency	Nominal amount in €	Nominal interest rate	Maturity
EUR	2,000,000,000	2,000,000,000	8.125 %	2012
EUR	2,500,000,000	2,500,000,000	7.500 %	2007
USD	500,000,000	476,466,500	9.250 %	2032

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

Breakdown of bonds and debentures in millions of euros as follows:

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

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

Due in	**Amounts**
2003	**1,341**
2004	**557**
2005	**2,582**
2006	**161**
2007	**234**
after 2007	**1,417**
	6,292

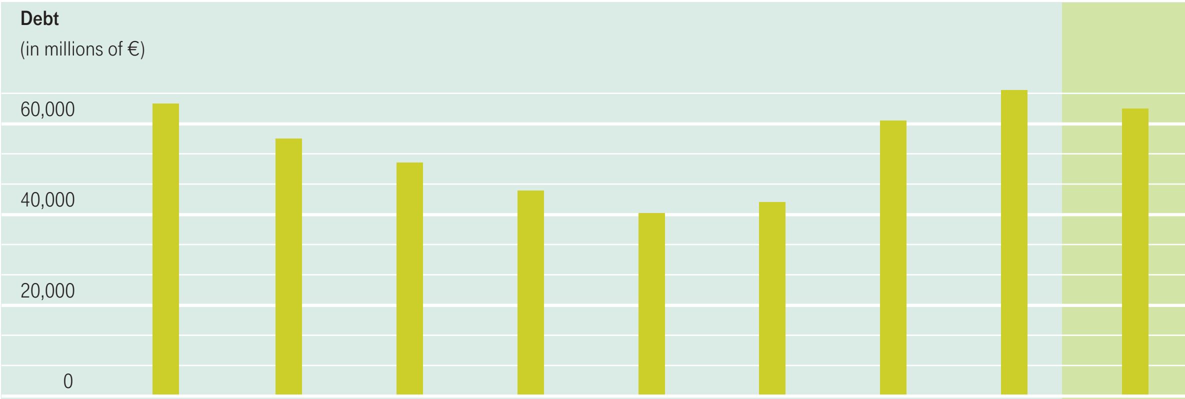
The average effective interest rate of total debt is for:

Bonds and debentures	6.69 % p.a. (2001: 6.81 % p.a.)
Liabilities to banks	5.74 % p.a. (2001: 5.82 % p.a.)

Deutsche Telekom has agreements with a number of banks pursuant to which it can draw on credit facilities up to EUR 22.6 billion. These include consortium credit facilities agreed by Deutsche Telekom AG and T-Mobile UK (formerly One 2 One) for EUR 12 billion (Deutsche Telekom consortium credit) and EUR 4.2 billion (T-Mobile UK consortium credit). Deutsche Telekom AG serves as guarantor of the T-Mobile UK consortium credit. The level of the interest rates depends on Deutsche Telekom's rating, the amount of the consortium credit and the LIBOR rate plus margin ranking to be applied, from 0.275 % to 0.500 %. The loan commitment fee is between 0.050 % - 0.200 % and also depends on Deutsche Telekom's rating. EUR 2.0 billion of the T-Mobile UK consortium credit has been used at December 31, 2002. This credit has an average interest rate of 4.69 % excluding the loan commitment fee.

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

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



Jan. 1, 1995	Dec. 31, 1995	Dec. 31, 1996	Dec. 31, 1997	Dec. 31, 1998	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001	**Dec. 31, 2002**
64,146	56,440	51,072	44,938	39,933	42,337	60,357	67,031	**63,044**

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

The reasons for the increase in debt in 2000 include the payment for UMTS licenses, the initial investment in Voice-Stream/Powertel, the increase in the shareholding in MATÁV and the acquisition of Slovenské Telekommunikácie and T-Systems ITS.

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

Debt decreased in 2002, despite the acquisition of the remaining shares in debis Systemhaus and Ben, by around EUR 4 billion, mainly relating to cash generated from operations, divestments in real estate and financial assets and positive foreign currency effects.

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

Other liabilities.

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

Other liabilities include taxes of EUR 1,159 million (Dec. 31, 2001: 2200 million) and social security liabilities of EUR 153 million (Dec. 31, 2001: EUR 131 million).

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

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

Notes to the consolidated statement of cash flows.

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

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

30 Net cash provided by operating activities.
Net cash provided by operating activities in 2002 amounted to EUR 12.5 billion. This represents an increase of EUR 0.5 billion compared with the previous year. This improvement is attributable in part to lower net interest payments resulting from the reversal of hedges, increases in accruals of EUR 1.4 billion and the change in noncash transactions of EUR 2.3 billion. These are mainly the result of valuation adjustments for loans to associated companies of Kabel Deutschland GmbH (EUR 0.3 billion) and for the net carrying amount of Deutsche Telekom's stake in France Telecom (EUR 0.6 billion). In the previous year, the proceeds from the sale of the shares held in Sprint for EUR 1.9 billion were reclassified to net cash provided by (used for) investments.

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

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

32 Net cash provided by (used for) financing activities.
Net cash used for financing activities decreased in the year under review by EUR 1.4 billion compared with the previous year to EUR 3.4 billion. Debts were reduced net cash outflows of EUR 1.8 billion. The payment of this year's dividend resulted in an outflow of cash and cash equivalents of EUR 1.6 billion.

Other information.

33 Guarantees and commitments, and other financial obligations.

Guarantees and commitments.

	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Guarantees	47	224
Liabilities arising from guarantee agreements	927	66
	974	**290**

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

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

Other financial obligations.

(millions of €)	Dec. 31, 2002 Total	Dec. 31, 2002 of which due in the following financial year	Dec. 31, 2002 of which due from the second year after the balance sheet date	Dec. 31, 2001 Total	Dec. 31, 2001 of which due in the following financial year	Dec. 31, 2001 of which due from the second year after the balance sheet date
Present value of payments to special pension fund	9,001	831	8,170	9,372	845	8,527
Purchase commitments for interest in other companies	826	218	608	6,872	5,022	1,850
Obligations under rental and lease agreements	10,050	1,813	8,237	6,839	1,269	5,570
Purchase commitments for capital projects in progress	1,213	1,141	72	3,201	3,142	59
Commitments arising from transactions not yet settled	475	364	111	444	315	129
Total other financial obligations	**21,565**	**4,367**	**17,198**	**26,728**	**10,593**	**16,135**

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

Purchase commitments for interests in other companies consist mainly of EUR 490 million relating to Deutsche Telekom AG, T-Mobile's obligation to acquire additional shares in PTC (EUR 128 million) and obligations of T-Mobile and T-Online in venture funds totaling EUR 160 million. The decrease in purchase commitments for interests in other companies relate mainly to the exercise of the option held by DaimlerChrysler AG, Stuttgart, to sell Deutsche Telekom the remainder of its shares in T-Systems ITS GmbH, Leinfelden-Echterdingen, (EUR 4.7 billion); this option was exercised at the beginning of 2002. Furthermore, T-Mobile International AG fulfilled its obligation to take over additional shares in Ben Nederland Holding B.V., Amsterdam, in September 2002. The exercise price for this financial obligation as reported here in the previous year was EUR 1.7 billion.

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

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

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

Deutsche Telekom is a party to a number of lawsuits and other proceedings arising out of the general conduct of its business, including proceedings under laws and regulations related to environmental and other matters. Litigation accruals include the costs of litigation and any probable losses. The Company does not believe that any additional costs will have a material adverse effect on the net worth, financial position and results of the Deutsche Telekom Group.

34 Derivative financial instruments.

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

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

The main interest rate instruments used are interest rate swaps. These are entered into with the aim of transforming the coupons on bonds, and the interest rates on loans and financial assets, in accordance with a mix of fixed and floating rate interest instruments that is laid down once a year. Interest rate swaps are designated as hedging instruments for specific liabilities or groups of similar liabilities. Cross currency interest rate swaps usually swap foreign currency bonds or medium-term notes in required target currencies.

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

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

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

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

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

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

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

35 Segment reporting.

Deutsche Telekom applies Statement of Financial Accounting Standards 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) and the German Accounting Standard 3 "Segment Reporting" (DRS 3) for the calculation of segment information. In accordance with the aforementioned, companies must disclose information on their operational segments in accordance with their internal reporting structures. Under SFAS 131 and DRS 3, Deutsche Telekom has the following operational segments for which reporting is required: T-Com, T-Systems, T-Mobile and T-Online. The segments for which reporting is required are strategic divisions which differ in their products and services, their relevant sub-markets, the profile of their customers and their regulatory environment.

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

Revenues generated and goods and services exchanged between segments are, as far as possible, calculated on the basis of market prices. Income taxes and taxes chargeable as expense are not assigned to individual segments. With the exception of depreciation and amortization, no major noncash items are shown in the segments. The income (loss) related to associated and related companies relates to income from investments and associated companies, as well as write-downs of financial assets and marketable securities.

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

millions of €		Net revenue	Revenue between segments	Depreciation and amortization	Net interest expense	Income (loss) related to associated and related companies	Income (loss) before taxes	Segment assets	Segment investments	Segment liabilites	Employees[1]
T-Com	**2002**	**25,422**	**4,776**	**(5,537)**	**(565)**	**(304)**	**3,539**	**33,778**	**3,272**	**12,983**	**152,836**
	2001	25,028	4,391	(5,443)	(350)	(509)	4,614	36,109	6,128	13,266	148,247
	2000	24,455	4,927	(6,417)	(793)	(214)	4,904	–	–	–	–
T-Systems	**2002**	**7,793**	**3,517**	**(2,616)**	**(98)**	**(20)**	**(1,981)**	**6,646**	**3,551**	**5,268**	**43,482**
	2001	8,316	3,583	(1,372)	102	13	(382)	5,807	1,525	5,022	41,994
	2000	6,021	3,791	(807)	(114)	15	2,420	–	–	–	–
T-Mobile	**2002**	**18,229**	**1,506**	**(27,285)**	**(1,005)**	**(427)**	**(23,679)**	**57,655**	**5,766**	**20,224**	**38,943**
	2001	12,994	1,643	(6,324)	(3,008)	(204)	(6,399)	86,704	28,418	21,657	30,124
	2000	8,994	1,362	(2,337)	(1,370)	(127)	(2,350)	–	–	–	–
T-Online	**2002**	**1,672**	**158**	**(208)**	**131**	**(121)**	**9**	**934**	**171**	**265**	**2,765**
	2001	1,338	111	(189)	168	(134)	(233)	983	118	258	3,008
	2000	1,038	90	(93)	127	(9)	2,628	–	–	–	–
Other	**2002**	**573**	**3,838**	**(1,298)**	**(2,510)**	**(1,093)**	**(4,454)**	**12,978**	**551**	**34,539**	**17,870**
	2001	633	4,481	(1,447)	(1,102)	(375)	352	17,237	1,618	38,846	18,287
	2000	431	4,770	(1,324)	(1,018)	2,188	701	–	–	–	–
Reconciliation	**2002**	**0**	**(13,795)**	**64**	**(1)**	**(9)**	**(220)**	**(465)**	**(149)**	**(853)**	**–**
	2001	0	(14,209)	(446)	52	(1)	(456)	(124)	(109)	(2,198)	–
	2000	0	(14,940)	(2,013)	71	14	(1,970)	–	–	–	–
Group	**2002**	**53,689**	**0**	**(36,880)**	**(4,048)**	**(1,974)**	**(26,786)**	**111,526**	**13,162**	**72,426**	**255,896**
	2001	48,309	0	(15,221)	(4,138)	(1,210)	(2,504)	146,716	37,698	76,851	241,660
	2000	40,939	0	(12,991)	(3,097)	1,867	6,333	–	–	–	–

[1] Average figures for the year.

Segments by geographic area.

	Segment assets		Segment investments	
millions of €	**Dec. 31, 2002**	Dec. 31, 2001	**Dec. 31, 2002**	Dec. 31, 2001
Germany	51,707	55,490	6,883	7,669
European Union (excluding Germany)	20,370	26,499	2,694	1,908
Rest of Europe	12,006	12,218	1,173	1,952
North America	26,448	51,527	2,228	25,519
Other	995	982	184	650
Group	**111,526**	**146,716**	**13,162**	**37,698**

T-Com.
The T-Com division is one of the largest fixed-network operators in Europe, operating around 57.5 million lines – including ISDN channels. In Germany, T-Com serves residential customers and small and medium-sized business customers with 51 million lines – including ISDN channels – and a broad range of products and services. As a full-service provider, T-Com offers approximately 440,000 small and medium-sized companies integrated solutions consisting of information technology and telecommunications. T-Com is present in the markets of Central Europe with shareholdings in Matáv (Hungary), Hrvatske telekommunikacije (Croatia) and Slovenské Telekommunikácie (Slovakia). At the end of the year under review, the division had around 148,900 employees throughout Europe.

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

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

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

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

The decrease in segment assets to EUR 33,778 million relates in particular to a decrease in property, plant and equipment at T-Com. This development is mainly attributable to scheduled depreciation of property, plant and equipment. The investments in T-Com's segment assets were mainly made in technical equipment and advance payments and construction in progress, as in the previous year. Capital expenditure decreased in comparison with the previous year. Segment liabilities consist mainly of financial liabilities.

T-Systems.
T-Systems serves Deutsche Telekom's domestic and international systems customers. T-Systems offers comprehensive services from the field of information technology (IT) and telecommunications (TC) as well as e-business solutions from the IT/TC convergence sector. The legal integration of T-Systems ITS GmbH was completed in the year under review; Deutsche Telekom acquired the remaining 49.9 % of the shares in the company from DaimlerChrysler and merged T-Systems ITS GmbH with T-Systems International GmbH at the end of 2002. The area Carrier Services National has been part of the T-Com division since January 1, 2002. In return, the area Carrier Services International, previously part of T-Com, has been reassigned to the T-Systems segment. The figures for the previous year have been adjusted accordingly.

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

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

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

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

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

The increase in net revenue by EUR 5,235 million to EUR 18,229 million reflects in particular the considerable increase in the number of subscribers in almost all the mobile communications networks under T-Mobile's majority control. Furthermore, the full-year consolidation of T-Mobile USA, Inc./Powertel and RadioMobil also had a positive impact on net revenue in 2002. These companies were only consolidated for seven months (T-Mobile USA, Inc./Powertel) and nine months (RadioMobil) respectively in 2001. The consolidation of Ben Nederland Holding B. V. for the first time at the end of September 2002 contributed to the remaining increase.

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

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

The improved net interest expense, from EUR 3,008 million in the previous year to EUR 1,005 million in 2002, is mainly attributable to a reduction in interest expense at T-Mobile International AG relating to the conversion of loans from Deutsche Telekom AG to shareholders' equity in the previous year. In this respect, the early repayment penalty of EUR 569 million included in the interest payments in the previous year no longer applies in the year under review. Changes in the composition of the T-Mobile Group had an offsetting effect in 2002, leading to increased interest expense.

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

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

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

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

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

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

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

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

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

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

The decrease in depreciation and amortization is mainly attributable to the nonscheduled write-down on real estate in the previous year, for which there are no comparable measures in the year under review. The increase of EUR 1,408 million in net interest expense is due to a considerable extent to the conversion of receivables from T-Mobile International AG into shareholders' equity in 2001. The interest income generated by this measure is offset by a corresponding decrease in interest expense in the segment T-Mobile. Furthermore, the loss related to associated and related companies increased from EUR 375 million in 2001 to EUR 1,093 million in 2002. This development is mainly attributable to the valuation adjustment of EUR 613 million on the shares held in France Telecom and a valuation adjustment on investments in noncurrent securities of EUR 384 million.

The development of results continued to be influenced to a considerable extent by the high level of proceeds from the sale of the Sprint FON and PCS shares in the previous year, for which there are no comparable proceeds in the year under review. The increase in other operating expenses, which relates mainly to expenses associated with the sale of receivables and expenses relating to the standardization of the names of individual mobile communications operators, also contributed to the decline of the result before taxes to a loss of EUR 4,454 million in the 2002 financial year.

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

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

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

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

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

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

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

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

37 Proposal for appropriation of net income/loss of Deutsche Telekom AG.

The income statement of Deutsche Telekom AG reflects net loss of EUR 3,001,441,165.68. Including the unappropriated net income of EUR 23,273,899.97 carried forward from 2001 and the withdrawal of EUR 2,978,167,265.71 from retained earnings, this results in cumulative unappropriated net income of EUR 0.00.

38 Declaration of compliance with the German Corporate Governance Code in accordance with § 161 of the AktG.

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

The declaration of compliance of the publicly traded subsidiary T-Online International AG was made accessible for shareholders on T-Online International AG's Internet site.

Bonn, March 17, 2003

Deutsche Telekom AG
Board of Management

Kai-Uwe Ricke

Dr. Karl-Gerhard Eick

Josef Brauner

Thomas Holtrop

Dr. Heinz Klinkhammer

René Obermann

Konrad F. Reiss

Auditor's report.

We have audited the consolidated financial statements, consisting of the statement of income, the consolidated balance sheet, the consolidated statement of cash flows, the consolidated statement of shareholders' equity and the notes to consolidated financial statements including the segment reporting, and the combined management report of Deutsche Telekom AG and the Deutsche Telekom Group for the financial year from January 1 to December 31, 2002. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with § 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting. On the whole the combined management report for the Company and the Group provides a suitable understanding of the Group's position and suitably presents the risks of future development.

Stuttgart/Frankfurt am Main, March 17, 2003

Ernst & Young AG
Deutsche Allgemeine Treuhand AG
Wirtschaftsprüfungsgesellschaft
Stuttgart

(Prof. Dr. Pfitzer)	(Hollweg)
Wirtschaftsprüfer	Wirtschaftsprüfer

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Frankfurt am Main

(Frings)	(Laue)
Wirtschaftsprüfer	Wirtschaftsprüfer

Summary of differences between German GAAP and U.S. GAAP.

Our results are reported under German GAAP and differ from our results when reconciled to U.S. GAAP, as summarized below. A more detailed discussion and quantification of significant differences between German GAAP and U.S. GAAP applicable to our consolidated financial statements are described in note 39 et seq. of our consolidated financial statements contained in our annual report on Form 20-F, which can be found on our website at http://www.deutschetelekom.com.

	2002 billions of €	2001 billions of €	2000 billions of €
Net income/(loss) – German GAAP	(24.6)	(3.5)	5.9
Net income/(loss) – U.S. GAAP	(22.0)	0.5	9.3
Shareholders' equity – German GAAP	35.4	66.3	42.7
Shareholders' equity – U.S. GAAP	45.4	73.7	46.1

The differences between German GAAP and U.S. GAAP that have a significant impact on net income/(loss) and shareholders' equity are summarized below. Other differences may arise in future years, resulting from new transactions and/or the adoption of new accounting standards.

Differences in bases of long-lived assets.

Adjustments to valuation of fixed assets – Under German GAAP, we previously wrote-down fixed assets primarily relating to our real estate holdings. This write-down was not required under U.S. GAAP for real estate classified as held and used. This results in a difference in the carrying basis of land and buildings between U.S. GAAP and German GAAP. This basis difference results in higher depreciation expense to be recorded under U.S. GAAP than under German GAAP. In addition, these basis differences will affect the gains or losses to be recognized upon sale of real estate, to the extent these differences in carrying values relate to assets sold.

Real estate sale and leaseback – We entered into a series of sale and leaseback transactions underlying our real estate holdings. These leasebacks generally qualify as off-balance-sheet operating leases under German GAAP. However, these transactions have been accounted for as financings under U.S. GAAP due to our continuing involvement. This results in interest expense and the continuation of depreciation expense for U.S. GAAP, as compared with gains/losses on sales of real estate and rent expense for German GAAP.

Differences in valuations of goodwill and other assets – The differences between German GAAP and U.S. GAAP in the determination of total purchase consideration in purchase business combinations has resulted in differences in the initial valuation of goodwill and other intangible and tangible assets. Purchase price differences between German and U.S. GAAP have been generated from business combinations due to net assets acquired, valuation of shares and stock options issued (including subsidiary shares issued in a business combination), valuation of underlying assets and liabilities (including deferred taxes), dates used to calculate consideration paid as well as the date at which an acquisition is considered consummated. These differences have resulted in differences in amounts for depreciation and amortization expenses. In 2002, the U.S. GAAP accounting for goodwill and indefinite lived intangible assets changed, resulting in these intangibles no longer being amortized, but rather subject to an annual impairment test. During the third quarter of 2002, we completed the annual impairment test, resulting in write-downs of goodwill and indefinite lived intangible assets under U.S. GAAP in amounts different than those determined under German GAAP.

Valuation of tradenames – Under German GAAP, we previously wrote-off intangible assets relating to the rebranding of the tradenames of acquired subsidiaries to a T-Mobile brandname. This write-off was not recorded for U.S. GAAP purposes, as it did not meet the U.S. GAAP impairment criteria. However, the remaining useful lives were shortened, and the remaining carrying amount was completely amortized during the current year.

Capitalization and amortization of mobile communication licenses – Under German GAAP, we begin to amortize our communication licenses, primarily European UMTS licenses and U.S. mobile communications licenses, upon acquisition and continue to amortize these licenses through their expected period of use. Under U.S. GAAP, amortization begins at the time the network is placed into service. In addition, interest on mobile network construction related to debt is expensed under German GAAP, whereas under U.S. GAAP this interest is capitalized during the period the mobile network is being constructed, and is subsequently amortized over the expected period of use. This results in deferrals of interest and amortization expenses for U.S. GAAP, and a higher carrying basis of our mobile network fixed assets. Once the networks are in place, capitalization of these costs will cease and related costs capitalized will be amortized into income over the remaining expected period of use. During the third quarter of 2002, we completed the annual impairment test, resulting in write-downs of mobile communication licenses under U.S. GAAP in amounts different than those determined under German GAAP.

Differences in equity transactions by our subsidiaries.

Effects of dilution gains – Transactions conducted by our consolidated subsidiaries or associated companies, using their common equity as currency, directly results in a reduction of our ownership percentage. Under German GAAP, we recognize “dilution gains” from share issuances by subsidiary or associated companies for cash, but do not recognize gains for shares issued in non-cash transactions (for example, as consideration for a business acquisition). Under U.S. GAAP, we recognize dilution gains both for cash and non-cash transactions.

Differences in revenue recognition.

Deferred income – Under German GAAP, we recognize revenues in the period when earned by the delivery of goods or the rendering of services. Under U.S. GAAP, we defer certain activation and one-time fees and related direct costs (to the extent of revenues deferred), and amortize these revenues and expenses over the expected duration of our customer relationship. We expense any excess costs as customer acquisition expense. Additionally, we defer revenues on certain other contracts under U.S. GAAP, and amortize these revenues over their contract lives.

Differences in income taxes.

Deferred taxes – Under German GAAP, deferred taxes have not been recognized for temporary differences that arose during tax-free periods, and temporary differences that are not expected to reverse in the foreseeable future. Under U.S. GAAP, deferred taxes generally are recognized for all temporary differences, including temporary differences during tax-free periods. In addition, in contrast to German GAAP, U.S. GAAP requires the recognition of deferred taxes attributable to net operating losses.

Other differences.

In addition to the tax effects of the adjustments for differences between German GAAP and U.S. GAAP described in this section, other differences in our financial results between German GAAP and U.S. GAAP consist primarily of the accounting for capitalization of internally developed software, unrealized gains on marketable securities, deferral of gains on divestitures, asset backed securitizations, derivatives and investments in equity investees, which historically are recurring differences.