

Deutsche Telekom AG
Financial statements as at
December 31, 2002



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Deutsche Telekom AG's management report and the management report of the Deutsche Telekom Group have been combined and are published in our 2002 annual report.

The annual financial statements and the combined Deutsche Telekom Group and Deutsche Telekom AG management report for the 2002 financial year are published in the Federal Gazette (Bundesanzeiger) and filed under HRB 6794 with the Commercial Registry of the Bonn District Court.

Supervisory Board of Deutsche Telekom AG.

Dr. Klaus Zumwinkel

Member of the Supervisory Board since March 7, 2003
Chairman of the Supervisory Board of Deutsche Telekom AG since March 14, 2003
Chairman of the Board of Management of Deutsche Post AG

- Deutsche Lufthansa AG, Cologne
- Tchibo Holding AG, Hamburg
- Allianz Versicherungs-AG, Munich
- Deutsche Postbank AG, Bonn, Chairman of the Supervisory Board

Supervisory board seats in companies abroad:

- C.V. International Post Corp. U.A., Belgium, Board of IPC, Deputy Chairman
- DHL Worldwide Express B.V., Netherlands, Board of Directors
- Danzas Holding AG, Switzerland, Chairman of the Board of Directors

Rüdiger Schulze

Member of the Supervisory Board since March 29, 1999
Deputy Chairman of the Supervisory Board of Deutsche Telekom AG
ver.di trade union, Head of Federal Department 9, Berlin

- T-Mobile Deutschland GmbH, Bonn, Deputy Chairman of the Supervisory Board

Gert Becker

Member of the Supervisory Board since January 1, 1995
Former Chairman of the Board of Management of Degussa AG, Düsseldorf

- ALCAN Deutschland GmbH, Eschborn (from 9/1996 to 12/2002)
- Bankhaus Metzler KGaA, Frankfurt/Main, Chairman of the Supervisory Board
- Bilfinger Berger AG, Mannheim, Chairman of the Supervisory Board

Monika Brandl

Member of the Supervisory Board since November 6, 2002
Member of the Central Works Council at Deutsche Telekom AG, Bonn

– no other seats –

Josef Falbisoner

Member of the Supervisory Board since October 2, 1997
ver.di trade union, Head of ver.di District of Bavaria

- PSD-Bank München, Augsburg office

Dr. Hubertus von Grünberg

Member of the Supervisory Board since May 25, 2000
Member of the Supervisory Board at Continental Aktiengesellschaft, Hanover, et al.

- Allianz-Versicherungs AG, Munich
- Continental AG, Hanover
- MAN AG, Munich
- SAI Automotive, Frankfurt/Main (since 8/2002)

Supervisory board seats in companies abroad:

- Schindler Holding AG, Hergiswil (Switzerland), Board of Directors

Lothar Holzwarth

Member of the Supervisory Board since November 6, 2002
Chairman of the Works Council of the Business Customer Branch Office, Southwestern District, Stuttgart

- PSD-Bank RheinNeckarSaar e.G., Chairman of the Supervisory Board

Dr. sc. techn. Dieter Hundt

Member of the Supervisory Board since January 1, 1995
Managing Shareholder of Allgaier Werke GmbH, Uhingen
President of the National Union of German Employer Associations, Berlin

- EvoBus GmbH, Stuttgart
- Stauferkreis Beteiligungs-AG, Göppingen, Chairman of the Supervisory Board
- Stuttgarter Hofbräu AG, Stuttgart
- Stuttgarter Hofbräu Immobilien Verwaltungs-AG, Stuttgart, Chairman of the Supervisory Board
- Landesbank Baden-Württemberg, Stuttgart, Board of Directors

Rainer Koch

Member of the Supervisory Board from April 12, 2000 to November 6, 2002
Chairman of the Central Works Council at DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster

- GMG Generalmietgesellschaft mbH, Münster (from 6/1996 to 4/2002)
- DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (since 4/2002)

Dr. h.c. André Leysen

Member of the Supervisory Board from January 1, 1995 to February 28, 2002
Honorary Chairman of the Board of Directors of Gevaert N.V., Mortsel/Antwerp (Belgium)

- Agfa-Gevaert AG, Leverkusen, Chairman of the Supervisory Board (from 1984 to 4/2002)
- Bayer AG, Leverkusen (from 1987 to 4/2002)
- E.On AG, Düsseldorf
- Schenker AG, Essen

Supervisory board seats in companies in Belgium:

- Agfa-Gevaert N.V. Mortsel/Antwerp (Belgium) (from 1974 to 4/2002)
Chairman of the Board of Directors (from 1979 to 4/2002)

Waltraud Litzenberger

Member of the Supervisory Board since June 1, 1999
Member of the Works Council at the Networks Branch Office in Eschborn

- PSD-Bank e.G., Koblenz

Michael Löffler

Member of the Supervisory Board since January 1, 1995
Member of the Works Council at Deutsche Telekom AG, Dresden
Networks Branch Office

– no other seats –

Dr. Manfred Overhaus

Member of the Supervisory Board since November 28, 2002
State Secretary, Federal Ministry of Finance, Berlin

- Deutsche Bahn AG, Berlin (from 11/1998 to 12/2002)
- Deutsche Post AG, Bonn
- GEBA mbH, Cologne

Hans-W. Reich

Member of the Supervisory Board since May 27, 1999
Chairman of the Board of Managing Directors, Kreditanstalt für Wiederaufbau (KfW), Frankfurt/Main

- Aareal Bank AG, Wiesbaden (since 6/2002)
- ALSTOM GmbH, Frankfurt/Main
- HUK-COBURG Haftpflicht-Unterstützungs-Kasse kraftfahrender Beamter Deutschlands a.G., Coburg
- HUK-COBURG Holding GmbH, Coburg
- IKB Deutsche Industriebank AG, Düsseldorf
- RAG AG, Essen
- ThyssenKrupp Steel AG, Duisburg

Supervisory board seats in companies abroad:

- DePfa Bank plc., Dublin (Ireland) (since 3/2002)

Rainer Röll

Member of the Supervisory Board from November 6, 1998 to November 6, 2002
Vice Chairman of the Central Works Council at Deutsche Telekom AG, Bonn

– no other seats –

Wolfgang Schmitt

Member of the Supervisory Board since October 2, 1997
Head of the Business Customer Branch Office, Southwestern District, Deutsche Telekom AG, Stuttgart

- PSD-Bank RheinNeckarSaar e.G.

Prof. Dr. Helmut Sihler

Member of the Supervisory Board since July 1, 1996
Chairman of the Supervisory Board of Deutsche Telekom AG from July 1, 1996 to May 25, 2000
The seat on the Supervisory Board was suspended during the chairmanship of the Board of Management of Deutsche Telekom AG from July 17 to November 14, 2002.

Vice President of the Board of Directors of Novartis AG, Basle (Switzerland)

- T-Mobile International AG, Bonn (from 8/2002 to 11/2002), Chairman of the Supervisory Board (since 9/2002)
- Dr. Ing. h.c. F. Porsche AG, Stuttgart, Chairman of the Supervisory Board

Supervisory board seats in companies abroad:

- T-Mobile Austria GmbH, Vienna (Austria) (from 9/2000 to 9/2002)
- Novartis AG, Basle (Switzerland), Vice President of the Board of Directors

Michael Sommer

Member of the Supervisory Board since April 15, 2000
Chairman of the German Trade Union Federation, Berlin

- Postbank, Bonn, Deputy Chairman of the Supervisory Board
- BHW Bausparkasse, Hameln
- T-Systems International GmbH, Frankfurt/Main, Deputy Chairman of the Supervisory Board

Ursula Steinke

Member of the Supervisory Board since January 1, 1995
Chairwoman of the Works Council at DeTe CSM's Northern District Service and Computer Center in Kiel

– no other seats –

Prof. Dr. h.c. Dieter Stolte

Member of the Supervisory Board since January 1, 1995
Publisher of the "Welt" and "Berliner Morgenpost" newspapers

- Bavaria Film- und Fernsehstudios GmbH, Munich/Geiseltal, Chairman of the Supervisory Board (from 1997 to 6/2002)
- Out of home Media AG, Cologne (since 10/2002)
- Sportrechte- und Marketing-Agentur GmbH, Munich, Chairman of the Supervisory Board (from 1998 to 6/2002)
- ZDF Enterprises GmbH, Mainz, Chairman of the Supervisory Board

Bernhard Walter

Member of the Supervisory Board since May 27, 1999
Dresdner Bank AG, Frankfurt/Main

- Bilfinger Berger AG, Mannheim
- DaimlerChrysler AG, Stuttgart
- Henkel KGaA, Düsseldorf
- mg technologies ag, Frankfurt/Main
- Staatliche Porzellan-Manufaktur Meißner GmbH, Meißner
- ThyssenKrupp AG, Düsseldorf
- Wintershall AG, Kassel

Supervisory board seats in companies abroad:

- Joint-stock company "Sibirsko-Uralskaya Neftegazohimicheskaya Companiya" (AK "Sibur"), Moscow (Russia) (since 4/2002)

Wilhelm Wegner

Member of the Supervisory Board since July 1, 1996
Chairman of the Central Works Council at Deutsche Telekom AG, Bonn

- VPV Allgemeine Versicherungs AG, Cologne
- VPV Holding AG, Stuttgart (since 1/2002)
- Vereinigte Postversicherung VVaG, Stuttgart
- PSD-Bank Düsseldorf e.G., Düsseldorf

Dr. Hans-Dietrich Winkhaus

Member of the Supervisory Board since May 27, 1999
Chairman of the Supervisory Board of Deutsche Telekom AG from May 25, 2000 to March 14, 2003
Member of the Shareholders' Committee of Henkel KGaA, Düsseldorf

- ERGO-Versicherungsgruppe AG, Düsseldorf
- Degussa AG, Düsseldorf
- Deutsche Lufthansa AG, Cologne
- Schwarz Pharma AG, Monheim, Chairman of the Supervisory Board
- BMW AG, Munich

Prof. Dr. Heribert Zitzelsberger

Member of the Supervisory Board from May 27, 1999 to November 27, 2002
State Secretary, Federal Ministry of Finance, Berlin

– no other seats –

Board of Management of Deutsche Telekom AG.

Kai-Uwe Ricke

Member of the Deutsche Telekom Board of Management responsible for T-Mobile and T-Online until November 30, 2002; Chairman of the Deutsche Telekom AG Board of Management since November 15, 2002.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- T-Mobile Deutschland GmbH, Bonn (from 3/2000 to 6/2002), Chairman of the Supervisory Board
- T-Mobile (UK) Ltd., Borehamwood (UK) (from 10/1999 to 12/2002) (until 4/2002 under the name of One 2 One Personal Communications Ltd.), Board of Directors
- T-Mobile (UK) Partnership, Borehamwood (UK) (from 10/1999 to 12/2002)
- T-Motion plc., London (UK) (from 3/2000 to 7/2002), Chairman of the Supervisory Board
- T-Online International AG, Darmstadt (since 10/2001), Chairman of the Supervisory Board (since 9/2002)
- T-Mobile Austria GmbH, Vienna (Austria) (from 1998 to 12/2002), Chairman of the Supervisory Board (since 4/2002)
- T-Mobile International AG, Bonn (since 11/2002), Chairman of the Supervisory Board (since 12/2002)
- T-Mobile USA, Inc., Bellevue (U.S.) (since 5/2001), Board of Directors
- T-Systems International GmbH, Frankfurt/Main (since 1/2003), Chairman of the Supervisory Board

Dr. Karl-Gerhard Eick

responsible for Finance and Controlling; Deputy Chairman of the Deutsche Telekom AG, Board of Management since November 28, 2002.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- GMG Generalmietgesellschaft mbH, Münster (since 1/2000), Chairman of the Supervisory Board (since 5/2002)
- Sireo Real Estate Asset Management GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 5/2001)
- DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (since 2/2002)
- DFMG, Deutsche Funkturm GmbH, Münster (since 1/2002)
- T-Mobile International AG, Bonn (since 3/2000)
- T-Mobile USA, Inc., Bellevue (U.S.) (since 5/2001), Board of Directors
- T-Online International AG, Darmstadt (since 2/2000)
- T-Systems International GmbH, Frankfurt/Main (from 1/2001 to 12/2002)
- T-Systems International GmbH, Frankfurt/Main (since 6/2002),

Chairman of the Supervisory Board (from 6/2001 to 12/2002)

- (until 12/2002 under the name of T-Systems ITS GmbH, Leinfelden-Echterdingen)
- T-Venture Holding GmbH, Bonn (from 1/2000 to 12/2002), Deputy Chairman of the Supervisory Board
 - 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVB), Bonn (from 1/2000 to 12/2002), Deputy Chairman of the Supervisory Board
 - 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVB), Bonn (from 1/2000 to 12/2002), Deputy Chairman of the Supervisory Board

Member of the supervisory boards of other companies or institutions:

- Dresdner Bank Luxembourg S.A., Luxembourg, Board of Directors (since 1/2001)

Josef Brauner

Member of the Deutsche Telekom Board of Management responsible for T-Com.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- DETECON International GmbH, Bonn (from 5/1999 to 5/2002), Chairman of the Supervisory Board
- DETECON Consulting GmbH, Bonn (from 8/2001 to 5/2002), Chairman of the Supervisory Board
- T-Mobile Deutschland GmbH, Bonn (from 3/2000 to 6/2002)
- T-Mobile International AG, Bonn (since 1/2003)
- TEGARON Telematics GmbH, Bonn, Member of the Advisory Board (from 9/2001 to 7/2002)
- T-Online International AG, Darmstadt (since 2/2000)
- T-Systems International GmbH, Frankfurt/Main (from 3/2001 to 12/2002), Chairman of the Supervisory Board
- T-Systems International GmbH, Frankfurt/Main (since 12/2000) (until 12/2002 under the name of T-Systems ITS GmbH, Leinfelden-Echterdingen)

Jeffrey A. Hedberg

Member of the Deutsche Telekom Board of Management responsible for International Affairs until December 31, 2002; Chairman of Deutsche Telekom USA, New York, since January 1, 2003.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- Deutsche TELEKOM Asia Pte. Ltd., Singapore (since 1/2000)
- Deutsche Telekom Inc., New York (U.S.), Chairman of the Supervisory Board (since 11/2001)
- T-Mobile (UK) Ltd., Borehamwood (UK) (from 10/1999 to 6/2002)

(until 4/2002 under the name of One 2 One Personal Communications Ltd.), Board of Directors

- T-Mobile (UK) Partnership, Borehamwood (UK) (from 10/1999 to 6/2002)
- T-Mobile International AG, Bonn (from 3/2000 to 12/2002)
- T-Online International AG, Darmstadt (from 2/2000 to 12/2002)
- T-Systems Inc., Delaware (U.S.) (since 9/2002)
- T-Systems International GmbH, Frankfurt/Main (from 6/2002 to 12/2002)
- T-Systems International GmbH, Frankfurt/Main (from 1/2001 to 12/2002) (until 12/2002 under the name of T-Systems ITS GmbH, Leinfelden-Echterdingen)
- T-Systems USA, Inc., New York (U.S.), Chairman of the Supervisory Board (since 2/2000)
- T-Venture Holding GmbH, Bonn (from 9/2001 to 12/2002)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVB), Bonn (from 10/2001 to 12/2002)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVB), Bonn (from 10/2001 to 12/2002)
- T-Mobile USA, Inc., Bellevue (U.S.), (since 5/2001), Board of Directors

Dr. Max Hirschberger

Member of the Deutsche Telekom Board of Management responsible for Corporate Affairs from May 1, 2001 to November 30, 2002.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- T-Mobile Deutschland GmbH, Bonn (from 9/2001 to 12/2002)
- T-Mobile International AG, Bonn (from 3/2000 to 12/2002)
- T-Motion plc., London (UK) (from 5/2000 to 7/2002)
- T-Venture Holding GmbH, Bonn (from 3/2002 to 12/2002)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVB), Bonn (from 3/2002 to 12/2002)
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVB), Bonn (from 3/2002 to 12/2002)
- T-Online International AG, Darmstadt (from 9/2002 to 11/2002)
- T-Systems International GmbH, Frankfurt/Main (from 9/2001 to 12/2002)
- T-Systems International GmbH, Frankfurt/Main (from 6/2002 to 12/2002) (until 12/2002 under the name of T-Systems ITS GmbH, Leinfelden-Echterdingen)
- T-Mobile USA, Inc., Bellevue (U.S.), (from 5/2001 to 12/2002), Board of Directors

Thomas Holtrop

Member of the Deutsche Telekom Board of Management responsible for T-Online since December 1, 2002.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- T-Motion plc., London (UK) (from 2/2001 to 7/2002) Non-executive Director, Board of Directors
- T-Online France S.A.S., Paris (France), Member of the Conseil d'administration, Board of Directors
- CLUB INTERNET S.A.S., Paris (France), (since 4/2001), President of the Conseil de surveillance, Chairman of the Supervisory Board
- Ya.com Internet Factory, S.A.U., Madrid (Spain), (since 5/2001), President of the Consejo de Administración, Chairman of the Board of Directors
- T-Online Travel AG, Darmstadt (since 4/2002), Chairman of the Supervisory Board
- T-Venture Telekom Funds Beteiligungs-GmbH, Bonn, Member of the Investment Advisory Council (since 11/2001)

Dr. Heinz Klinkhammer

Member of the Deutsche Telekom Board of Management responsible for Human Resources.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (since 2/2002), Chairman of the Supervisory Board (since 4/2002)
- GMG Generalmietgesellschaft mbH, Münster (since 6/1996), Chairman of the Supervisory Board (from 1/2000 to 4/2002), Deputy Chairman of the Supervisory Board (since 5/2002)
- Sireo Real Estate Asset Management mbH, Frankfurt/Main (since 5/2001)
- T-Mobile Deutschland GmbH, Bonn (from 5/1998 to 12/2002)
- T-Mobile International AG, Bonn (since 1/2003)
- T-Online International AG, Darmstadt (since 1/2003)
- T-Systems International GmbH, Frankfurt/Main (from 1/2001 to 12/2002)
- T-Systems International GmbH, Frankfurt/Main (since 11/2000) (until 12/2002 under the name of T-Systems ITS GmbH, Leinfelden-Echterdingen)

Member of the supervisory boards of other companies or institutions:

- Federal Posts and Telecommunications Agency, Bonn, Administrative Board (since 2000)

René Obermann

Member of the Deutsche Telekom Board of Management responsible for T-Mobile since December 1, 2002.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- T-Systems International GmbH, Frankfurt/Main (from 6/2002 to 1/2003) (until 12/2002 under the name of T-Systems ITS GmbH, Leinfelden-Echterdingen)
- T-Mobile Austria GmbH, Vienna (Austria), (from 9/2001 to 1/2003), Chairman of the Supervisory Board (from 4/2002 to 1/2003)
- T-Mobile Deutschland GmbH, Bonn (since 6/2002), Chairman of the Supervisory Board
- Ben Nederland Holding B.V., Amsterdam (Netherlands) (from 10/2001 to 1/2003), Chairman of the Supervisory Board
- T-Mobile (UK) Ltd., Borehamwood (UK) (since 9/2001)

Konrad F. Reiss

Member of the Deutsche Telekom Board of Management responsible for T-Systems since January 20, 2003.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- DETECON International GmbH, Bonn (since 2/2003), Chairman of the Supervisory Board

Prof. Dr. Helmut Sihler

Chairman of the Deutsche Telekom Board of Management from July 16, 2002 to November 14, 2002.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- Deutsche Telekom AG, Bonn (since 7/1996) (seat was suspended during the chairmanship of the Deutsche Telekom Board of Management)
- T-Mobile International AG, Bonn (from 8/2002 to 11/2002), Chairman of the Supervisory Board (since 9/2002)
- T-Mobile Austria GmbH, Vienna (Austria) (from 9/2000 to 9/2002)

Member of the supervisory boards of other companies or institutions:

- Dr. Ing. h. c. F. Porsche AG, Stuttgart (since 1/1993), Chairman of the Supervisory Board
- Novartis AG, Basle (Switzerland) (since 4/1996), Vice President of the Board of Directors

Dr. Ron Sommer

Chairman of the Deutsche Telekom Board of Management until July 16, 2002.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- T-Mobile International AG, Bonn (from 3/2000 to 8/2002),

Chairman of the Supervisory Board

- T-Online International AG, Darmstadt (from 2/2000 to 9/2002), Chairman of the Supervisory Board

Member of the supervisory boards of other companies or institutions:

- Münchener Rückversicherungs-Gesellschaft AG, Munich (since 11/1998)

Gerd Tenzer

Member of the Deutsche Telekom Board of Management responsible for Production and Technology until November 28, 2002.

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münster (from 2/2002 to 5/2002)
- DFMG Deutsche Funkturm GmbH, Münster (from 1/2002 to 12/2002), Chairman of the Supervisory Board
- GMG Generalmietgesellschaft mbH, Münster (from 6/1996 to 4/2002)
- Kabel Deutschland GmbH, Bonn (from 4/1999 to 12/2002), Chairman of the Supervisory Board (from 10/2001 to 12/2002),
- MSG MediaServices GmbH, Munich (from 4/1999 to 4/2002), Chairman of the Supervisory Board
- Partner für Berlin Gesellschaft für Hauptstadtmarketing mbH, Berlin (from 1/1995 to 6/2002)
- T-Mobile International AG, Bonn (from 3/2000 to 12/2002)
- T-Systems International GmbH, Frankfurt/Main (from 1/2001 to 12/2002)
- T-Systems International GmbH, Frankfurt/Main (from 6/2002 to 12/2002) (until 12/2002 under the name of T-Systems ITS GmbH, Leinfelden-Echterdingen)
- T-Venture Holding GmbH, Bonn (from 7/2001 to 12/2002)
- 1. T-Telematik Venture Beteiligungsgesellschaft mbH (1. T-TVb), Bonn (from 7/2001 to 12/2002), Chairman of the Supervisory Board
- 2. T-Telematik Venture Beteiligungsgesellschaft mbH (2. T-TVb), Bonn (from 7/2001 to 12/2002), Chairman of the Supervisory Board

Member of the supervisory boards of other companies or institutions:

- Bonn-Innova GmbH & Co. Venture-Beteiligungs KG (from 3/2002 to 11/2002), Chairman of the Supervisory Board
- SES Astra S.A., Betzdorf (Luxembourg) (from 12/2001 to 12/2002), Board of Directors (since 11/2001)
- SES Global S.A., Betzdorf (Luxembourg), Board of Directors
- VDE GmbH, Frankfurt/Main (since 8/2000)

Statement of income for the period from January 1 to December 31, 2002.

	Note	2002 millions of €	2001 millions of €	2000 millions of €
Net revenue	(1)	25,792	27,331	27,951
Changes in inventories and other own capitalized costs	(2)	298	505	533
Total operating performance		26,090	27,836	28,484
Other operating income	(3)	5,159	5,346	6,762
Goods and services purchased	(4)	(6,236)	(7,210)	(7,346)
Personnel costs	(5)	(6,969)	(6,764)	(6,654)
Depreciation and amortization	(6)	(5,381)	(6,040)	(8,622)
Other operating expenses	(7)	(9,844)	(9,606)	(9,735)
Financial (expense)/income, net	(8)	(6,435)	3,730	(6,010)
Results from ordinary business activities		(3,616)	7,292	(3,121)
Extraordinary income (losses)		-	-	-
Taxes	(9)	614	(660)	(212)
Net (loss)/income		(3,002)	6,632	(3,333)
Unappropriated net income carried forward from previous year		1,894	101	45
Transfer from treasury stock		-	-	7
Transfer from retained earnings		2,978	-	5,266
Transfer to treasury stock		-	-	-
Transfer to retained earnings		(1,870)	(3,300)	(7)
Unappropriated net income		0	3,433	1,978

Balance sheet as at December 31, 2001.

	Note	2002 millions of €	2001 millions of €
ASSETS			
Noncurrent assets			
Intangible assets	(10)	752	767
Property, plant and equipment	(11)	32,277	37,605
Financial assets	(12)	75,346	73,468
		108,375	111,840
Current assets			
Inventories, materials and supplies	(13)	304	573
Receivables	(14)	3,268	11,216
Other assets	(15)	2,181	2,582
Marketable securities	(16)	373	661
Liquid assets	(17)	138	1,314
		6,264	16,346
Prepaid expenses, deferred charges and deferred taxation	(18)	394	382
		115,033	128,568
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity (19)			
Capital stock	(20)	10,746	10,746
- contingent capital of € 810 million			
Additional paid-in capital	(21)	24,319	24,304
Retained earnings	(22)	7,047	8,155
Unappropriated net income		-	3,433
		42,112	46,638
Accruals			
Pensions and similar obligations	(24)	3,350	3,150
Other accruals	(25)	4,331	5,576
		7,681	8,726
Liabilities (26)			
Debt		18,244	27,822
Other		46,929	45,281
		65,173	73,103
Deferred income		67	101
		115,033	128,568

Statement of noncurrent assets.

	Jan. 1, 2002	Acquisition costs			Dec. 31, 2002
		Additions	Disposals	Reclassifications	
millions of €					
Intangible assets					
Concessions, industrial and similar rights and assets, licenses in such					
rights and assets	1,393	228	(535)	198	1,284
Advance payments	165	101	(3)	(141)	122
	1,558	329	(538)	57	1,406
Property, plant and equipment					
Land and equivalent rights and buildings including buildings on land owned by third parties					
Technical equipment and machinery	17,733	72	(2,035)	130	15,900
Other equipment, plant and office equipment	56,177	1,890	(2,515)	1,072	56,624
Advance payments and construction in progress	3,133	292	(1,532)	(106)	1,787
	1,252	273	(45)	(1,153)	327
	78,295	2,527	(6,127)	(57)	74,638
Financial assets					
Investments in subsidiaries	77,289	7,513	(15,336)	27	69,493
Loans to subsidiaries	649	5,481	(499)	-	5,631
Investments in associated and related companies	1,609	22	(1,271)	(27)	333
Long-term loans to associated and related companies	18	-	(1)	(17)	-
Other investments in noncurrent securities	449	11	(1)	-	459
Other long-term loans	264	30	(234)	17	77
	80,278	13,057	(17,342)	-	75,993
Total noncurrent assets	160,131	15,913	(24,007)	-	152,037

Jan. 1, 2002	Changes in cumulative depreciation, amortization and write-downs					Net carrying amount		
	Additions	Disposals	Reclassifications	Post-capitalization	Reinstated depreciation	Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2001
791	324	(455)	1	-	(7)	654	630	602
-	-	-	-	-	-	-	122	165
791	324	(455)	1	-	(7)	654	752	767
6,325	739	(672)	105	-	-	6,497	9,403	11,408
32,125	4,071	(1,660)	2	-	-	34,538	22,086	24,052
2,240	247	(1,053)	(108)	-	-	1,326	461	893
-	-	-	-	-	-	-	327	1,252
40,690	5,057	(3,385)	(1)	-	-	42,361	32,277	37,605
6,396	116	(6,308)	-	-	(74)	130	69,363	70,893
-	35	-	-	-	-	35	5,596	649
414	660	(976)	-	-	-	98	235	1,195
-	-	-	-	-	-	-	-	18
-	384	-	-	-	-	384	75	449
-	-	-	-	-	-	-	77	264
6,810	1,195	(7,284)	-	-	(74)	647	75,346	73,468
48,291	6,576	(11,124)	-	-	(81)	43,662	108,375	111,840

Statement of cash flows.

	Note	2002 millions of €	2001 millions of €	2000 millions of €
Net (loss)/income		(3,002)	6,632	(3,333)
Depreciation and amortization		5,381	6,040	8,630
Income tax expense		(847)	713	128
Net interest expense		2,934	3,271	2,491
Net (gains)/losses from disposal of noncurrent assets		(654)	(517)	(1,702)
(Increase)/decrease in inventories, receivables, other assets, prepaid expenses and deferred charges		2,264	(10,676)	(31)
Changes in accruals		(448)	604	206
Other noncash (income) and expense		3,952	(7,254)	3,473
(Increase)/decrease in payables and deferred income		(1,581)	6,747	884
Income taxes paid		843	331	(784)
Dividends received		710	7,412	3,207
Cash generated from operations		9,552	13,303	13,169
Interest paid		(4,816)	(5,793)	(4,438)
Interest received		1,899	1,862	2,055
Net cash provided by operating activities	(27)	6,635	9,372	10,786
Cash outflows from investments in intangible assets		(329)	(330)	(363)
Cash outflows from investments in property, plant and equipment		(2,527)	(4,542)	(3,166)
Cash outflows from investments in financial assets		(8,500)	(8,301)	(35,076)
Cash inflows from the disposal of intangible assets		80	198	4
Cash inflows from the disposal of property, plant and equipment		1,194	706	615
Cash inflows from the disposal of financial assets		11,552	1,801	4,801
Net change in short-term investments		289	87	1,308
Other cash inflows		-	1,384	-
Net cash provided by (used for) investing activities	(28)	1,759	(8,997)	(31,877)
Issuance of short-term debt		76,026	70,807	41,514
Repayment of short-term debt		(86,137)	(79,566)	(35,291)
Issuance of medium and long-term debt		20,531	13,699	16,115
Repayment of medium and long-term debt		(18,466)	(2,253)	-
Dividends paid		(1,539)	(1,877)	(1,874)
Proceeds from share offerings		15	-	169
Net cash (used for)/provided by financing activities	(29)	(9,570)	810	20,633
Changes in value of cash and cash equivalents due to exchange rate fluctuations		-	(1)	(25)
Net increase/(decrease) in cash and cash equivalents		(1,176)	1,184	(483)
Cash and cash equivalents, at beginning of year		1,314	130	613
Cash and cash equivalents, at end of year		138	1,314	130
Change in cash and cash equivalents		(1,176)	1,184	(483)

Statement of shareholders' equity.

	Capital stock nominal value		Additional paid-in capital	Retained earnings		Unappropriated net income/(loss)	Total
	Shares issued and outstanding (in thousands)	millions of €		Treasury stock	Other retained earnings		
			millions of €	millions of €	millions of €	millions of €	millions of €
Balance at Jan. 1, 2000	3,029,604	7,756	24,121	14	7,141	4,885	43,917
Dividends for 1999						(1,874)	(1,874)
Increase in nominal value of capital stock							-
Proceeds from share offerings	-		169				169
Transfer from reserve for treasury stock				(7)	7		-
Loss after taxes						(3,333)	(3,333)
Transfer to retained earnings						2,966	(2,966)
Transfer from retained earnings						(5,266)	5,266
Balance at Dec. 31, 2000	3,029,604	7,756	24,290	7	4,848	1,978	38,879
Dividends for 2000						(1,877)	(1,877)
Capital increase from options granted	1,168,148	2,990	14				3,004
Transfer from reserve for treasury stock							-
Income after taxes						6,632	6,632
Transfer to retained earnings						3,300	(3,300)
Balance at Dec. 31, 2001	4,197,752	10,746	24,304	7	8,148	3,433	46,638
Dividends for 2001						(1,539)	(1,539)
Capital increase from options granted	-		15				15
Transfer from retained earnings						(2,978)	2,978
Loss after taxes						(3,002)	(3,002)
Transfer to retained earnings						1,870	(1,870)
Balance at Dec. 31, 2002	4,197,752	10,746	24,319	7	7,040	-	42,112

Exchange rates used.

in €	Average annual rate			Rate at balance sheet date	
	2002	2001	2000	Dec. 31, 2002	Dec. 31, 2001
100 Swiss Francs (CHF)	68.1599	66.2063	64.27010	68.73340	67.54940
100 Czech Korunas (CZK)	3.24851	2.90920	2.80113	3.18167	3.13088
1 Pound Sterling (GBP)	1.59101	1.60761	1.64233	1.53635	1.64178
100 Hungarian Forints (HUF)	0.411657	0.390371	0.38494	0.423909	0.40795
100 Indonesian Rupiahs (IDR)	0.0117242	0.0109342	0.01298	0.01346	0.01089
100 Japanese Yen (JPY)	0.847821	0.916991	1.00501	0.803280	0.86438
100 Malaysian Ringgit (MYR)	27.93620	29.39340	28.58820	25.0772	29.8263
100 Philippine Pesos (PHP)	2.08452	2.19127	2.45850	1.79995	2.19727
100 Polish Zlotys (PLN)	25.99300	27.22010	24.95950	24.9994	28.60500
100 Russian Rubles (RUB)	3.38456	3.82700	3.86032	2.98257	3.71671
100 Singapore Dollars (SGD)	59.22700	62.55940	62.99660	55.3403	61.21450
100 Slovak Korunas (SKK)	2.34284	2.30987	2.12815	2.41429	2.33768
1 U.S. Dollar (USD)	1.061579	1.11683	1.08631	0.95293	1.13341

Summary of accounting policies.

Description of business and relationship with the Federal Republic of Germany

Deutsche Telekom AG (hereinafter referred to as Deutsche Telekom) is a full-service telecommunications provider. Its key areas of activity include network communications, data communications, carrier services, and value-added services. Deutsche Telekom also supplies and services terminal equipment.

Deutsche Telekom was registered with the Commercial Registry of the Bonn District Court (Amtsgericht - HRB 6794) under the name Deutsche Telekom AG 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 the letter dated January 27, 2003, 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 (Frankfurt/Main, KfW),

in accordance with the letter dated February 3, 2003. 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, following the dissolution of the Federal Ministry of Posts and Telecommunications (BMPT) on December 31, 1997, 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 (BMWA), has thus taken the place of the dissolved Federal Ministry of Posts and Telecommunications in supervising the telecommunications sector in Germany, and in this capacity regulates the business activities of Deutsche Telekom.

Summary of significant accounting principles

The annual financial statements and the management report of Deutsche Telekom are prepared in accordance with German GAAP, as specified in the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Act (Aktiengesetz – AktG).

The balance sheet and the statement of income are prepared in accordance with the classification requirements of § 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 are combined in order to enhance the informative value and understanding of the financial statements. These items are shown separately in the notes. In case of changes in presentation, prior-year amounts are reclassified to conform with the current-year presentation.

The accounts also include a statement of cash flows and a statement of shareholders' equity. In conformity with international practice, reporting begins with the income statement, and the statement of cash flows and the statement of shareholders' equity precede the notes to the financial statements.

The financial statements of Deutsche Telekom AG as well as the consolidated financial statements of the Deutsche Telekom Group 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 New York Stock Exchange, are available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

Accounting and valuation

Net revenues consist of revenues from goods and services sold in connection with the ordinary business activities of Deutsche Telekom. Net revenues are recorded net of value-added tax (VAT) and sales-related reductions. They are recognized in the accounting period concerned in accordance

with the realization principle. Revenues due from foreign carriers for international incoming calls are included in revenues in the period in which the calls occur. Revenues from other operating activities are recognized in the period when earned by the delivery of goods or the rendering of services.

Research and development costs are expensed in full as incurred.

Pension costs are computed and presented using the standard international Projected Unit Credit Method, which is consistent with SFAS 87. This method is based on the total present value of the benefit obligations accumulated during the year under review and takes expected increases in wages and salaries and in retirement benefits into consideration. 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 previous years, direct pension obligations from direct commitments were recorded at the higher value at the time, in accordance with § 6a of the German Income Tax Act (Einkommensteuergesetz – EStG). The minimum accrual method in accordance with § 6a EStG is designed to recognize the expense over the employees' entire working lives and does not take expected increases in wages and salaries and retirement benefits into account.

In accordance with U.S. GAAP, if the measurement of pension obligations under SFAS 87 results in the need to disclose an additional minimum liability (AML), this special item is charged directly to other comprehensive income (OCI). In the financial statements in accordance with German GAAP, changes in the AML are expensed directly due to the lack of a corresponding equity item.

Marketing expenses are expensed as incurred.

Income tax expense includes current payable taxes on income as well as deferred income 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. Deutsche Telekom has not exercised its option to recognize deferred tax assets in accordance with § 274 (2) HGB. Deferred taxes have not been included for the period before Deutsche Telekom became fully subject to taxation on January 1, 1996.

Purchased **intangible assets** are carried at acquisition cost and are amortized on a straight-line basis over their estimated useful lives.

As permitted by Postreform II, **property, plant and equipment** transferred to Deutsche Telekom on January 1, 1995, was recorded in the opening balance sheet of Deutsche Telekom 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 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 construction cost, less scheduled depreciation. Construction costs of internally generated equipment include directly allocable costs and a pro rata allocation of material and production overhead. General administration costs are not capitalized.

Nonscheduled write-downs to the lower of cost or market value are charged if an impairment of assets is assumed to be permanent.

Scheduled depreciation is charged using the straight-line method. The underlying standard useful lives are based on the official depreciation tables for tax purposes. The following specific useful lives are applied to straight-line depreciation:

	Years
Buildings	25 to 50
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	4 to 10
Outside plant networks and cable conduit lines	15 to 35
Telecommunications power facilities	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.

Low-value asset additions are written off in full in the year of their acquisition and their immediate disposal is assumed in the statement of noncurrent assets.

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.

Investments and other financial assets are carried at the lower of cost or market value. In the case of financial assets acquired in foreign currency, the exchange rate at the transaction date is used to determine the acquisition cost; in the case of hedges, the hedging rate for the purchased foreign currency is used. Loan receivables correspond to the loan amounts less repayments and – if necessary – less any write-downs in order to reflect such lower amount. Nonscheduled write-downs are provided only if impairment of financial assets is assumed to be permanent.

Raw materials and supplies, and **merchandise** are recognized at acquisition cost, while **work in process** is carried at construction 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, other assets and liquid assets are carried at their nominal value. Known individual risks are taken into account by appropriate individual valuation adjustments, and general default risks by general valuation adjustments of receivables. Low-interest and non-interest bearing items with more than one year remaining to maturity are discounted.

Foreign currency receivables are measured at the lower of the exchange rate applicable on the transaction date or the buying rate applicable at the balance sheet date, as are foreign currency fixed-term deposits included under liquid assets.

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

Stock options issued 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. On the exercise date, the amount accruing to the Company is posted to the capital stock (in the amount of the corresponding nominal capital increase) and additional paid-in capital (in the amount of the premium) in accordance with § 272 (2) No. 1 HGB.

Accruals for pensions and similar obligations are based on obligations to non-civil servants. With regard to Group accounting practices, they are carried using the Projected Unit Credit Method analogous to U.S. GAAP, in accordance with SFAS 87.

Deutsche Telekom is obliged to make annual contributions to a special pension fund which makes pension payments to its active and former civil servant employees. The amounts of these contributions are set out by Postreform II, which came into force in 1995, and are therefore not subject to a separate actuarial calculation. The contributions are expensed in the period in which they are incurred.

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

Cost accruals are set up only when there is an obligation to carry such liabilities on the balance sheet pursuant to § 249 (1) HGB. This refers in particular to accruals for deferred maintenance related to the financial year, but incurred within the first three months of the following year.

With the exception of pensions and similar obligations as well as civil service health insurance fund accruals for future shortfalls, accruals are not discounted.

Liabilities are recognized at the higher of nominal value or repayment amount. In instances where the repayment amount of a liability is greater than the principal amount, the difference is recorded under prepaid expenses, deferred charges and deferred taxation, and distributed over the term of the liability. Foreign currency liabilities are carried at the higher of the exchange rate applicable on the transaction date or the selling rate applicable at the balance sheet date.

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 financial statements 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 statement of income.

(1) Net revenue

Revenue by division:

	2002 millions of €	2001 millions of €	2000 millions of €
T-Com	24,360	24,358	24,673
T-Systems	1,230	2,782	3,033
Other	202	191	245
	25,792	27,331	27,951

Reporting of revenue is based on the changed management structure within the Group. Prior-year figures have been reclassified in line with the new structure.

T-Systems' share of Deutsche Telekom's net revenues only includes revenue until August 30, 2002, after which date the unit was spun off from Deutsche Telekom. In addition, price and volume development has been negatively impacted by the market situation.

Revenue by geographic area:

	2002 millions of €	2001 millions of €	2000 millions of €
Domestic	25,465	26,495	26,909
International	327	836	1,042
	25,792	27,331	27,951

Breakdown of international revenue:

	2002 millions of €	2001 millions of €	2000 millions of €
European Union (excluding Germany)	174	364	457
Rest of Europe	99	201	247
North America	4	148	193
Latin America	5	10	13
Other	45	113	132
	327	836	1,042

(2) Changes in inventories and other own capitalized costs

	2002 millions of €	2001 millions of €	2000 millions of €
Decrease/increase in inventories of work in process	(104)	(23)	63
Own capitalized costs	402	528	470
	298	505	533

Own capitalized costs relate to planning and construction services.

(3) Other operating income

	2002 millions of €	2001 millions of €	2000 millions of €
Rentals and leases	1,473	1,792	1,798
Income from the disposal of noncurrent assets	975	967	2,878
Foreign currency transaction gains	639	353	425
Reversal of accruals	493	824	257
Cost reimbursements	414	373	538
Bonus for Asset-Backed-Securitization	233	-	-
Income from reversal of valuation adjustments	224	254	93
Income from write-ups of financial assets	74	280	7
Refund of value-added tax (§ 15a of the Value-Added Tax Act – Umsatzsteuergesetz)	68	85	169
Insurance compensation	60	35	41
Ancillary services	36	51	45
Other income	470	332	511
	5,159	5,346	6,762

The rentals and leases are mainly derived from GMG Generalmietgesellschaft mbH, Münster (GMG).

EUR 246 million of income from the disposal of noncurrent assets relates to income from the disposal of property, plant and equipment, and EUR 729 million relates to income from the disposal of financial assets.

Foreign currency transaction gains comprise EUR 29 million from derivatives and EUR 444 million from the repayment of loans (USD 5,960 million) by T-Mobile USA, Inc., Bellevue (U.S., T-Mobile USA).

Of the total amount of other operating income, EUR 1,774 million (2001: EUR 2,345 million) relates to other accounting periods.

(4) Goods and services purchased

	2002 millions of €	2001 millions of €	2000 millions of €
Goods purchased	1,022	1,044	1,225
of which: raw materials and supplies	304	368	337
of which: goods purchased	718	676	888
Services purchased	5,214	6,166	6,121
of which: domestic network access charges	3,442	4,066	3,905
of which: international network access charges	855	1,100	1,472
of which: other services	917	1,000	744
	6,236	7,210	7,346

Domestic network access charges decreased as a result of falling prices and a decreased level of services purchased from other mobile communications carriers.

International network access charges changed as a result of the drop in prices in the international carrier sector and the

hiving off of the international accounting department to T-Systems International GmbH, Frankfurt/Main, as at August 30, 2002.

The decrease in other services is due to the development of the T-GlobeNet, which was largely completed in 2001.

(5) Personnel costs/Average number of employees

	2002 millions of €	2001 millions of €	2000 millions of €
Wages and salaries	4,977	4,817	4,880
Social security contributions and expenses for pension plans and benefits:			
Payments to Bundes-Pensions-Service für Post und Telekommunikation e. V., Bonn	838	845	895
Social security contributions	503	481	458
Expenses for pension plans for non-civil servants	498	470	258
Health care expenses	153	151	163
	1,992	1,947	1,774
	6,969	6,764	6,654

Expenses for pension plans and benefits in 2002 amounted to EUR 1,336 million (2001: EUR 1,315 million, 2000: EUR 1,153 million).

Average number of employees (as at Dec. 31)	2002 Number	2001 Number	2000 Number
Civil servants	52,961	56,707	65,217
Non-civil servants	70,650	69,129	66,731
	123,611	125,836	131,948
Trainees/student interns	8,883	7,683	6,439

In the 2002 financial year, the average number of employees decreased by 1.8 % as a result of personnel restructuring measures.

The rise in personnel costs is the result of collectively agreed average pay rises of 3.29 % for non-civil servants with effect

from July 1, 2002 and of remuneration adjustments of 2.2 % for civil servants with effect from January 1, 2002. Furthermore, the full effect of employee re-grading as part of the new job evaluation and pay system was felt in 2002.

(6) Depreciation and amortization

	2002 millions of €	2001 millions of €	2000 millions of €
Scheduled depreciation and amortization			
Amortization of intangible assets	324	301	366
Depreciation of property, plant and equipment	4,580	4,897	5,265
	4,904	5,198	5,631
Nonscheduled write-downs			
in accordance with § 253 (2) sentence 3 HGB	477	842	2,991
	5,381	6,040	8,622

Scheduled depreciation of property, plant and equipment declined in the year under review by EUR 294 million. This was due to the change in overall investment levels as well as to intra-group transfers and real estate disposals.

Structures for which no further business use is planned were written down by EUR 249 million by way of a valuation adjustment on buildings and land. In addition, submarine cables were written down to cost by EUR 228 million.

The adjustments do not have any effect on the Company's liquidity.

(7) Other operating expenses

	2002 millions of €	2001 millions of €	2000 millions of €
Rental and leasing expenses	2,422	2,489	2,425
IT support	1,289	1,187	1,050
Losses on accounts receivable and provision for doubtful accounts	1,155	715	465
Marketing expenses	842	628	671
Maintenance and repair	805	911	690
Foreign currency transaction losses	617	394	344
Research and development	533	539	537
Postal and freight charges	375	393	414
Losses on the disposal of noncurrent assets	320	450	1,176
Legal and consulting fees	298	278	339
Other employee-related costs	224	301	315
Transfers to accruals	175	243	446
Travel expenses	92	118	120
Reimbursements	22	128	115
Other expenses	675	832	628
	9,844	9,606	9,735

Of the rental and leasing expenses, EUR 2,266 million relates to the leaseback of buildings and land from GMG.

Losses on the disposal of noncurrent assets primarily relate to the disposal of property, plant and equipment.

The change in foreign currency transaction losses is primarily due to the repayment of the loan to T-Mobile USA (see note (3)).

Losses on accounts receivable and provision for doubtful accounts include the discount for credit risks from the Asset-Backed-Securitization in the amount of EUR 629 million (2001: EUR 104 million) (see note (3)).

Marketing expenses include commission on sales in the amount of EUR 334 million (2001: EUR 200 million).

Of the other operating expenses, EUR 321 million (2001: EUR 451 million) relates to other accounting periods.

(8) Financial (expense)/income, net

	2002 millions of €	2001 millions of €	2000 millions of €
Dividend income from investments of which from subsidiaries: € 80 million (2001: € 4,136 million, 2000: € 25 million)	102	6,609	143
Income from profit transfer agreements of which from tax allocations: € 3 million (2001: € 109 million, 2000: € 122 million)	608	803	3,282
Expenses arising from loss transfers	(3,016)	(61)	(218)
(Loss)/income related to subsidiaries, associated and related companies	(2,306)	7,351	3,207
Income from debt securities and long-term loan receivables of which from subsidiaries: € 532 million (2001: € 1,075 million, 2000: € 120 million)	565	1,123	517
Other interest and similar income of which from subsidiaries: € 197 million (2001: € 616 million, 2000: € 282 million)	1,779	770	1,564
Interest and similar expense of which to subsidiaries: € 3,056 million (2001: € 2,297 million, 2000: € 1,012 million)	(5,278)	(5,164)	(4,571)
Net interest (expense)/income	(2,934)	(3,271)	(2,490)
Write-downs on financial assets and marketable securities	(1,195)	(350)	(6,727)
	(6,435)	3,730	(6,010)

Income related to subsidiaries, associated and related companies mainly refers to dividends from MagyarCom Holding GmbH, Bonn, (EUR 50 million) and France Telecom S.A., Paris (France), (EUR 20 million) as well as Slovenské Telekomunikácie a.s., Bratislava (Slovakia), (EUR 20 million). In particular, income from profit transfer agreements included EUR 306 million from DeTeAsia Holding GmbH, Bonn, and EUR 106 million from DeTeMedien, Deutsche Telekom Medien GmbH, Frankfurt/Main.

Loss transfers primarily relate to T-Systems International GmbH, Frankfurt/Main, (EUR 1,274 million), Kabel Deutschland GmbH, Bonn, (EUR 1,062 million), GSH Global Satelliten-Beteiligungs Holding GmbH, Bonn, (EUR 232 million), DT Satelliten-Holding GmbH, Bonn, (EUR 196 million) and GMG (EUR 122 million).

In 2001, income related to subsidiaries, associated and related companies resulted mainly from dividends from T-Mobile International AG, Bonn, (EUR 4,040 million) and DT-FT Italian Holding GmbH, Bonn, (EUR 2,385 million).

Income from debt securities and long-term loan receivables primarily consists of interest income on loans to subsidiaries.

Net interest (expense)/income was negatively affected by the interest expense incurred by Deutsche Telekom to finance the global bond issued by Deutsche Telekom International Finance B.V., Amsterdam (Netherlands, DT Finance). The repayment of USD interest rate swaps (EUR 1,268 million) as a result of the cancellation of the underlying transaction (USD loan liability to DT Finance) had a positive effect. Income from the repayment offset the expenses of the early payment penalty owed to DT Finance (EUR 538 million; disclosed under interest expense).

EUR 612 million of the write-downs on financial assets and marketable securities relates to the net carrying amount of the Company's interest in France Telecom S.A., Paris (France), whose share price fell in the year under review as a result of the general stock market slump. Deutsche Telekom's interest in France Telecom S.A., Paris (France), was fully disposed of in June of the year under review.

Other significant valuation adjustments relate to the carrying amount of T-Venture Holding GmbH, Bonn (EUR 107 million), a loan to the same company (EUR 35 million) as well as a bond of Telewest Communications PLC, Surrey (United Kingdom) (EUR 384 million).

(9) Taxes

	2002	2001	2000
	millions	millions	millions
	of €	of €	of €
Income taxes			
Current income taxes	(968)	555	122
Income from tax allocations	121	(19)	(46)
Deferred income taxes	-	177	52
	(847)	713	128
Other taxes			
	233	(53)	84
	(614)	660	212

On October 16, 2002, the Federal Fiscal Court ruled that Deutsche Telekom was permitted to recognize goodwill as at January 1, 1995 in its tax accounts with tax effect from January 1, 1996, due to its formation through non-cash capital contributions by conversion.

The tax write-downs to be charged on this goodwill are now being retrospectively recognized and reduce taxable income for the assessment periods from 1996 onwards. This results in a refund of corporate income tax, solidarity surcharge and trade income tax in the amount of EUR 974 million, and a burden from wealth tax and trade capital tax in the amount of EUR 176 million.

Notes to the balance sheet.

(10) Intangible assets

	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	630	602
Advance payments	122	165
	752	767

(11) Property, plant and equipment

	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Land and equivalent rights and buildings including buildings on land owned by third parties	9,403	11,408
Technical equipment and machinery	22,086	24,052
Other equipment, plant and office equipment	461	893
Advance payments and construction in progress	327	1,252
	32,277	37,605

Additions to property, plant and equipment in 2002 amounted to EUR 2,527 million (2001: EUR 4,542 million).

Capital expenditure relates primarily to switching and transmission equipment, with additions totaling EUR 1,284 million, and to the outside plant network, with additions of EUR 465 million.

Property, plant and equipment decreased by EUR 5,328 million year-on-year as a result of intra-group transfers of property, plant and equipment, real estate disposals, nonscheduled write-downs and a reduction in capital expenditure.

The development of intangible assets and property, plant and equipment is shown in the statement of noncurrent assets, which is attached to these notes.

(12) Financial assets

	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Investments in subsidiaries	69,363	70,893
Loans to subsidiaries	5,596	649
Investments in associated companies	21	31
Other investments in related companies	214	1,164
Long-term loans to associated and related companies	-	18
Other investments in noncurrent securities	75	449
Other long-term loans	77	264
	75,346	73,468

The decrease in **investments in subsidiaries** is in particular attributable to the repayment of additional paid-in capital at NAB Nordamerika Beteiligungs Holding GmbH, Bonn, whose carrying amount fell by EUR 3,515 million. A reduction of EUR 121 million was recorded at T-Online International AG, Darmstadt, as the result of the disposal of 120 million shares.

As part of Group restructuring, a number of Deutsche Telekom's business areas and equity interests were transferred to its subsidiary T-Systems International GmbH, Frankfurt/Main, whose carrying amount, as a result, increased by EUR 961 million in the 2002 financial year. These transfers included the split-off of the Media Broadcast business area,

with a carrying amount of EUR 284 million, with effect from January 1, 2002. Deutsche Telekom also contributed its Systems Marketing and Sales unit, with a carrying amount of EUR 525 million, as a non-cash contribution against the granting of shares with effect from September 1, 2002. The interest in Detecon International GmbH, Bonn, was transferred at a market value of EUR 117 million, and the interests in T-Systems USA, Inc., New York (U.S.), and T-Systems Japan K.K., Tokyo (Japan), were transferred at their carrying amount of EUR 33 million and EUR 2 million respectively.

In the course of the accrual of Global Satelliten-Beteiligungs-GmbH & Co. Holding KG, Bonn, Deutsche Telekom became a direct shareholder in GSH Global Satelliten-Beteiligungs Holding GmbH, Bonn, with effect from December 31, 2002. The addition of the investment was recognized at a carrying amount of EUR 514 million.

Deutsche Telekom contributed its Vehicle Fleet and Mobility Service Competence Center, with a carrying amount of EUR 220 million, to DeTeFleetServices GmbH, Bonn, with effect from July 1, 2002, and its Antenna Masts business area, with a carrying amount of EUR 452 million, to Erste DFMG Deutsche Funkturm Vermögens-GmbH & Co. KG, Münster, with effect from October 1, 2002, both as non-cash contributions against the granting of shares.

Loans to subsidiaries primarily include loans to T-Systems International GmbH, Frankfurt/Main (EUR 2,538 million), T-Mobile USA (EUR 1,526 million) and Powertel Inc., Bellevue (U.S., Powertel) (EUR 1,336 million).

Other investments in related companies decreased by EUR 907 million as a result of the disposal of all shares in France Telecom S.A., Paris (France), among other things.

The decrease in **other investments in noncurrent securities** resulted from a valuation adjustment (EUR 384 million) for the Telewest Communications PLC, Surrey (United Kingdom) bond.

Other long-term loans decreased in particular as a result of the complete repayment of the loan to Deutsche Post AG, Bonn, (EUR 230 million).

The development of financial assets is shown in the statement of noncurrent assets. The full list of investment holdings is filed with the Commercial Registry in Bonn.

(13) Inventories, materials and supplies

	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Raw materials and supplies	190	331
Work in process	15	119
Merchandise	96	120
Advance payments	3	3
	304	573

Raw materials and supplies mostly include data communications equipment and telecommunications cables, spare parts and components for telecommunications equipment. The reduction as at December 31, 2002 is a result of investments in T-DSL technology in particular.

Work in process mainly relates to customer orders for the installation of telecommunications systems. The change as against the previous year is due to the roll-out of the T-GlobeNet, which was largely completed in 2001. As at September 1, 2002, the T-GlobeNet was transferred to T-Systems International GmbH, Frankfurt/Main.

(14) Receivables

	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Trade accounts receivable	1,093	1,730
(of which with a remaining maturity of more than one year: € 0 million; 2001: € 0 million)		
Receivables from subsidiaries	2,015	9,413
(of which with a remaining maturity of more than one year: € 8 million; 2001: € 131 million)		
Receivables from associated and related companies	160	73
(of which with a remaining maturity of more than one year: € 0 million; 2001: € 0 million)		
	3,268	11,216

Since December 2001, Deutsche Telekom 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.

The largest single items within the receivables from subsidiaries are, among others, the receivables from DT Satelliten Holding GmbH, Bonn, (EUR 429 million), DeTeAsia Holding GmbH, Bonn, (EUR 304 million), T-Mobile International AG, Bonn, (EUR 270 million) and T-Mobile Deutschland GmbH, Bonn, (EUR 173 million). The change as against the 2001 financial year is primarily due to the transfer of receivables to DT Finance.

The increase in receivables from associated and related companies in 2002 mainly relates to receivables from Toll Collect GbR, Berlin, (EUR 34 million) and Toll Collect GmbH, Berlin, (EUR 39 million).

The **allowances** for doubtful accounts and other assets changed as follows:

Years	January 1 millions of €	Charged to costs and expenses millions of €	Amounts written off/ released millions of €	December 31 millions of €
2000	181	144	(22)	303
2001 ¹⁾	309	263	(150)	422
2002 ²⁾	391	205	(173)	423

¹⁾ including the assumption of the receivables relating to the unsold investment in Deutsche Telekom Gesellschaft für Satellitenkommunikation mbH, Bonn (EUR 6 million).

²⁾ not including the receivables spun off with T-Systems International GmbH, Frankfurt/Main (EUR 31 million).

(15) Other assets

	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Tax receivables	1,193	1,959
Interest receivables	333	249
Receivable from Asset-Backed-Securitization	149	72
Receivables from reimbursements	76	189
Advance payments on current assets	24	29
Receivables from employees	17	8
Loan receivables	3	14
Receivable from social insurance institutions	1	0
Receivables from option premiums	1	2
Miscellaneous other assets	384	60
	2,181	2,582

Tax receivables relate to income tax receivables of EUR 828 million (2001: EUR 1,426 million) and other tax receivables of EUR 365 million (2001: EUR 533 million).

Income tax receivables include trade income tax receivables of EUR 199 million (2001: EUR 443 million), corporate income tax receivables of EUR 595 million (2001: EUR 895 million) and receivables from the solidarity surcharge of EUR 34 million (2001: EUR 88 million). Of income tax receivables, EUR 22 million relates to the current financial year (2001: EUR 888 million) and EUR 806 million to previous years (2001: EUR 538 million). The receivables for previous years include tax refunds relating to the recognition of write-downs on Deutsche Telekom's goodwill (see note (9)).

Miscellaneous other assets include EUR 91 million from VAT receivables relating to declaration of assignment, and EUR 128 million receivables from compensatory payments for collateral furnished.

Except for EUR 86 million, the other assets are due in full within one year. They include interest receivables legally accruing after the balance sheet date and claims for non-allowable input tax at the balance sheet date totaling EUR 232 million (2001: EUR 242 million).

(16) Marketable securities

	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Treasury shares	7	7
Other marketable securities	366	654
	373	661

The level of treasury shares at the balance sheet date (2,670,828 shares) 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 and not issued	14,630
	2,670,828

The shares are recorded in the balance sheet at acquisition costs. The shares not purchased by employees (14,630) were initially recognized in the balance sheet at acquisition cost of EUR 0.9 million and written down to the lower quoted market price applicable at the balance sheet date. The total proportion of treasury shares in capital stock is 0.06 %.

Other marketable securities primarily relate to the price support portfolio of Bundespost bonds (EUR 139 million) and interest-bearing securities (EUR 227 million).

(17) Liquid assets

	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Checks	0	0
Petty cash and deposits at the Bundesbank	3	3
Cash in banks	135	1,311
	138	1,314

The total time to maturity of the liquid assets is currently less than three months.

(18) Prepaid expenses, deferred charges and deferred taxation

Prepaid expenses and deferred charges of EUR 394 million (2001: EUR 382 million) mainly consist of prepaid personnel costs of EUR 128 million (2001: EUR 150 million). Also in-

cluded are discounts on loans of EUR 228 million (2001: EUR 185 million), which are amortized on a straight-line basis over the terms of the related liabilities.

(19) Shareholders' equity

A detailed statement of shareholders' equity for the years 2000, 2001 and 2002 is attached to the notes to the financial statements.

(20) Capital stock

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

The Federal Republic's direct shareholding in Deutsche Telekom, 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. The remaining shares are in free float.

In the course of the acquisition of T-Mobile USA/Powertel, Deutsche Telekom 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 shareholders' meeting on May 28, 2002 adopted the following resolution:

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 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.

(21) Additional paid-in capital

As a result of the T-Mobile USA/Powertel stock options exercised, the additional paid-in capital increased in 2002 by EUR 15 million. This figure corresponds to the amount gen-

erated via the employee stock purchase plan in excess of the nominal amount.

(22) Retained earnings

In accordance with § 272 (4) HGB, Deutsche Telekom has established a reserve for treasury shares using funds from retained earnings in the amount of the asset item for treasury shares on the balance sheet.

As part of the appropriation of net income for the 2001 financial year, the shareholders' meeting on May 28, 2002 ap-

proved the transfer of EUR 1,870 million to other retained earnings.

EUR 2,978 million was withdrawn from retained earnings to offset the net loss for the 2002 financial year.

(23) Stock-based compensation

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/Main Xetra on the grant date was EUR 60.40 per share. The term of the options runs until July 20, 2005.

The options may 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, preemptive rights 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	
	No. of stock options (in thousands)	Weighted average exercise price (€)	No. of stock options (in thousands)	Weighted average exercise price (€)	No. of stock options (in thousands)	Weighted average exercise price (€)
Outstanding stock options at beginning of year under review	1,001	62.69	1,022	62.69	n/a	n/a
Granted	0	-	0	-	1,024	62.69
Exercised	0	-	0	-	0	-
Forfeited	7	62.69	21	62.69	2	62.69
Outstanding stock options 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	-

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 share 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 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/Main Xetra on the grant date was EUR 19.10 per share. The term of the options runs until August 12, 2011.

In the 2002 financial year, Deutsche Telekom granted additional stock options to certain employees. On July 15, 2002, Deutsche Telekom granted 3,927,845 further options for the purchase of 3,927,845 shares at an exercise price of EUR 12.36 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/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	
	No. of stock options (in thousands)	Weighted average exercise price (€)	No. of stock options (in thousands)	Weighted average exercise price (€)
Outstanding stock options at beginning of year under review	8,219	30.00	n/a	n/a
Granted	3,928	12.36	8,221	30.00
Exercised	0	-	0	-
Forfeited	183	29.16	2	-
Outstanding stock options at end of year	11,964	24.22	8,219	30.00
Exercisable at end of year under review	0	-	0	-

In the 2002 financial year, no stock options were granted to the members of the Board of Management under Deutsche Telekom's 2001 Stock Option Plan.

In the year under review, Deutsche Telekom AG also 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.

(24) Accruals for pensions and similar obligations

As part of the **civil servants pension plan**, Deutsche Telekom maintained a special pension fund for its active and former civil servants up until the 2000 financial year. By way of a notarized agreement dated December 7, 2000, this fund was merged with the special pension funds of Deutsche Post AG and Deutsche Postbank AG 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 registered office of BPS-PT is Bonn. BPS-PT works for the funds of all three companies and also handles the financial administration for the Federal Republic on a trust basis. It carries out all transactions for pension and allowance payments for Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom AG.

In accordance with the provisions of the Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz - PTNeuOG), BPS-PT makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil servant status. The level of Deutsche Telekom's payment obligations to its special pension fund is stipulated in § 16 of the Act Concerning the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz - PostPersRG). Since 2000, Deutsche Telekom 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 ongoing expenses in the respective year, and amounted to EUR 838 million in the year under review (2001: EUR 845 million).

In accordance with the PTNeuOG, the Federal Republic provides suitable compensation for any differences between the ongoing payment obligations of the special pension fund and the ongoing amounts received from Deutsche Telekom or 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 demand reimbursement from Deutsche Telekom of any amounts it pays into the special pension fund in accordance with this provision.

The **pension obligations to non-civil servants** are based on indirect and direct pension commitments. The indirect commitments include the obligations of Versorgungsanstalt der Deutschen Bundespost (VAP) and the special pension fund of Deutsche Telekom Betriebsrenten-Service e.V. (DTBS).

Deutsche Telekom's direct pension commitments comprise direct commitments, VAP parallel obligations, and the obligations arising from § 131 of the German Basic Law (Grundgesetz - GG). The VAP parallel obligations are based on direct legal claims against Deutsche Telekom which were originally attributable to VAP. VAP's obligations are therefore suspended.

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. As part of the restructuring of the corporate pension plan in 1997, the employer and the trade unions entered into an agreement stipulating measures 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 this account on an annual basis; when the insured event occurs, the account balance is paid out in full or in installments, or can be converted into a pension. If the relevant employees have not yet reached the age of 35 and have been insured for less than ten years, their benefit obligations are paid directly from Deutsche Telekom. The remaining obligations are settled by DTBS.

In accordance with commercial law, accruals for pensions have been set up as stipulated by SFAS 87 (in previous years, the direct pension obligations from direct commitments were recorded at the higher value at the time in accordance with § 6a EStG). The level of these accruals is substantiated by actuarial opinions.

In order to reflect the particular conditions within the various groups of future benefit recipients, the calculation principles detailed below are used for each respective accounting method:

	2002	2001
Direct obligations (not including VAP)	SFAS 87 "Heubeck new"	Minimum accrual in accordance with § 6a EStG "Heubeck new"
Special pension fund	SFAS 87 "Heubeck new"	SFAS 87 "Heubeck new"
VAP and parallel obligation	SFAS 87 "average (Heubeck new/Heubeck old)"	SFAS 87 "average (Heubeck new/Heubeck old)"

"Heubeck old" and "Heubeck new" refer to the life expectancy tables used in the calculations; they were compiled by Prof. Klaus Heubeck in 1983 and 1998 respectively.

The mean average of the old and new life expectancy tables is used in calculating the amounts due to VAP parallel obligation benefit recipients, as the basis for the forecasts in "Heubeck new" does not apply in full to this closed group of pension recipients.

Furthermore, the assumptions detailed in the following table are used for calculations in accordance with SFAS 87:

	2002	2001
Discount rate	5.75 %	6.00 %
Projected salary increase	2.75 %	2.75 %
Expected return on assets	6.00 %	6.00 %
Projected pension increase	1.50 %	1.50 %

As at December 31, 2002, the calculation of pension obligations in accordance with SFAS 87 required the disclosure of an additional minimum liability (AML) amounting to EUR 452 million (2001: EUR 201 million). In the 2002 financial statements, the year-on-year change in the AML of EUR 251 million is recognized in expenses.

On the basis of these assumptions, pension obligations as at the respective balance sheet dates are accounted for as follows:

	Dec.31, 2001 millions of €	Dec.31, 2001 millions of €
Direct pension obligations	2,349	2,271
- of which parallel obligation: € 1,926 million (2001: € 1,902 million)		
Indirect pension obligations	993	867
	3,342	3,138
Obligations in accordance with Article 131 GG	8	12
	3,350	3,150

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

The corresponding carrying amount for direct and indirect pension obligations in accordance with § 6a EStG, based on the new life expectancy tables, was EUR 3,304 million (2001: EUR 3,217 million).

Coverage of the pension obligations in line with SFAS 87 is as follows:

	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Actuarial present value of benefits:		
Vested benefit obligation	3,466	2,987
Non-vested benefit obligation	223	118
Accumulated benefit obligation	3,689	3,105
Effect of projected future salary increases	56	52
Projected benefit obligation	3,745	3,157
Plan assets at fair value	(351)	(336)
Projected benefit obligation in excess of plan assets	3,394	2,821
Unrecognized net (losses)/gains	(510)	(254)
Unfunded accrued pension cost	2,884	2,567
Additional Minimum Liability	452	201

Pension cost in accordance with SFAS 87 can be broken down as follows:

	2002 millions of €	2001 millions of €	2000 millions of €
Service cost	77	28	29
Interest cost	205	180	177
Return on plan assets	(20)	(21)	(15)
Amortization of actuarial losses	6	0	0
Remeasurement	3	2	0
Net periodic pension cost	271	189	191

(25) Other accruals

	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Taxes		
Trade tax	14	560
Corporate income tax	918	894
Other taxes	264	178
	1,196	1,632
Accruals other than taxes		
Employee benefits		
Civil Service Health Insurance Fund	1,101	1,079
Personnel restructuring	261	209
Other obligations	295	274
Outstanding invoices	460	771
Risks related to real estate	225	169
Order book risks	53	1
Loss contingencies from foreign currency forward contracts	40	1
Investment risks	0	4
Litigation risks	108	236
Restoration commitments	13	12
Deferred maintenance	14	15
Loss contingencies from interest rate derivatives	372	880
Other	193	293
	3,135	3,944
	4,331	5,576

The reduction in accruals for contingent losses from interest rate derivatives is due in particular to the closing out of interest rate swaps and interest rate/currency swaps which, following the reversal of loan receivables from T-Mobile International AG, Bonn, in 2001, no longer related to an underlying transaction in 2002. In line with the principles of Deutsche Telekom's

hedging policy, these interest rate swaps and interest rate/currency swaps were closed out.

The accrual for open interest rate derivative contracts in particular comprises the interest valuation portfolio for euros in the amount of EUR 165 million and for USD-denominated forward contracts in the amount of EUR 175 million.

(26) Liabilities

	Dec. 31, 2002 millions of €				Dec. 31, 2001 millions of €			
	Total	within one year	of which due in 1 to 5 years	after 5 years	Total	within one year	of which due in 1 to 5 years	after 5 years
Debt								
Bonds and debentures	16,458	4,614	10,968	876	25,956	11,296	13,822	838
Liabilities to banks	1,786	860	391	535	1,866	511	764	591
	18,244	5,474	11,359	1,411	27,822	11,807	14,586	1,429
Other								
Advances received	4	4	-	-	4	4	-	-
Trade accounts payable	927	916	11	-	2,063	2,063	-	-
Payables to subsidiaries	43,221	16,612	13,848	12,761	40,243	16,016	12,440	11,787
Liabilities to other companies in which an equity interest is held	12	12	-	-	45	45	-	-
Other liabilities	2,765	1,945	96	724	2,926	2,360	90	476
of which from taxes	(801)	(801)	-	-	(780)	(780)	-	-
of which from social security	(67)	(67)	-	-	(50)	(50)	-	-
	46,929	19,489	13,955	13,485	45,281	20,488	12,530	12,263
Total liabilities	65,173	24,963	25,314	14,896	73,103	32,295	27,116	13,692

Bonds and debentures relate primarily to bonds of Deutsche Bundespost, Bonn, (EUR 11,760 million). Breakdown of bonds and debentures in millions of euros as follows:

Due by December 31	up to 6 %	up to 7 %	up to 8 %	Total
2003	2,058	2,556		4,614
2004	1,157	3,068	6,212	10,437
2005				
2006	421			421
2007	110			110
2008-2024	105	205	566	876
Total	3,851	5,829	6,778	16,458

The largest item under **liabilities to subsidiaries** is the liability to DT Finance, which amounts to EUR 29,951 million (2001: EUR 25,798 million). This increase is due to restructuring and refinancing within the Group.

An essential component of this liability are the bonds issued by DT Finance in the 2000, 2001 and 2002 financial years. The bonds issued by DT Finance and passed on to Deutsche Telekom are structured as follows:

2000 tranche	Nominal amount in currency	Interest rate	Maturity
EUR	2,250,000,000	6.215 %	2005
EUR	750,000,000	6.715 %	2010
USD	785,000,000	7.840 %	2005
USD	1,685,000,000	8.340 %	2030
JPY	90,000,000,000	1.590 %	2005

2001 tranche	Nominal amount in currency	Interest rate	Maturity
EUR	4,500,000,000	5.965 %	2006
EUR	3,500,000,000	6.715 %	2011

2002 tranche	Nominal amount in currency	Interest rate	Maturity
EUR	2,500,000,000	7.560 %	2007
EUR	2,000,000,000	8.195 %	2012
USD	500,000,000	9.330 %	2032

In addition, liabilities exist, among others, to T-Online International AG, Darmstadt, in the amount of EUR 3,404 million (2001: EUR 3,296 million); Kabel Deutschland GmbH, Bonn, in the amount of EUR 3,343 million (2001: EUR 1,999 million); T-Systems International GmbH, Frankfurt/Main (previously T-Systems ITS GmbH, Leinfelden-Echterdingen), in the amount of EUR 1,385 million, and T-Mobile International AG, Bonn, in the amount of EUR 1,225 million (2001: EUR 1,274 million).

The following table shows the composition of **other liabilities**:

	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Interest	667	985
Liability from Asset-Backed-Securitization	69	53
Loan notes	804	556
Tax liabilities	801	780
Liabilities to employees	8	13
Social security costs	67	50
Other	349	489
	2,765	2,926

Interest liabilities primarily relate to deferred interest from bonds and debentures and other liabilities as at December 31, 2002.

Loan notes relate to insurance companies and other institutional investors. With the exception of the loan received in the 2002 financial year, all loan notes are secured by the Federal Republic of Germany.

Tax liabilities comprise VAT liabilities in the amount of EUR 654 million (2001: EUR 545 million), wage tax liabilities in the amount of EUR 64 million (2001: EUR 57 million), and trade capital tax receivables in the amount of EUR 66 million (2001: EUR 66 million).

Notes to the statement of cash flows.

The 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 (Deutscher Rechnungslegungs Standard – DRS) No. 2, Cash Flow, as approved by the German Standardi-

zation Council (Deutscher Standardisierungsrat – DSR), is also used in drawing up the statement of cash flows.

Specifically, cash was provided and used as follows:

(27) Net cash provided by operating activities

Net cash provided by operating activities in the year under review amounted to EUR 6,635 million, representing a year-on-year decrease of EUR 2,737 million.

This change is primarily attributable to the decrease in income related to associated and related companies, which was due to dividend rights which lapsed in the 2002 financial year.

(28) Net cash provided by (used for) investing activities

Net cash provided by (used for) investing activities decreased year-on-year by EUR 10,756 million, resulting in net cash provided by investing activities in the amount of EUR 1,759 million.

Cash inflows from the disposal of property, plant and equipment relate primarily to real estate.

Cash outflows from investments in financial assets in the amount of EUR 8,500 million were offset by cash inflows from disposals of the same items in the amount of EUR 11,552 million. The cash inflows are primarily due to the repayment of additional paid-in capital to Deutsche Telekom by NAB Nordamerika Beteiligungsholding GmbH, Bonn, in the amount of EUR 3,515 million and the intra-group refinancing of loans to T-Mobile USA in the amount of EUR 6,273 million.

(29) Net cash provided by (used for) financing activities

Net cash used for financing activities represents the reduction in liabilities achieved in the 2002 financial year in the amount of EUR 9,570 million.

Cash inflows from new medium- and long-term borrowings in the amount of EUR 20,531 million, new short-term borrow-

ings in the amount of EUR 76,026 million and the capital increase resulting from the exercise of options in the amount of EUR 15 million were offset by cash outflows from the repayment of short-term debt totaling EUR 86,137 million and medium- and long-term debt totaling EUR 18,466, and the dividend payment in the amount of EUR 1,539 million.

Other disclosures.

(30) Guarantees and commitments, and other financial obligations

Guarantees and commitments	Dec. 31, 2002 millions of €	Dec. 31, 2001 millions of €
Guarantees	364	304
Legal liability arising from collateral granted for third parties	-	-
Liabilities arising from warranty agreements ¹⁾	17,400	15,308
	17,764	15,612

¹⁾ of which to subsidiaries: EUR 17,354 million; 2001: EUR 15,263 million

Guarantees include litigation, rental and bank guarantees.

Liabilities arising from warranty agreements are primarily in favor of DT Finance (EUR 10,433 million), T-Mobile Deutschland GmbH, Bonn (EUR 4,100 million), and T-Mobile (UK) Ltd., Borehamwood (UK) (EUR 2,612 million).

Deutsche Telekom AG, DaimlerChrysler Services AG, Berlin, and Compagnie Financiere et Industrielle des Autoroutes S.A.,

Sèvres Cedex (France, Cofiroute), as a consortium ("Toll Collect") have reached an agreement with the Federal Republic of Germany for the development and operation of a system for the recording and collection of toll charges for commercial vehicles. Deutsche Telekom and DaimlerChrysler Services AG, Berlin, each hold a 45 % stake in the consortium and Cofiroute 10 %.

Under the terms of the agreement, the consortium has guaranteed successful completion of the system for the recording and collection of toll charges. This project consists of various phases with corresponding penalties for delayed completion. The system is scheduled to start operation in August 2003.

The consortium has also guaranteed the 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

	Dec. 31, 2002 millions of €			Dec. 31, 2001 millions of €		
	Total	of which due		Total	of which due	
		in the following financial year	from the second year after the balance sheet date		in the following financial year	from the second year after the balance sheet date
Present value of payments to BPS-PT	9,001	831	8,170	9,372	845	8,527
Obligation under rental and lease agreements	10,139	2,038	8,101	13,069	2,465	10,604
of which to subsidiaries: € 9,347 million (2001: € 11,535 million)						
Purchase commitments for capital projects in progress, including obligations arising from future expenditure	3,558	1,719	1,839	4,157	2,994	1,163
of which to subsidiaries: € 2,995 million (2001: € 1,970 million)						
Commitments arising from contributions not paid up, purchase commitments for interests in other companies, and commitments arising from transactions not yet settled	545		545	4,771	4,706	65
of which to subsidiaries: € 50 million (2001: € 51 million)						
Total other financial obligations	23,243	4,588	18,655	31,369	11,010	20,359

The present value of the payments that Deutsche Telekom is obliged to make to BPS-PT in accordance with the PTNeuOG, based on the 1998 life expectancy tables prepared by Prof. Klaus Heubeck, amounted to EUR 9,001 million as at December 31, 2002 of which EUR 3,809 million relates to the future payments for pensions of civil servants.

Obligations under rental and lease agreements include an obligation to GMG in the amount of EUR 9,347 million.

Purchase commitments include commitments for capital projects amounting to EUR 683 million (of which to GMG: EUR 502 million) and a purchase commitment amounting to EUR 2,303 million to GMG for non-capital projects. The decrease in purchase commitments is mainly attributable to the reduction in investment activities and the completion of the roll-out of the T-DSL and TGN network.

The commitment arising from contributions not paid up amounted to EUR 50 million and purchasing commitments for interests in other companies amounted to EUR 490 million. The purchase commitments for interests in other companies amounting to EUR 4,706 million which were disclosed last year expired in the first quarter of 2002, when DaimlerChrysler Services AG, Berlin, exercised its right to dispose of its interests in T-Systems International GmbH, Frankfurt/Main (previously T-Systems ITS GmbH, Leinfelden-Echterdingen).

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 the forecast cost of the negative outcome of proceedings. Deutsche Telekom does not believe that any additional costs will have a material adverse effect on the net worth, financial position and results of the Company.

(31) Derivative financial instruments

The volume of transactions outstanding at the balance sheet date is as follows:

	Notional amounts					Fair values ¹⁾			
	Remaining term			Total	Hedged	Remaining term			Total
	Less than 1 year	1-5 years	More than 5 years			Less than 1 year	1-5 years	More than 5 years	
millions of €									
Interest-related instruments									
Interest rate swaps	4,025	13,359	3,734	21,118	9,642	0	(197)	(185)	(382)
Interest rate/ currency swaps	2,039	9,116	736	11,891	9,820	(9)	(10)	0	(19)
Subtotal	6,064	22,475	4,470	33,009	19,462	(9)	(207)	(185)	(401)
Currency instruments									
Future exchange transactions short	2,494	93	11	2,598	2,393	5	5	1	11
Future exchange transactions long	1,911	53	11	1,975	1,752	0	(5)	(1)	(6)
Subtotal	4,405	146	22	4,573	4,145	5	0	0	5
Total	10,469	22,621	4,492	37,582	23,607	(4)	(207)	(185)	(396)

¹⁾ Derivative instruments which qualify for hedge are not shown here.

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

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

The main interest rate instruments used are interest rate swaps. These are entered into with the aim of transforming the coupons on bonds, and the interest rates on loans, 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 (micro interest rate swaps) or groups of similar liabilities (macro interest rate swaps).

Gains or losses related to changes in the value of interest rate swaps relating to balance sheet items are not recognized in income. Interest rate swaps not related to balance sheet items (especially hedging of planned future transactions) are assigned to currency-specific portfolios, gains and losses from changes in their fair value are netted out and net aggregate losses are recognized in income. Payments made and received in relation to the interest rate swaps and gains and losses from interest rates closed out before maturity are recognized in income.

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.

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 interest payments arise from the interest rate swaps entered into by Deutsche Telekom:

The terms of the EUR-receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates (weighted average of 4.4 % per annum), and pay interest at variable rates (generally based on the six-month Euribor rate). The terms of the EUR-receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to receive interest at variable rates (generally based on the six-month Euribor rate), and pay interest at fixed rates (weighted average of 5.3 % per annum).

The terms of the JPY-receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates of 1.5 % per annum, which are swapped for variable rates (generally based on the six-month JPY-LIBOR rate).

Forward interest rate swaps denominated in USD and EUR were entered into in order to ensure that the targets of interest rate management were reached. The mix of variable- and fixed-rate instruments denominated in USD and EUR was adjusted for a period of three years with the conclusion of USD-receive variable, pay fixed and EUR-receive fixed, pay variable forward interest rate swaps. The terms of the USD-receive variable, pay fixed forward interest rate swaps provide for Deutsche Telekom to receive interest at variable rates based on the six-month Euribor rate in future, and to pay interest at a weighted average fixed rate of 5.1 %. The terms of the EUR-receive fixed, pay variable forward interest rate swaps provide for Deutsche Telekom to receive interest at a weighted average fixed rate of 4.2 % in future, and to pay interest at variable rates based on the six-month Euribor rate. In order to secure the interest rate of planned HUF-denominated financing, a HUF-receive variable, pay fixed forward interest rate swap was entered into. The terms of this swap provide for Deutsche Telekom to pay interest at an average fixed rate of 9.3 % in future, and receive interest at variable rates based on the six-month BUBOR rate.

The cross-currency interest rate swaps were primarily used to transform bonds and drawings on medium-term notes into Deutsche Telekom's target currencies, i.e., EUR, GBP and USD. In addition, pay EUR/receive USD interest rate/currency swaps were used to finance net investment in T-Mobile USA, while pay EUR/receive CHF, HUF and CZK interest rate/currency swaps were all used to hedge against currency risk in the financing of subsidiaries.

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 by reference to the notional amounts and by the other terms of the derivatives, such as interest rates, exchange rates or other indices.

(32) Remuneration of the Supervisory Board and the Board of Management

The composition of the Supervisory Board and of the Board of Management is explained in a section preceding the financial statements and the notes thereto.

In the 2002 financial year, the Supervisory Board was paid Supervisory Board remuneration and meeting attendance fees of EUR 555,702.00.

Provided that the 2002 financial statements of Deutsche Telekom AG are approved in their current form, the total remuneration of the Board of Management will amount to EUR 14,478,818.28. Deutsche Telekom did not grant any

stock options to the members of the Board of Management in the 2002 financial year.

The remuneration paid to former members of the Board of Management and their surviving dependents amounted to EUR 26,437,713.11. The accrual set up for ongoing pensions and pension entitlements for this group of persons amounted to EUR 38,089,883.00. Pension obligations for which no accrual need to be set up amounted to EUR 3,368,531.00.

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

(33) Proposal for appropriation of net (loss)/income

The income statement discloses a 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.

(34) Declaration of compliance with the German Corporate Governance Code in accordance with § 161 AktG

In accordance with § 161 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.

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

Report of Independent Auditors.

We have audited the annual financial statements, consisting of the statement of income, the balance sheet, the statement of cash flows, the statement of shareholders' equity and the notes to the annual financial statements, together with the bookkeeping system, 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 maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law and with the additional rules as laid down in the Company's Articles of Incorporation are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements together with the bookkeeping system and the management report based on our audit.

We conducted our audit of the 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 annual financial statements in conformity with German principles of proper accounting and in the combined 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audits. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the annual financial statements and the 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 annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in conformity with German principles of proper accounting. On the whole, the combined management report for Deutsche Telekom AG and the Deutsche Telekom Group provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Stuttgart/Frankfurt (Main), March 17, 2003

Ernst & Young
Deutsche Allgemeine Treuhand AG
Wirtschaftsprüfungsgesellschaft
Stuttgart

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

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Frankfurt (Main)

(Frings) (Laue)
Wirtschaftsprüfer Wirtschaftsprüfer

Information for shareholders.

Deutsche Telekom AG

Postfach 20 00
D-53105 Bonn
Germany
Phone +49 228 1 81-0
Fax +49 228 1 81-8 87 20
Internet: <http://www.telekom.de>

Investor Relations:
Phone +49 228 1 81-8 88 96
Fax +49 228 1 81-8 80 09
E-mail: Investor.Relations@telekom.de

Retail investors can address their
questions and comments to:
Forum T-Aktie
70121 Stuttgart
Germany
Phone 0800 33 02 100
Fax 0800 33 01 100
E-mail: Forum.T-Aktie@t-online.de

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Fax +49 921 18-10 29.