

Reconciliation to pro forma figures.

- EBITDA, EBITDA adjusted for special factors, the EBITDA margin, the EBITDA margin adjusted for special factors, free cash flow, and gross and net debt, are all “pro forma figures”.
- Pro forma figures are not governed by German or U.S. GAAP. As other companies may not compute the pro forma figures presented in the entire interim report in the same way, Deutsche Telekom’s pro forma figures are only comparable with similarly

designated disclosures by other companies to a limited extent.

- Pro forma figures should not be viewed in isolation as an alternative to net income/loss, results from ordinary business activities, net cash provided by operating activities, financial liabilities, or other Deutsche Telekom figures reported under German or U.S. GAAP.

EBITDA and EBITDA adjusted for special factors.

EBITDA

EBITDA of the divisions and the Group as a whole is derived from the results from ordinary business activities. This measure of earnings before minority interest in income/loss and before income taxes is additionally adjusted for other taxes, net financial expense, and depreciation and amortization. In this definition, net financial expense includes net interest expense, income (loss) related to associated and related companies, and write-downs of financial assets and marketable securities. As it is based on the results from ordinary business activities, this method of computation allows EBITDA to be derived for the divisions and the Group as a whole on the basis of a common, known measure

of earnings. It should be noted that Deutsche Telekom’s definition of EBITDA may differ from that used by other companies.

Deutsche Telekom considers EBITDA, as defined above, to be a measure of the development of its operating activities before the effect of start-up costs, not matched by any relevant income, for the development of new business areas and markets. As such, EBITDA is an important indicator used by Deutsche Telekom’s senior operating decision-makers to manage Deutsche Telekom’s operating activities and measure the performance of the individual units.

Adjusted EBITDA

Deutsche Telekom defines EBITDA adjusted for special factors as the results from ordinary business activities excluding other taxes, net financial income (expense), amortization and depreciation, and before the effects of any special factors. Deutsche Telekom uses EBITDA adjusted for special factors as an internal performance

indicator for the management of its operational business activities, and in order to better evaluate and compare developments over several reporting periods. More detailed explanations of the effects of special factors on Group EBITDA and net income/loss are contained in the following section “Special factors”.

EBITDA margin

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

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

Special factors.

- Deutsche Telekom's net income (loss) and the EBITDA of the Deutsche Telekom Group and of the divisions were affected by a range of special factors in both the period under review and the comparative periods.
- The underlying concept involves the elimination of special factors that affect ordinary business activities and thus impair the comparability of EBITDA and net income/loss with previous years. The adjustments are made irrespective of whether the relevant income and expenses are reported in the results from ordinary business activities or in extraordinary income/loss or tax expense.

The tables under "The divisions" and "Deutsche Telekom at a glance" show how Deutsche Telekom derives EBITDA adjusted for special factors for the Group as a whole and for its divisions from the results from ordinary business activities. The special factors are presented for the period under review, the comparative prior-year period, and for the previous full year.

Special factors affecting EBITDA

Special factors that positively affected EBITDA in the first six months of the 2003 financial year include income of EUR 0.3 billion from the sale of the remaining cable companies in the T-Com division. In conjunction with the sale of the cable business, this income is partly offset by additions to accruals and transaction costs totaling EUR 0.1 billion, which reduced EBITDA in the period under review. Income from the sale of Telecash and SIRIS in the T-System division (EUR 0.1 billion) and from the sale of the stake in Mobile TeleSystems (MTS) (EUR 0.4 billion) in the T-Mobile division also had a positive effect on EBITDA. Additional income of EUR 0.1 billion resulted from the sale of interests in Eutelsat S.A., Ukrainian Mobile Communications (UMC), and Celcom (Malaysia).

In addition to the recognition of an additional minimum liability (AML), the loss on the sale of MultiLink (T-Systems division), and restructuring expenses due to personnel reduction at HT-Hrvatske telekomunikacije (Croatia, T-Com division) totaling EUR 0.3 billion reduced EBITDA in the second quarter of 2003.

By contrast, comparative EBITDA in the first half of 2002 was affected by a book gain (net of foreign currency transaction losses) of EUR 0.2 billion from the sale of the interest in PT Satelindo, and a loss from the sale of the shares in France Telecom (EUR 0.4 billion).

In addition, the intragroup transfer of t-info to DeTeMedien (T-Com division) had an EBITDA-neutral effect in the T-Online division in the period under review; in the previous year, there was a gain from the intragroup sale of T-Motion to T-Mobile. An expense at the T-Com division and a gain at Group Headquarters and Shared Services resulting from internal transfer payments for the Personnel Service Agency amounting to EUR 0.1 billion also had a neutral effect in the Group.

Special factors that affected Group EBITDA positively in the full 2002 financial year mainly included a gain of EUR 0.2 billion from the sale of the interest in PT Satelindo in the second quarter, as well as a gain of EUR 0.3 billion from the sale of shares in T-Online. The special factors that reduced EBITDA included restructuring expenses of EUR 0.4 billion in the T-Com and T-Systems divisions and the recognition of an additional minimum liability amounting to a total of EUR 0.2 billion in the fourth quarter.

**Special factors
not affecting
EBITDA**

Separate special factors in the form of tax income totaling EUR 0.3 billion, resulting in particular from the change of T-Mobile International AG into a limited partnership (AG & Co. KG) (EUR 0.4 billion), and deferred taxes recognized on the additional minimum liability (EUR 0.1 billion) did not affect EBITDA in the period under review. These were offset by tax effects from the reduction in deferred tax assets relating to sales of deferred payments (cable business in Kabel Baden-Württemberg and Hesse) amounting to EUR -0.2 billion.

Special factors not affecting EBITDA in the prior-year comparative period amounting to EUR -0.5 billion primarily included valuation adjustments on loans to associated companies of Kabel Deutschland GmbH (EUR -0.3 billion) and on the net carrying amount of the investment in France Telecom (EUR -0.2 billion), as well as write-downs of noncurrent securities (EUR -0.1 billion). The tax effects on the various special factors totaling EUR 0.1 billion were determined on the basis of the corporate income tax rate.

In the 2002 financial year, special factors totaling EUR 19.8 billion had a negative impact on the Group's result. The vast majority of this amount (EUR 19.6 billion) is the result of special factors which had no effect on EBITDA.

Of the EUR 19.8 billion, around EUR 19.0 billion is attributable to special factors resulting from the measures taken in connection with the strategic review which was implemented in the third quarter of 2002. This relates primarily to write-downs of intangible assets (goodwill and licenses) amounting to EUR 21.3 billion. Tax income of EUR 3.0 billion was generated from the reversal of deferred tax liabilities in the 2002 reporting period, in relation to the write-downs of mobile communications licenses held by T-Mobile USA. Furthermore, retroactive amortization of goodwill to be recognized in Deutsche Telekom AG's tax accounts in accordance with a Federal Fiscal Court ruling resulted in positive tax effects for the 2002 financial year, which were in turn a separate special factor affecting the Group's result. The tax effects on the various special factors were also determined on the basis of the corporate income tax rate.

In the 2002 financial year, EUR 23.6 billion of the total special factors negatively affected the Group result, and EUR 3.8 billion had a positive impact.

Reconciliation of
the statement of
income

billions of €	H1 2003	Special factors in Q1 2003	H1 2003 without special factors	H1 2002	FY 2002	Special factors in FY 2002	FY 2002 without special factors
Net revenue	27.2		27.2	25,8	53.7		53.7
Cost of sales	(15.3)	(0.1) ¹	(15.2)	(16.1)	(44.5)	(11.8) ⁹	(32.7)
Gross profit/(loss) from sales¹⁴	11.9	(0.1)	12.0	9.7	9.2	(11.8)	21.0
Expenses	(11.5)	(0.3) ²	(11.2)	(11.9) ⁵	(34.2)	(10.3) ¹⁰	(23.9)
Other operating income	2.6	0.9 ³	1.7	1.8 ⁶	3.9	0.5 ¹¹	3.4
Operating result¹⁴	3.0	0.5	2.5	(0.4)	(21.1)	(21.6)	0.5
Financial income/ (expense), net	(1.9)		(1.9)	(2.9) ⁷	(6.0)	(1.6) ¹²	(4.4)
Results from ordinary business activities¹⁴	1.1	0.5	0.6	(3.3)	(27.2)	(23.2)	(3.9)
Income taxes	0.2	0.3 ⁴	(0.1)	(0.4) ⁸	2.8	3.4 ¹³	(0.6)
Income/(losses) applicable to minority shareholders	(0.2)		(0.2)	(0.2)	(0.3)		(0.3)
Net income/(loss) effect of special factors¹⁴	1.1	0.8	0.3	(3.9)	(24.6)	(19.8)	(4.8)
Results from ordinary business activities ¹⁴	1.1	0.5	0.6	(3.3) ^{5,6,7}	(27.2)	(23.2)	(3.9)
Financial income/ (expense), net	(1.9)		(1.9)	(2.9) ⁷	(6.0)	(1.6)	(4.4)
Depreciation and amortization	(6.5)		(6.5)	(7.9)	(36.9)	(21.4)	(15.5)
Other taxes	(0.1)		(0.1)	(0.1)	(0.3)		(0.3)
EBITDA¹⁴	9.6	0.5	9.1	7.6^{5,6}	16.1	(0.2)	16.3
EBITDA margin (%)¹⁴	35.3		33.3	29.4	30.0		30.4

Special factors for the first half of 2003:

- ¹ Recognition of an additional minimum liability (AML) (T-Com, T-Systems, T-Mobile, and T-Online divisions) and restructuring expenses in the T-Com division. **(affecting EBITDA).**
- ² Additions to accruals and transaction costs relating to the sale of the remaining cable companies (T-Com division). **(affecting EBITDA).** Recognition of an additional minimum liability (AML) (all divisions plus Group Headquarters & Shared Services). **(affecting EBITDA).** Restructuring expenses (T-Com division). **(affecting EBITDA).** Loss on sale of MultiLink (T-Systems division). **(affecting EBITDA).**
- ³ Income from the sale of cable business (T-Com division) and book gains from the sale of Telecash, SIRIS (T-Systems division), MTS (T-Mobile division), and interests in Eutelsat, UMC, and Celcom (Malaysia) (Group Headquarters & Shared Services). **(affecting EBITDA).**
- ⁴ Primarily tax income of EUR 0.4 billion from the change of T-Mobile International AG into a limited partnership (AG & Co. KG), and deferred taxes recognized on the additional minimum liability (EUR 0.1 billion). Additional tax effects from the reduction in deferred tax assets relating to sales of deferred payments (cable activities in Kabel Baden Württemberg and Hesse) (EUR -0.2 billion).

Special factors for the first half of 2002:

- ⁵ These include EUR 0.4 billion loss on the sale of the shares in France Télécom (Group Headquarters & Shared Services). **(affecting EBITDA).**
- ⁶ These include EUR 0.2 billion book gain on the sale of the interest in PT Satelindo (Group Headquarters & Shared Services). **(affecting EBITDA).**
- ⁷ These include EUR 0.2 billion valuation adjustment on the net carrying amount of the investment in France Telecom, EUR 0.3 billion valuation adjustments on loans to associated companies of Kabel Deutschland GmbH, and EUR 0.1 billion write-downs of investments in noncurrent securities.
- ⁸ These include tax effects of EUR 0.1 billion from special factors.

Special factors for the full-year 2002:

- ⁹ Write-downs resulting from the strategic review:
Mobile communications licenses at T-Mobile USA (EUR 9.4 billion).
T-Mobile UK's UMTS license (EUR 2.2 billion).
Property, plant and equipment in the T-Systems division (EUR 0.1 billion).
Recognition of an additional minimum liability (AML) in the T-Com division (EUR 0.1 billion). **(affecting EBITDA).**
- ¹⁰ Restructuring expenses for staff reduction measures at the Eastern European affiliates in the T-Com division. **(affecting EBITDA).** Restructuring expenses in the T-Systems division (EUR 0.4 billion). **(affecting EBITDA).** Recognition of an additional minimum liability (AML) in the T-Com, T-Systems, and Group Headquarters & Shared Services divisions (EUR 0.1 billion). **(affecting EBITDA).**
Goodwill write-downs resulting from the strategic review:
T-Mobile USA (EUR 8.3 billion)
T-Mobile Netherlands (EUR 1.0 billion)
SIRIS (T-Systems division) (EUR 0.5 billion).
- ¹¹ Gain on the sale of shares in PT Satelindo (EUR 0.2 billion) and gain of EUR 0.3 billion from the sale of shares in T-Online. **(affecting EBITDA).**
- ¹² Write-downs of financial assets:
Valuation adjustment on the net carrying amount of the investment in France Telecom (EUR 0.6 billion).
Valuation adjustments on loans to subsidiaries of Kabel Deutschland GmbH (EUR 0.3 billion), and write-downs of other investments in noncurrent securities (EUR 0.4 billion).
Write-downs of financial assets resulting from the strategic review:
EUR 0.1 billion on the net carrying amount of the investment in comdirect bank AG
EUR 0.2 billion on the UMTS license of T-Mobile Netherlands (Ben) at inclusion as an associated company.
- ¹³ Tax effects from the additional minimum liability, the valuation adjustments on loans to associated companies of Kabel Deutschland GmbH, from backdated amortization of goodwill in the tax accounts of Deutsche Telekom AG, and from the reversal of deferred tax liabilities relating to the write-downs of mobile telecommunications licenses at T-Mobile USA as a result of the strategic review.
- ¹⁴ Calculated and rounded on the basis of millions for the sake of greater precision.

Pro forma figures.

Free cash flow.

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

and property, plant and equipment), in particular with regard to investments in associated and related companies, and the repayment of liabilities. However, free cash flow should not be used to determine the financial situation of the Group. Additionally, Deutsche Telekom's definition of free cash flow may be comparable only to a limited degree with similarly titled measures and disclosures by other companies and, therefore, should not necessarily be used for comparative purposes.

Reconciliation of free cash flow¹

	H1 2003 millions of €	H1 2002 millions of €	FY 2002 millions of €
Cash generated from operations	8,021	8,401	16,667
Interest received/(paid)	(1,761)	(1,756)	(4,204)
Net cash provided by operating activities	6,260	6,645	12,463
Cash outflows from investments in intangible assets and property, plant and equipment ²	(2,294)	(3,827)	(7,625)
Free cash flow before payment of dividends	3,966	2,818	4,838
Dividend	(54)	(1,558)	(1,582)
Free cash flow after payment of dividends	3,912	1,260	3,256

¹ The reconciliation of the Group's free cash flow is based on the amounts reported in the consolidated statement of cash flows prepared in accordance with IAS 7 and DRS 2.

² Excluding goodwill.

Gross and net debt.

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

Reconciliation of the Group’s gross and net debt

	June 30, 2003 billions of €	Dec. 31, 2002 billions of €	June 30, 2002 ² billions of €
Bonds and debentures	56.8	56.7	59.2
Liabilities to banks	4.4	6.3	7.7
Debt (in accordance with consolidated balance sheet)¹	61.2	63.0	66.9
Liabilities to non-banks from loan notes	0.8	0.8	0.7
Miscellaneous other liabilities	0.3	0.3	0.3
Gross debt¹	62.3	64.1	67.9
Liquid assets	8.5	1.9	1.8
Other investments in marketable securities	0.1	0.4	0.6
Other investments in noncurrent securities	0.0	0.2	0.5
Other assets	0.4	0.2	0.1
Discounts on loans (prepaid expenses and deferred charges)	0.3	0.3	0.4
Net debt¹	53.0	61.1	64.5

¹ Calculated and rounded on the basis of millions for the sake of greater precision.

² The prior-year comparatives as of June 30, 2002 have been adjusted in line with this redefinition, presented in detail in the 2002 Annual Report.

Reconciliation to new structures.

Transition to the cost-of-sales method.

- Until the end of 2002, Deutsche Telekom classified its consolidated statement of income using the total-cost method. Deutsche Telekom published its consolidated statement of income using the internationally more common cost-of-sales method for the first time in the Group Report in the first quar-

ter of 2003. Besides allocating operational expenses to functional areas, this also involves including other taxes in the operating results, or results from ordinary business activities. The prior-year comparatives have been restated accordingly.

Agency business.

- The internal accounting for and recording of transactions involving standard products that are sold and supported by T-Systems, but settled and billed by other divisions in the Group ("agency business"), were simplified. This new arrangement has led to higher net revenue being reported at T-Com in particular, and to a lesser extent at T-Mobile, while the net revenue reported by T-Systems has dropped. In such cases, too, T-Systems remains the sole face to the customer, and continues to receive a selling

or agency commission for acquisition and support. These commissions increase the internal revenue of T-Systems. Overall, the new structure for recording the standard products business also substantially reduces the total revenue of T-Systems, while T-Com's total revenue is slightly higher, and that of T-Mobile remains largely unaffected. The amounts reported for the 2002 financial year were restated to aid comparability.

T-Com.

- On May 28, 2003, Deutsche Telekom Medien GmbH (DeTeMedien), acquired all shares of t-info GmbH from T-Online International AG for around EUR 86 million. The shares were transferred with economic effect as of April 1, 2003. t-info GmbH offers directory services and special directories on the Internet and mobile terminals, such as PDAs and mobile phones. The objective of the t-info GmbH acquisition is to concentrate and further develop the various facets of the directory business at DeTeMedien, now that increasing synergies have emerged between the print and multimedia directory businesses.
- Since January 1, 2003, the DeTeMedien subsidiary has been assigned to T-Com, and the current and historical figures reported for T-Com have been increased by the amounts reported for DeTeMedien. The simplified internal accounting for agency business revenue since January 1, 2003 (see above) has also increased the revenue reported for the T-Com division. At the same time, T-Com's selling costs have risen by the same amount as aggregate revenue, thus offsetting the effects on EBITDA. All amounts reported for T-Com for the 2002 financial year that have been affected by the reclassification of the agency business are restated to enable comparison.

T-Mobile.

- The new internal accounting procedure introduced for the agency business (see the explanations on the agency business) increases the net revenue of the T-Mobile division, because the new arrangements provide for all revenue for standard products generated directly from customers to be allocated

to this division's net revenue. At the same time, T-Mobile's internal revenue will drop by the same amount, so that the effect on total revenue is zero. In the 2002 financial year, a negligible proportion of T-Mobile's net revenue was attributable to the standard products business.

T-Systems.

- T-Systems is the Deutsche Telekom Group's single face to corporate customers, offering standard products in addition to systems solutions. For these standard products, T-Systems provides support to other Deutsche Telekom Group divisions in the form of sales and customer care services for the corporate customers involved, without itself actually being the contractual partner. Contracts are settled on behalf and on account of the division providing the product. Under the terms of this "agency business", T-Systems receives a selling or agency commission for the services it has provided. In the past, the relevant revenue billed to external customers by Deutsche Telekom AG was

originally passed through in full to T-Systems. In return, Deutsche Telekom AG received a credit from T-Systems in the amount of the related cost of goods and services incurred by Deutsche Telekom AG. In the 2002 financial year, this resulted in an increase in the amounts reported under total revenue and purchased goods and services. In the future, T-Systems will only report the proportionate selling commissions as revenue. T-Systems's reported total revenue and net revenue will therefore decline, as will the goods and services purchased. The simplified internal accounting for the agency business will thus have no effect on T-Systems' absolute EBITDA.

T-Online.

- As of January 1, 2003, T-Online International AG converted its consolidated financial reporting from German GAAP (HGB) to IFRS (International Financial Reporting Standards, formerly known as IAS – International Accounting Standards) and has presented interim consolidated financial statements under IFRS in this interim report. The move to IFRS was prompted first by the need to ensure international comparability of financial reporting, and secondly by the requirements of the Frankfurt Stock Exchange for admission to its Prime Standard segment. In addition to German Accounting Standard No. 6 (DRS 6), the requirements of IAS 34 (Interim Financial Reporting) were therefore complied with for T-Online International AG's report for the first half of 2003. T-Online International AG applies the International Financial Reporting Standards and the Interpretations issued by the International

Financial Reporting Interpretations Committee (IFRIC). This is done on the basis of the requirements of IFRS 1 (First-time Adoption of IFRS) applicable to the opening balance sheet as of January 1, 2002 and to the 2002 financial year. In Deutsche Telekom's financial reporting, T-Online is presented as the T-Online division under the HGB, and as a result, there may be differences between the presentation of T-Online International AG and the presentation of the T-Online division in those items where the IFRS differ from the HGB accounting principles. DeTeMedien was included in the T-Online division until December 31, 2002. DeTeMedien has been transferred to the T-Com division since January 1, 2003. The amounts originally reported for T-Online for the 2002 financial year have been restated accordingly to enable comparison.