## MATERIAL DIFFERENCES BETWEEN GERMAN GAAP AND U.S. GAAP

### (40) Reconciliation to U.S. GAAP

The consolidated financial statements of Deutsche Telekom AG have been prepared in accordance with German GAAP, which differs in certain respects from generally accepted accounting principles in the United States (U.S. GAAP). Application of U.S. GAAP would have affected the results of operations for each of the years in the three-year period ended December 31, 2002 and the balance sheets as of December 31, 2002 and 2001 to the extent described below.

**Reconciliation of Net Income (Loss) from German GAAP to U.S. GAAP:**

| | | For the year ended December 31, | | |
|---|---|---|---|---|
| | | 2002 | 2001 | 2000 |
| | | | (millions of €) | |
| Net income (loss) as reported in the consolidated financial statements under German GAAP | | (24,587) | (3,454) | 5,926 |
| U.S. GAAP reconciling adjustments | | | | |
| Differences in long-lived assets: | | | | |
| Differences in fixed assets | (a) | 422 | 401 | 2,792 |
| Mobile communications licenses | (b) | 4,519 | 2,098 | 865 |
| Internally developed software | (c) | 40 | 166 | 95 |
| Goodwill and asset differences | (d) | (2,292) | (285) | (97) |
| Write-down of tradenames | (e) | (1,038) | 1,040 | — |
| Effects of dilution gains | (f) | (260) | (396) | 1,741 |
| Derivatives and related foreign exchange differences | (h) | (48) | (31) | (146) |
| Implementation of SFAS 133 | (h) | — | 370 | — |
| Accruals for personnel restructuring | (i) | 294 | 10 | (125) |
| Deferral of gains on divestitures | (j) | 321 | 27 | (348) |
| Deferred income | (k) | (97) | (168) | 48 |
| Implementation of SAB 101, cumulative to December 31, 1999 | (k) | — | — | (869) |
| Capital raising and financing costs | (l) | — | — | 120 |
| Asset-backed securitizations | (m) | 175 | (71) | — |
| Investments in equity investees | (n) | 345 | (182) | 62 |
| Effects of full consolidation of debis, net of tax | (o) | (28) | (294) | (116) |
| Other differences | (p) | 239 | 226 | (197) |
| Income taxes | (q) | (103) | 1,066 | (482) |
| Net income (loss) in accordance with U.S. GAAP | | (22,098) | 523 | 9,269 |
| Income (loss) before cumulative effect of changes in accounting principle | | (22,098) | 297 | 9,706 |
| Cumulative effect of changes in accounting principles-implementation of SFAS No. 133 in 2001 and SAB 101 in 2000, net of tax | | — | 226 | (437) |
| Net income (loss) in accordance with U.S. GAAP | | (22,098) | 523 | 9,269 |

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Basic and diluted earnings (loss) per share/ADS under U.S. GAAP (in €) | | | |
| Earnings (loss) per share/ADS before implementation of SFAS No. 133/SAB 101 | (5.31) | 0.08 | 3.21 |
| Cumulative effect from implementation of SFAS No. 133/SAB 101 | — | 0.06 | (0.15) |
| Total basic and diluted earnings (loss) per share/ADS in accordance with U.S. GAAP | (5.31) | 0.14 | 3.06 |
| Weighted average shares outstanding — basic (in millions) | 4,159 | 3,676 | 3,030 |
| Weighted average shares outstanding — diluted (in millions) | 4,159 | 3,689 | 3,030 |

**Reconciliation of Shareholders' Equity from German GAAP to U.S. GAAP:**

| | | As of December 31, | |
|---|---|---|---|
| | | **2002** | **2001** |
| | | (millions of €) | |
| **Shareholders' equity as reported in the consolidated financial statements under German GAAP** | | 35,416 | 66,301 |
| **U.S. GAAP reconciling adjustments** | | | |
| Differences in long-lived assets: | | | |
| Differences in fixed assets | (a) | 3,579 | 3,193 |
| Mobile communications licenses | (b) | 7,108 | 2,963 |
| Internally developed software | (c) | 502 | 438 |
| Goodwill and asset differences | (d) | (470) | 2,672 |
| Write-down of tradenames | (e) | — | 1,062 |
| Effects of dilution gains | (f) | 1,085 | 1,345 |
| Unrealized gains on marketable securities | (g) | 166 | 580 |
| Derivatives and related foreign exchange differences | (h) | 82 | 29 |
| Implementation of SFAS 133 | (h) | — | 338 |
| Accruals for personnel restructuring | (i) | 316 | 22 |
| Deferral of gains on divestitures | (j) | — | (321) |
| Deferred income | (k) | (1,243) | (1,144) |
| Asset-backed securitizations | (m) | 103 | (71) |
| Investments in equity investees | (n) | (43) | (117) |
| Effects of full consolidation of debis, net of tax | (o) | — | (410) |
| Other differences | (p) | 52 | 82 |
| Income taxes | (q) | 2,686 | 2,049 |
| Minority interest | (r) | (3,988) | (5,307) |
| **Shareholders' equity in accordance with U.S. GAAP** | | 45,351 | 73,704 |

## Consolidated Statements of Shareholders' Equity in Accordance with U.S. GAAP
## For the years ended December 31, 2002, 2001 and 2000
## (Amounts in millions of €)

| | | | | Accumulated Other Comprehensive Income (Loss) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock[5] | Additional paid-in capital | Retained earnings | Difference from currency translation | Available-for-sale securities | Derivative instruments | Minimum pension liability | Treasury stock | Total |
| Balance, December 31, 1999 | 7,756 | 23,881 | 5,775 | (364) | 577 | — | — | (14) | 37,611 |
| Net income | | | 9,269 | | | | | | 9,269 |
| Unrealized net gains (losses) on marketable securities[1] | | | | | 1,312 | | | | 1,312 |
| Reclassification of net realized (gains) losses included in net income[2] | | | | | 146 | | | | 146 |
| Total comprehensive income | | | | | | | | | 10,727 |
| Dividends for 1999 [6] | | | (1,874) | | | | | | (1,874) |
| Proceeds from share offering | | 125 | | | | | | | 125 |
| Transfer to reserve for treasury stock | | | | | | | | 7 | 7 |
| Other | | | (8) | | | | | | (8) |
| Difference from currency translation | | | | (480) | | | | | (480) |
| Balance, December 31, 2000 | 7,756 | 24,006 | 13,162 | (844) | 2,035 | — | — | (7) | 46,108 |
| Net income | | | 523 | | | | | | 523 |
| Unrealized net gains (losses) on marketable securities[1] | | | | | 67 | | | | 67 |
| Reclassification of net realized (gains) losses included in net income[2] | | | | | (1,971) | | | | (1,971) |
| Additional minimum pension liability[3] | | | | | | | (158) | | (158) |
| Net gains (losses) on derivatives[4] | | | | | | 64 | | | 64 |
| Difference from currency translation | | | | (762) | | | | | (762) |
| Total comprehensive (loss) | | | | | | | | | (2,237) |
| Dividends for 2000 [6] | | | (1,877) | | | | | | (1,877) |
| Shares issued for acquisition of T-Mobile USA and Powertel | 2,990 | 28,624 | | | | | | | 31,614 |
| Amortization of deferred stock-based compensation and tax benefit of exercised stock options | | 96 | | | | | | | 96 |
| Balance, December 31, 2001 | 10,746 | 52,726 | 11,808 | (1,606) | 131 | 64 | (158) | (7) | 73,704 |
| Net loss | | | (22,098) | | | | | | (22,098) |
| Unrealized net gains (losses) on marketable securities[1] | | | | | (380) | | | | (380) |
| Additional minimum pension liability[3] | | | | | | | (128) | | (128) |
| Net gains (losses) on derivatives[4] | | | | | | (145) | | | (145) |
| Difference from currency translation | | | | (4,176) | | | | | (4,176) |
| Total comprehensive (loss) | | | | | | | | | (26,927) |
| Dividends for 2001 [6] | | | (1,539) | | | | | | (1,539) |
| Shares issued for acquisitions | | 83 | | | | | | | 83 |
| Amortization of deferred stock-based compensation | | 30 | | | | | | | 30 |
| Balance, December 31, 2002 | 10,746 | 52,839 | (11,829) | (5,782) | (249) | (81) | (286) | (7) | 45,351 |

(1) Unrealized net gains (losses) on marketable securities, net of tax (EUR 25 million in 2002, EUR 0 million in 2001 and 2000)
(2) Reclassification of realized gain (losses) included in net income, net of tax (EUR 0 million in 2002, EUR 19 million in 2001 and EUR 154 million in 2000)
(3) Additional minimum pension liability net of tax (EUR 82 million in 2002, EUR 101 million in 2001)
(4) Net gains (losses) on derivatives net of tax (EUR 30 million in 2002, EUR 10 million in 2001)
(5) Number of shares outstanding (in millions) are 3,024, 3,027, 4,156 and 4,153 at December 31, 1999, 2000, 2001 and 2002, respectively. The outstanding amounts differ from the amounts determined under German GAAP in 2001 and 2002 due to the treatment of shares placed in a trust as part of the acquisition of T-Mobile USA and Powertel.
(6) The dividends per share/ADS (in €) for 2002, 2001 and 2000 were 0.0 (proposed), 0.37, and 0.62, respectively. Dividends per share are presented on the basis of the year in respect of which they are declared, not the year in which they are paid.

### *(a) Differences in Fixed Assets*

The following table presents a summary of the main U.S. GAAP adjustments to equity discussed in this note:

| | | As of December 31, | |
|---|---|---|---|
| | | **2002** | **2001** |
| | | (millions of €) | |
| (i) | Valuation of fixed assets | 3,060 | 3,046 |
| (ii) | Sale and leaseback transactions | (55) | (42) |
| (iii) | ISDN boxes | 102 | 153 |
| (iv) | Write-down of submarine cable and indefeasible-rights-of-use | 249 | — |
| (v) | Capitalization of interest and other | 223 | 36 |
| | | **3,579** | **3,193** |

(i) Under German GAAP, the Company previously wrote-down fixed assets primarily relating to its real estate holdings. These write-downs were not required under U.S. GAAP for real estate classified as held and used. This resulted in a difference of approximately EUR 2,833 million and EUR 3,046 million in the carrying basis of land and buildings between U.S. GAAP and German GAAP at December 31, 2002 and 2001, respectively. In addition, the Company wrote-down EUR 227 million relating to the carrying value of certain fixed assets, on the basis of the 'prudence' principle under German GAAP during 2002. Under U.S. GAAP, this writedown did not meet the impairment criteria under SFAS No. 144, and, therefore was included in the reconciliation. These differences in valuation result in higher depreciation expense to be recorded under U.S. GAAP than under German GAAP. In addition, these differences will affect the gains or losses to be recognized upon sale of the real estate, to the extent that these differences in carrying values relate to the assets sold.

(ii) During 2002 and 2001 the Company entered into a series of sale and leaseback transactions primarily underlying its real estate holdings. These leasebacks qualified as off-balance-sheet leases under German GAAP. However, these transactions have been accounted for as financings under U.S. GAAP due to the Company's continuing involvement. The cumulative proceeds from the sales in 2002 and 2001 of EUR 1,664 million are recorded as liabilities, and the net book value of the sold assets of EUR 1,554 million remain recorded as assets. Additionally, approximately EUR 55 million in financing fees were capitalized as other assets related to the transactions, and are amortized over the 18-year life of the contracts. The future payments under German GAAP are included as minimum lease payments under operating leases in note (13) to the consolidated financial statements.

(iii) The Company historically capitalized ISDN boxes relating to digital telephony services under both German and U.S. GAAP. In 2000, the acquisition costs for new ISDN boxes no longer exceeded the Company's minimum capitalization threshold under German GAAP and were expensed when acquired. As new assets no longer met the criteria for capitalization, the Company also expensed EUR 204 million in 2000 relating to the remaining book values of the assets previously capitalized. Under U.S. GAAP, the fact that new equipment purchases do not meet the criteria for capitalization does not result in the write-off of equipment previously capitalized in accordance with the Company's accounting policy. Accordingly, this write-off was not recorded and the costs are capitalized and depreciated under U.S. GAAP. The remaining net book value was EUR 102 million and EUR 153 million at December 31, 2002 and 2001, respectively.

(iv) During 2002, the Company recorded an EUR 249 million write-down in the values of certain of its indefeasible-rights of-use (IRUs) and submarine cables, for German GAAP purposes, due to declines in market prices for supply. This write down was not required under US GAAP, since the book values of the IRUs and cables were components of a larger cash generating unit with identifiable cash flows sufficient to recover the assets.

(v) Under German GAAP, the capitalization of interest related to fixed assets under construction is based on the allocated interest expense given the financial structure of the Company. Under U.S. GAAP, the capitalization of interest related to fixed assets under construction does not take into account the Company's financial structure, but capitalizes the interest expense related to interest on borrowings used for construction costs during the construction period. As a result, the Company capitalized an additional EUR 156 million and EUR 39 million of interest expense related to assets under construction for U.S. GAAP, in 2002 and 2001, respectively. In addition, site rental expense during the construction period is recorded as a paid expense under German GAAP, but under U.S. GAAP the cost is capitalized as part of the constructed asset. As a result, an additional EUR 53 million was capitalized as part of the cost of the assets in 2002.

***(b) Mobile Communications Licenses***

Under German GAAP, the costs of the UMTS licenses purchased in the United Kingdom, Germany and Austria in 2000, licenses obtained in the acquisition of T-Mobile USA and Powertel, and the UMTS license obtained in the acquisition of Ben in 2002 are amortized as scheduled from the time of acquisition over the expected period of usage. The interest on borrowings made to finance the acquisitions of these licenses is recognized immediately as an expense. Under U.S. GAAP, amortization of the UMTS licenses commences from the beginning of the economic use of the licenses, considered to be the start of operation of the networks, over the expected period of usage. Mobile licenses used in the U.S. have been determined to be intangible assets with indefinite useful lives under SFAS No. 142 and, accordingly, are not amortized. On a combined basis this resulted in a decrease in amortization expense of EUR 1,692 million, EUR 863 million and EUR 377 million in 2002, 2001 and 2000, respectively. The interest accumulated on borrowings through the start of network operation represents part of the acquisition costs under U.S. GAAP, resulted in a decrease in interest expense of EUR 1.2 billion, EUR 1.2 billion and EUR 488 million in 2002, 2001 and 2000, respectively. Under German GAAP, nonscheduled amortization amounting to EUR 2,165 million was recorded in 2002 relating to the UMTS license in the U.K. Under U.S. GAAP, the nonscheduled amortization did not meet the criteria for an impairment charge under SFAS No. 144, and therefore no impairment charge was recorded. Under German GAAP, nonscheduled amortization amounting to EUR 9,384 million was recorded to reduce the licenses in the U.S. to their fair value as of September 30, 2002. Under U.S. GAAP, the licenses are subject to the requirements of SFAS No. 142, and the value was determined to be impaired during the annual impairment test performed as of September 30, 2002. As a result, an impairment charge amounting to EUR 9,923 million was recognized under U.S. GAAP, a difference of EUR 539 million when compared with German GAAP.

***(c) Internally Developed Software***

Under U.S. GAAP, in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, the Company capitalizes certain internal and external expenses incurred during the project development stage of computer software for internal use. These assets are being amortized over their estimated useful lives of four years. Under German GAAP, these costs are expensed as incurred.

***(d) Goodwill and Asset Differences***

Differences exist between German and U.S. GAAP in the valuation of assets and liabilities of acquired businesses due to valuation of shares and stock options issued, valuation of underlying assets and liabilities (including deferred taxes), dates used to calculate consideration paid, as well as the date at which an acquisition is considered completed. The acquisitions resulting in the majority of the differences between German GAAP and U.S. GAAP are discussed following the tables below.

On January 1, 2002, the Company implemented SFAS No. 142. Upon its adoption, goodwill was no longer amortized under U.S. GAAP. The standard requires the assessment of the carrying value of goodwill and other intangible assets with indefinite useful lives for impairment annually or when indicators of impairment exist. The Company will perform the annual assessment of impairment as of the end of the third quarter of each year. Under SFAS No. 142, goodwill and other intangible assets with indefinite useful lives are deemed to be impaired if the carrying value of the asset exceeds its fair value. See note (42) for additional information regarding the Company's accounting for goodwill and other intangible assets.

The following table quantifies the differences in amortization expense for goodwill and intangible assets, with indefinite lives, as well as depreciation expense on fixed assets related to these assets for the years ended December 31, 2002, 2001, and 2000. The table also includes the differences between nonscheduled amortization recognized under German GAAP and the effects of impairment charges of goodwill and intangibles recognized under U.S. GAAP:

**U.S. GAAP Reconciling Adjustments to the Statement of Operations**

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | (millions of €) | | |
| U.S. GAAP adjustments to German GAAP, expense (increase) decrease | | | |
| Goodwill amortization | 3,128 | 466 | 326 |
| Reversal of nonscheduled amortization of goodwill under German GAAP | 9,865 | — | — |
| Goodwill impairment charges under U.S. GAAP | (14,567) | — | — |
| Intangible asset amortization expense | (692) | (727) | (413) |
| Fixed asset depreciation expense | (26) | (24) | (10) |
| Net effect | (2,292) | (285) | (97) |

The following table quantifies the differences between U.S. GAAP and German GAAP for goodwill, intangible assets, and fixed assets resulting from the Company's acquisitions.

**U.S. GAAP Reconciling Adjustments to Shareholders' Equity**

| | As of December 31, | |
|---|---|---|
| | 2002 | 2001 |
| | (millions of €) | |
| U.S. GAAP adjustments to German GAAP carrying values, increase (decrease) | | |
| Goodwill, net book value | (3,258) | (1,784) |
| Intangible assets | 4,130 | 5,422 |
| Intangible asset accumulated amortization | (1,496) | (1,140) |
| Fixed assets | 214 | 208 |
| Fixed asset accumulated depreciation | (60) | (34) |
| Net effect | (470) | 2,672 |

In 2001, the Company acquired T-Mobile USA and Powertel. The Powertel acquisition was a 100% stock acquisition with a predetermined fixed stock conversion rate that was not subject to adjustment. Under APB 16, the acquirer is required to use the stock price based on the date of the acquisition agreement to determine the acquisition price. This resulted in an increase in the U.S. GAAP purchase price, as compared to German GAAP. Based on a third party valuation, the purchase price was allocated to certain intangible assets as well as differences in deferred taxes which reduced the net effect on goodwill related to the purchase price differences. The purchase price and purchase price allocation differences related to the T-Mobile USA and Powertel acquisitions resulted in increases in goodwill of EUR 888 million and intangibles of EUR 1.1 billion under U.S. GAAP as compared to German GAAP as of the date of acquisition.

In 2000, the Company completed its purchase price allocation for T-Mobile UK (formerly One 2 One). The differences between German GAAP and U.S. GAAP primarily relate to the allocations made from goodwill to intangible assets for U.S. GAAP purposes, mainly related to licenses, tradename and customer lists. The allocation from goodwill to intangible assets was offset by the applicable deferred taxes under U.S. GAAP. See note (40 o) for a discussion of goodwill and asset differences relating to the acquisition of debis.

***(e) Write-down of Tradenames***

At the end of 2001, the Company made the decision to re-brand its foreign mobile subsidiaries operating in the T-Mobile business segment to a common "T-Mobile" name by the end of 2002. For German GAAP purposes, this resulted in an immediate write-down of the respective portion of goodwill attributable to tradenames for the projected net book value on December 31, 2002, assuming normal amortization in 2002. This adjustment resulted in a net book value at the end of 2001 equivalent to one-year's normal amortization. For U.S. GAAP purposes, the decision was considered a triggering event resulting in an impairment assessment under SFAS No. 121. Based on this assessment, no impairment existed, but the assets were considered to be in use through the end of 2002. Accordingly, the write-down recorded under German GAAP was reversed. However, under U.S. GAAP, the remaining useful lives were shortened, with the remaining carrying amounts completely amortized by December 31, 2002 under both German GAAP and U.S. GAAP.

***(f) Effects of Dilution Gains***

In 2000, T-Online, comdirect bank AG (“comdirect”) and OJSC Mobile TeleSystems (“MTS”) entered into transactions in which their shares were either sold for cash or exchanged as part of a purchase business combination. As a result of these transactions, the Company’s ownership interest in the subsidiary or affiliate is reduced, resulting in a “dilution gain.” For German GAAP, the Company recognized dilution gains resulting from cash sales of subsidiary or affiliate shares as a credit to income. However, the Company does not recognize changes in interest transactions when cash proceeds are not received, unless a portion of those shares are sold at a later time to a third party for cash. Under U.S. GAAP, all cash and noncash equity transactions of subsidiaries or affiliates, including those related to purchase business combinations, are reflected as dilution gains. The following transactions generated dilution gains in 2000:

Cash transactions:

- In April 2000, T-Online issued 114,100,000 ordinary shares in an initial public offering (“IPO”) at EUR 27 per share for cash consideration totaling EUR 3,080 million. This reduced the Company’s ownership in T-Online from 100% to 89.76%, resulting in a dilution gain of EUR 2,657 million under both German and U.S. GAAP.

- In June 2000, MTS, a Russian mobile telephone company, issued 345,244,080 shares for cash consideration totaling EUR 364 million in an IPO. This reduced the Company’s ownership percentage in MTS from 44.1% to 36.2%, resulting in a dilution gain of EUR 111 million, under both German and U.S. GAAP

- In June 2000, comdirect, an on-line bank, issued 20,500,000 shares at EUR 31 per share for cash consideration totaling EUR 636 million in an IPO. This reduced T-Online’s ownership percentage in comdirect from 25% to 21.35%, resulting in a dilution gain of EUR 119 million. For U.S. GAAP the dilution gain is EUR 57 million lower because the equity investment balance was higher for U.S. GAAP at the date of the IPO.

Non-cash transactions:

- In April 2000, T-Online acquired all of the shares outstanding of Club Internet, a French Internet provider, in exchange for 69,633,116 T-Online ordinary shares valued at EUR 27 per share. Consideration totaled EUR 1,880 million and decreased the Company’s ownership percentage in T-Online from 89.76% to 84.48%. Under U.S. GAAP, the dilution gain of EUR 1,355 million has been recognized in 2000 as income with a corresponding increase to goodwill.

- In April 2000, T-Online acquired a 25% interest in comdirect in exchange for 24,875,189 T-Online ordinary shares valued at EUR 27 per share. Consideration totaled EUR 671 million and decreased the Company’s ownership percentage in T-Online from 84.48% to 82.74%. Under U.S. GAAP, the dilution gain of EUR 391 million has been recognized as income in 2000 with a corresponding increase to goodwill.

- In October 2000, T-Online acquired all of the outstanding shares of ya.com, a Spanish Internet service provider, in exchange for 12,387,280 T-Online ordinary shares valued at EUR 32.42 per share. Consideration totaled EUR 402 million and decreased the Company’s ownership percentage in T-Online from 82.87% to 81.71%. Under U.S. GAAP, the dilution gain of EUR 222 million has been recognized as income in 2000 with a corresponding increase in goodwill.

Dilution gains related to sales of shares for cash totaled EUR 2,887 million in 2000 and have been recorded as income for German GAAP. For U.S. GAAP, this amount was EUR 57 million lower due to the different carrying basis in comdirect. Dilution gains related to purchase business combinations totaling EUR 1,968 million have been recorded as income for U.S. GAAP purposes but not recognized for German GAAP purposes. For both German and U.S. GAAP, no deferred taxes have been provided as under the currently enacted German tax law the above transactions did not give rise to any taxable event.

Amortization of the additional goodwill totaled EUR 250 million and EUR 170 million in 2001 and 2000, respectively, based on goodwill lives ranging from 7 to 15 years. No amortization of the additional goodwill was recorded in 2002 because of the implementation of SFAS No. 142. In 2001 and 2002, as a result of impairment testing, an impairment charge was recorded to reduce the carrying value of the investment in comdirect to fair value. As the carrying basis for comdirect under U.S. GAAP exceeded the carrying basis under German GAAP due to the recognition of the dilution gains, additional write-downs of approximately EUR 145 million and EUR 146 million in 2002 and 2001, respectively, were recorded under U.S. GAAP. The charge was taken as a result of the continued losses of comdirect and the decline in the market value of the stock of comdirect. The impairment charge was calculated by comparing the book value of the investment in comdirect including goodwill with the market value of the shares owned.

In 2002, the Company recognized a EUR 116 million larger gain for German GAAP on the sale of 9.81% of the shares in T-Online International AG. This difference results from dilution gains which were previously recognized for U.S. GAAP only.

***(g) Unrealized Gains on Marketable Securities***

Under German GAAP, investments in marketable debt and equity securities (including certain securities classified as other investments) are generally carried at historical cost. Under U.S. GAAP, investments in marketable debt and equity securities, other than investments accounted for by the equity method, are categorized as either trading, available for sale, or held to maturity. Securities classified as trading or available for sale are reported at fair value at the balance sheet date and held to maturity securities are reported at historical cost. Unrealized gains and losses on trading securities are recorded in net income while unrealized gains and losses on securities categorized as available for sale are recorded, net of income tax, in shareholders' equity as a component of accumulated other comprehensive income.

***(h) Derivatives and Related Foreign Exchange Differences***

Under German GAAP, derivatives are recorded at cost, with a provision established if losses due to changes in fair values have occurred. However, when a derivative is specified as a hedge for a particular risk exposure, a provision is established for the net amount of the unrealized losses due to changes in fair values on the combined derivative and the hedged exposure.

Under U.S. GAAP, all freestanding derivatives and all bifurcated embedded derivatives are recognized as either assets or liabilities and measured at fair value. Changes in the fair value of derivative instruments are reported in earnings or other comprehensive income depending on the derivative's hedge designation, and on whether the hedge is highly effective. See additional discussion related to derivatives under German GAAP in note (34) and under U.S. GAAP in note (43 d).

***(i) Accruals for Personnel Restructuring***

Under German GAAP, the Company established provisions for the total costs expected to be incurred resulting from workforce reductions when those costs can be estimated. Under U.S. GAAP, the costs associated with voluntary workforce reductions are recognized in the period of acceptance by the employee of the termination offer and costs associated with involuntary workforce reductions only when all requirements to establish a restructuring accrual are fulfilled under SEC Staff Accounting Bulletin 100, Restructuring and Impairment Charges, and EITF issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs included in a Restructuring).

***(j) Deferral of Gains on Divestitures***

During 2000, the Company sold its interests in the broadband cable operations located in the North Rhine-Westphalia and Hesse regions in two separate transactions for a combination of cash, deferred payment notes, preference interest and equity interests in the buyers, for an aggregate sales price consideration of EUR 4,542 million.

During 2001, the Company sold its interest in the broadband cable operations located in Baden Wuerttemberg for a combination of cash, deferred payment note and equity interest in the buyer for a total sales price consideration of EUR 1,320 million. Under German GAAP, full gains upon consummation of these sales were recognized. During 2001 and 2000, interest income of EUR 62 million and EUR 21 million, respectively, representing the accretion on the deferred payment notes and preference interest was recognized and EUR 389 million and EUR 73 million were recorded to write-down the deferred payment notes and preference interest to fair market values. In 2002, no interest income was recognized on the deferred payment notes and preference interest under German GAAP, as these amounts were not deemed collectible and a provision of EUR 321 million was established to reduce the net carrying value of the deferred payment notes and preference interest to their fair values.

For U.S. GAAP, however, due to the equity interests received in these transactions, gains were calculated to the extent deemed sold. In addition, due to the high leverage of the buyers and the uncertainty of cash flows to repay the deferred payment notes and preference interest, the Company followed the guidance in Staff Accounting Bulletin Topic 5:U, "*Gain Recognition on the Sale of Business or Operating Assets to a Highly Leveraged Entity*", and deferred the amount of the gains relating to the deferred payment notes and preference interest received until collections become reasonably assured. In addition, the provisions recorded under German GAAP have been reversed, since the gains associated with the deferred payment notes and preference interest were not recognized in earnings under U.S. GAAP.

***(k) Deferred Income***

Under U.S. GAAP, the Company defers activation fees and certain other one-time charges and amortizes them over the average life of the related service period. The related direct incremental costs, up to the amount of revenues, are also deferred and subsequently amortized. Under German GAAP, the revenue and incremental direct costs are recognized immediately. All other direct costs associated relating to customer activation are expensed as incurred under both German and U.S. GAAP. The Company also has certain other contracts with differing revenue recognition methods and periods. A network sharing agreement is accounted for under German GAAP with the revenue being recognized in accordance with the economic useful life, whereas under U.S. GAAP the revenue is to be recognized over the duration of the agreement. A second type of contract relates to IRUs. Under German GAAP, the sales of sub-leasing of capacity on certain fiber optic networks are recognized immediately, whereas, under U.S. GAAP, the sales are recorded as deferred revenue and recognized in earnings over the contract term, ranging from 20 to 25 years.

***(l) Capital Raising and Financing Costs***

Under German GAAP, the costs incurred in connection with the equity share offerings are recorded as extraordinary expenses in the statement of operations. Under U.S. GAAP, the specific incremental costs directly attributable to equity share offerings are charged against equity capital.

***(m) Asset-Backed Securitizations***

In December 2001 and December 2002, the Company entered into asset-backed securitization programs for the sale of qualifying receivables at its T-Com and T-Systems divisions. Under German GAAP, the values of the receivables sold and residual interests retained are based on contractually stated values. For U.S. GAAP the transactions are based on the fair values of the receivables sold and related interests retained. See note (43 b) for additional information regarding these transactions.

Under the T-Com securitization program, the Company retains the servicing obligation related to the sold receivables, but without remuneration. No servicing liabilities has been established under German GAAP. However, for U.S. GAAP, the Company has recorded an estimated servicing liability for future costs to be incurred on the sold receivables in the amount of EUR 50.0 million.

***(n) Investments in Equity Investees***

On January 1, 2002 the Company implemented SFAS No. 142 and, as required by that standard, ceased amortizing the embedded goodwill associated with its investments in equity investees. As a result, amortization of EUR 106 million, recorded under German GAAP in 2002 was not recorded for U.S. GAAP purposes.

The Company accounted for its investment in Ben as an equity investee until the remaining outstanding interest was acquired on September 30, 2002. Prior to September 30, 2002, the Company recorded differences between German GAAP and U.S. GAAP of approximately EUR 253 million relating to its investment in Ben. These differences consists of, among other things, a EUR 213 million write-off of the Company's share of the UMTS licenses held by Ben, that did not meet the impairment criteria for U.S. GAAP.

In 2001, the Company restructured its equity investments in DeTeAsia, including exchanging its shares in Islacom for shares in Globe Telecom, which resulted in the recording of gains under German GAAP, as these transactions were recorded as individual transactions based on the legal contracts signed. For U.S. GAAP purposes, these transactions were recorded as primarily one transaction and accounted for as a non-monetary transaction with no gains or losses recognized. As a result, gains totaling EUR 123 million under German GAAP were recorded as a reduction of the carrying basis under U.S. GAAP. Additionally, the investment in Globe Telecom is recorded at cost under German GAAP. For U.S. GAAP this investment is accounted for as an equity investment as required by Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting Investments in Common Stock* (''APBO No. 18''). As a result of accounting for this investment under the equity method, the Company recognized equity in earnings of EUR 18 million in 2002.

For German GAAP purposes, the investment in Telesens has been recorded at cost. Under U.S. GAAP, this investment is accounted for as an equity investment as required by APBO No. 18. As a result of accounting for this investment under the equity method, the Company recognized an EUR 62 million loss and EUR 10 million loss in 2001 and 2000, respectively.

In 2000, as a result of an initial public offering by Telesens as well as Telesens issuing shares for an acquisition, the Company's interest was diluted from 38% to 25%. Under U.S. GAAP, these transactions resulted in the Company recognizing an EUR 72 million gain. No dilution gain was recorded for German GAAP as the investment was accounted for at cost.

The remaining differences result from differences in the recognition of equity pickup on operating results which are based on U.S. GAAP rather than German GAAP.

***(o) Effects of Full Consolidation of debis, Net of Tax***

On October 20, 2000, the Company acquired a 50.1% interest in debis Systemhaus GmbH (''debis'') by purchasing newly issued shares for EUR 4.7 billion. In connection with this acquisition, the Company received a call option to acquire the 49.9% minority interest of debis held by DaimlerChrysler Services AG (''DaimlerChrysler''), and the Company granted DaimlerChrysler a put option to sell its 49.9% minority interest in debis to the Company. The exercise price for each option was EUR 4.7 billion. The put option was immediately exercisable, and the call option was to become exercisable on January 1, 2002. Under German GAAP, the Company accounted for this transaction as the acquisition of a 50.1% interest in debis, with the 49.9% interest held by DaimlerChrysler shown as minority interest within equity.

Under U.S. GAAP, the put and the call options were viewed on a combined basis and accounted for as a financing of the purchase of the minority interest by the Company. As a result, the Company reflected debis as a wholly-owned subsidiary upon consummation of the acquisition of the 50.1% interest, with the options reflected as a liability to acquire the remaining 49.9% minority interest. Net income attributable to the remaining 49.9% interest is allocated to Deutsche Telekom, rather than to the minority interest.

During March, 2002, DaimlerChrysler exercised its put option, and the Company acquired the 49.9% minority interest in debis. Under German GAAP, the Company fully consolidated debis from the date the minority interest was acquired. However, for U.S. GAAP, the payment of the put price represented the extinguishment of the purchase obligation initially recorded in 2000.

The accounting for this transaction under U.S. GAAP resulted in the following differences in net income (loss) compared to German GAAP:

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2002** | **2001** | **2000** |
| | | **(millions of €)** | |
| Increase in amortization expense | (7) | (360) | (86) |
| Increase in financing charges | (24) | (60) | (48) |
| Decrease in income applicable to minority interest | — | 94 | 18 |
| Tax benefit | 3 | 32 | — |
| | (28) | (294) | (116) |

The financing charges represent the premiums to be paid for acquiring the minority interest in excess of the initial share price paid in October 2000, and include guaranteed dividends of EUR 10 million, EUR 60 million and EUR 10 million for the years 2002, 2001 and 2000, respectively.

***(p) Other Differences***

Other differences consist of the different accounting and valuation approaches between German GAAP and U.S. GAAP that are not individually significant, including the treatment of unrealized gains on foreign currency receivables and payables that are recognized under U.S. GAAP but not under German GAAP, accruals for maintenance, and contract accounting. Under German GAAP, accruals have to be made for maintenance that is carried out within three months after the balance sheet date. Under U.S. GAAP, maintenance expenditures are reflected in the period a specific liability has been incurred. The contract accounting differences are a result of the application of the percentage of completion method under U.S. GAAP, as opposed to the completed contract method under German GAAP.

The nondeductible capitalized VAT (capitalized prior to 1996) was recorded as property, plant and equipment. German GAAP required the capitalized VAT to be depreciated and the VAT recoveries to be recorded as other operating income. Under U.S. GAAP, the capitalized VAT was treated as a long-term receivable rather than property, plant and equipment. As VAT recoveries were received, they were offset against the receivable and neither depreciation nor other operating income was recognized. Because the capitalized VAT was fully depreciated during 2001, there was no longer a difference between German GAAP and U.S. GAAP in 2002.

In 2002 and 2001, a minimum liability related to certain pension plans was recognized as an expense under German GAAP. Under U.S. GAAP, the increase to this liability amounting to EUR 210 million and EUR 259 million in 2002 and 2001, respectively, was recorded in other comprehensive income.

***(q) Income Taxes***

The determination of income tax expense under German GAAP differs from U.S. GAAP as follows:

- Under U.S. GAAP, in contrast to German GAAP, deferred tax assets are recognized for the estimated future tax effects attributable to tax loss carryforwards.
- Under German GAAP, deferred taxes are not recorded for temporary differences that arose during tax-free periods. Under U.S. GAAP, the estimated future tax effects related to those temporary differences are recognized.
- Under German GAAP, deferred taxes have not been recognized for those temporary differences that are not expected to reverse in the foreseeable future. Under U.S. GAAP, deferred taxes are generally recognized for all temporary differences.

In addition, deferred taxes also are provided for the income tax effects of valuation differences between U.S. GAAP and German GAAP. Deferred tax assets are measured based on enacted tax law and reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Additionally, existing deferred tax assets and liabilities recognized under U.S. GAAP are adjusted when there is an enacted change of future tax rates.

Other differences between the income tax expense determined in accordance with German GAAP and U.S. GAAP result from the differences in accounting for tax estimates and contingencies in 2002 and the consolidation effects of debis which are presented net of tax.

The following table shows the differences between income tax expense determined in accordance with German GAAP and U.S. GAAP:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | (millions of €) | | |
| Deferred taxes from the application of U.S. GAAP | (1,831) | 2,570 | (561) |
| Deferred taxes on U.S. GAAP/German GAAP differences | 1,025 | (1,472) | 79 |
| Other differences | 703 | (32) | — |
| Total difference to income tax expense | (103) | 1,066 | (482) |

***(r) Minority Interest***

Under U.S. GAAP, minority interest is not included as a component within shareholders' equity.