

Deutsche Telekom AG  
Financial statements  
as of December 31, 2003





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A combined management report has been produced for the Deutsche Telekom Group and Deutsche Telekom AG and is published in our 2003 Annual Report.

Deutsche Telekom AG's single-entity financial statements and management report, which has been combined with the Group management report, for the 2003 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 since March 14, 2003  
Chairman of the Board of Management of Deutsche Post AG

Member of the supervisory boards of:

- Allianz Versicherungs-AG, Munich (from 1/2001 to 12/2003)
- Deutsche Lufthansa AG, Cologne (since 6/1998)
- Deutsche Postbank AG, Bonn, Chairman of the Supervisory Board (since 1/1999)
- Karstadt Quelle AG, Essen (since 5/2003)
- Tchibo Holding AG, Hamburg (from 7/1997 to 8/2003)

Member of comparable supervisory bodies of companies in Germany or abroad:

- C. V. International Post Corp. U. A., Amsterdam (Netherlands), Deputy Chairman of the Board of IPC (since 4/1990)
- Danzas Holding AG, Switzerland, Chairman of the Board of Directors (from 3/1999 to 12/2003)
- Deutsche Post Ventures GmbH, Bonn, Investment Committee (from 5/2000 to 5/2003)
- DHL Worldwide Express B.V., Netherlands, Board of Directors (from 7/1998 to 11/2003)
- Morgan Stanley, New York (United States), Board of Directors (since 1/2004)

## **Franz Tremel**

Member of the Supervisory Board since July 8, 2003  
Deputy Chairman of the Supervisory Board since August 21, 2003  
Deputy Chairman of ver.di trade union

Member of the supervisory boards of:

- DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster, Deputy Chairman (since 3/2000)
- DBV-Winterthur – Leben, Wiesbaden (since 4/2000)

## **Gert Becker**

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

Member of the supervisory boards of:

- Bankhaus Metzler KGaA, Frankfurt/Main, Chairman of the Supervisory Board (since 1/1997)
- Bilfinger Berger AG, Mannheim, Chairman of the Supervisory Board (since 7/1983)

## **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  
Head of ver.di District of Bavaria

Member of the supervisory board of:

- PSD Bank Munich eG, Augsburg office (since 6/1994)

## **Dr. Hubertus von Grünberg**

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

Member of the supervisory boards of:

- Allianz Versicherungs-AG, Munich (since 5/1998)
- Continental AG, Hanover (since 6/1999)
- MAN AG, Munich (since 2/2000)
- SAI Automotive, Frankfurt/Main (from 8/2002 to 6/2003)

Member of comparable supervisory bodies of companies in Germany or abroad:

- Schindler Holding AG, Hergiswil (Switzerland), Board of Directors (since 5/1999)

## **Lothar Holzwarth**

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

Member of the supervisory board of:

- PSD Bank RheinNeckarSaar eG (since 1/1996), Chairman of the Supervisory Board (since 7/2000)

## **Dr. sc. techn. Dieter Hundt**

Member of the Supervisory Board since January 1, 1995  
Managing Shareholder of Allgaier Werke GmbH, Uhingen  
President of the Confederation of German Employers' Associations (BDA), Berlin

Member of the supervisory boards of:

- EvoBus GmbH, Stuttgart (since 5/1995)
- Stauferkreis Beteiligungs-AG, Göppingen, Chairman of the Supervisory Board (since 1/1999)
- Stuttgarter Hofbräu AG, Stuttgart (since 4/1993)
- Stuttgarter Hofbräu – Verwaltungs-AG, Stuttgart (since 5/1999), Deputy Chairman of the Supervisory Board (since 9/2003)
- Landesbank Baden-Württemberg, Stuttgart, Administrative Board (since 1/1999)

## **Dr. h.c. André Leysen**

Member of the Supervisory Board from January 1, 1995 to February 28, 2003  
Honorary Chairman of the Board of Directors of Gevaert NV, Mortsel/Antwerp (Belgium)

Member of the supervisory boards of:

- E.ON AG, Düsseldorf (from 1993 to 4/2003)
- Schenker AG, Essen (from 1972 to 5/2003)

**Waltraud Litzenberger**

Member of the Supervisory Board since June 1, 1999  
Member of the Works Council at Deutsche Telekom AG, Technical Customer Service Branch Office, Central District, Mainz

Member of the supervisory board of:  
• PSD Bank eG, Koblenz (since 9/1998)

**Michael Löffler**

Member of the Supervisory Board since January 1, 1995

Member of the Works Council at Deutsche Telekom AG, Networks Branch Office, Dresden

– no other seats –

**Dr. Manfred Overhaus**

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

Member of the supervisory boards of:  
• Deutsche Post AG, Bonn (since 1/1995)  
• GEBB mbH, Cologne (since 8/2000)

**Hans-W. Reich**

Member of the Supervisory Board since May 27, 1999  
Chairman of the Board of Managing Directors, KfW Bankengruppe, Frankfurt/Main

Member of the supervisory boards of:  
• Aareal Bank AG, Wiesbaden (since 6/2002)  
• ALSTOM GmbH, Frankfurt/Main (from 8/1999 to 11/2003)  
• HUK-COBURG Haftpflicht-Unterstützungs-Kasse kraftfahrender Beamter Deutschlands a.G., Coburg (since 7/2000)  
• HUK COBURG Holding AG, Coburg (since 7/2000)  
• IKB Deutsche Industriebank AG, Düsseldorf (since 9/1999)  
• RAG AG, Essen (since 11/2000)  
• Thyssen Krupp Steel AG, Duisburg (since 7/2000)

Member of comparable supervisory bodies of companies in Germany or abroad:

• DePfa Bank plc., Dublin (Ireland), Board of Directors (since 3/2002)

**Dr. jur. Hans-Jürgen Schinzler**

Member of the Supervisory Board since May 20, 2003  
Member of the Supervisory Board of Münchener Rückversicherungs-Gesellschaft AG, Munich (Chairman of the Board of Management of Münchener Rückversicherungs-Gesellschaft AG until December 31, 2003)

Member of the supervisory boards of:  
• Bayerische Hypo- und Vereinsbank AG, Munich (since 3/2003), Deputy Chairman of the Supervisory Board (since 1/2004)  
• ERGO Versicherungsgruppe AG, Düsseldorf, Chairman of the Supervisory Board (from 1/1998 to 12/2003)  
• MAN AG, Munich, Deputy Chairman of the Supervisory Board (from 1/1993 to 6/2003)  
• Metro AG, Düsseldorf (since 5/2002)

Member of comparable supervisory bodies of companies in Germany or abroad:

• Aventis S.A., Schiltigheim, (France) (since 12/1999)

**Dr. Klaus G. Schlede**

Member of the Supervisory Board since May 20, 2003  
Member of the Supervisory Board of Deutsche Lufthansa AG, Cologne

Member of the supervisory boards of:

• Deutsche Postbank AG, Bonn (since 4/2000)  
• Deutsche Lufthansa AG, Cologne (since 8/1998)  
• Gerling-Konzern Globale Rückversicherungs-AG, Cologne (from 10/1991 to 12/2003)  
• Thomas Cook AG, Oberursel (from 12/1997 to 11/2003)

**Wolfgang Schmitt**

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

Member of the supervisory board of:  
• PSD Bank RheinNeckarSaar eG (since 1993)

**Rüdiger Schulze**

Member and Deputy Chairman of the Supervisory Board between March 29, 1999 and June 30, 2003  
Former Head of Department 9 at ver.di trade union, Berlin

Member of the supervisory board of:  
• T-Mobile Deutschland GmbH, Bonn, Deputy Chairman of the Supervisory Board (from 3/1999 to 7/2003)

**Prof. Dr. Helmut Sihler**

Member of the Supervisory Board from July 1, 1996 to May 20, 2003  
Chairman of the Supervisory Board from July 1, 1996 to May 25, 2000  
Vice President of the Board of Directors of Novartis AG, Basle (Switzerland)

Member of the supervisory board of:  
• Dr. Ing. h.c. F. Porsche AG, Stuttgart, Chairman of the Supervisory Board (since 1/1993)

Member of comparable supervisory bodies of companies in Germany or abroad:  
• Novartis AG, Basle (Switzerland), Vice President of the Board of Directors (since 4/1996)

**Michael Sommer**

Member of the Supervisory Board since April 15, 2000

Chairman of the German Trade Union Federation (DGB), Berlin

Member of the supervisory board of:

• Deutsche Postbank AG, Bonn, Deputy Chairman of the Supervisory Board (since 11/1997)

**Ursula Steinke**

Member of the Supervisory Board since January 1, 1995

Chairwoman of the Works Council at T-Systems CDS GmbH, Northern District Branch Office, 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

Member of the supervisory boards of:

- Out of home Media AG, Cologne (since 10/2002)
- ZDF Enterprises GmbH, Mainz (since 1992)

**Bernhard Walter**

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

Member of the supervisory boards of:

- Bilfinger Berger AG, Mannheim (since 7/1998)
- DaimlerChrysler AG, Stuttgart (since 5/1998)
- Henkel KGaA, Düsseldorf (since 5/1998)
- mg technologies ag, Frankfurt/Main (since 3/1993)
- Staatliche Porzellan-Manufaktur Meißen GmbH, Meißen (since 1/2001)
- Thyssen Krupp AG, Düsseldorf (since 3/1997)
- Wintershall AG, Kassel (since 2/2001), Deputy Chairman of the Supervisory Board (since 2003)

Member of comparable supervisory bodies of companies in Germany or abroad:

- Joint-stock company "Sibirsko-Uralskaya Neftegazohimicheskaya Company" (AK "Sibur"), Moscow (Russia) (from 4/2002 to 2/2003)

**Wilhelm Wegner**

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

Member of the supervisory boards of:

- VPV Allgemeine Versicherungs AG, Cologne (since 8/1995)
- VPV Holding AG, Stuttgart (since 1/2002)
- Vereinigte Postversicherung VVaG, Stuttgart (since 7/1998)
- PSD Bank Düsseldorf eG, Düsseldorf (from 8/2000 to 8/2003)

**Dr. Wendelin Wiedeking**

Member of the Supervisory Board since May 20, 2003  
Chairman of the Board of Management of Dr. Ing. h.c. F. Porsche AG, Stuttgart

Member of the supervisory board of:

- Sachsen LB, Leipzig (from 5/1998 to 5/2003)

Member of comparable supervisory bodies of companies in Germany or abroad:

- Novartis AG, Basle (Switzerland)
- Eagle-Picher Industries Inc., Phoenix, Arizona (United States)
- Porsche Business Services Inc., Wilmington, Delaware (United States)
- Porsche Cars Great Britain Ltd., Reading, England (United Kingdom)
- Porsche Cars North America Inc., Wilmington, Delaware (United States)
- Porsche Deutschland GmbH, Bietigheim-Bissingen
- Porsche Engineering Group GmbH, Weissach
- Porsche Enterprises Inc., Wilmington, Delaware (United States)
- Porsche Financial Services GmbH, Bietigheim-Bissingen
- Porsche Financial Services Inc., Wilmington, Delaware (United States)
- Porsche Iberica S.A., Madrid (Spain)
- Porsche Italia S.p.A., Padua (Italy)
- Porsche Japan K.K., Tokyo (Japan)
- Porsche Lizenz- und Handelsgesellschaft mbH, Bietigheim-Bissingen

**Dr. Hans-Dietrich Winkhaus**

Member of the Supervisory Board from May 27, 1999 to May 20, 2003  
Chairman of the Supervisory Board from May 25, 2000 to March 14, 2003  
Member of the Shareholders' Committee of Henkel KGaA, Düsseldorf

Member of the supervisory boards of:

- BMW AG, Munich (since 5/1999)
- Degussa AG, Düsseldorf (since 3/1999)
- Deutsche Lufthansa AG, Cologne (since 6/1998)
- ERGO Versicherungsgruppe AG, Düsseldorf (since 5/1998)
- Schwarz Pharma AG, Monheim, (since 6/1998), Chairman of the Supervisory Board (since 5/2000)

# Board of Management of Deutsche Telekom AG

## **Kai-Uwe Ricke**

Chairman of the Board of Management of Deutsche Telekom AG

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

- T-Online International AG, Darmstadt (since 10/2001), Chairman of the Supervisory Board (since 9/2001)
- T-Mobile International AG, Bonn (since 11/2002), Chairman of the Supervisory Board (since 12/2002)
- T-Mobile USA, Inc., Bellevue (United States), Board of Directors (since 5/2001)
- T-Systems International GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 1/2003)

## **Dr. Karl-Gerhard Eick**

Member of the Deutsche Telekom Board of Management responsible for Finance and Controlling, Deputy Chairman of the Deutsche Telekom Board of Management

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, Deputy Chairman of the Supervisory Board (since 1/2002)
- T-Mobile International AG, Bonn (since 3/2000)
- T-Mobile USA, Inc., Bellevue (United States), Board of Directors (since 5/2001)
- T-Online International AG, Darmstadt (since 2/2000)
- T-Systems International GmbH, Frankfurt/Main (since 6/2002)

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:

- T-Mobile International AG, Bonn (since 5/2003)
- T-Online International AG, Darmstadt (from 2/2000 to 5/2003)
- T-Systems International GmbH, Frankfurt/Main (since 11/2000)
- Deutsche Telekom Network Projects & Services GmbH, Bonn (since 5/2003)
- CAP Customer Advantage Program GmbH, Cologne, Chairman of the Supervisory Board (since 4/2002)

Member of the supervisory boards of other companies or institutions:

- FC Bayern München AG, Munich (since 4/2003)
- Karstadt Warenhaus AG, Essen (since 4/2003)

## **Thomas Holtrop**

Member of the Deutsche Telekom Board of Management responsible for T-Online

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

- T-Online France S.A.S., Paris (France), Member of the Conseil d'administration (Board of Directors) (since 4/2001), Chairman of the Conseil d'administration (since 7/2003)
- Club Internet S.A.S., Paris (France), Président du Conseil de surveillance, Chairman of the Supervisory Board (from 4/2001 to 7/2003)
- Ya.com Internet Factory, S.A.U., Madrid (Spain), Presidente del Consejo de Administración (Chairman of the Board of Directors) (since 5/2001)
- T-Online Travel AG, Darmstadt, Chairman of the Supervisory Board (from 4/2002 to 6/2003)

## **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)
- Sireo Real Estate Asset Management GmbH, Frankfurt/Main (since 5/2001)
- T-Mobile International AG, Bonn (since 5/2003)
- T-Online International AG, Darmstadt (since 2/2003)
- T-Systems International GmbH, Frankfurt/Main (since 11/2000)

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

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)
- 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, Chairman of the Supervisory Board (since 6/2002)
- Ben Nederland Holding B.V., Amsterdam (Netherlands), Chairman of the Supervisory Board (from 10/2001 to 1/2003)
- T-Mobile UK Ltd., Borehamwood (United Kingdom) (from 9/2001 to 1/2004)

## **Konrad F. Reiss**

Member of the Deutsche Telekom Board of Management responsible for T-Systems

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 (since 3/2003)
- Deutsche Telekom Network Projects & Services GmbH, Bonn, Chairman of the Supervisory Board (since 5/2003)

# Statement of income for the period from January 1 to December 31, 2003

	Note	2003 millions of €	2002 millions of. €	2001 millions of €
<b>Net revenue</b>	(1)	<b>25,203</b>	<b>25,792</b>	<b>27,331</b>
Cost of sales	(2)	(15,089)	(15,994)	(17,018)
<b>Gross profit</b>		<b>10,114</b>	<b>9,798</b>	<b>10,313</b>
Selling costs	(3)	(5,135)	(5,699)	(5,585)
General and administrative costs	(4)	(3,122)	(3,784)	(3,253)
Other operating income	(5)	3,279	5,159	5,346
Other operating expenses	(6)	(2,636)	(2,888)	(3,206)
<b>Operating results</b>		<b>2,500</b>	<b>2,586</b>	<b>3,615</b>
Financial income/(expense), net	(7)	1,468	(6,435)	3,730
<b>Results from ordinary business activities <sup>1</sup></b>		<b>3,968</b>	<b>(3,849)</b>	<b>7,345</b>
Income taxes	(8)	101	847	(713)
<b>Income/(loss) after taxes</b>		<b>4,069</b>	<b>(3,002)</b>	<b>6,632</b>
Unappropriated net income carried forward from previous year		0	1,894	101
Transfer from retained earnings		0	2,978	0
Transfer to retained earnings		(2,034)	(1,870)	(3,300)
<b>Unappropriated net income</b>		<b>2,035</b>	<b>0</b>	<b>3,433</b>

<sup>1</sup> Including other taxes in accordance with the classification of the statement of income by the cost-of-sales method.



# Balance sheet as of December 31, 2003

	Note	2003 millions of €	2002 millions of €
<b>ASSETS</b>			
<b>Noncurrent assets</b>			
Intangible assets	(13)	660	752
Property, plant, and equipment	(14)	28,803	32,277
Financial assets	(15)	67,613	75,346
		<b>97,076</b>	<b>108,375</b>
<b>Current assets</b>			
Inventories, materials, and supplies	(16)	186	304
Receivables	(17)	20,610	3,268
Other assets	(18)	1,910	2,181
Marketable securities	(19)	71	373
Liquid assets	(20)	7,380	138
		<b>30,157</b>	<b>6,264</b>
<b>Prepaid expenses and deferred charges</b>	(21)	<b>325</b>	<b>394</b>
		<b>127,558</b>	<b>115,033</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b> (22)			
Capital stock	(23)	10,746	10,746
- contingent capital of EUR 810 million			
Additional paid-in capital	(24)	24,333	24,319
Retained earnings	(25)	9,081	7,047
Unappropriated net income		2,035	0
		<b>46,195</b>	<b>42,112</b>
<b>Accruals</b>			
Pensions and similar obligations	(27)	3,688	3,350
Taxes	(28)	1,027	1,196
Other accruals	(29)	4,043	3,135
		<b>8,758</b>	<b>7,681</b>
<b>Liabilities</b> (30)			
Debt		13,032	18,244
Other		59,517	46,929
		<b>72,549</b>	<b>65,173</b>
<b>Deferred income</b>		<b>56</b>	<b>67</b>
		<b>127,558</b>	<b>115,033</b>

# Statement of noncurrent assets

	Acquisition costs				Dec. 31, 2003
	Jan. 1, 2003	Additions	Disposals	Reclassifications	
millions of €					
<b>Intangible assets</b>					
Concessions, industrial and similar rights, and assets,					
licenses in such rights and assets	1,284	156	(379)	109	1,170
Advance payments	122	79	(7)	(109)	85
	<b>1,406</b>	<b>235</b>	<b>(386)</b>	<b>-</b>	<b>1,255</b>
<b>Property, plant, and equipment</b>					
Land and equivalent rights and buildings, including					
buildings on land owned by third parties	15,900	177	(1,139)	3	14,941
Technical equipment and machinery	56,624	985	(745)	239	57,103
Other equipment, plant, and office equipment	1,787	160	(185)	-	1,762
Advance payments and construction in progress	327	313	(27)	(242)	371
	<b>74,638</b>	<b>1,635</b>	<b>(2,096)</b>	<b>-</b>	<b>74,177</b>
<b>Financial assets</b>					
Investments in subsidiaries	69,493	443	(4,215)	-	65,721
Loans to subsidiaries	5,631	881	(4,650)	43	1,905
Investments in associated and related companies	333	132	(177)	-	288
Long-term loans to associated and related companies	-	20	-	-	20
Other investments in noncurrent securities	459	-	(457)	-	2
Other long-term loans	77	1	(14)	(43)	21
	<b>75,993</b>	<b>1,477</b>	<b>(9,513)</b>	<b>-</b>	<b>67,957</b>
<b>Noncurrent assets</b>	<b>152,037</b>	<b>3,347</b>	<b>(11,995)</b>	<b>-</b>	<b>143,389</b>

Depreciation and amortization						Net carrying amount		
Jan. 1, 2003	Additions	Disposals	Reclassifications	Reclassifications (transferred from other group companies)	Write-ups	Dec. 31, 2003	Dec. 31, 2003	Dec. 31, 2002
654	314	(373)	-	-	-	595	575	630
-	-	-	-	-	-	-	85	122
<b>654</b>	<b>314</b>	<b>(373)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>595</b>	<b>660</b>	<b>752</b>
6,497	539	(540)	1	45	(8)	6,534	8,407	9,403
34,538	3,593	(660)	2	-	(1)	37,472	19,631	22,086
1,326	145	(122)	(3)	22	-	1,368	394	461
-	-	-	-	-	-	-	371	327
<b>42,361</b>	<b>4,277</b>	<b>(1,322)</b>	<b>-</b>	<b>67</b>	<b>(9)</b>	<b>45,374</b>	<b>28,803</b>	<b>32,277</b>
130	-	(10)	-	-	-	120	65,601	69,363
35	9	-	-	-	-	44	1,861	5,596
98	110	(21)	-	-	(7)	180	108	235
-	-	-	-	-	-	-	20	-
384	9	(393)	-	-	-	-	2	75
-	-	-	-	-	-	-	21	77
<b>647</b>	<b>128</b>	<b>(424)</b>	<b>-</b>	<b>-</b>	<b>(7)</b>	<b>344</b>	<b>67,613</b>	<b>75,346</b>
<b>43,662</b>	<b>4,719</b>	<b>(2,119)</b>	<b>-</b>	<b>67</b>	<b>(16)</b>	<b>46,313</b>	<b>97,076</b>	<b>108,375</b>

# Statement of cash flows

	Note	2003 millions of €	2002 millions of €	2001 millions of €
Net (loss)/income		4,069	(3,002)	6,632
Amortization and depreciation		4,591	5,381	6,040
Income tax expense		(101)	(847)	713
Net interest expense		3,350	2,934	3,271
Net (gains)/losses from the disposal of intangible assets, property, plant, and equipment, and financial assets		(252)	(654)	(517)
(Increase)/decrease in inventories, receivables, other assets, prepaid expenses, and deferred charges		(16,896)	2,264	(10,676)
Changes in accruals		1,424	(448)	604
Other noncash (income) and expenses		(5,077)	3,952	(7,254)
(Increase)/decrease in payables and deferred income		11,767	(1,581)	6,747
Income taxes paid		457	843	331
Dividends received		5,563	710	7,412
<b>Cash generated from operations</b>		<b>8,895</b>	<b>9,552</b>	<b>13,303</b>
Interest paid		(4,280)	(4,816)	(5,793)
Interest received		790	1,899	1,862
<b>Net cash provided by operating activities</b>	(31)	<b>5,405</b>	<b>6,635</b>	<b>9,372</b>
Cash outflows for investments in intangible assets		(235)	(329)	(330)
Cash outflows for investments in property, plant, and equipment		(1,635)	(2,527)	(4,542)
Cash outflows for investments in financial assets		(1,547)	(8,500)	(8,301)
Cash inflows from the disposal of intangible assets		0	80	198
Cash inflows from the disposal of property, plant, and equipment		827	1,194	706
Cash inflows from the disposal of financial assets		9,099	11,552	1,801
Net change in short-term investments		303	289	87
Other cash inflows/(outflows)		(396)	0	1,384
<b>Cash flow provided by/(used for) investing activities</b>	(32)	<b>6,416</b>	<b>1,759</b>	<b>(8,997)</b>
Issuance of short-term debt		12,144	76,026	70,807
Repayment of short-term debt		(19,981)	(86,137)	(79,566)
Issuance of medium and long-term debt		9,279	20,531	13,699
Repayment of medium and long-term debt		(6,035)	(18,466)	(2,253)
Dividends paid		0	(1,539)	(1,877)
Proceeds from share offerings		14	15	0
<b>Cash flow (used for)/provided by financing activities</b>	(33)	<b>(4,579)</b>	<b>(9,570)</b>	<b>810</b>
Changes in value of cash and cash equivalents due to exchange rate fluctuations		0	0	(1)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>7,242</b>	<b>(1,176)</b>	<b>1,184</b>
<b>Cash and cash equivalents, at beginning of year</b>		<b>138</b>	<b>1,314</b>	<b>130</b>
<b>Cash and cash equivalents, at end of year</b>		<b>7,380</b>	<b>138</b>	<b>1,314</b>
Change in cash and cash equivalents		7,242	(1,176)	1,184

# Statement of shareholders' equity

	Capital stock		Additional paid-in capital	Retained earnings		Unappro- priated net income	<b>Total</b>
	Shares issued and outstanding (in thousands)	millions of €		Treasury stock	Other retained earnings		
<b>Balance at Jan. 1, 2001</b>	<b>3,029,604</b>	<b>7,756</b>	<b>24,290</b>	<b>7</b>	<b>4,848</b>	<b>1,978</b>	<b>38,879</b>
Dividends for 2000						(1,877)	(1,877)
Proceeds from stock options granted	1,168,148	2,990	14				3,004
Transfer from retained earnings							-
Income after taxes						6,632	6,632
Transfer to retained earnings						3,300	(3,300)
<b>Balance at Dec. 31, 2001</b>	<b>4,197,752</b>	<b>10,746</b>	<b>24,304</b>	<b>7</b>	<b>8,148</b>	<b>3,433</b>	<b>46,638</b>
Dividends for 2001						(1,539)	(1,539)
Proceeds from stock 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)
<b>Balance at Dec. 31, 2002</b>	<b>4,197,752</b>	<b>10,746</b>	<b>24,319</b>	<b>7</b>	<b>7,040</b>	<b>-</b>	<b>42,112</b>
Dividends for 2002							-
Proceeds from stock options granted			14				14
Transfer from retained earnings							-
Income after taxes						4,069	4,069
Transfer to retained earnings						2,034	(2,034)
<b>Balance at Dec. 31, 2003</b>	<b>4,197,752</b>	<b>10,746</b>	<b>24,333</b>	<b>7</b>	<b>9,074</b>	<b>2,035</b>	<b>46,195</b>

# Exchange rates used

in €	Annual average rate			Rate at balance sheet date	
	2003	2002	2001	Dec. 31, 2003	Dec. 31, 2002
100 Swiss Francs (CHF)	65.7665	68.1599	66.2063	64.1520	68.7334
100 Czech Koruna (CZK)	3.1410	3.2485	2.9092	3.0887	3.1817
1 Pound Sterling (GBP)	1.4459	1.5910	1.6076	1.4166	1.5364
100 Hungarian Forints (HUF)	0.3944	0.4117	0.3904	0.3794	0.4239
100 Indonesian Rupiah (IDR)	0.0103	0.0117	0.0109	0.0094	0.0135
100 Japanese Yen (JPY)	0.7641	0.8478	0.9170	0.7422	0.8033
100 Malaysian Ringgit (MYR)	23.2819	27.9362	29.3934	20.8950	25.0772
100 Philippine Pesos (PHP)	1.6322	2.0845	2.1913	1.4406	1.8000
100 Polish Zloty (PLN)	22.7359	25.9930	27.2201	21.2750	24.9994
100 Russian Ruble (RUB)	2.8866	3.3846	3.8270	2.7150	2.9826
100 Singapore Dollars (SGD)	50.7026	59.2270	62.5594	46.7250	55.3403
100 Slovak Koruna (SKK)	2.4100	2.3428	2.3099	2.4300	2.4143
1 U.S. Dollar (USD)	0.8849	1.0616	1.1168	0.7934	0.9529

# Summary of accounting policies

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## Description of business and relationship with the Federal Republic of Germany

Deutsche Telekom AG (hereinafter also 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, leases, and services terminal equipment.

The legal entity Deutsche Telekom comprises the T-Com division and the Group Headquarters and Shared Services (GHS) division.

**T-Com** is responsible in particular for the Deutsche Telekom Group's fixed-network business, and is one of Europe's largest operators in this segment. In the upstream market, T-Com provides network-related services to all divisions of the Deutsche Telekom Group, as well as around 200 network-related telecommunications companies. In Germany, T-Com serves residential and business customers with a broad range of products and services. Small and medium-sized enterprises (SMEs) benefit from T-Com's end-to-end, integrated IT and telecom solutions. Shareholdings in MATÁV (Hungary), Hrvatske telekomunikacije (Croatia), and Slovenské Telekomunikácie (Slovakia) (Slovak Telecom since January 2004) have given T-Com a foothold in Central and Eastern European markets.

**GHS**, Deutsche Telekom's virtual strategic management holding, was re-aligned in 2003 and comprises Group Headquarters and Shared Services. Deutsche Telekom's Group Headquarters focuses on strategic and cross-divisional management functions. All other operating functions not directly related to the segments' core business activities are now the responsibility of Shared Services. In particular, these

include subsidiaries and shared services, such as real estate, billing services, fleet management, and Vivento, the service provider for personnel and business (formerly PSA).

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 of December 31, 2003 amounted to 42.77%. In accordance with the letter dated January 12, 2004, the direct shareholding amounts to 26.03% (1,092,721,315 shares); a further 16.74% (702,704,750 shares) is held by a federal corporation, Kreditanstalt für Wiederaufbau, Frankfurt/Main (KfW), in accordance with the letter dated January 20, 2004. 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.

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### 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. For the first time, the statement of income for the 2003 financial year is presented using the cost-of-sales method (in accordance with § 275 (3) HGB). This format compares net revenue with the expenses incurred to generate these revenues, classified into cost of sales, selling, and general and administrative functions. The classification of the statement of income using the cost-of-sales method is designed to enhance the international comparability of financial reporting.

All amounts shown are in millions of euros (€/EUR). Certain items have been combined for presentation purposes in the statement of income and the balance sheet in order to make the financial statements more informative and understandable. These items are disclosed separately in the notes. In the 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 statement of income, and the statement of cash flows and the statement of shareholders' equity precede the notes to the financial statements.

The single-entity financial statements of Deutsche Telekom 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 NYSE, are available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

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### Accounting policies

**Net revenues** contain all revenues from the ordinary business activities of Deutsche Telekom. For example, these include revenues from the rendering of services and the sale of goods and products that are typical for 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. The T-Com division, which accounts for the major proportion of Deutsche Telekom AG's sales, recognizes its revenues as follows:

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

**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 plan assets to cover pension obligations.

If a higher carrying amount is recorded in accordance with § 6a of the German Income Tax Act (Einkommensteuergesetz, EStG) than in accordance with SFAS 87, it is this higher amount that is recognized. 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, the additional minimum liability is 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 recognized for the expected future tax effects attributable to temporary differences between the carrying amounts in the tax accounts and in the financial statements, except for the effects of those differences that are not expected to reverse in the foreseeable future.

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 of 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 items of property, plant, and equipment are carried at acquisition or production cost, less scheduled depreciation. Production cost includes directly attributable costs and an appropriate allocation of indirect material and labor cost. General and administrative costs are not capitalized.

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

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 ratably in the year of acquisition. For assets other than buildings acquired in the first half of a year, the full-year rate of depreciation is charged in the year of acquisition and, for those assets acquired in the second half of the year, half the full-year rate of depreciation is charged.

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 repair costs are expensed as incurred.

Noncurrent assets sold or otherwise disposed of are derecognized at their relevant carrying amount (cost less 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 a 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 applicable – less any write-downs in order to reflect such lower amount. Write-downs are charged only if the impairment of financial assets is assumed to be permanent. Loss absorption obligations are accrued and reported in net financial income/expense.

**Raw materials and supplies, and merchandise** are recognized at acquisition cost, while **work in process** is carried at production cost. Based on normal capacity utilization, production cost includes directly attributable costs, such as direct material and labor costs, as well as special production costs, plus an appropriate pro rata allocation of indirect material and labor costs 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 production cost. The carrying amount of inventories is reduced to the lower of cost or market value at the balance sheet date. Adequate write-downs are charged for inventory risks resulting from obsolescence or impaired marketability.

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

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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 carried at the lower of cost or market value at the balance sheet date.

**Stock options** granted in the course of a contingent capital increase are recognized at the date the options are exercised, and not at the grant date. On the exercise date, the amount received by the Company is transferred to the capital stock in the amount of the corresponding capital increase, with any premium transferred to additional paid-in capital in accordance with § 272 (2) No. 1 HGB.

**Accruals for pensions and similar obligations** are based on obligations to non-civil servants. Reflecting Group accounting practices, they are carried using the projected unit credit method based on 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.

**Tax and other accruals**, including those for contingent losses and environmental liabilities, are computed in accordance with prudent commercial practice. Sufficient allowance is made for all identifiable risks when assessing these provisions and accruals.

**Accrued future internal expenses** are only recognized when there is an obligation to recognize such liabilities under § 249 (1) HGB. This refers in particular to accruals for costs of deferred maintenance related to the financial year, but implemented within the first three months of the following year.

Accruals are not discounted, with the exception of pensions and similar obligations as well as civil service health insurance fund accruals for future shortfalls, accruals for old-age part-time work, accruals for jubilee payments, and accruals for bridging allowances.

**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 and deferred charges, 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 may differ from those estimates.

# Notes to the statement of income

## (1) Net revenue

	2003 millions of €	2002 millions of €	2001 millions of €
T-Com	25,071	24,360	24,358
T-Systems	0	1,230	2,782
Other	132	202	191
	<b>25,203</b>	<b>25,792</b>	<b>27,331</b>

Reporting of revenue is based on the management structure within the Group that was updated in the previous year. The figures for 2001 have been adjusted to reflect the changed structure.

### Revenue by geographic area:

	2003 millions of €	2002 millions of €	2001 millions of €
Domestic	25,193	25,465	26,495
International	10	327	836
	<b>25,203</b>	<b>25,792</b>	<b>27,331</b>

### Breakdown of international revenue:

	2003 millions of €	2002 millions of €	2001 millions of €
European Union (excluding Germany)	1	174	364
Rest of Europe	7	99	201
North America	2	4	148
Other	0	50	123
	<b>10</b>	<b>327</b>	<b>836</b>

T-Systems' share of Deutsche Telekom's net revenues only includes revenue up to the date the business area was spun off in August 2002.

The decline in international net revenue is due to the spin-off of the T-Systems business area.

## (2) Cost of sales

The cost of sales fell by EUR 905 million or 5.7 % year-on-year and, in the year under review, were primarily composed of goods and services purchased (EUR 6.0 billion), depreciation and amortization (EUR 3.8 billion), and personnel costs (EUR 3.2 billion). Cost of sales relates mainly to the T-Com division.

This year-on-year decrease is larger than the decrease in revenues and is due to the spin-off of the T-Systems business area. The cost of sales relating to the T-Com division decreased in line with the decrease in revenue.

## (3) Selling costs

As a result of the disproportionate year-on-year decrease in selling costs of EUR 564 million or 9.9 %, the ratio of selling costs to net revenues fell by 1.7 percentage points on the previous year to 20.4 %. The selling costs essentially include personnel costs (EUR 2.3 billion) and losses on accounts receivable and provision for doubtful accounts (EUR 0.5 billion). Selling costs relate mainly to the T-Com division.

The decrease in selling costs is primarily due to the lower year-on-year level of losses on accounts receivable and provisions for doubtful accounts. Market-driven streamlining in the carrier segment led to losses on accounts receivable of EUR 175 million in 2002.

## (4) General and administrative costs

General and administrative costs primarily relate to personnel costs (EUR 1.0 billion) and decreased by EUR 662 million or 17.5 % compared with the previous financial year. Group Headquarters & Shared Services account for the largest proportion of the general and administrative costs.

The decrease results in particular from the change in the allocation of personnel costs for Vivento. The corresponding personnel costs were fully allocated to other operating expenses in 2003.

## (5) Other operating income

	2003 millions of €	2002 millions of €	2001 millions of €
Income from rental and lease agreements	1,194	1,473	1,792
Income from the disposal of noncurrent assets	449	975	967
Cost reimbursements	326	414	373
Bonuses from asset-backed securitization	287	233	0
Reversal of accruals	229	493	824
Income from reversal of valuation adjustments	179	224	254
Income from foreign currency transaction gains	153	639	353
Income from insurance compensation	45	60	35
Ancillary services	27	36	51
Refund of value-added tax (§ 15a Value-Added Tax Act – UStG)	55	68	85
Income from write-ups of financial assets	7	74	280
Other income	328	470	332
	<b>3,279</b>	<b>5,159</b>	<b>5,346</b>

Income from rental and lease agreements is mainly derived from GMG Generalmietgesellschaft mbH, Münster (GMG), and relates mainly to real estate.

EUR 297 million of the income from the disposal of noncurrent assets relates to the disposal of property, plant, and equipment (2002: EUR 246 million), and EUR 152 million to income from the disposal of financial assets (2002: EUR 729 million).

Of the total amount of other operating income, EUR 890 million (2002: EUR 1,774 million) relates to other accounting periods. The income from other accounting periods relates in particular to the disposal of noncurrent assets (EUR 449 million), the reversal of accruals (EUR 229 million), and the reversal of individual valuation adjustments on accounts receivable (EUR 134 million).

## (6) Other operating expenses

	2003 millions of €	2002 millions of €	2001 millions of €
Personnel costs <sup>1)</sup>	858	123	240
Depreciation and amortization <sup>1)</sup>	646	980	1,639
Expenses from transfers to accruals	292	175	243
Losses on the disposal of noncurrent assets	197	321	450
Expenses from asset-backed securitization	139	362	80
Expenses from foreign currency transaction losses	133	617	394
Maintenance and repair expenses	94	6	41
Rental and leasing expenses	47	30	33
Legal and consulting fees	41	1	4
Other taxes	30	26	34
Incidental expenses of monetary transactions	28	42	0
Other expenses	131	205	48
	<b>2,636</b>	<b>2,888</b>	<b>3,206</b>

<sup>1</sup> If not attributable to cost of sales, selling costs, or general and administrative costs.

The increase in personnel costs is due in particular to the changes at Vivento and the increase in severance payments and old-age part-time work.

Vivento, the service provider for personnel and business (formerly PSA), is assigned to the GHS division. The personnel costs attributable to Vivento, totaling EUR 500 million, were fully allocated to other operating expenses in the year under review. In previous years, the lower corresponding personnel costs of PSA were mostly allocated to the functional costs.

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

Of the total amount of other operating expenses, EUR 197 million is attributable to other accounting periods (2002: EUR 321 million). The entire amount relates to the disposal of non-current assets.

Of the total amount of other operating expenses, expenses for goods and services purchased account for EUR 0 million in the year under review (2002: EUR 42 million).

**(7) Financial income/expense, net**

	2003 millions of €	2002 millions of €	2001 millions of €
Dividend income from investments			
of which from subsidiaries: € 268 million (2002: € 80 million, 2001: € 4,136 million)	275	102	6,609
Income from profit transfer agreements			
of which from tax allocations: € 15 million (2002: € 3 million, 2001: € 109 million)	5,313	608	803
Expenses arising from loss transfers	(642)	(3,016)	(61)
<b>Income/(loss) related to subsidiaries, associated and related companies</b>	<b>4,946</b>	<b>(2,306)</b>	<b>7,351</b>
Income from debt securities and long-term loan receivables			
of which from subsidiaries: € 119 million (2002: € 532 million, 2001: € 1,075 million)	122	565	1,123
Other interest and similar income			
of which from subsidiaries: € 137 million (2002: € 197 million, 2001: € 616 million)	423	1,779	770
Interest and similar expense			
of which to subsidiaries: € 2,751 million (2002: € 3,056 million, 2001: € 2,297 million)	(3,895)	(5,278)	(5,164)
<b>Net interest income/(expense)</b>	<b>(3,350)</b>	<b>(2,934)</b>	<b>(3,271)</b>
<b>Write-downs on financial assets and marketable securities</b>	<b>(128)</b>	<b>(1,195)</b>	<b>(350)</b>
	<b>1,468</b>	<b>(6,435)</b>	<b>3,730</b>

Income related to subsidiaries, associated and related companies mainly refers to dividends from Viola GmbH, Bonn (EUR 90 million); DFMG Deutsche Funkturm GmbH, Münster (EUR 85 million); and MagyarCom Holding GmbH, Bonn (EUR 40 million). Income from profit transfer agreements relates primarily to T-Mobile International Holding GmbH, Bonn (EUR 2,977 million); Deutsche Telekom BK-Holding GmbH, Bonn (EUR 1,092 million); and T-Systems International GmbH, Frankfurt/Main (EUR 573 million).

The loss transfers refer mainly to GMG Generalmietgesellschaft mbH, Münster, (EUR 292 million) and Toll Collect GbR, Berlin (EUR 335 million). The loss absorption obligations assumed for Toll Collect GbR, Berlin, have been accrued.

The loss related to subsidiaries, associated and related companies in the previous year was due to loss transfers. The expenses in 2002 are particularly the result of loss transfers relating to T-Systems International GmbH, Frankfurt/Main, (EUR 1,274 million) and Kabel Deutschland GmbH (since renamed Deutsche Telekom BK-Holding GmbH), Bonn (EUR 1,062 million).

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

The net interest expense was mainly caused by interest expense incurred by Deutsche Telekom for bonds issued by Deutsche Telekom International Finance B. V., Amsterdam (Netherlands).

EUR 108 million of write-downs on financial assets and marketable securities relates primarily to write-downs of the net carrying amount of the investment in Toll Collect GmbH, Berlin.

**(8) Income taxes**

	2003 millions of €	2002 millions of €	2001 millions of €
<b>Income taxes</b>			
Current income taxes	(125)	(968)	555
Tax allocations	24	121	(19)
Deferred taxes	0	0	177
	<b>(101)</b>	<b>(847)</b>	<b>713</b>

The income from income taxes (EUR 125 million) mainly results from the tax audit for the assessment period from 1993 to 1996 that was completed in the second quarter of 2003. Tax income comprises corporate income tax, including the solidarity surcharge and trade tax.

**(9) Goods and services purchased**

	2003 millions of €	2002 millions of €	2001 millions of €
<b>Goods purchased</b>			
Raw materials and supplies	237	304	368
Goods purchased	646	718	676
	<b>883</b>	<b>1,022</b>	<b>1,044</b>
<b>Services purchased</b>			
Domestic network access charges	3,665	3,442	4,066
International network access charges	687	855	1,100
Other services	876	917	1,000
	<b>5,228</b>	<b>5,214</b>	<b>6,166</b>
	<b>6,111</b>	<b>6,236</b>	<b>7,210</b>

The decrease in expenses for raw materials and supplies is mainly due to the absence of customer orders for ADSL Internet connection technology. Components for an Internet connection using ADSL technology were supplied free of charge for the last time in 2002. The development in revenue from terminal equipment reflects the decline in expenses for goods purchased.

Expenses for domestic network access charges increased in particular as a result of market growth in the areas of T-Vote and service numbers.

Expenses for international charges decreased mainly due to the hiving off of the international billing department to T-Systems International GmbH, Frankfurt/Main, in August 2002.

**(10) Personnel costs/Average number of employees**

	2003 millions of €	2002 millions of €	2001 millions of €
<b>Wages and salaries</b>	<b>5,208</b>	<b>4,977</b>	<b>4,817</b>
<b>Social security contributions and expenses for pension plans and benefits</b>			
Payments to Bundes-Pensions-Service für Post und Telekommunikation e.V., Bonn	809	838	845
Social security contributions	544	503	481
Expenses for pension plans for non-civil servants	620	498	470
Health care expenses	156	153	151
	<b>2,129</b>	<b>1,992</b>	<b>1,947</b>
	<b>7,337</b>	<b>6,969</b>	<b>6,764</b>

Expenses for pension plans and benefits in 2003 amounted to EUR 1,429 million (2002: EUR 1,336 million, 2001: EUR 1,315 million).

The rise in personnel costs is in particular the result of collectively agreed average pay rises of 3.2 % for non-civil servants with effect from May 1, 2003 and of remuneration adjustments of 2.4 % for civil servants with effect from April 1, 2003. In addition, the reduction in the discount rate for pension accruals and the increase in severance payments and old-age part-time work also contributed to this development.

The number of employees developed as follows:

	2003 Number	2002 Number	2001 Number
<b>Number of employees (average for the year)</b>			
Civil servants	49,998	52,961	56,707
Non-civil servants	70,020	70,650	69,129
	<b>120,018</b>	<b>123,611</b>	<b>125,836</b>
Trainees/student interns	<b>9,628</b>	<b>8,883</b>	<b>7,683</b>

In the 2003 financial year, the average number of employees decreased by 2.9 % as a result of personnel restructuring measures.

#### (11) Depreciation and amortization

	2003 millions of €	2002 millions of €	2001 millions of €
<b>Depreciation and amortization</b>			
Amortization	313	324	301
Depreciation	4,054	4,580	4,897
	4,367	4,904	5,198
Write-downs in accordance with § 253 (2) sentence 3 HGB	224	477	842
	<b>4,591</b>	<b>5,381</b>	<b>6,040</b>

Depreciation of property, plant, and equipment declined in the year under review by EUR 525 million. This was due to the change in overall investment levels, as well as to intragroup transfers and real estate disposals.

A write-down in the form of a general valuation adjustment for buildings and land was charged for buildings for which no further business use is planned.

#### (12) Other taxes

	2003 Mio. €	2002 Mio. €	2001 Mio. €
<b>Other taxes</b>	<b>30</b>	<b>233</b>	<b>(53)</b>

The decrease in other taxes results in particular from the non-recurrence of a one-time expense in the prior year in

connection with the Federal Fiscal Court ruling on the recognition of goodwill in Deutsche Telekom's tax accounts.



# Notes to the balance sheet

## (13) Intangible assets

	Dec. 31, 2003 millions of €	Dec. 31, 2002 millions of €
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	575	630
Advance payments	85	122
	<b>660</b>	<b>752</b>

The development of intangible assets is shown in the statement of noncurrent assets.

## (14) Property, plant, and equipment

	Dec. 31, 2003 millions of €	Dec. 31, 2002 millions of €
Land and equivalent rights and buildings, including buildings on land owned by third parties	8,407	9,403
Technical equipment and machinery	19,631	22,086
Other equipment, plant, and office equipment	394	461
Advance payments and construction in progress	371	327
	<b>28,803</b>	<b>32,277</b>

Property, plant, and equipment decreased by EUR 3,474 million year-on-year as a result of intragroup transfers of property, plant, and equipment, real estate disposals, write-downs, and a reduction in capital expenditure.

Expenditure on property, plant, and equipment in the 2003 financial year amounted to EUR 1,635 million (2002: EUR 2,527 million). Capital expenditure relates primarily to switching and transmission equipment (EUR 679 million), and to the outside plant network (EUR 232 million).

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

## (15) Financial assets

	Dec. 31, 2003 millions of €	Dec. 31, 2002 millions of €
Investments in subsidiaries	65,601	69,363
Loans to subsidiaries	1,861	5,596
Investments in associated companies	39	21
Other investments in related companies	69	214
Long-term loans to associated and related companies	20	-
Other investments in noncurrent securities	2	75
Other long-term loans	21	77
	<b>67,613</b>	<b>75,346</b>

The decrease in **investments in subsidiaries** is attributable in particular to the withdrawal of equity interests tied-up in Deutsche Telekom BK-Holding GmbH, Bonn, in the amount of EUR 3,584 million.

**Loans to subsidiaries** primarily include loans to T-Systems International GmbH, Frankfurt/Main, (EUR 1,000 million) and T-Mobile USA, Inc., Bellevue, United States (EUR 646 million). The decrease relates in particular to T-Systems International GmbH, Frankfurt/Main (EUR 1,538 million), Powertel Inc., Bellevue, United States (EUR 1,294 million), and T-Mobile USA, Inc., Bellevue, United States (EUR 879 million).

**Other investments in related companies** declined mainly due to the contribution of all shares in Eutelsat S.A., Paris, France, (EUR 118 million) to the subsidiary Noah Telekommunikationsdienste GmbH, Bonn.

**Long-term loans to associated and related companies** relate entirely to DEASAT S.A., Luxembourg.

The decrease in **other investments in noncurrent securities** is primarily a result of the sale (EUR 63 million) and the preceding valuation adjustment (EUR 9 million) of the bond issued by Telewest Communications PLC, Surrey (United Kingdom).

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.

### (16) Inventories, materials, and supplies

	Dec. 31, 2003 millions of €	Dec. 31, 2002 millions of €
Raw materials and supplies	107	190
Work in process	15	15
Merchandise	64	96
Advance payments	0	3
	<b>186</b>	<b>304</b>

Raw materials and supplies mostly include modules for data communications equipment and telecommunications cables, spare parts, and components for telecommunications equipment. Merchandise relates to fixed-network telecommunications business.

The year-on-year decrease in inventories reflects the aim of keeping these to a minimum.

### (17) Receivables

	Dec. 31, 2003 millions of €	Dec. 31, 2002 millions of €
Trade accounts receivable		
(of which with a remaining		
maturity of more than one year:		
€ 0 million; 2002: € 0 million)	1,222	1,093
Receivables from subsidiaries		
(of which with a remaining		
maturity of more than one year:		
€ 60 million; 2002: € 8 million)	19,319	2,015
Receivables from associated		
and related companies		
(of which with a remaining		
maturity of more than one year:		
€ 0 million; 2002: € 0 million)	69	160
	<b>20,610</b>	<b>3,268</b>

The main items under receivables from subsidiaries relate to T-Mobile Deutschland GmbH, Bonn (EUR 5,822 million, 2002: EUR 173 million); T-Mobile International Holding GmbH, Bonn (EUR 2,921 million, 2002: EUR 0 million); T-Systems International GmbH, Frankfurt/Main (EUR 2,425 million, 2002: EUR 163 million); Deutsche Telekom BK-Holding GmbH, Bonn (EUR 1,130 million, 2002: EUR 0 million); DeTeNetPro GmbH, Bonn (EUR 1,056 million, 2002: EUR 0 million), and T-Online International AG, Darmstadt (EUR 967 million, 2002: EUR 0 million).

The sharp year-on-year increase in receivables from subsidiaries is due in particular to the more detailed presentation of the Group's internal transfer accounts, and the resulting rise in their number. This growth in the number of these accounts to give a more detailed breakdown also led to a rise in liabilities to subsidiaries.

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.

## (18) Other assets

	Dec. 31, 2003 millions of €	Dec. 31, 2002 millions of €
Tax receivables		
Income tax receivables		
Trade taxes	291	199
Corporate income taxes	126	595
Solidarity surcharge	7	34
	<b>424</b>	<b>828</b>
Other tax receivables	361	365
	<b>785</b>	<b>1,193</b>
Accrued interest	402	333
Receivables from asset-backed securitization	287	149
Receivables from reimbursements	64	76
Receivables from advance payments on current assets	29	24
Receivables from employees	14	17
Receivables from option premiums	7	1
Receivables from loans receivable	3	3
Receivables from social insurance institutions	0	1
Miscellaneous other assets	319	384
	<b>1,910</b>	<b>2,181</b>

EUR 58 million of income tax receivables relates to the current financial year (2002: EUR 22 million), and EUR 366 million to previous years (2002: EUR 806 million). The year-on-year decrease in tax receivables relates to refunds of corporate income taxes and the solidarity surcharge. The prior-year refunds result from the decision to recognize amortizations of Deutsche Telekom's goodwill. This decrease was partly offset in the year under review by the increase in receivables for trade taxes as a result of the tax audit for the period from 1993 to 1996 that was completed in the second quarter of 2003.

Miscellaneous other assets include receivables from compensatory payments for collateral furnished, amounting to EUR 271 million (2002: EUR 128 million), and VAT receivables relating to a declaration of assignment, amounting to EUR 11 million (2002: EUR 91 million).

Except for EUR 4 million (2002: 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 352 million (2002: EUR 232 million).

## (19) Marketable securities

	Dec. 31, 2003 millions of €	Dec. 31, 2002 millions of €
Treasury shares	7	7
Other marketable securities	64	366
	<b>71</b>	<b>373</b>

Treasury shares account for a total of 0.06 % of the capital stock. At 2,670,828, the portfolio of treasury shares at the balance sheet date was unchanged year-on-year, and is comprised as follows:

	Number
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 KfW and not issued	14,630
	<b>2,670,828</b>

Treasury shares are recorded in the balance sheet at acquisition costs. The 14,630 shares acquired by KfW – because they were not purchased by employees – were shown at the time of acquisition (2000) in Deutsche Telekom's balance sheet at acquisition cost (EUR 0.9 million) and written down to the lower market trading price applicable at subsequent balance sheet dates.

Other marketable securities relate to the price support portfolio of Bundespost bonds. The previous year's portfolio contained interest-bearing securities amounting to EUR 227 million.

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**(20) Liquid assets**

	Dec. 31, 2003 millions of €	Dec. 31, 2002 millions of €
Cash-in-hand and deposits		
at the Bundesbank	1	3
Cash in banks	7,379	135
	<b>7,380</b>	<b>138</b>

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

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**(21) Prepaid expenses and deferred charges**

Prepaid expenses and deferred charges of EUR 325 million (2002: EUR 394 million) are primarily composed of discounts on loans amounting to EUR 175 million (2002: EUR 228 million) and prepaid personnel costs amounting to EUR 133 mil-

lion (2002: EUR 128 million). Discounts on loans are amortized on a straight-line basis over the terms of the related liabilities.

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**(22) Shareholders' equity**

A detailed statement of shareholders' equity for 2001, 2002, and 2003 precedes the notes to the financial statements.

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**(23) Capital stock**

Deutsche Telekom's capital stock in accordance with § 5 (1) of its Articles of Incorporation totaled EUR 10,746 million as of December 31, 2003, and is composed of 4,198 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 26.03 % at December 31, 2003; KfW's shareholding was 16.74 % at December 31, 2003. 1,093 million no-par value shares (EUR 2,797 million) of the capital stock were therefore held by the Federal Republic at December 31, 2003 and 703 million (EUR 1,799 million) by KfW. The remaining shares are in free float.

In the course of the acquisition of T-Mobile USA Inc., Bellevue (United States)/Powertel Inc., Bellevue (United States), Deutsche Telekom granted options on Deutsche Telekom shares in exchange for the outstanding warrants between Deutsche Telekom and T-Mobile USA/Powertel at the time of the acquisition. As of December 31, 2003, the number of Deutsche Telekom shares lodged as collateral for the outstanding preemptive rights granted to T-Mobile USA/Powertel employees amounted to 22,539,480.

**Authorized capital**

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 noncash contributions in the period up to May 25, 2005. The authorization may be exercised in full or in part. Shareholders' preemptive rights are disappplied. 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. As of December 31, 2003, 1,168,148,391 of the 1,509,802,017 authorized no-par value shares had been issued in conjunction with the acquisition of T-Mobile USA and Powertel.

**Contingent capital**

The capital stock has been contingently increased by up to EUR 500,000,000.00, composed of up to 195,312,500 shares (contingent capital I). The contingent capital increase will be implemented only to the extent that

- the holders and creditors of conversion rights or warrants attached to convertible bonds or bonds with warrants to be issued before May 28, 2006 by Deutsche Telekom AG or its direct or indirect majority shareholdings on the basis of the authorizing resolution adopted by the shareholders' meeting on May 29, 2001 exercise their conversion or option rights; or
- the holders and creditors of convertible bonds to be issued before May 28, 2006 by Deutsche Telekom AG or its direct or indirect majority shareholdings on the basis of the authorizing resolution adopted by the shareholders' meeting on May 29, 2001 who are obligated to convert the convertible bonds fulfill their conversion obligation.

The new shares carry dividend rights from the beginning of the financial year in which they arise through exercise of conversion rights or options, or the fulfillment of conversion obligations. Contingent capital I was used in 2003 to issue convertible bonds amounting to approximately EUR 2.3 million that will be converted into shares of Deutsche Telekom AG common stock at maturity (June 1, 2006). The convertible bonds were issued by Deutsche Telekom's financing company in the Netherlands – Deutsche Telekom International Finance B.V. – and are guaranteed by Deutsche Telekom AG. The securities were issued at par with a coupon of 6.5%. Depending on share price performance, the conversion ratio may fluctuate between 3,417.1679 to 4,237.2881 shares per bond (EUR 50,000 par value). The securities were placed with non-U.S. institutional investors outside the United States.

On the basis of the authorizing resolution adopted by the shareholders' meeting on May 29, 2001, the capital stock was contingently increased by up to EUR 307,200,000, composed of up to 120,000,000 new no-par value registered shares (contingent capital II). This contingent capital increase is exclusively for the purpose of granting stock options to members of the Board of Management of Deutsche Telekom AG, to members of Deutsche Telekom's second-tier management, and to other executives, managers, and specialists of Deutsche Telekom AG, and to members of the boards of management, members of management, and other executives, managers, and specialists of lower-tier group companies in Germany and other countries as part of the Deutsche Telekom 2001 Stock Option Plan. It will be implemented only to the extent that the holders of stock options exercise these options. The new shares carry dividend rights from the beginning of the financial year in which they are issued. If new shares are issued after the end of a financial year but before the Company's shareholders' meeting that resolves the appropriation of net income for the preceding financial year, the new shares carry dividend rights from the beginning of the preceding financial year. No stock options granted under the 2001 Stock Option Plan had been exercised at December 31, 2003.

On the basis of the authorizing resolution adopted by the shareholders' meeting on May 25, 2000, in conjunction with the amending resolution by the shareholders' meeting on May 29, 2001, the capital stock was contingently increased by up to EUR 2,621,237.76, composed of up to 1,023,921 new no-par value registered shares (contingent capital III). This contingent capital increase is exclusively for the purpose of granting stock options to members of the Board of Management of Deutsche Telekom AG and executives of the Company, and to members of the boards of management, members of management, and other executives of lower-tier subsidiaries as part of the Deutsche Telekom 2000 Stock Option Plan established on the basis of a resolution by the shareholders' meeting on May 25, 2000. It will only be implemented if these beneficiaries exercise their stock options. The new shares carry dividend rights from the beginning of the financial year in which they are issued. If new shares are issued after the end of a financial year but before the Company's shareholders' meeting that resolves the appropriation of net income for the preceding financial year, the new shares carry dividend rights from the beginning of the preceding financial year. No stock options granted under the 2000 Stock Option Plan had been exercised at December 31, 2003.

#### **Treasury shares**

The shareholders' meeting on May 20, 2003 rescinded the authorization of the Board of Management to acquire treasury shares resolved by the shareholders' meeting on May 28, 2002 with effect from the end of the shareholders' meeting on May 20, 2003. At the same time, the Board of Management of Deutsche Telekom AG was authorized to acquire up to 419,775,242 shares, i.e., up to almost 10% of the capital stock, before November 19, 2004. The treasury shares acquired on the basis of this authorization may be resold on the stock exchange, used to list the Company's shares on foreign stock exchanges, offered to third parties in the course of business combinations or for the acquisition of companies, parts of companies, or interests in companies, withdrawn, offered to shareholders on the basis of a subscription offer made to all shareholders, or sold other than on the stock exchange or by way of an offer to all shareholders. The authorizations to acquire and utilize treasury shares may be exercised in full or in parts.

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**(24) Additional paid-in capital**

As a result of the T-Mobile USA/Powertel stock options exercised, the additional paid-in capital increased by EUR 14 million in 2003. This figure corresponds to the amount generated via the employee stock purchase plan in excess of par.

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**(25) 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 reported under marketable securities.

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**(26) Stock-based compensation****2000 Stock Option Plan**

In the 2000 financial year, Deutsche Telekom granted stock options to members of the Board of Management and senior managers of Deutsche Telekom AG and group companies within and outside Germany for the first time. On July 19, 2000, Deutsche Telekom granted 1,023,921 options for the purchase of 1,023,921 shares at an exercise price of EUR 62.69 to the beneficiaries of the 2000 Stock Option Plan on the basis of the resolution adopted by the shareholders' meeting in May 2000. The closing price of Deutsche Telekom's common stock quoted in Frankfurt in Xetra trading on the grant date was EUR 60.40 per share. The term of the options runs until July 20, 2005.

The options were not exercisable before the end of the lock-up period on July 19, 2002. The options 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 achieved when the moving 30-day average closing price of the T-Share in Xetra trading at Deutsche Börse AG, Frankfurt/Main, exceeds the exercise price of EUR 62.69 by more than 20 % at the end of the lock-up period, i.e., a T-Share price of more than EUR 75.22.

The relative performance target is linked to share price performance relative to the performance of the Dow Jones Euro Stoxx 50<sup>®</sup> Total Return Index. The options may only be exercised if, after the end of the two-year lock-up period, the

share price, adjusted for dividends, preemptive rights, and other special rights (total shareholder return) outperforms the Euro Stoxx 50<sup>®</sup> Total Return Index measured on a moving thirty-day average basis.

Neither the absolute target nor the relative target had been exceeded at December 31, 2003.

Deutsche Telekom reserved the right, at its own discretion, to settle the options through the payment of a cash amount (stock appreciation rights – SARs) 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 of December 31, 2003, no resolution on conversion had been passed to this effect.

As of December 31, 2003, the weighted average remaining contractual life of the outstanding options from the 2000 Stock Option Plan was around 1.5 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 contingent capital was reduced by the appropriate amount.

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

	Aktienoptionsplan 2000					
	2003		2002		2001	
	Stock options in thousands	Weighted-average exercise price (€)	Stock options in thousands	Weighted-average exercise price (€)	Stock options in thousands	Weighted-average exercise price (€)
Outstanding at beginning of the year under review	994	62.69	1,001	62.69	1,022	62.69
Granted	0	-	0	-	0	-
Exercised	0	-	0	-	0	-
Forfeited	(7)	62.69	(7)	62.69	(21)	62.69
<b>Outstanding at end of year under review</b>	<b>987</b>	<b>62.69</b>	<b>994</b>	<b>62.69</b>	<b>1,001</b>	<b>62.69</b>
<b>Exercisable at end of year under review</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>

In 2001, Deutsche Telekom AG also granted 165,340 stock appreciation rights to employees in countries in which it was not legally possible to issue stock options. As of December 31, 2003, 159,980 of the SARs granted were still outstanding.

### 2001 Stock Option Plan

For the 2001 Stock Option Plan, the shareholders' meeting in May 2001 resolved to increase the capital stock (share capital) of Deutsche Telekom AG by EUR 307,200,000.00 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 stock options to be issued to members of the Board of Management, other executives, and specialists of the Company and lower-tier subsidiaries as part of the Deutsche Telekom 2001 Stock Option Plan. In accordance with the resolution passed by the shareholders' meeting, the allocation of the total number of options to beneficiaries is as follows:

- a maximum of 15 % to members of the Board of Management of Deutsche Telekom,
- a maximum of 20 % to members of Deutsche Telekom's second-tier management,
- a maximum of 15 % to other executives, managers, and specialists of Deutsche Telekom,
- a maximum of 15 % to members of the boards of management of group companies within and outside Germany,
- a maximum of 35 % to other executives, managers, and specialists of group companies within and outside Germany.

The following conditions apply under the terms of the 2001 Stock Option Plan:

50 % of the preemptive rights granted may only be exercised after a period of two years – calculated from the day the preemptive rights are issued. 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 closing prices of Deutsche Telekom shares in Deutsche Börse AG's Xetra trading in Frankfurt/Main (or a successor system to the Xetra system) over the last 30 trading days before the grant of the options. If the average closing price calculated by this method is lower than the closing price of Deutsche Telekom shares in Deutsche Börse AG's Xetra trading in Frankfurt/Main (or in a successor system) on the grant date of the options, 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 own discretion, to settle the options through the payment of a cash amount (stock appreciation rights – SARs) 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 of December 31, 2003, no resolution on conversion had been passed to this effect.

On August 13, 2001, Deutsche Telekom granted 8,220,803 options for the purchase of 8,220,803 shares at an exercise price of EUR 30.00 to the beneficiaries of the 2001 Stock Option Plan on the basis of the resolution adopted by the shareholders' meeting in May 2000. The closing price of Deutsche Telekom's common stock quoted in Frankfurt/Main in Xetra trading 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 a further 3,927,845 options for the purchase of 3,927,845 shares at an exercise price of EUR 12.36 to the beneficiaries of the Stock Option Plan on the basis of the resolution adopted by the shareholders' meeting in May 2001. The closing price of Deutsche Telekom's common stock quoted in Frankfurt in Xetra trading on the grant date was EUR 10.30 per share. The term of the options runs until July 14, 2012.

As of December 31, 2003, the weighted average remaining contractual life of all outstanding options from the 2001 Stock Option Plan was around 8.1 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					
	2003		2002		2001	
	Stock options in thousands	Weighted-average exercise price (€)	Stock options in thousands	Weighted-average exercise price (€)	Stock options in thousands	Weighted-average exercise price (€)
Outstanding at beginning of the year under review	11,964	24.22	8,219	30	n/a	-
Granted	0	-	3,928	12.36	8,221	30
Exercised	0	-	0	-	0	-
Forfeited	(196)	25.89	(183)	29.16	(2)	-
<b>Outstanding at end of year</b>	<b>11,768</b>	<b>24.25</b>	<b>11,964</b>	<b>24.22</b>	<b>8,219</b>	<b>30</b>
<b>Exercisable at end of year under review</b>	<b>3,964</b>	<b>30</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>

In 2002, Deutsche Telekom AG also granted 2,580 stock appreciation rights to employees in countries in which it was not legally possible to issue stock options. As of December 31,

2003, all the stock appreciation rights granted were still outstanding.



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## (27) 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 in respect of civil servants for Deutsche Post AG, Deutsche Postbank AG, and Deutsche Telekom AG.

In accordance with the provisions of the Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz – PTNeuOG), BPS-PT makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil servant status. The level of Deutsche Telekom'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 an expense for the current year in question, and amounted to EUR 809 million in the year under review (2002: EUR 838 million).

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

With the exception of the VAP parallel obligations, the actuarial computations for the pension commitments are based on the new life expectancy tables (1998) published by Prof. Dr. Klaus Heubeck. The mean average of the old (1983) and new (1998) life expectancy tables is used in calculating the amounts due to VAP parallel obligation benefit recipients, as the basis for the forecasts in the new life expectancy tables does not apply in full to this closed group of pension recipients.

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

	<b>2003</b>	2002
	%	%
Discount rate	5.25	5.75
Projected salary increase	2.75	2.75
Return on plan assets	6.00	6.00
Projected pension increase	1.50	1.50

As of December 31, 2003, the calculation of pension obligations in accordance with SFAS 87 required the disclosure of an additional minimum liability (AML) amounting to EUR 767 million (2002: EUR 452 million). In these financial statements, the year-on-year change in the AML of EUR 315 million is recognized as an expense.

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

	<b>Dec. 31, 2003</b>	Dec. 31, 2002
	millions of €	millions of €
Direct pension obligations	2,472	2,349
- of which parallel obligation:		
EUR 1,939 million		
(2002: EUR 1,926 million)		
Indirect pension obligations	1,209	993
	<b>3,681</b>	<b>3,342</b>
Obligations in accordance with		
Article 131 GG	7	8
	<b>3,688</b>	<b>3,350</b>

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 3,394 million (2002: EUR 3,304 million).

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

	<b>Dec. 31, 2003</b> millions of €	Dec. 31, 2002 millions of €
Actuarial present value of benefits:		
Vested benefit obligation	3,809	3,466
Nonvested benefit obligation	255	223
<b>Accumulated benefit obligation</b>	<b>4,064</b>	<b>3,689</b>
Effect of projected future salary increases	56	56
<b>Projected benefit obligation</b>	<b>4,120</b>	<b>3,745</b>
Plan assets at fair value	(415)	(351)
<b>Projected benefit obligation in excess of plan assets</b>	<b>3,705</b>	<b>3,394</b>
Unrecognized net (losses)/gains	(791)	(510)
<b>Unfunded accrued pension cost</b>	<b>2,914</b>	<b>2,884</b>
Additional minimum liability	767	452

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

	<b>2003</b> millions of €	2002 millions of €	2001 millions of €
Service cost	74	77	28
Interest cost	212	205	180
Return on plan assets	(23)	(20)	(21)
Amortization of actuarial losses	10	6	0
Remeasurement	0	3	2
<b>Net periodic pension cost</b>	<b>273</b>	<b>271</b>	<b>189</b>

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**(28) Tax accruals**

	<b>Dec. 31, 2003</b>	Dec. 31, 2002
	<b>millions of €</b>	millions of €
Trade tax	1	14
Corporate income tax	585	918
Other taxes	441	264
	<b>1,027</b>	<b>1,196</b>

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**(29) Other accruals**

	<b>Dec. 31, 2003</b>	Dec. 31, 2002
	<b>millions of €</b>	millions of €
Employee benefits		
Civil Service Health Insurance Fund	1,358	1,101
Personnel restructuring	390	261
Other obligations	358	295
Outstanding invoices	423	460
Investment risks	335	0
Loss contingencies from interest rate derivatives	337	372
Litigation risks	250	208
Risks related to real estate	220	225
Order book risks	96	53
Restoration commitments	75	13
Deferred maintenance	15	14
Loss contingencies from foreign currency forward contracts	14	40
Other	172	93
	<b>4,043</b>	<b>3,135</b>

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The reduction of the discount rate for pension accruals by 0.75 % to 5.25 % was a significant factor in the increase in accruals for risk settlement payments to the Civil Service Health Insurance Fund. The calculation of the present value is based on actuarial opinions.

The accrual for investment risks relates to anticipated loss absorption obligations for Toll Collect GbR, Berlin. Expenses from additions to accruals are recorded under net financial expense.

**(30) Liabilities**

	2003 millions of €				2002 millions of €			
	Total	of which due within 1 year	in 1 to 5 years	after 5 years	Total	of which due within 1 year	in 1 to 5 years	after 5 years
<b>Debt</b>								
Bonds and debentures	11,938	10,437	679	822	16,458	4,614	10,968	876
Liabilities to banks	1,094	350	209	535	1,786	860	391	535
	13,032	10,787	888	1,357	18,244	5,474	11,359	1,411
<b>Other</b>								
Advances received	4	4			4	4		
Trade accounts payable	1,077	1,076	1		927	916	11	
Payables to subsidiaries	55,935	27,952	18,839	9,144	43,221	16,612	13,848	12,761
Payables to associated and related companies	87	87			12	12		
Other liabilities	2,414	1,682	8	724	2,765	1,945	96	724
(of which: from taxes)	(633)	(633)			(801)	(801)		
(of which: from social security)	(2)	(2)			(67)	(67)		
	59,517	30,801	18,848	9,868	46,929	19,489	13,955	13,485
<b>Total liabilities</b>	<b>72,549</b>	<b>41,588</b>	<b>19,736</b>	<b>11,225</b>	<b>65,173</b>	<b>24,963</b>	<b>25,314</b>	<b>14,896</b>

**Bonds and debentures** relate primarily to bonds of Deutsche Bundespost, Bonn, (EUR 9,203 million; 2002: EUR 11,760 million).

Bonds and debentures are composed of the following items:

Due by December 31	millions of € up to 6%	millions of € up to 7%	millions of € up to 8%	millions of € 9%–10% <sup>1</sup>	millions of € Total
2004	1,157	3,068	6,212	0	10,437
2005	0	0	0	0	0
2006	453	0	0	0	453
2007	0	0	0	80	80
2008	146	0	0	0	146
2009 to 2024	11	205	606	0	822
<b>Total</b>	<b>1,767</b>	<b>3,273</b>	<b>6,818</b>	<b>80</b>	<b>11,938</b>

<sup>1</sup> Bonds amounting to EUR 80 million relate to medium-term notes (currency: PLN) that bear variable interest rates due to the use of cross-currency swaps.

The largest item under **payables to subsidiaries** is the liability to DT Finance, which amounts to EUR 29,051 million (2002: EUR 29,951 million). This liability relates primarily to bonds issued by DT Finance.

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	6.715%	2005
USD	785,000,000	8.340%	2005
JPY	90,000,000,000	2.090%	2005
EUR	750,000,000	7.215%	2010
USD	1,685,000,000	8.840%	2030
2001 tranche	Nominal amount in currency	Interest rate	Maturity
EUR	4,500,000,000	6.465%	2006
EUR	1,782,581,659	7.215%	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
2003 tranche	Nominal amount in currency	Interest rate	Maturity
EUR	500,000,000	5.560%	2005
EUR	2,288,500,000	6.575%	2006
EUR	1,000,000,000	5.830%	2008
USD	750,000,000	3.95625%	2008
EUR	365,000,000	2.214%	2010
USD	1,250,000,000	5.335%	2013

In addition, liabilities exist in particular to T-Mobile Deutschland GmbH, Bonn (EUR 5,844 million, 2002: EUR 71 million); T-Mobile International AG & Co. KG, Bonn (EUR 5,596 million, 2002: EUR 1,225 million); T-Online International AG, Darmstadt (EUR 4,692 million, 2002: EUR 3,404 million);

T-Systems International GmbH, Frankfurt/Main (EUR 2,322 million, 2002: EUR 1,385 million); and Deutsche Telekom BK-Holding GmbH (formerly Kabel Deutschland GmbH), Bonn (EUR 1,427 million, 2002: EUR 3,343 million).

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

	2003 Mio. €	2002 Mio. €
Liabilities from loan notes	799	804
Liabilities from interest	635	667
Tax liabilities	633	801
Liabilities to employees	65	8
Social security costs	2	67
Liabilities from asset-backed securitization	0	69
Other liabilities	280	349
	<b>2,414</b>	<b>2,765</b>

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

Interest liabilities primarily relate to deferred interest on bonds and debentures, and other liabilities as of December 31, 2003.

Tax liabilities comprise VAT liabilities in the amount of EUR 497 million (2002: EUR 654 million), wage tax liabilities in the amount of EUR 69 million (2002: EUR 64 million), and trade capital tax receivables in the amount of EUR 67 million (2002: EUR 66 million).

# Notes to the statement of cash flows

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The statement of cash flows has been prepared in conformity with International Accounting Standard (IAS) No. 7, Cash Flow Statements. In addition to IAS 7, German Accounting Standard No. 2 (GAS 2), Cash Flow Statements, adopted by the

German Accounting Standards Board (GASB), is also used to prepare the statement of cash flows.

Specifically, cash was provided and used as follows:

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## **(31) Net cash provided by operating activities**

Net cash provided by operating activities in the year under review amounted to EUR 5,405 million, representing a year-on-year decrease of EUR 1,230 million, despite the EUR 7,071 increase in net income.

This decrease is primarily attributable to the sharp rise in current receivables from subsidiaries, which was only partly offset by the sharp rise in current liabilities to subsidiaries. The increase in both balance sheet items resulted in a net cash outflow of EUR 5,912 million.

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## **(32) Net cash provided by investing activities**

Net cash provided by investing activities increased year-on-year by EUR 4,657 million, resulting in net cash provided by investing activities in the amount of EUR 6,416 million.

Cash outflows from investments in property, plant, and equipment in the amount of EUR 1,635 million were offset by cash inflows from disposals of the same items in the amount of EUR 827 million. The cash inflows relate primarily to the disposal of real estate.

Cash outflows for investments in financial assets in the amount of EUR 1,547 million were offset by cash inflows from disposals of the same items in the amount of EUR 9,099 million. The cash inflows from divestitures relate in particular to the withdrawal of equity interests tied-up in the subsidiary Deutsche Telekom BK-Holding GmbH, Bonn, in the amount of EUR 3,584 million, and from the repayment of loans by T-Mobile USA Inc., Bellevue (United States) (EUR 1,638 million); Powertel Inc., Bellevue (United States) (EUR 1,401 million); and T-Systems International GmbH, Frankfurt/Main (EUR 1,538 million).

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## **(33) Net cash used for financing activities**

Net cash used for financing activities fell by EUR 4,991 million year-on-year to EUR 4,579 million. The net cash used for financing activities reflects the reduction in liabilities.

The change in liabilities is attributable primarily to the net change (balance of borrowings and redemptions) in short term borrowings, with a reduction or cash outflow of EUR 7,837 million. This was partially offset by the net change in medium- and long-term borrowings, with a cash inflow of EUR 3,244 million.

# Other disclosures

## (34) Guarantees and commitments, and other financial obligations

### Guarantees and commitments

	2003 millions of €	2002 millions of €
Guarantees	162	364
Legal liability arising from collateral granted for third parties (of which to subsidiaries: EUR 3,915 million; 2002: EUR 3,985 million)	3,915	4,005
Liabilities arising from warranty agreements (of which to subsidiaries: EUR 13,645 million; 2002: EUR 13,369 million)	13,650	13,395
	<b>17,727</b>	<b>17,764</b>

Guarantees include litigation and security deposit guarantees, and warranties.

Liabilities arising from collateral granted and from warranty agreements include guarantees and comfort letters, and relate predominantly to Deutsche Telekom International Finance B.V., Amsterdam (Netherlands) (EUR 11,954 million); T-Mobile Deutschland GmbH, Bonn (EUR 4,078 million); and T-Mobile (UK) Ltd, Borehamwood (United Kingdom) (EUR 1,098 million).

Deutsche Telekom AG (45%), DaimlerChrysler Services AG, Berlin (45%), and Compagnie Financiere et Industrielle des Autoroute S.A., Sèvres Cedex (France) (Cofiroute; 10%) – collectively the consortium - entered into an agreement with the Federal Republic of Germany, represented by the German Federal Ministry of Transport, Building and Housing (Federal Ministry of Transport), “on the collection of toll charges for the use of German autobahns by heavy vehicles, and the creation and operation of a toll system for the collection of autobahn toll charges for heavy vehicles (operating agreement)”, dated September 2002 and last amended in November 2002, under the terms of which they are obligated to set up and operate a system for the electronic collection of toll charges for heavy vehicles; this is to be performed by a project company with the legal form of a limited liability company under German law (GmbH) – Toll Collect GmbH, Berlin. In addition, the parties of the consortium have undertaken, on a joint and several basis, in agreement with the Federal Republic, to maintain an equity ratio in the project company of 20% of the balance sheet total (calculated based on the German GAAP single-entity financial statements of the limited liability company) until August 31, 2004, and 15% thereafter; the total risk for Cofiroute arising from the Toll Collect project is limited to EUR 70 million.

Under the terms of the “Equity Maintenance Undertaking”, the parties of the consortium are obliged to inject additional capital in the event of negative developments within the Toll Collect project. To the extent that Deutsche Telekom AG did not expect any future injection of additional capital to be repaid during the project by any corresponding dividend from Toll Collect GmbH, Berlin, accruals were recognized at December 31, 2003 for anticipated losses relating to the project (see note to Other accruals). The calculation of the accruals is based on the assumption that the system will start operation on January 1, 2005; correspondingly, foreseeable losses of income and expenses, such as contractual penalties for a delayed start of operations, were also taken into consideration.

Additional contractual penalties shall be payable if the start of operations is postponed beyond December 31, 2004. In addition, the agreement includes provisions for further contractual penalties after the approved start of operations (issuance of the preliminary operating permit) if the performance of the system is not adequate. The Federal Republic is asserting claims for damages from the parties of the consortium of EUR 156 million per month for the period September 1 to December 31, 2003 and EUR 180 million per month from January 1, 2004 for lost toll revenues. In addition, the Federal Republic is enforcing contractual penalties of EUR 680 million because the members of the consortium did not seek the necessary agreement of the Federal Ministry of Transport before concluding certain subcontractor agreements. Deutsche Telekom AG believes the claims of the Federal Republic are unfounded. Under the terms of the agreement, the Federal Republic may resort to arbitral proceedings for clarification of the legal position. The maximum future obligations arising from the Toll Collect project cannot be quantified with adequate certainty; it is therefore not possible to express this in figures under guarantees and commitments.

In addition, Deutsche Telekom AG has given a guarantee for bank loans to Toll Collect GmbH, Berlin, amounting to EUR 312 million; these are included in the table above.



## Other financial obligations

	2003 millions of €			2002 millions of €		
	Total	of which due in the following financial year	from the second financial year after the balance sheet date	Total	of which due in the following financial year	from the second financial year after the balance sheet date
Present value of payments to BPS-PT	9,000	950	8,050	9,001	831	8,170
Obligations under rental and lease agreements	11,514	2,301	9,213	10,139	2,038	8,101
(of which to subsidiaries: € 10,848 million; 2002: € 9,347 million)						
Purchase commitments for capital projects in progress, including obligations arising from future expenditure	1,476	1,303	173	3,558	1,719	1,839
(of which to subsidiaries: € 458 million; 2002: € 2,995 million)						
Commitments arising from contributions not paid up, purchase commitments for interests in other companies, and commitments arising from transactions not yet settled	796	174	622	545		545
(of which to subsidiaries: € 301 million; 2002: € 50 million)						
<b>Total other financial obligations</b>	<b>22,786</b>	<b>4,728</b>	<b>18,058</b>	<b>23,243</b>	<b>4,588</b>	<b>18,655</b>

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 9,000 million as of December 31, 2003, of which EUR 3.976 million relates to the future payments for pensions of civil servants.

Obligations under rental and lease agreements include EUR 10,848 million to GMG Generalmietgesellschaft mbH, Münster. The increase compared with the previous year reflects in particular the change in the amount disclosed for the commitment by DFMG Deutsche Funkturm GmbH, Münster. The commitments for non-capital projects disclosed as purchase commitments in the previous year were reclassified to rental obligations in the year under review.

Purchase commitments are composed of commitments for non-capital (EUR 1,000 million) and capital projects (EUR 476 million).

EUR 161 million of the increase in commitments relating to investments in companies is attributable to commitments under unsettled transactions involving the subsidiaries Nord-

amerika Beteiligungs Holding GmbH (NAB), Bonn; DeTe Immobilien; Deutsche Telekom Immobilien u. Service GmbH, Münster; and Deutsche Telekom Training, Bonn. Uncalled contributions not yet paid up arose as a result of the formation of vivento customer services GmbH & Co. KG, Bonn (EUR 120 million). This was partly offset by the contribution at December 31, 2003 of the outstanding contributions to Residenzpost GmbH & Co. Liegenschafts KG (formerly Erste ImmoCom), Eschborn, amounting to EUR 30 million.

Other payment obligations to third parties relate to the exercise of agreed put options by the shareholders (limited partners) of Sireo Immobilienfond No. 1 GmbH & Co. KG, Frankfurt/Main (maximum EUR 490 million).

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.

### (35) Derivative financial instruments

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

	Notional amounts					Fair values*			
	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 €									
<b>Interest-related instruments</b>									
Interest rate swaps	7,156	20,862	2,200	30,218	17,447	-	(244)	(45)	(289)
Interest rate/currency swaps	2,564	6,789	1,373	10,726	8,357	-	(11)	-	(11)
<b>Subtotal</b>	<b>9,720</b>	<b>27,651</b>	<b>3,573</b>	<b>40,944</b>	<b>25,804</b>	<b>-</b>	<b>(255)</b>	<b>(45)</b>	<b>(300)</b>
<b>Currency instruments</b>									
Future exchange transactions									
short	1,056	54	-	1,110	913	11	11	-	22
Future exchange transactions									
long	421	800	-	1,221	1,015	(11)	(11)	-	(22)
<b>Subtotal</b>	<b>1,477</b>	<b>854</b>	<b>-</b>	<b>2,331</b>	<b>1,928</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>11,197</b>	<b>28,505</b>	<b>3,573</b>	<b>43,275</b>	<b>27,732</b>	<b>-</b>	<b>(255)</b>	<b>(45)</b>	<b>(300)</b>

\* Derivative instruments that qualify for hedge accounting are not shown here.

The Company uses derivative financial instruments for the purpose of hedging interest rate and currency exposures that arise from its ongoing business operations. The top priority in all cases in which derivatives are used is to limit the risk of the underlyings. Derivatives may therefore only be used to eliminate risk exposures, and may never be used to create new risks for speculative reasons. 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 fair 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 expected 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 rate swaps 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 or sell a foreign entity are not recognized at the balance sheet date. Such firm commitments are recognized using the foreign exchange rate fixed by the foreign currency forward contract. Where the Company uses options to hedge firm commitments to invest in or sell a foreign entity, the option is carried in other assets and is not measured until exercise or expiration. The option premium is included in the purchase cost of the investment when its addition is recorded. The option premium is reversed to the income statement on receipt of the selling price.

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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 resulting negative portfolio values are accrued under other liabilities. Measurement 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 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 4.0 % 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 5.7 % per annum).

The terms of the USD receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates of 2.3 % per annum, which are swapped for variable rates (generally based on the six-month USD-LIBOR rate). The terms of the USD receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to receive interest at variable rates (generally based on the six-month USD-LIBOR rate), and pay interest at fixed rates of 4.6 % 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). The terms of the GBP receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates of 3.8 % per annum, which are swapped for variable rates (generally based on the six-month GBP-LIBOR rate). These are closed out by receive variable, pay fixed interest

rate swaps with a weighted average fixed interest rate of 3.8 %. The terms of the HUF receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to pay interest at fixed rates of 9.2 % per annum, which are swapped for variable rates based on the six-month BUBOR rate.

Forward interest rate swaps denominated in USD and EUR were entered into in order to ensure that the interest rate management targets 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 4.7 %. These are closed out by receive variable, pay fixed forward interest rate swaps with a weighted average fixed interest rate of 4.2 %. 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 3.9 % in future, and to pay interest at variable rates based on the six-month Euribor rate.

The cross-currency interest rate swaps were primarily used to transform bonds, drawings on medium-term notes, and loan notes into Deutsche Telekom's target currencies, i.e., EUR, GBP, and USD. In addition, various pay EUR/receive CHF, HUF, GBP, and CZK cross-currency swaps were used to hedge currency risks in the financing of subsidiaries.

The notional amounts of the derivative financial instruments do not generally represent amounts exchanged by the parties, but are merely the basis for measuring these amounts. They do not reflect the risk exposure of the financial 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.

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### (36) Compensation 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 notes to the financial statements.

In the 2003 financial year, the Supervisory Board members were paid compensation and meeting attendance fees of EUR 593,625.02. The total compensation received by the individual members of the Supervisory Board is as follows:

Member of the Supervisory Board	Compensation (€)
Becker, Gert	11,416.67
Brandl, Monika	27,200.00
Falbisoner, Josef	27,000.00
Dr. von Grünberg, Hubertus	27,200.00
Holzwarth, Lothar	27,200.00
Dr. Hundt, Dieter	26,800.00
Dr. Leysen, André <sup>1)</sup>	0.00
Litzenberger, Waltraud	26,800.00
Löffler, Michael	27,200.00
Dr. Overhaus, Manfred	29,600.00
Reich, Hans W.	26,400.00
Dr. Schinzler, Hans-Jürgen	17,066.67
Dr. Schlede, Klaus G.	18,466.67
Schmitt, Wolfgang	28,400.00
Schulze, Rüdiger <sup>2)</sup>	21,550.00
Prof. Dr. Sihler, Helmut	11,616.67
Sommer, Michael	26,600.00
Steinke, Ursula	27,000.00
Prof. Dr. Stolte, Dieter	26,800.00
Tremel, Franz <sup>3)</sup>	19,708.33
Walter, Bernhard	27,800.00
Wegner, Wilhelm	30,600.00
Dr. Wiedeking, Wendelin	17,266.67
Dr. Winkhaus, Hans-Dietrich	19,066.67
Dr. Zumwinkel, Klaus	44,866.67
<b>Total</b>	<b>593,625.02</b>

<sup>1)</sup> Dr. Leysen waived compensation for his Supervisory Board activities.

<sup>2)</sup> Mr. Schulze received Supervisory Board compensation of EUR 7,900.00 from T-Mobile International AG, a wholly-owned subsidiary of Deutsche Telekom AG, for the 2003 financial year for a mandate as a member of the Supervisory Board of this company.

<sup>3)</sup> Mr. Tremel received Supervisory Board compensation of EUR 12,271.00 from DeTeImmobiliien, Deutsche Telekom Immobilien und Service GmbH, a wholly-owned subsidiary of Deutsche Telekom AG, for the 2003 financial year for a mandate as a member of the Supervisory Board of this company.

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation. The members of the Supervisory Board receive EUR 25,000.00 per year. The Chairperson of the Supervisory Board receives double, and the Deputy Chairperson one and a half times that amount. Members of the Supervisory Board who were not in office for the entire financial year shall receive one twelfth of the remuneration for each month or part thereof of that they hold a seat. Members of the Supervisory Board receive an attendance fee amounting to EUR 200.00 for each meeting of the Supervisory Board or its committees that they have attended. The Company reimburses value-added tax payable on remuneration and expenses.

Under the terms of their service contracts, the members of the Board of Management are entitled to fixed and variable, performance-related compensation components. The compensation of the members of the Board of Management is in line with market levels.

Performance-related compensation is determined on the basis of the targets agreed between the Supervisory Board General Committee and the members of the Board of Management, and the level of target achievement as determined by the General Committee at the end of the financial year.

In observance of the requirements of German commercial and accounting legislation, a total of EUR 11,741,208.92 is reported as compensation for the members of the Board of Management for the past financial year. This figure includes EUR 917,329.75 of noncash compensation which is treated as noncash benefits. EUR 82,052.83 of the accruals recognized in 2002 was reversed in conjunction with the payment in the 2003 financial year of the variable compensation for the 2002 financial year.

Subject to the condition that the financial statements of Deutsche Telekom AG are approved in their current form, the members of the Board of Management shall receive the following total compensation for the 2003 financial year (fixed annual salary, variable compensation, and long-term incentives):

Name	Fixed annual salary in 2003 (in €)	Variable compensation for 2003 (in €)	Long-term incentives: stock options granted for 2003 (in €)
Kai-Uwe Ricke	1,250,000.00	1,375,000.00	0.00
Dr. Karl-Gerhard Eick	937,500.00	1,031,250.00	0.00
Dr. Heinz Klinkhammer	900,000.00	660,000.00	0.00
Josef Brauner	900,000.00	546,000.00	0.00
René Obermann	700,000.00	770,000.00	0.00
Konrad F. Reiss (pro rata since appointment)	711,694.00	898,438.00	0.00
Thomas Holtrop <sup>1)</sup>	700,000.00	770,000.00	0.00
	-616,000.00	84,000.00	-627,950.00
		142,050.00	0.00
<b>Total</b>	<b>5,483,194.00</b>	<b>5,422,738.00</b>	<b>0.00</b>

<sup>1)</sup> As a result of the dual mandate of Thomas Holtrop as a member of the Board of Management of Deutsche Telekom AG and the listed group company T-Online International AG, Darmstadt, compensation components (fixed annual salary of EUR 616,000.00, variable compensation of EUR 627,950.00, and additional noncash benefits of EUR 139,071.00) have been settled between the two companies.

As in the previous year, no stock options from the 2001 Stock Option Plan were granted to the members of the Board of Management in the 2003 financial year.

Compensation did not increase in the 2003 financial year.

Compensation paid to former members of the Board of Management and their surviving dependents totaled EUR 1,106,105.31. The accruals recognized for ongoing pensions and pension entitlements for this group of persons amounted to EUR 41,000,962.00. Indirect pension obligations

for former members of the Board of Management resulting from pensions for civil servants via the Deutsche Telekom special pension fund in accordance with § 15 (1) of the Act concerning the Legal Provisions for the Former Deutsche Bundespost Staff (PostPersRG) amounted to EUR 3,393,899.00. No accruals were recognized for these obligations.

Deutsche Telekom has not granted any loans to current or former members of the Board of Management.

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**(37) Proposal for appropriation of net income**

The statement of income for the 2003 financial year reports net income of EUR 4,069,084,823.20. Of this net income, EUR 2,034,000,000.00 has been transferred to retained earnings in accordance with § 19 (3) of the Articles of Incorporation. After deducting the amount transferred to retained earnings,

this results in cumulative unappropriated net income of EUR 2,035,084,823.20.

The Board of Management and the Supervisory Board of Deutsche Telekom AG will propose to the shareholders' meeting to transfer the unappropriated net income to other retained earnings.

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**(38) Declaration of conformity 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 conformity, and made it available to shareholders on Deutsche Telekom's website on December 16, 2003.

**Bonn, March 11, 2004**

**Deutsche Telekom AG  
Board of Management**




Kai-Uwe Ricke



Dr. Karl-Gerhard Eick



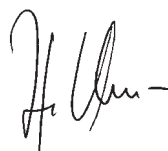
Josef Brauner



Thomas Holtrop



Dr. Heinz Klinkhammer



René Obermann



Konrad F. Reiss

# Auditor's report.

We have audited the 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 financial statements, together with the book-keeping 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, 2003. 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 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 combined 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 audit. 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 combined 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 accordance with German principles of proper accounting. On the whole the combined management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Stuttgart/Frankfurt (Main), March 11, 2004

Ernst & Young  
Deutsche Allgemeine Treuhand AG  
Wirtschaftsprüfungsgesellschaft

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

PwC Deutsche Revision  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

(Frings) (Laue)  
Wirtschaftsprüfer Wirtschaftsprüfer

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