

DEUTSCHE TELEKOM AG

Form 20-F

April 17, 2003

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As filed with the Securities and Exchange Commission on April 17, 2003

SECURITIES AND EXCHANGE COMMISSION

Form 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the fiscal year ended December 31, 2002

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-14540

Deutsche Telekom AG

(Exact Name of Registrant as Specified in its Charter)

Germany

(Jurisdiction of Incorporation or Organization)

Friedrich-Ebert-Allee 140, 53113 Bonn, Germany

(Address of Registrant's Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

American Depositary Shares, each representing
one Ordinary Share
Ordinary Shares, no par value

New York Stock Exchange

New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act.

NONE

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

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2,250,000,000 6.125% Notes due 2005	750,000,000 6.625% Notes due 2010	2,500,000,000 7.500% Notes due 2007
2,000,000,000 8.125% Notes due 2012	£625,000,000 7.125% Notes due 2005	£300,000,000 7.125% Notes due 2030
\$3,000,000,000 7.750% Notes due 2005	\$3,000,000,000 8.000% Notes due 2010	\$3,500,000,000 8.250% Notes due 2030
\$500,000,000 9.250% Notes due 2032	¥90,000,000,000 1.500% Notes due 2005	

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, no par value: 4,195,081,597 (as of December 31, 2002)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected.

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* Not for trading, but only in connection with the registration of American Depositary Shares.

** Issued by Deutsche Telekom International Finance B.V. and guaranteed by Registrant.

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DEFINED TERMS

Deutsche Telekom AG is a corporation organized under the laws of the Federal Republic of Germany. As used in this Annual Report, unless the context otherwise requires, the term Deutsche Telekom refers to Deutsche Telekom AG and the terms we, us and our refer to Deutsche Telekom and, as applicable, Deutsche Telekom and its direct and indirect subsidiaries as a group.

GERMAN GAAP

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with the requirements of the German Commercial Code (HGB German GAAP). See notes (40) through (43) to our consolidated financial statements for the years ended December 31, 2002, 2001 and 2000 included in this Annual Report for a description of the principal differences between German GAAP and U.S. generally accepted accounting principles (U.S. GAAP), as they relate to us and our consolidated subsidiaries, and a reconciliation of net income and shareholders equity to U.S. GAAP.

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. Forward-looking statements are statements that are not historical facts. Examples of forward-looking statements include:

- financial projections and estimates and their underlying assumptions;
- statements regarding plans, objectives and expectations relating to future operations, products and services;
- statements regarding the potential consequences of our debt reduction and liquidity improvement initiatives;
- statements regarding the potential impact of regulatory actions on our financial condition and operations;
- statements regarding our prospective share of new and existing markets;
- statements regarding the possible effects of adverse determinations in litigation, investigations, contested regulatory proceedings and other disputes;
- statements regarding general industry and macroeconomic growth rates and our performance relative to them; and
- statements regarding our future performance.

Forward-looking statements generally are identified by the words expects, anticipates, believes, intends, estimates, aims, plans, continue, seeks and similar expressions. The Risk Factors discussion in Item 3, Strategy discussion in Item 4, and Operation and Financial Review and Prospects Outlook for 2003 discussion in Item 5 in particular contain numerous forward-looking statements, although such statements also appear elsewhere in this Annual Report.

Forward-looking statements are based on current plans, estimates and projections, and therefore you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events, although we intend to continue to meet our ongoing disclosure obligations under the U.S. securities laws (such as our obligations to file annual reports on Form 20-F and reports on Form 6-K) and under other applicable laws. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. These factors include, among other factors:

- risks and uncertainties relating to the benefits anticipated from our international expansion, particularly in the United States;
- risks and costs associated with integrating our acquired businesses and with selling or combining businesses or other assets;
- the progress of our domestic and international investments, joint ventures and alliances;

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the level of demand for telecommunications services, particularly for wireless telecommunications services, access lines, traffic and new higher-value products and services;

competitive forces, including pricing pressures, technological developments and alternative routing developments;

our ability to gain or retain market share in the face of competition from existing and new market entrants;

our ability to secure the licenses needed to offer new services given the cost of these licenses and related network infrastructure build-outs, particularly with respect to our Universal Mobile Telecommunications System (UMTS) licenses;

the effects of price reduction measures and our customer acquisition and retention initiatives, particularly in the fixed-line voice telephony business, the mobile telecommunications business and our other interconnection businesses;

regulatory developments and changes, including with respect to the levels of tariffs, terms of interconnection, customer access and international settlement arrangements;

the outcome of litigation, disputes and investigations in which we are involved or may become involved;

the success of new business, operating and financial initiatives, many of which involve substantial start-up costs and are untested, and of new systems and applications, particularly with regard to the integration of service offerings;

concerns over health risks associated with the use of wireless handsets and other health and safety risks related to radio frequency emissions;

the effects of industry consolidation on the markets in which we operate, particularly with respect to our mobile and leased lines businesses;

the progress and degree of success of our debt reduction and liquidity improvement initiatives;

the availability, terms and deployment of capital, particularly in view of our debt refinancing needs, actions of the rating agencies and the impact of regulatory and competitive developments on our capital outlays;

the level of demand in the market for our debt instruments and our shares and for the debt instruments and shares of our subsidiaries and associated companies, as well as for assets which we may decide to sell, which may affect our financing and acquisition strategies;

the development of the German real estate market in view of our goal of monetizing a significant portion of our large real estate portfolio;

our ability to achieve cost savings and realize productivity improvements;

our ability to attract and retain qualified personnel, particularly in light of our cost reduction efforts;

risks of infrastructure failures or damage due to external factors, including natural disasters, intentional wrongdoing, sabotage, acts of terrorism or similar events;

the effects of foreign exchange rate fluctuations, particularly in connection with subsidiaries operating outside the euro zone; and

changes in general economic conditions, government and regulatory policies, new legislation and business conditions in the markets in which we and our affiliates operate.

Certain of these factors are discussed in more detail elsewhere in this Annual Report, including, without limitation, in Item 3, Item 4 and Item 5. We caution investors that the foregoing list of important factors is not exhaustive. When reviewing forward-looking statements contained in this document, investors and others should carefully consider the foregoing factors as well as other uncertainties and events and their potential impact on operations and businesses.

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Certain information in this Annual Report was provided by external sources. Due to the rapid changes in our industry, it is possible that some of this information is no longer accurate. Assessments of market share in particular involve the use of information released by our competitors or estimated by third parties or us.

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PART I

ITEM 1. Identity of Directors, Senior Management and Advisors

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable

Not applicable.

ITEM 3. Key Information

SELECTED FINANCIAL DATA

The following table presents selected consolidated financial and operating information. This selected consolidated financial and operating information should be read together with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and the notes thereto that are included elsewhere in this Annual Report. Unless otherwise indicated, all amounts are in accordance with German GAAP.

The selected consolidated financial information as of and for each of the five years ended December 31, 1998 through 2002 are extracted or derived from our consolidated financial statements and the notes thereto, which have been audited by Ernst & Young Deutsche Allgemeine Treuhand AG Wirtschaftspruefungsgesellschaft and PwC Deutsche Revision Aktiengesellschaft Wirtschaftspruefungsgesellschaft in the case of the periods ended and at December 31, 2002 and 2001, and by PwC Deutsche Revision Aktiengesellschaft Wirtschaftspruefungsgesellschaft in the case of the periods ended and at December 31, 2000, 1999 and 1998.

Table of Contents**Selected Consolidated Financial Data of the Deutsche Telekom Group**

	Change 2002/2001 ⁽¹⁾	2002	2001	2000	1999	1998
Earnings position (billions of euro)						
Net revenue	11.1%	53.7	48.3	40.9	35.5	35.1
Changes in inventories and other own capitalized costs	(39.2)%	0.5	0.9	0.9	0.9	1.0
Other operating income	(41.1)%	3.9	6.6	11.0	1.9	2.1
Goods and services purchased	7.0%	14.4	13.5	12.0	7.7	5.5
Personnel costs	11.3%	13.5	12.1	9.7	9.2	9.2
Depreciation and amortization	142.3%	36.9	15.2	13.0	8.4(2)	9.0(2)
Other operating expenses	16.1%	14.1	12.2	10.4	6.9	6.1
Financial income (expense), net	(12.6)%	(6.0)	(5.3)	(1.2)	(2.9)	(3.3)
Results from ordinary business activities before taxes	n.m.	(26.8)	(2.5)	6.5	3.2	5.1
Extraordinary losses	n.m.			(0.2)	(0.2)	
Taxes	n.m.	2.5	0.8	0.3	1.4	2.7
Net income (loss)	n.m.	(24.6)	(3.5)	5.9	1.3	2.2
Assets and liabilities (billions of euro)						
Noncurrent assets	(24.0)%	111.5	146.7	106.6	82.0	66.5
Current assets, prepaid expenses, deferred charges	(19.9)%	14.3	17.8	17.6	12.6	12.8
Shareholders' equity	(46.6)%	35.4	66.3	42.7	35.7	25.1
Accruals	(12.6)%	16.1	18.4	11.4	9.3	8.3
Debt	(5.9)%	63.0	67.0	60.4	42.3	39.9
Other liabilities and deferred income	(12.0)%	11.3	12.8	9.7	7.3	6.0
Total assets	(23.5)%	125.8	164.5	124.2	94.6	79.3
Cash flow (billions of euro)⁽³⁾						
Net cash provided by operating activities	4.4%	12.5	11.9	10.0	9.6	13.5
Net cash used for investing activities	(88.3)%	(10.0)	(5.4)	(27.7)	(18.7)	(7.5)
Net cash provided by (used for) financing activities	28.6%	(3.4)	(4.8)	17.9	8.0	(6.8)
Capital expenditures	(29.8)%	7.6	10.9	23.5	6.0	4.8
Figures in accordance with U.S. GAAP (billions of euro)						
Net income (loss)	n.m.	(22.1)	0.5	9.3	1.5	2.2
Total assets	(17.5)%	149.4	180.7	135.2	97.5	81.5
Total long-term liabilities	8.2%	71.1	65.6	51.9	39.4	39.7
Shareholders' equity	(38.6)%	45.4	73.7	46.1	37.6	26.9
Ratios and selected data						
Employees at balance sheet date (thousands)	(0.4)%	256	257	227	196	196
Revenue per employee (thousands of euro) ⁽⁴⁾	5.5%	210	199	201	183	173
Earnings (loss) per share/ADS in accordance with HGB (euro) ⁽⁵⁾	n.m.	(5.86)	(0.93)	1.96	0.43	0.82
Earnings (loss) per share/ADS in accordance with U.S. GAAP basic and diluted (euro) ⁽⁵⁾	n.m.	(5.31)	0.14	3.06	0.53	0.81
Weighted average number of shares outstanding (millions)	12.9%	4,195	3,715	3,030	2,884	2,743
Dividend per share/ADS (euro) ⁽⁶⁾	(100.0)%		0.37	0.62	0.62	0.61
Dividend per share/ADS (USD) ⁽⁷⁾	(100.0)%		0.34	0.53	0.58	0.64
Equity ratio (%) ⁽⁸⁾	(28.7)%	28%	39%	33%	36%	30%

n.m. not meaningful

(1) Change from 2001 to 2002 on the basis of the more exact figures expressed in millions.

(2) Including depreciation of value-added tax capitalized prior to January 1, 1996.

(3) In accordance with the statement of cash flows.

(4) Calculated on the basis of the average number of employees for the year without trainees/ student interns.

(5) Based on dividing net income (loss) by the weighted average number of ordinary shares outstanding. The share/ADS ratio is 1:1.

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- (6) Proposed dividend for 2002. Dividends per share are presented on the basis of the year in respect of which they are declared, not the year in which they are paid.
- (7) Dividend amounts have been converted into U.S. dollars at the noon buying rate for the relevant dividend payment date, which occurs during the second quarter of the following year.
- (8) The ratio equals total stockholders' equity divided by total assets.

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Beginning the first quarter of 1999, we began publishing our consolidated financial statements in euros and, unless otherwise indicated, all amounts in this document are expressed in euros. Amounts stated in euros appearing in this document for periods prior to December 31, 1998 have been converted from Deutsche marks at the official fixed conversion rate of EUR 1.00 = DM 1.95583.

As used in this document, euro or EUR means the new single unified currency that was introduced in the Federal Republic of Germany (referred to as the Federal Republic) and ten other participating member states of the European Union on January 1, 1999. Deutsche mark or DM means the currency that was the lawful currency of the Federal Republic before it was replaced by the euro. U.S. dollar or USD means the lawful currency of the United States of America. As used in this document, the term noon buying rate refers to the rate of exchange for either Deutsche mark or euro, expressed in U.S. dollar per Deutsche mark or euro, as announced by the Federal Reserve Bank of New York for customs purposes as the rate in The City of New York for cable transfers in foreign currencies. Unless otherwise stated, conversions of euro into U.S. dollars have been made at the rate of EUR 1.0485 to USD 1.00, which was the noon buying rate on December 31, 2002.

Amounts appearing in this report that were translated into euros from other currencies were translated in accordance with the principles described in the consolidated financial statements under Consolidation principles Foreign currency translation.

In order that you may ascertain how the trends in our financial results might have appeared had they been expressed in U.S. dollars, the table below shows the average noon buying rates in The City of New York for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York for U.S. dollar per euro for our fiscal years. As the euro did not exist prior to January 1, 1999, the exchange rates in the table for 1998 do not represent actual exchange rates between the euro and the U.S. dollar. Instead, they represent exchange rates for Deutsche marks into U.S. dollars converted into euro using the fixed conversion rate of EUR 1.00 per DM 1.95583. The exchange rate between the U.S. dollar and the Deutsche mark reflected in the table below might have been different from the exchange rate that would have existed between the U.S. dollar and the euro during such period, had the euro been in existence.

The following table sets forth, for the periods indicated, the average, high, low or period-end noon buying rates for the euro expressed in U.S. dollars per EUR 1.00.

Year or month	Average⁽¹⁾	High	Low	Period-End
(in USD per euro)				
1998	1.1120	1.2178	1.0548	1.1733
1999	1.0588	1.1812	1.0016	1.0070
2000	0.9207	1.0335	0.8270	0.9388
2001	0.8909	0.9535	0.8370	0.8901
2002	0.9495	1.0485	0.8594	1.0485
October		0.9881	0.9708	0.9881
November		1.0139	0.9895	0.9932
December		1.0485	0.9927	1.0485
2003				
January		1.0861	1.0361	1.0739
February		1.0875	1.0708	1.0779
March		1.1062	1.0545	1.0900
April (through April 11, 2003)		1.0904	1.0621	1.0751

(1) The average of the noon buying rates on the last business day of each month during the relevant period.

On April 11, 2003, the noon buying rate was USD 1.0751 per EUR 1.00.

Since January 4, 1999, our shares have traded on the German stock exchanges in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the shares on the German stock exchanges and, as a result, are likely to affect the market price of the Deutsche Telekom American Depositary Shares, or ADSs, on the New York Stock Exchange. If we were to declare cash dividends, they would be declared in euros, and exchange rate fluctuations would affect the U.S. dollar amounts you would receive if you are a holder of American Depositary Receipts (ADR) evidencing ADSs on conversion of cash dividends on the shares represented by your ADSs.

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RISK FACTORS

In addition to the other information contained in this Annual Report, investors in our securities should consider carefully the risks described below. Our financial condition or results of operations could be materially adversely affected by any of these risks. The risks described below are not the only risks facing us. Additional risks not currently known to us or risks that we currently regard as immaterial could also have a material adverse effect on our financial condition or results of operations.

The following discussion contains a number of forward-looking statements. Please refer to the **Forward-Looking Statements** discussion at the front of this Annual Report for cautionary information.

We may not be able to achieve our financial and operating objectives.

We plan to reduce our indebtedness and strengthen our cash flows. We intend to achieve this by increasing consolidated net revenues, increasing operating efficiencies and capital expenditure control measures and selling non-core assets. We cannot guarantee, however, that our financial and operating goals for 2003 can be achieved. Many aspects of our goals for 2003 depend on circumstances beyond our control, including the development of asset values in Germany and elsewhere, the availability and cost of financing for prospective acquirers of assets, changes in currency exchange and interest rates, general economic conditions in the markets in which we operate, and the actions and reactions of regulators, labor unions, suppliers and competitors. Additionally, proposed legislation in Germany concerning the reduction of tax preferences, if adopted in 2003, could increase our cash tax expenditures in 2003 and in future years, resulting in less available cash for debt reduction.

A delay or decline in investments in network and service roll-out may have a negative effect on the expected growth rates of new services. Resultant adverse effects on our estimates of future cash flows could cause us to be required to depreciate significantly the value of related assets.

Meaningful delays or difficulties in the progress of our financial and operating goals may adversely affect our credit standing and the market price of our securities.

Our credit ratings have been recently downgraded and may be further downgraded, which may increase the cost of our debt and may reduce our access to financial markets.

On January 10, 2003, Moody's Investors Service Ltd. downgraded our senior unsecured debt ratings to Baa3 and our short-term debt ratings to Prime 3, both with a stable outlook. Pursuant to the terms of certain of our debt instruments, if Standard & Poor's were to reduce its rating of our senior unsecured debt below the current BBB+ level, our annual interest costs on such debt would increase. We may be subject to rating downgrades by Moody's, Standard & Poor's or other rating agencies in the future, which may also result in this or other increases in our interest costs. For example, if we are unable to reduce our indebtedness or strengthen our cash flows, at a pace or in a manner the rating agencies find satisfactory, our credit ratings may be further downgraded. Further downgrades would likely increase our financing costs, may complicate the refinancing of our existing indebtedness and could cause difficulties in raising funds required to finance the capital expenditures necessary to maintain or expand our business. Because of our substantial debt burden and the need to refinance portions of it over time, it is of considerable importance that we retain the confidence of our creditors. Financial difficulties encountered by other telecommunications operators may, in this regard, adversely affect financial market perceptions of us. We can offer no assurances as to future actions by the rating agencies, which are likely to be influenced strongly by, among other things, their perception of the state of our efforts to reduce our indebtedness and strengthen our cash flows and our general business prospects.

Certain of our bank debt agreements contain a financial covenant and a variety of other covenants and representations. A breach of those covenants or representations could result in the acceleration of the payment of the amounts owed under the agreements or loss of the availability of the credit lines under the agreements. For further information, see **Item 5. Operating and Financial Review and Prospects - Liquidity and Capital Resources**.

We may not be able to realize the benefits expected from our investment in UMTS and related capital expenditures.

We have invested more than EUR 15 billion in licenses for the next generation mobile communications standard, Universal Mobile Telecommunications System, or UMTS, and have invested and expect to invest substantial amounts over the next several years in the construction of UMTS networks. The economic success

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of these investments will depend on the acceptance of UMTS technology as a mobile telecommunications standard, the availability of data services and applications based on UMTS technology that will be attractive enough to customers to generate sufficient traffic volume, the costs associated with such services (including required equipment), and the timing of the introduction of such services. We cannot guarantee market acceptance of the UMTS services and applications offerings; we also cannot guarantee whether such services and offerings can be provided to customers on a cost-effective basis or whether we will achieve a profitable return on our investment. Customer acceptance of new mobile data services may increase slowly because the value-added by those services may not be recognized or viewed as good value for money. The level of demand for UMTS services may not justify the costs of establishing and providing such services. These costs include the costs of acquiring UMTS licenses, the costs of constructing, maintaining and upgrading UMTS networks, the costs of promoting demand for UMTS services through advertising, handset subsidies and other promotional measures and the costs of purchasing content for UMTS-based services in a competitive environment. The level of demand for UMTS services could be adversely affected by an early, unsuccessful launch of UMTS services by competitors. It could also be affected by competitive technologies, particularly in high traffic urban settings. We are and may in the future be subject to contractual obligations with respect to licenses and commitments (including coverage obligations) with joint venture and strategic partners. In addition, any delays in providing UMTS services (due to problems associated with suppliers of UMTS network components, difficulties in network construction, the unavailability of adequate UMTS-compatible handsets in sufficient supply, the lack of marketable applications or the failure to fulfill criteria specified in our UMTS licenses) could adversely affect the level or timing of revenues generated by UMTS services.

We cannot provide any assurance of an economic return on UMTS licenses and networks, or even that such investments will be recovered, or as to the timing of any returns on these investments. If we find in the future that our current expectations concerning future cash flows from UMTS services are not likely to be met, the carrying value of our UMTS licenses will be adversely affected. Further, dispositions by our competitors of UMTS licenses or portions of such licenses at prices significantly below the original acquisition costs could give the purchasers much lower investment costs than ours and could also have a material adverse effect on our ability to remain competitive. This could, in turn, adversely affect our results of operations and return on investment from this technology.

We may not be able to realize the benefits we expect from our investments in T-Mobile USA/Powertel and other subsidiaries.

In May 2001, we acquired VoiceStream Wireless Corporation and Powertel, Inc. (collectively referred to herein as T-Mobile USA/Powertel) in exchange for an amount of our shares having a market value on the acquisition date of EUR 28.7 billion plus EUR 4.9 billion in cash. In 2002, we wrote down EUR 18 billion relating to licenses and goodwill of T-Mobile USA/Powertel. Amortization of remaining goodwill, and depreciation and amortization of assets acquired in this transaction, will have a substantial impact on our results of operations in coming years.

In the United States, T-Mobile USA/Powertel competes with providers of PCS, cellular and other wireless telecommunications services, including nationwide wireless operators Verizon Wireless Inc., Cingular Wireless LLC, AT&T Wireless Services, Inc., Sprint PCS and Nextel Communications, Inc., and other regional wireless operators. Many of these competitors have substantially greater financial resources than T-Mobile USA/Powertel, and several operate in multiple segments of the industry. With so many companies targeting many of the same customers, T-Mobile USA/Powertel might not be able to successfully attract and retain customers and expand its subscriber base and revenues and as a result, our profit margins may decrease. T-Mobile USA/Powertel also may not be able to acquire the necessary spectrum coverage to expand its subscriber base as desired in the long term. T-Mobile USA/Powertel expects to incur significant operating losses and to generate negative cash flow from operating activities at least in the next year while it continues to develop and construct its systems and expand its subscriber base. As a response to the intensifying competition, the need for cost reduction and the requirements for additional radio spectrum coverage, we believe that the industry may consolidate further in the future. This may produce larger and more formidable competitors who have a greater financial capability to continue to reduce prices which, in turn, would place additional downward pressure on margins. T-Mobile USA/Powertel shares a network with Cingular Wireless in California, Nevada and the New York City metropolitan area, via a joint venture. T-Mobile USA/Powertel would likely have to undertake significant capital expenditures to build its own network in California and Nevada if this joint venture terminates.

We have made substantial investments in subsidiaries and associated companies in addition to T-Mobile USA/Powertel in both the telecommunications business and the information technology business during the

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past several years, such as our acquisition of debis Systemhaus GmbH (debis Systemhaus) from DaimlerChrysler AG. We may not be able to recover all of the acquisition costs relating to those entities or all of the further capital expenditures made with respect to those entities. Additionally, we cannot provide any assurance that we will achieve attractive returns, if any, on such investments.

We face intense competition in all areas of our business, which could have an adverse effect on our financial condition and results of operations.

Fixed-Line Network

The level of competition in the fixed-line network voice telephony business is significantly influenced by decisions of the national telecommunications regulator in each country in which we operate. In Germany, we have faced intense price competition that resulted in drastic declines in prices and in our market share since 1998, particularly in the areas of international and domestic long-distance calls. In addition, competition in the markets for regional and local calls and for access is intensifying. Telecommunications regulators could take decisions that would lead to further competition and declines in prices or in market share or both. See Item 4. Information on the Company Description of Business Divisions T-Com.

Mobile

In the mobile communications business, competition based on handset subsidies has diminished in most of our European markets, but competition based on price, subscription options offered, applications offerings, coverage and service quality remains intense. As European markets have become increasingly saturated, the focus of competition has been shifting from customer acquisition to customer retention. Since customer acquisition and retention expenses are substantial, significant customer defections would have an adverse effect on our results of operations. As we proceed with the introduction of our UMTS services offerings, the need to attract customers to the services may lead to renewed intensification of competition based on handset subsidies or otherwise.

In the United States, market penetration has not yet reached European levels. However, T-Mobile USA/Powertel faces significant competition from several PCS or cellular telecommunications service providers in each of its markets, and it has the smallest customer base of the six national wireless carriers. As a result of this intense competition, the need for cost reduction and the requirements for additional radio spectrum coverage, we believe that the U.S. wireless industry may consolidate further in the future. This may produce larger and more formidable competitors who have a greater financial ability to continue to reduce prices. As a result of intense competition and potential consolidation, T-Mobile USA/Powertel's margins may decrease.

In all of our markets, prices for mobile voice telephony services have been declining over the past several years and are likely to continue to decline, at least for basic services. See Item 4. Information on the Company Description of Business Division T-Mobile.

To us, it is clear that the high penetration rates for mobile telephony services in our main European markets make continued high levels of mobile revenue growth driven by strongly increasing subscriber numbers very unlikely, although we will continue to make efforts to capture high value customers from our competitors. We believe that in our main European markets it will be necessary to get customers to make greater use of our services, particularly for non-voice communications, and to subscribe for or use higher-value services. In the United States, lower penetration levels offer greater prospects for subscriber number growth, but similar considerations apply. We cannot guarantee that we will be able to accomplish this.

Information Technology and Telecommunications Systems

In the information technology (IT) and telecommunications systems business, prices have been declining over the past several years as a result of intense competition and could continue to decline. Although we expect a market to develop primarily with large multinational companies for convergence products that combine IT and telecommunications systems, demand for such products may not materialize, this market could develop more slowly than expected or we may encounter more competition than anticipated. In addition, growth potential may be limited by insufficient international presence of our T-Systems division compared to other competitors, especially as it relates to maintaining and increasing business with multinational companies. Further, large projects often require significant contractual obligations and our failure to perform such obligations could result in penalties or claims for other forms of damages that could

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have a material adverse effect on our financial condition or results of operations. See Item 4. Information on the Company Description of Business Divisions T-Systems.

Internet Access

Our competitive position and those of other leading Internet service providers will be subject to significant competition as the barriers to entry into the market are eroded by governmental regulation or otherwise. Our competitive position will be affected by pricing, network speed and reliability, services offered, customer support and our ability to be technologically adept and innovative. In the market for portal services and content, competition is intense due to low barriers to entry. Additionally, future regulation of Internet access or content may have a material adverse effect on our online business. See Item 4. Information on the Company Description of Business Divisions T-Online.

For further information regarding competition and regulatory decisions that affect the level of competition, see Item 4. Information on the Company Description of Business Divisions and Item 4. Information on the Company Regulation.

We operate in highly regulated markets in which our flexibility to manage our businesses is limited, and regulatory decisions and changes in the regulatory environment may adversely affect our business.

Our fixed-line network and mobile telecommunications operations are subject to particular regulatory and licensing requirements in Germany, and our international operations are generally subject to regulation in their respective host countries. In Germany, the German telecommunications regulator considers us to have a dominant position in certain markets, which imposes significant limits on our flexibility to manage our business. Additionally, the German government is required to amend the German Telecommunications Act to implement the new European Union telecommunications regulatory framework by July 2003. A number of amendments are expected. Discussions focus on retail regulation, wholesale regulation, the scope of tariff regulation, bundled products and questions of legal procedure. Even though the new EU regulatory framework is aimed at reducing government regulation, the amendments may result in additional legal obligations for us with considerable adverse impact upon our wholesale and retail business. At this time, we are unable to predict with certainty the outcome or ultimate impact of any proposed or potential changes in the regulatory environment in which we operate in Germany and internationally. Any such changes could have an adverse effect on our business and competitiveness. For further information regarding these requirements and other aspects of the regulatory regimes to which our business is subject, see Item 4. Information on the Company Regulation.

Our U.S. wireless business through T-Mobile USA/Powertel is subject to regulation by the Federal Communications Commission and various other federal, state and local regulatory agencies. This regulation includes, among other things, required service features and capabilities, such as number pooling and portability and emergency 911 service. Any of these agencies having jurisdiction over our wireless business could adopt regulations or take other actions that could adversely affect such business. If we fail to comply with applicable regulations, we may be subject to sanctions, which may have an adverse effect on our wireless business in the United States.

Licenses are required in most countries to provide telecommunications services and operate networks. These licenses frequently impose requirements regarding the way the operator conducts its business, including minimum service requirements, roll-out completion deadlines, and network quality and coverage. Failure to meet these requirements can result in fines or other sanctions, including, ultimately, the revocation of the licenses.

Risks associated with large scale projects could affect us adversely.

Through our divisions, we are party to contracts involving significant performance obligations. Failure to satisfy substantially the obligations pursuant to these contracts may result in the termination of these contracts, possible loss of revenues and, in some cases, imposition of penalties and other awards of damages.

For example, we are a partner in a consortium that has contracted with the Federal Republic of Germany to develop and operate a toll collection system for the use by certain commercial vehicles of roadways in Germany. Pursuant to this arrangement, we have, along with our partners, guaranteed, on a joint and several basis, the successful completion and operation of the toll collection system. In the event that the toll collection system is not completed on schedule, or does not operate effectively upon completion, the amount of revenue to be received by the operating joint venture company pursuant to this arrangement may be

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significantly reduced, and the operating joint venture company may be subject to significant penalties as well. Further, there are no restrictions on the ability of the Federal Republic to recover damages. For more information, please refer to Item 5. Operating and Financial Review and Prospects Contractual Obligations and Other Commitments.

The value of our investments, the results of our operations and our financial condition could be affected by economic developments in Germany and other countries.

Our business depends on general economic conditions in Germany, other European countries and the United States. In 2001 and 2002, there was a downturn in global economic conditions in general and in certain areas of the telecommunications industry in particular. This downturn has continued into 2003 and we expect it to continue for at least the balance of this year. There are many factors that influence the global and regional economies, many of which are outside our control. The climate for and values of investments in the telecommunications sector have been worsening over the past year. Also, the lack of clarity of regulations and proposed regulations and the lack of clear direction from government regulators with respect to economic and business policies may also have a negative impact on our business. A cautious or negative business outlook may cause our customers to delay or cancel investment in information technology and telecommunications systems and services, which may adversely affect revenues directly and, in turn, slow down the development of new services and applications that could become future revenue sources for us. If the global and regional economies do not improve, we may experience material adverse effects on our business, operating results and financial condition.

Technological change could increase competition, render existing technologies obsolete or require us to make substantial additional investments.

Our services are technology-intensive, and the development of new technologies could render our services non-competitive and require us to writedown the book values of investments we have made in existing technologies. We are already making substantial investments, and may have to make substantial additional investments, in new technologies in order to remain competitive. New technologies that we choose to develop or acquire, however, may not prove to be successful. In addition, we may not receive the regulatory or intellectual property licenses needed to provide services based on new technologies in Germany or abroad. As a result, we could lose customers, fail to attract new customers or incur substantial costs to maintain our customer base.

Developments in the technology and telecommunications sectors have resulted and may in the future result in substantial writedowns of the carrying value of certain of our assets.

Recent developments in the technology and telecommunications sectors, including significant declines in stock prices, market capitalization and credit ratings of market participants, have resulted and may result in substantial nonscheduled amortization of our intangible or other assets. Future changes in these areas could lead to further nonscheduled amortization charges at any time. Recognition of impairments of tangible, intangible and financial assets could adversely affect our results of operations and financial condition and may lead to a drop in the trading price of our shares.

In 2002, we recognized substantial impairment charges primarily related to T-Mobile USA/Powertel and our UMTS licenses. The impairment charges relate primarily to nonscheduled amortization of goodwill and other intangible assets of certain of our subsidiaries. Such charges were based on changes in expectations of future cash flows attributable to these assets. These nonscheduled amortization charges became necessary as we considered the fair value of these assets to be below their respective carrying values. We review on a regular basis the value of each of our subsidiaries and their assets. In addition to our regular valuations, whenever indications exist (due to changes in the economic, regulatory, business or political environment) that goodwill, intangible assets or fixed assets may be impaired, we consider the necessity of performing certain valuation tests that may result in impairment charges. For more information, please refer to Item 5. Operating and Financial Review and Prospects Critical Accounting Policies under German GAAP.

System failures could result in reduced user traffic and reduced revenue and could harm our reputation.

Our technical infrastructure (including our network infrastructure for fixed-line network services and mobile telecommunication services) is vulnerable to damage or interruption from information and

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telecommunication technology failures, power loss, floods, windstorms, fires, terrorism, intentional wrongdoing, human error and similar events. Unanticipated problems at our facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of our services and cause service interruptions. Any of these occurrences could result in reduced user traffic and reduced revenue and could harm our reputation.

We depend on a limited number of suppliers for equipment and maintenance services.

In each of our operating divisions, there is a limited number of suppliers for required equipment and maintenance services. The failure of these suppliers to meet our equipment and service needs in a timely manner might have a significant effect on our revenues and market position. The construction and operation of our networks and the provision of our services and network infrastructure, especially mobile telecommunications services, are dependent on our ability to obtain adequate supplies of a number of items on a timely and cost-efficient basis. These include handsets and transmission, switching and other network equipment. Mobile handsets in particular are subject to supply constraints from time to time. Significant delays in obtaining certain equipment and maintenance services could have a material adverse effect on our business or results from a particular operating division.

Alleged health risks of wireless communications devices have led to litigation affecting us and could lead to decreased wireless communications usage or increased difficulty in obtaining sites for base stations.

Media reports have suggested that radio frequency emissions from wireless handsets and cell sites may raise various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. Whether or not such research or studies conclude there is a link between radio frequency emissions and health, these concerns over radio frequency emissions may discourage the use of wireless handsets and may result in significant restrictions on the location and operation of transmission facilities and antennae base stations, either or both of which could have a material adverse effect on our mobile communication services business. We cannot offer assurance that legislators, regulators or private litigants will refrain from taking other actions adverse to our business based on purported health-related risks associated with radio frequency emissions, which actions may result in significant costs and may adversely affect the financial condition and results of operations of our mobile communication services business.

In addition, our mobile operations are subject to potential litigation, legislation or adverse publicity relating to damage caused by persons who use mobile telephones while driving. Such litigation, legislation or adverse publicity may result in additional costs and loss of revenues from our T-Mobile division.

We are continuously involved in other disputes and litigation with regulators, competitors and other private parties.

We are subject to numerous risks relating to legal and regulatory proceedings in which we are currently a party or that could develop in the future. We cannot guarantee that the ultimate outcome of such legal proceedings will not have a material adverse effect on our results of operations or financial condition. For information concerning some of the litigation in which we are involved, see Item 8. Financial Information Litigation. For information concerning our regulatory environment, see Item 4. Information on the Company Regulation.

As a result of our extensive real estate portfolio, we are subject to environmental laws and regulations and may be subject to environmental risks in the future.

Because of our large real estate portfolio, we are subject to environmental laws and regulations concerning the existence, disposal and remediation of hazardous substances with respect to our properties. These laws and regulations are constantly evolving, and it is impossible to predict with any degree of certainty what effect, if any, they will have on our operations in the future. Currently, we believe we are in substantial compliance with such laws and regulations, and anticipated capital expenditures necessary for continued compliance and remediation is not material. However, we cannot guarantee that our estimates of future capital expenditures in connection with such continued compliance and remediation will be accurate or that environmental regulatory agencies will not enact additional regulations or require us to comply with remediation orders with respect to our real estate holdings, which may have a material adverse effect on our

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results of operations or financial condition. Further, we may also be subject to private claims relating to environmental conditions purported to exist on our properties.

The unsuccessful realization of planned downsizing the number of our employees may affect our financial objectives adversely.

We are planning to carry out an extensive job reduction program by 2005. The transfer of surplus employees of Deutsche Telekom AG within Germany to our newly established Personnel Services Agency is part of our downsizing effort. Our Personnel Services Agency bears ultimate responsibility within Deutsche Telekom for the employment of staff who cannot be dismissed and the staff of businesses that have been sold. Our inability to dismiss certain of our employees may be due to their civil servant status or other provisions of law or collective bargaining agreements that protect such employees against dismissal. Our new agency has the task of finding alternative employment for these employees inside or outside the Company, if possible on a long-term basis. The success of the Personnel Services Agency in placing such employees will therefore be critical for the realization of our downsizing effort. In addition, it may become necessary to record accruals in the future with respect to employees that cannot be successfully placed.

We are exposed to currency and interest rate risks.

We are exposed to fluctuations in the exchange rate between the euro and other currencies. We attempt to hedge our currency risks, as well as our interest rate risks, through a variety of hedging strategies and derivative and non-derivative financial instruments. However, there can be no assurance that these hedging strategies will be successful. For further information about our hedging activities and market risks, see Item 11. Quantitative and Qualitative Disclosures about Market Risk.

Future sales of our shares by the government of the Federal Republic of Germany or by us may adversely affect the trading price of our shares and ADSs.

The Federal Republic, together with the Kreditanstalt fuer Wiederaufbau (KfW), a public-sector entity 80% of which is owned by the Federal Republic, owned approximately 43% of our shares at December 31, 2002. The Federal Republic has publicly announced that it intends to further reduce its holdings of our shares as market conditions permit. The sale or the potential sale of additional shares or equity-linked securities by the Federal Republic or by us or other holders of large blocks of shares could have an adverse impact on the market price of our shares and ADSs.

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ITEM 4. Information on the Company

INTRODUCTION

The legal and commercial name of our company is Deutsche Telekom AG. We are a private stock corporation organized under the laws of the Federal Republic of Germany. Our registered office is at Friedrich-Ebert-Allee 140, 53113 Bonn, Germany, telephone number +49-228-181-0. Our agent for service in the United States is Deutsche Telekom, Inc., 280 Park Avenue, 26th Floor, New York, NY, 10017.

HISTORICAL BACKGROUND

Historically, the provision of public telecommunications services in Germany was a state monopoly as formerly provided by the German constitution. In 1989, the Federal Republic began to transform the postal, telephone and telegraph services administered by the former monopoly provider into market-oriented businesses and divided the former monopoly provider into three distinct entities along lines of business, one of which was our predecessor. At the same time, the Federal Republic also started the progressive liberalization of the German telecommunications market. We were transformed into a private law stock corporation at the beginning of 1995.

Our most significant investment projects during the 1990 s were the expansion and modernization of the telecommunications infrastructure in the former East Germany and the digitization of our entire telecommunications network. Both of these projects were completed during 1997. The telecommunications sector in Germany was further liberalized on January 1, 1998. We now face intense competition and are required to offer competitors access to our fixed-line network at regulated interconnection rates. The operation of networks (including cable networks) for all telecommunications services other than public fixed-line voice telephony was opened to competition on August 1, 1996.

Other important events in the development of our company include:

the formation of the Global One joint venture with France Telecom and Sprint in 1996 and the formation of a cooperation agreement with France Telecom in 1998;

the dissolution of the Global One joint venture and the cooperation agreement with France Telecom in 2000, and the disposition of our interest in Sprint in 2001;

the expansion of our business in Eastern Europe through the acquisition in 1993 of a substantial interest in MATAV, the Hungarian national telecommunications company, and the acquisition of telecommunications subsidiaries in Slovakia, Macedonia, the Czech Republic and Croatia during 2000 and 2001;

the acquisition of One 2 One (now T-Mobile UK) in 1999;

the acquisition of debis Systemhaus in 2000;

the initial public offering of T-Online in 2000;

the purchase of licenses allowing T-Mobile to run UMTS wireless networks in Germany, the United Kingdom, Austria and the Netherlands;

the acquisition of VoiceStream (now T-Mobile USA) and Powertel in 2001;

the divestment of our investment in France Telecom in 2002; and

the divestment of cable assets in 2001 and 2003.

STRATEGY

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Our objectives for the coming years are to build on our position as a leading telecommunications provider in Europe and to secure our place among the world's leading telecommunications companies. To accomplish these strategic goals, we have organized our businesses into four main divisions:

T-Com (for network access and services);

T-Mobile (for mobile communications);

T-Systems (for data communications and systems solutions for large business customers); and

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T-Online (for consumer Internet services).

Our strategic agenda was reconfirmed in a comprehensive strategic review conducted in 2002. Besides confirming our overall strategy, the strategic review identified certain measures to increase cash flows and reduce our debt. These are:

the improvement of operating efficiencies and cost management;

personnel reduction, particularly within the T-Com division;

the disposal of non-core assets, such as real estate and cable television assets; and

the focused allocation of capital expenditures.

Additionally, we started to reorganize our headquarters in order to interact more efficiently with our divisions. Our divisions will have more flexibility to act independently in their respective businesses. However, since the chief executive officer of each division is appointed a member of our board of management, our divisions will have the incentive to act in accordance with our corporate strategy.

While we are focusing on the integration of businesses acquired over the past several years and divesting non-core businesses, we continue to evaluate business opportunities and may continue to make acquisitions, enter into joint ventures, combine businesses with third parties and make investments on a selective basis. Transactions may be conducted using newly issued shares of Deutsche Telekom or shares of our affiliates, cash or a combination of cash and shares, and may individually or in the aggregate be material to us. Discussions with third parties may be commenced, ongoing or discontinued at any time or from time to time.

SIGNIFICANT SUBSIDIARIES

The following table shows significant subsidiaries, in terms of revenues, we owned, directly or indirectly, as of December 31, 2002.

Name of Company	Percentage Owned
T-Mobile Deutschland GmbH, Bonn, Germany (T-Mobile Deutschland)	100.00
T-Mobile Holdings Ltd., Borehamwood, United Kingdom	100.00
T-Mobile Austria GmbH, Vienna, Austria (T-Mobile Austria)	100.00
T-Mobile USA, Inc., Bellevue, Washington, USA (T-Mobile USA)	100.00
Powertel, Inc., Bellevue, Washington, USA (Powertel)	100.00
Ben Nederland Holding B.V., Amsterdam, the Netherlands (T-Mobile Netherlands)	100.00
T-Systems International GmbH, Frankfurt a.M, Germany (T-Systems International)	100.00
T-Systems CSM GmbH, Darmstadt, Germany	100.00
DeTeImmobilien, Deutsche Telekom Immobilien und Service GmbH, Muenster, Germany	100.00
T-Data Gesellschaft für Datenkommunikation mbH, Bonn, Germany	100.00
Kabel Deutschland GmbH, Bonn, Germany	100.00
T-Online International AG, Darmstadt, Germany (T-Online International)	71.90
RadioMobil a.s., Prague, Czech Republic	60.77
Matav Magyar Tavkolesi Rt., Budapest, Hungary (MATAV)	59.50
Slovenske Telekomunikacie, a.s., Bratislava, Slovakia (Slovak Telecom)	51.00
HT-Hrvatske telekomunikacije d.d., Zagreb, Croatia (Hrvatski Telecom)	51.00

Refer to our consolidated financial statements for a list of our principal subsidiaries. A list of our subsidiaries is attached to this Annual Report as Exhibit 8.1.

In February 2003, we transferred all the shares we held in our subsidiary T-Mobile International AG to a wholly owned direct subsidiary of Deutsche Telekom AG. Following this transaction, T-Mobile International AG was converted into a limited partnership under German law, T-Mobile International AG & Co. KG (T-Mobile International). As a result of this transaction, the results of T-Mobile International will be

included in the tax consolidation group of Deutsche Telekom AG.

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DESCRIPTION OF BUSINESS DIVISIONS

T-Com

Principal Activities

The principal services offered by our T-Com division are narrow and broadband access to our fixed-line telecommunications network, and domestic and international public fixed-line network voice telephony services for individual customers and small to medium-sized enterprises. T-Com also offers wholesale products to domestic network operators. The T-Com division operates one of the largest fixed-line networks in Europe with approximately 57.5 million access lines (including ISDN channels). In Germany alone, T-Com's fixed-line network provides approximately 51 million access lines (including ISDN channels) to individual customers and small and medium-sized enterprises.

T-Com also:

provides interconnection services for other domestic network operators;

offers services and solutions in the field of data communications to small and medium-sized enterprises;

sells and leases telecommunications equipment to, and services such equipment for, its target customers; and

provides other ancillary telecommunications services.

Until March 2003, T-Com was responsible for our remaining cable television operations, which were sold on March 13, 2003. For further information in this regard, see [Broadband Cable](#).

Most of T-Com's revenues in 2002 were derived from telephony services provided within Germany. For more information, see [Item 5. Operating and Financial Review and Prospects - Segment Analysis - T-Com](#). However, T-Com also offers services and products in Central and Eastern Europe to individuals and corporate customers through its subsidiaries MATAV (Hungary), Slovak Telecom (Slovakia) and Hrvatski Telecom (Croatia). These operations were accounted for under our [Other Activities](#) segment before 2002. For further information in this regard, see [International Activities](#).

Network Infrastructure

We have made substantial investments in our telecommunications and cable networks since 1990, including the installation of a new network in the former East Germany. As a result, our fixed-line network in Germany is one of the most technologically advanced networks in the world, with fully digital switching and nearly 100% digital transmission. We have recently introduced asynchronous transfer mode (ATM) technology and wavelength division multiplexing (WDM) technology. ATM is a special type of technology which permits the transmission of a large amount of data (voice, text, audio and video) in high quality using a standard platform. We are the only carrier to offer this technology throughout Germany (brand name: T-ATM). WDM technology multiplies the transmission capacity of existing fiber optic cables by allowing higher bandwidths than most other technologies.

As of December 31, 2002, our domestic fixed-line telephone network and ISDN network in Germany consisted of approximately 5,200 local networks (including approximately 8,000 local exchange areas) connected by a long-distance transmission network. As of December 31, 2002, the transmission network linking our German local networks consisted of approximately 173,000 kilometers of fiber optic cable. The transmission network is based on the WDM and Synchronous Digital Hierarchy (SDH) infrastructure. In the fall of 2002, the 10,000th network element for SDH was connected to our network. SDH is the transport platform of T-Com upon which practically all digital communications (from leased lines through the Internet to traditional telephone traffic) are based.

Network Access

In Germany, T-Com offers access to its transmission network for individual customers and small to medium-sized enterprises. Typically, T-Com customers have access to the transmission network by means of a copper wire that runs from the transmission network into the home or office of a customer. These access lines can either be standard analog access lines or digital access lines. Digital access lines also are called Integrated Services Digital Network or ISDN lines. In addition, analog and digital access lines can be enhanced by increasing broadband capacity through asymmetric digital subscriber line or ADSL technology,

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which T-Com markets under the brand name T-DSL. In the major German cities, T-Com offers its customers access via glass fiber access networks capable of higher bit rates, which increase broadband capacity.

T-Com offers its customers a variety of tariff plans that generally consist of a monthly fixed payment for access and a variable, usage-based component. With T-DSL services, T-Com offers an access connection for a monthly fixed payment. With Internet service providers, including T-Online, charges are based on the volume of data traffic.

Analog Access Lines

An analog access line—the traditional telephone line—provides a single telecommunications channel. As of December 31, 2002, approximately 29 million analog lines were connected to T-Com's PSTN/ISDN-platform, marketed under the brand name T-Net. T-Com's T-Net 100 service provides special rates for local and domestic calls to approximately 3.7 million customers and T-Com's T-NetBox service provides a virtual answering machine to approximately 2.8 million customers.

Although our analog access lines have decreased in number over the past several years, our digital access lines (ISDN) increased during the same period as customers upgraded to digital connectivity. Digital connectivity permits the customer to use multiple channels simultaneously. The reduction in analog lines is also a result, to a lesser extent, of the replacement of such analog connections by mobile communications and competitors' telephone services. The following table provides information concerning the number of analog and digital access lines in Germany at the dates indicated.

	At December 31,			% Change from	
	2002	2001	2000	2001 to 2002	2000 to 2001
Analog access lines (including public phones)	28.9 million	30.3 million	32.1 million	(4.6)%	(5.6)%
ISDN digital access lines (including public phones)	9.7 million	8.6 million	7.2 million	12.8%	19.4%

ISDN Access Lines

T-Com's ISDN services are marketed under the brand name T-ISDN. ISDN permits a single access line to be used for multiple purposes simultaneously, including voice and video telephony and data and facsimile transmission. ISDN also provides higher quality connections with faster transmission of signals and increases the capacity of the access network. T-Com offers ISDN access lines throughout Germany and has one of the largest ISDN networks in the world (measured in terms of channels).

T-Com offers two types of ISDN access lines: basic and primary. Basic ISDN access lines provide two telecommunications channels per access line and are offered to individual customers and to small to medium-sized enterprises. Primary ISDN access lines provide thirty telecommunications channels per access line and are offered primarily to small to medium-sized enterprises. As of December 31, 2002, T-Com had installed approximately 9.7 million basic ISDN access lines and approximately 102,000 primary ISDN access lines, together representing approximately 22.4 million ISDN channels. The following table shows the number of ISDN access lines and channels currently used by our customers on a group-wide basis. The slight decrease in primary ISDN access lines during 2002 is mostly due to competition, including pricing pressures and competing product offerings.

Year	Basic Access*	Primary Access*	ISDN-Channels*
2000	7.2 million	98,000	17.3 million
2001	8.6 million	105,000	20.4 million
2002	9.7 million	102,000	22.4 million

* Group-wide totals (in Germany only)

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Increasing the ISDN penetration rate is an important part of T-Com's strategy. To attract ISDN customers, T-Com offers multiple rate plans (which permit lower usage prices than standard usage prices), additional lines for Internet or facsimile access, caller identification and our T-NetBox answering machine.

Table of Contents*T-DSL*

ADSL is a telecommunications technology that permits the transmission of data at very high speeds. T-Com offers standard analog and ISDN access lines enhanced by means of ADSL technology under the brand name T-DSL. At December 31, 2002, there were more than 3.1 million marketed (signed) contracts for T-DSL. The following chart shows the number of marketed contracts for T-DSL for the years presented.

Year	Marketed contracts for T-DSL*
2000	0.6 million
2001	2.2 million
2002	3.1 million

* Group-wide totals (in Germany only)

One of the principal benefits of ADSL technology is that it permits customers to use their standard access lines for high-speed access to the Internet. As we expect the Internet to grow in importance as a means of communication in the future, we consider continued growth in the number of T-DSL access lines to be an important strategic priority. For a description of regulatory proceedings that may have an impact on continued growth in the number of T-DSL access lines, see Regulation.

The following products are offered under the T-DSL brand name:

T-DSL (standard T-DSL access);

T-DSL 1500 (higher speed access);

T-DSL via satellite (a package for customers living in regions that cannot be served by the fixed network);

T-DSL Business (a complete Internet package for small and medium-sized enterprises).

Under our T-DSL Business brand, we also offer a product variation using SDSL (symmetric digital subscriber line) technology to businesses that permits upstream and downstream transmission of data at the same (symmetric) high speeds. This product variation was successfully introduced in ten cities (Hamburg, Hanover, Berlin, Leipzig, Cologne, Dortmund, Frankfurt am Main, Stuttgart, Munich and Nuremberg) in 2002. Since the start of 2003, our T-DSL Business products (including products using SDSL) have been available nationally in all existing T-DSL service areas.

T-DSL tariffs were the subject of various investigations by the German telecommunications regulator in 2001 and 2002. As a result of these investigations, we were required to raise prices for T-DSL access in two steps in 2002. For further information, see Regulation.

Calling Services

T-Com provides comprehensive local calling services as well as national and international long-distance calling services for customers that have access to T-Com's fixed-line network. For customers connecting to one another on its network, or connecting customers who place a call from T-Com's network to the network of another network operator, T-Com charges tariffs that are proportionate to the duration of the call and to the distance traveled by the call. These tariffs generally are higher during peak calling hours than during off-peak calling hours.

Under the regulatory framework applicable to the German telecommunications sector, T-Com's tariffs for fixed-line network calling services are subject to regulatory approval for so long as we are considered to be a market-dominant provider. For further information in this regard, see Regulation.

Following the complete liberalization of Germany's telecommunications market in 1998, our tariffs for fixed-line network calling services have declined dramatically, primarily as a result of action by the German telecommunications regulator that has significantly reduced the rate that other telecommunications providers are required to pay to T-Com for interconnection with T-Com's network. Future reductions mandated by the German telecommunications regulator could cause further declines in the rates that T-Com can charge for fixed-line network calling

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services. For further information in this regard, see T-Com Competition and Regulation.

Since January 1, 1998, the provision of fixed-line voice telephony services in Germany has been open to full competition. In 2002, competition still concentrated on long-distance and international calls, both areas in

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which our competitors have made considerable inroads into the market. Fixed terms for interconnection, which particularly favor competitors that have not invested heavily in infrastructure, enabled competitors to benefit from our infrastructure investments. In Germany, telephone customers have been free since 1998 to choose providers either through preselection (selecting one long-distance carrier to handle all domestic long-distance and international calls on a default selection basis) or through call-by-call selection (selecting a carrier when such a call is made by dialing the carrier's numeric prefix before dialing the telephone number) for long-distance and international calls. Preselection and call-by-call selection for local calls is set to commence this year. In addition, mobile telephone calling services have begun to compete with the fixed-line calling services we offer. We have countered the challenge posed by our competitors with sharply reduced tariffs and innovative, customer-oriented and reliable products and services.

SMS (Short Message Services) in the Fixed-Line Network

SMS services, which allow text messaging over our fixed-line network, were introduced in the second-half of 2001. SMS services can be used from any of T-Com's T-Net or T-ISDN lines using SMS-capable equipment. More than 8 million SMS messages were sent from the fixed-line network in 2002. Fixed-line network customers received more than 23 million SMS messages from the T-Mobile network.

T-Pay

T-Pay is T-Com's new payment system of simple and safe payment for online purchases. T-Pay covers four different types of payment: by Deutsche Telekom invoice, with MicroMoney (the prepaid card of T-Pay), by direct debit or by credit card. T-Pay is marketed to providers who wish to offer their products and services on the Internet and who desire a safe and easy customer payment option. T-Pay is free of charge for the user and can be used from any PC with Internet access.

Special Service Offerings for Business Customers

During 2002, T-Com continued its marketing efforts for virtual private network solutions for small to medium-sized enterprises under the brand name T-VPN. The T-VPN package consists of value-added modules that can be combined in different configurations to produce applications that are tailored to the needs of particular customers. T-Com also offers special tariff packages that are customized to meet the needs of business customers. In 2002, the German telecommunications regulator examined a number of contracts with closed user groups (T-VPN). For further information in this regard, see Regulation Regulation in Germany Special Requirements Applicable to Market-Dominant Providers Pricing Retrospective Review of Tariffs.

Data Services

T-Com offers small and medium-sized enterprises many of the data communications services that T-Systems offers to large business customers. These services include:

Leased lines, which are marketed under the brand name LeasedLink. LeasedLink products provide the customer with end-to-end transmission paths, i.e., a choice of the transmission protocol used with pre-defined bandwidths and no volume charge.

FrameLinkPlus, a FrameRelay service, which is the basis for seamless, national and international branch networks solutions (IP-VPN). FrameLinkPlus provides heterogeneous network structures integrating ATM or Internet access, dial-in access for mobile communications or setup of a powerful IP-VPN. FrameLinkPlus offers numerous functions with outstanding bandwidth efficiency and a high level of security.

X.25 marketed under the brand name Datex-P, this service guarantees packet-oriented, ITU standard-based, national and global point-to-point connections with outstanding availability.

Internet communications applications that are marketed under the brand name T-InterConnect. T-InterConnect is a professional broadband Internet connection with numerous line variants, such as high availability, guaranteed bandwidth and fixed IP addresses. Intranet communications applications are also part of our data services.

Local area networks that are marketed under the brand name T-LAN are offered as data services. T-LAN products are individually planned local area networks that offer all the services necessary for a reliable operating computer network.

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Telekom Designed Networks provides communications solutions that are tailored to specific customer requirements. These solutions involve design and installation of communications networks, network management and ongoing services.

E-Business

We offer E-business products to mid-sized companies. Although E-business is not part of our core business, revenues have been increasing in this sector over the past four years. We offer small and medium-sized companies web hosting as a basic service of E-business products and services. Besides standard products, we offer project solutions to customers with individualized demands. In addition to hosting, we offer web presence solutions. All of these web hosting products and solutions are designed to provide Internet presence (websites) and facilitate E-business for our customers. The E-business products and solutions provided to our customers are modular in structure, affording flexibility and ease with respect to the incorporation of additional modules and features.

IT Solutions

T-Com's Information Technology (IT) Solutions products and services consist of desktop services, CRM (customer relationship management) and systems integration. Desktop services provides installation, software and service solutions for corporate PCs, servers and peripheral equipment. CRM provides integrated information systems for all corporate divisions of the customer (marketing, sales and customer care). Systems integration provides medium-sized business customers ways to integrate existing and new IT and telecommunications applications into an overall solution for their businesses.

Wireless LAN

We offer private and business customers all the products necessary to implement wireless local area network (LAN) networks and complete Internet solutions. Wireless LAN services provide wireless communications based on international broadcasting standards. Transmission rates of up to 54 Mbit/s provide demanding customers with superior performance in our network. For broadband Internet access, such as through our T-DSL/T-DSL Business products, a wireless LAN is an inexpensive alternative to cable-bound solutions.

Wireless LAN was until recently an alternative only for business customers. However, recent price reductions for these services make wireless LAN affordable for private customers. We expect sales of wireless LAN services to continue to increase. Secure wireless LAN provides comprehensive protection for the internal and external exchange of data. Data encryption and access control are already a defined component of our wireless LAN service. An integrated firewall in the access router protects the data from unauthorized external Internet access.

Carrier Services

Our business with other telecommunications carriers is conducted through our T-Com and T-Systems divisions. As of January 1, 2002, we transferred operational responsibility for the domestic carrier services business to T-Com and operational responsibility for the international carrier services business to T-Systems. This new allocation of operational responsibility for the carrier services business is reflected in the financial data of our segments for the year ended December 31, 2002. See Item 5. Operating and Financial Review and Prospects Segment Analysis.

The products and services provided by the domestic carrier services business consist primarily of interconnection services for operators of fixed networks and mobile communications networks, carrier-specific transmission paths and access to the unbundled subscriber line that runs into a customer's premises (the unbundled local loop). The terms for interconnection of our telephone network with networks of other national providers are contained in bilateral contracts. At December 31, 2002, we had signed 94 such agreements. The total number of leased lines provided to carriers (i.e., transmission paths that are made available to competitors in the fixed-line network) increased by 16% in 2002. In the national market, the German telecommunications regulator determines the terms on which we provide interconnection to competitors as well as access to the unbundled local loop so that competitors have direct access to customers. For further information in this regard, see Regulation in Germany Special Network Access and Interconnection Fixed-Fixed Interconnection.

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Broadband Cable

As of December 31, 2002, we were the 100% indirect owner of six regional cable companies that offer cable television services to approximately 75% of the geographic area of Germany and approximately 58% of the population of Germany. On March 13, 2003, we completed the sale of these six regional cable companies and certain related shareholdings and assets to a consortium of financial investors for a purchase price of EUR 1,725 million in cash plus contingent sales consideration of up to an additional EUR 375 million depending on the value of the cable business in the future. We have also entered into service agreements with these sold companies that include long-term lease agreements relating to infrastructure (cable ducts, glass fibers, technical facilities). Under certain circumstances, we may be responsible for certain compensation obligations relating to our former employees.

We continue to indirectly own a 40% interest in the regional cable company that provides services to the German state of Baden-Wuerttemberg.

In November 2002, the regional cable company that provides services to the German state of North Rhine-Westphalia, in which we indirectly owned a 45% interest, was restructured. The restructuring was necessary due to the insolvency of the holding companies through which we held our indirect interest. As a result of the restructuring, we ceased to own such indirect interest in this regional cable company and we have renegotiated the service level agreements with this company. As before the restructuring, the service level agreements relate primarily to long-term leases of our infrastructure, such as cable ducts, glass fiber and technical facilities. The scope of the services was more or less unchanged by the restructuring, but we have agreed to certain price reductions.

In December 2002, the regional cable company that provides services to the German state of Hesse was restructured. The restructuring was caused by the financial distress of the holding companies through which we held our indirect 35% interest in this regional cable company. In the course of the restructuring, the regional cable company was indirectly acquired by certain bondholders of one of the holding companies. Accordingly, we no longer hold any interest in this regional cable company. In addition, we have renegotiated the service level agreements with this company. As before the restructuring, the service level agreements primarily relate to long-term leases of our infrastructure, such as cable ducts, glass fiber and technical facilities. The scope of the services was more or less unchanged by the restructuring, although we have agreed to certain price reductions.

Terminal Equipment

Through its terminal equipment business, T-Com distributes an extensive range of telecommunications equipment produced by third party manufacturers, from individual telephone sets and facsimile machines targeted at private customers to more complex telephone and facsimile terminals, private branch exchanges (PBXs) and complex network systems targeted at business customers. With most of T-Com's terminal equipment, customers have the choice of purchasing or leasing. T-Com also provides installation and repair services.

Customer Support Services

Installation, maintenance, service hotlines, customer education, software installation and network management are important parts of T-Com's business activities. Standardized service levels are offered to individual customers under the brand names Compact-Service and Comfort-Service. Customized services are offered to business customers.

Other Services

In Germany, T-Com offers a range of sales and service phone numbers for business and private use, provides directory assistance, manages a network of public telephones and produces prepaid calling cards. Commencing in 2003, the directory publishing operations of DeTeMedien will be included in T-Com's operations. For further information relating to DeTeMedien, see T-Online.

Service Numbers

T-Com assists companies wishing to establish telephone or multimedia contact with their customers. These solutions are based on our flexible fixed-line network and play a central role for companies particularly in the call center, media and entertainment sectors. T-Com provides freecall 0800 services (Freephone Service) and 0180 call services (Shared Cost Service), which enhance customer acquisition and loyalty.

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T-Com's contact routing solutions have been well received by large call center operators. In the media sector, TV and radio stations use T-Com's services, such as T-VoteCall to enable viewers and listeners to actively participate in programs and to extend audience loyalty. T-VoteCall and the powerful Mass Calling Platform are used to process a large volume of calls. In the entertainment sector, the 0190 call Service (Premium Rate Service) enables information and entertainment packages to be sold and billed by telephone or via the Internet.

Online Invoice

As a cost reduction measure, we offer our customers an electronic invoice format, by which the customer can access personal invoice data at any time via the Internet and organize, assess or receive a graphic presentation of such data. Online Invoice is aimed at private customers. In January 2003, approximately 1.5 million customers were using Online Invoice.

Sales Channels

T-Com provides a single toll-free number where customers can obtain information and order products and services 24 hours a day, seven days a week. Individual customers use this sales channel most frequently. T-Com has significantly increased its efficiency during 2002 and can now process almost all customer orders on the day of receipt.

T-Com markets its products and services to individual and small to medium-sized business customers through our network of T-Punkt retail sales outlets. With its network of T-Punkt sales outlets, T-Com has one of the largest branch organizations in the German telecommunications market. The T-Punkt sales outlets offer an extensive product portfolio including T-ISDN and T-DSL/T-DSL business products, as well as products from T-Online and T-Mobile. Furthermore, products from leading IT manufacturers are offered. At December 31, 2002, we had approximately 400 T-Punkt retail outlets and 100 T-Punkt business outlets.

T-Com also markets its products and services in Germany through our website (www.telekom.de). The number of customers who used the Internet as a means of obtaining information and carrying out transactions in 2002 rose significantly. The number of direct orders via our website also continued to increase in 2002. Our website had approximately 21 million visitors and the Online-Shop approximately twelve million prospective customers. Compared with the previous year, this is equivalent to an increase of more than 73%. This sales channel will be expanded further in 2003.

T-Com also serves small and medium-sized enterprises through a direct sales force. For purposeful customer canvassing geared to specific business needs, business customers are assigned to three defined sales units. Within these sales units, the customer approach ranges from telephone support/ canvassing (outbound/ inbound) to personal calling and direct meetings with customers.

In addition to the foregoing types of direct sales methods, T-Com offers its products and services through a broad range of sales partners. This marketing via third party enterprises has made a considerable contribution to the overall results of T-Com's fixed-line network marketing and growth strategy.

HappyDigits

On October 31, 2001, T-Com launched its HappyDigits bonus program for private customers. This program is intended to promote customer loyalty and customer development through a rewards program based on telephone usage. As a result of the participation of KarstadtQuelle AG and associated expansion of the partner portfolio, the program is being expanded to an industry-wide multi-partner program in Germany. By December 31, 2002, the program had approximately 8.5 million participants.

International Activities

The main T-Com subsidiaries conducting international operations are MATAV, Slovak Telecom and Hrvatski Telecom. Until December 31, 2001, these subsidiaries' operations were included in Other Activities for financial reporting purposes and are now included in the T-Com division.

MATAV

We hold a 59.5% equity interest in MATAV, the leading full service telecommunications provider in Hungary in terms of revenues. MATAV also owns Westel, a Hungarian mobile communications provider. Westel maintained its leading position in an expanding mobile market characterized by intense competition.

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Its customer base was above 3.4 million subscribers at December 31, 2002. In addition, MATAV acquired a 51% interest in a company that owns 86.5% of the Macedonian telecommunications company Makedonski Telekomunikacii (Maktel).

During 2002, MATAV's fixed-line network penetration and the total number of access lines marginally declined. The total number of access channels decreased by 0.1% from 2.90 million to 2.88 million due to increased competition mainly from mobile services. However, the number of ISDN channels increased to approximately 511,000, a 14.0% increase over 2001. At December 31, 2002, approximately 17.7% of MATAV's total fixed lines were ISDN channels. MATAV was successful in broadband applications, with the number of installed ADSL lines growing to approximately 34,000 by the end of 2002. The number of mobile subscribers increased by around 36.4% from 2.5 million at the end of 2001 to 3.4 million at the end of 2002. MATAV's Internet subsidiary, Axelero, maintained its leading position among ISPs in the dial-up market with a market share of approximately 43% and almost 150,000 Internet subscribers.

Although we have the power to appoint a majority of MATAV's board of directors, the Republic of Hungary retains significant influence over MATAV's activities as the holder of the Series B share, the regulator of the Hungarian telecommunications sector and MATAV's largest customer. The Series B share gives the Hungarian state certain special rights in the election of MATAV's boards and with respect to certain decisions taken at shareholders' meetings.

MATAV's monopoly in the Hungarian market for long-distance and international telecommunications services expired at the end of 2001.

Hrvatski Telecom

In October 1999, we acquired a 35% equity interest in the then state-owned Hrvatski Telecom, the leading full-service telecommunications service provider in Croatia in terms of revenues, for USD 850 million. In October 2001, we acquired an additional 16% in Hrvatski Telecom for EUR 500 million and increased our aggregate ownership to 51%. Hrvatski Telecom operates mainly digitalized fixed-line and mobile networks. The number of access channels increased by 1% from 1.785 million in 2001 to 1.806 million in 2002. Hrvatski Telecom's mobile subscriber base increased from 0.9 million at year-end 2001 to 1.2 million at year-end 2002. It had a mobile market share of 53% at October 2002. Hrvatski Telecom's online business had 370,000 dial up customers and a market share of 74% at December 31, 2002. The full liberalization of the Croatian telecommunications market took place on January 1, 2003. Hrvatski Telecom pursued restructuring and market repositioning projects in 2002, including HTtel brand positioning, the transformation of telecommunications centers (with implementation in January 2003), the continuation of the outsourcing of non-core business activities and defining a go to market strategy in order to counter increased competition.

Slovak Telecom

In July 2000, we acquired a 51% equity interest in the state-owned Slovak Telecom, the leading full-service telecommunications service provider in Slovakia in terms of revenues, for a purchase price of EUR 1 billion. Slovak Telecom offers local, long-distance and international telephone services, data communications services, telex and telegraph services, distribution and broadcast radio and television signals and mobile communications services via its majority-owned but, on the T-Com level, not fully consolidated subsidiary, Eurotel. Although, pursuant to Eurotel's Shareholders Agreement, Slovak Telecom has a 51% economic interest in the profits and net assets of Eurotel, control of Eurotel is shared between Slovak Telecom and another company (Atlantic West B.V.), because neither party has unilateral control over major decisions affecting Eurotel. Therefore, this investment is considered a joint venture.

The total number of access channels declined 6% compared to 2001 from 1.58 million to 1.46 million. Slovak Telecom is the leading provider of online services in Slovakia. As of December 31, 2002, it had a 52% market share of dial up traffic and nearly 70,000 customers. This online customer number represents a 50% increase over 2001. This increase is due to a successful online marketing effort.

Seasonality

The business of the T-Com division is not materially affected by seasonal variations.

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Suppliers

The principal types of equipment purchased by the T-Com division are network components such as switching systems, transmission systems, access network components and customer premises equipment, such as telephones and fax machines, T-DSL modems and similar items. Although we do not believe that T-Com is dependent on any single supplier, due to the multiple supplier strategy that we have implemented, there may be occasions when a particular product from a particular supplier is delayed or backordered. Major suppliers of T-Com are Alcatel SEL AG, Cisco Systems International B.V., Corning Cable Systems GmbH & Co. KG, ECI Telecom GmbH, Lucent Technologies Network Systems GmbH and Siemens AG.

Dependence on Patents, Licenses, Customers, Industrial, Commercial or Financial Contracts

We do not believe that T-Com is dependent on any patent or other intellectual property right. For a description of patent infringement litigation that is relevant for T-Com's business relating to ATM technology, see Item 8. Financial Information Litigation Other Proceedings.

With respect to our fixed-line telephony and cable network services in Germany, we are dependent on licenses for the operation of transmission lines for public telecommunication services (Class 3 licenses) and for the provision of voice telephony services to the public on the basis of self-operated telecommunication networks (Class 4 licenses). For further information relating to these licenses, see Regulation in Germany Licensing and Notification Requirements; Allocation of Frequencies.

We do not believe that T-Com is dependent on any individual third party customer, or on any industrial, commercial or financial contract.

Competition

Fixed-Line Network Voice Telephony and Local Access

Since the full liberalization of the German telecommunications market in January 1998, we have faced intense competition, based primarily on price, in the market for fixed-line network voice telephony.

Effect of Regulatory Decisions

In the market for international and domestic long-distance calling services, the level of competition is influenced by the fact that we are required by law to permit other telecommunications companies to interconnect with our fixed-line network at rates that are set by the German telecommunications regulator. As a result, decisions of the German telecommunications regulator regarding the maximum rate that we are permitted to charge for interconnection have a very significant impact on the level of competition in the market for fixed-line network voice telephony. When the maximum permitted interconnection rate is below the price charged by us for calling services, competitors can interconnect with fixed-line network and offer calling services for a lower price, forcing us to lower our prices for calling services. The price structure for interconnection rates particularly benefits those competitors that have not made substantial investments in their own infrastructure. As a result of several decisions of the German telecommunications regulator between 1998 and 2002 that reduced the maximum permitted interconnection rate, we reduced our tariffs substantially from 1998 on, particularly in the areas of international and domestic long-distance calls. After massive price reductions in the standard rate at the start of 1999, we introduced optional tariffs that enable the customer to make inexpensive local, regional and international calls for a monthly fee. In 2002, we further reduced our standard prices as a result of mandatory (regulatory) price-cap targets. Our share of the German market for calls declined from approximately 100% in 1997 to 72.7% in 2001 and continued to fall to 68% in 2002.

Future decisions of the German telecommunications regulator could require us to lower our prices further, cause us to lose additional market share, or both. In 2002, the German telecommunications regulator issued a decision that reduces the permitted fixed-fixed interconnection rate by an average of approximately 14%. A reduction in interconnection rates means more advantageous advance payment costs for competitors and thus the opportunity to reduce end user prices or to increase their margin. Some competitors used the reduction to increase their own margins on calls, and other competitors passed these reductions on to end users. As part of the new price cap regime (2002-2004), we will again be required to reduce charges for calls. In order to offset such reductions, we intend to increase charges for access and other services. For further information regarding actions of the German regulator and the new price cap, see Regulation.

Regulatory decisions also play a critical role in the level of competition in the markets for regional and local calls and for local access. We are required by law to rent subscriber access lines to competitors at prices

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determined by the German telecommunications regulator. We are required to permit line sharing, which means renting to a competitor only that portion of the subscriber access line that is required for high-bandwidth services, such as high-speed Internet access. As a result of a decision by the German telecommunications regulator, we are also required to offer local access and local call minutes to competitors at wholesale prices for purposes of resale. In addition, the German government has agreed on draft legislation that would mandate the availability of carrier preselection for local calls by July 9, 2003, and call-by-call carrier selection by April 25, 2003. We expect that competitors will begin to offer those services in 2003. For further information in this regard, see Regulation Regulation in Germany Special Network Access and Interconnection Fixed-Fixed Interconnection.

Further regulatory initiatives of Germany or the European Union aimed at increasing competition in the markets for local calls and for access may be expected in the coming years. For further information on these regulatory requirements and initiatives, see Regulation.

All of these regulatory decisions and initiatives are likely to cause intensified competition in the markets for local calls and for access in the coming years, which may have an adverse impact on our operations and our competitive position.

Effect of Investments by Other Companies

We also face significant competition in the markets for international and domestic long-distance calls, regional calls and access lines from competitors that have made investments in their own infrastructure, such as Arcor AG & Co., Colt Telecom Group Plc., MCI Worldcom Inc. and BT Group Plc. In addition, national network operators, such as Arcor AG & Co., and local network operators, such as HanseNet Telekommunikation GmbH, KomTel GmbH and NetCologne Gesellschaft fuer Telekommunikation mbH, have made substantial investments in local network infrastructure and compete with us in major urban centers throughout Germany. Furthermore, as prices for mobile telephony decline, our local and other calling services as well as access services face increasing competition from mobile telephone operators. Additionally, as alternative technologies, such as voice-over-IP and use of the Internet, gain market acceptance, our fixed-line network telephone usage may be adversely affected.

Other Services

The recently completed sale of our remaining six regional cable companies and, thus, the sale of nearly the whole of our broadband cable interests may in time lead to additional competition from parties seeking to provide telecommunications services, including access services, and multimedia services, through these broadband cable networks. For further information relating to the sale of our broadband cable interests, see Broadband Cable above.

Although we do not manufacture our own equipment, we do resell equipment under our own label that has been manufactured for us. The terminal equipment sector has been open to full competition since 1990 and is characterized by falling prices, low margins, rapid technological innovation and intense competition. The basis for competition in this field is primarily price. T-Com's most significant competitors are Siemens AG, Alcatel S. A., Philips Electronics N. V. and Tenovis GmbH & Co. KG (formerly Bosch Telecom GmbH/ Telenorma AG). Most of these competitors are also suppliers to T-Com.

T-Systems

Principal Activities

Through our T-Systems division, we offer our large German and international business and governmental customers a broad range of telecommunications (TC) and information technology (IT) services. These services are provided through our wholly-owned subsidiary, T-Systems International GmbH, which was established in 2000 by combining certain of our business units with the business of debis Systemhaus (50.1% of which was acquired in October 2000 and the remaining 49.9% in the first quarter of 2002).

T-Systems uses advanced information technology and telecommunications expertise to provide customized solutions to our customers. Such solutions include planning, construction, integration and operations services relating to complex information technology and telecommunication systems. T-Systems provides support for customers through our global telecommunications network in more than twenty countries. In 2002, T-Systems opened offices in Japan and Hong Kong. Effective January 1, 2002, the domestic carrier services business of the T-Systems division was transferred to the T-Com division and the international carrier services business of the T-Com division was transferred to the T-Systems division.

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Accordingly, the financial information of the T-Systems division for the previous reporting periods has been adjusted to reflect this reorganization. For further information, see Item 5. Operating and Financial Review and Prospects Segment Analysis T-Systems.

Although T-Systems customers are located primarily in Germany, the T-Systems division employed more than 10,000 people outside of Germany as of December 31, 2002. The non-German operations of T-Systems support many German-based multinational customers as well as customers headquartered outside of Germany. T-Systems primary non-German markets are in Western Europe, North America and Asia. In 2002, German-based operations contributed approximately 72.6% of the division's revenues. For the year ended December 31, 2002, the TC services group contributed approximately 49.5% of T-Systems revenues and the IT services group contributed approximately 50.5% of T-Systems revenues. For more information, see Item 5. Operating and Financial Review and Prospects Segment Analysis T-Systems.

Business Model

During 2002, T-Systems sales and service organizations functioned on a cooperative basis through two distinct groups, the business lines (BLs) and the service lines (SLs). The BLs were responsible for account management and customer contact. They managed and coordinated the Sales and Service Teams (which were made up of personnel from the BLs and the SLs) and were in charge of customer relationship management. The BLs were responsible for order entry, revenues and customer management whereas the SLs were responsible for solutions and product management, and for providing services within the scope of customer projects. The later included the delivery of efficient, high-quality and competitive customer solutions and the responsibility for the revenues and profitability of the services delivered.

Experts drawn from the BLs and the SLs formed joint Sales and Service Teams. The BLs provided the account manager (who led the team), the sector consultant and the program manager (for customers projects involving different SLs). The SLs provided the SL sales manager or team, the delivery manager, the project manager and sales support employees. Each member of the Sales and Service Teams had defined tasks and responsibilities. The aim was for the Sales and Service Teams to embody the skills of our company and to put them at the disposal of our customers (one point of contact for the customer). In Germany, T-Systems provides services to over 1,500 corporations.

To serve markets and customers better, to maintain technical excellence, and to promote international competitiveness, T-Systems began reforming its business strategy in 2003. As currently proposed, T-Systems will send dedicated account management teams exclusively to T-Systems fifty largest customers. These key account management teams will have specialized expertise in the telecommunications, services and finance, public and healthcare, and manufacturing sectors. Other T-Systems customers will also be managed by expert teams, which are assigned to five service lines (each of which is discussed below): International Carrier Sales and Solutions, Network Services, Computing Services, Desktop Services, and Systems Integration. T-Systems believes that this new strategy will provide superior services to its customers and reduce costs of T-Systems through this more efficient re-allocation of resources.

Telecommunications Services (TC)

Telecommunications services encompass a global network infrastructure for voice and data communications and a range of related consulting services, including the Global Network Factory (GNF), Network Services (NWS), International Carrier Sales and Solutions (ICSS), Hosting and ASP Services (H&ASP) and Media and Broadcast. Operating divisions of Deutsche Telekom other than T-Systems account for approximately 20.4% of the revenues of the TC services area. For further information, see Item 5. Operating and Financial Review and Prospects Segment Analysis T-Systems.

Global Network Factory (GNF)

The Global Network Factory group plans, builds and operates the global telecommunications platforms of T-Systems and those of our customers. The GNF group, through T-Systems global network platform and through the operation of our customers networks, is responsible for providing equipment and services relating to the operation of telecommunications networks and other telecommunications services for our customers. In addition to serving customers that use our global telecommunications network, the GNF group manages the national and international corporate networks of our customers. The GNF group is also responsible for the selection and implementation of leading edge technologies within the networks that it builds and operates on behalf of our customers.

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Network Services (NWS)

The Network Services group installs and operates customized voice and data communications networks for businesses, non-profit organizations and governmental agencies. Projects for customers generally operate through our global network. The solutions offered by the NWS group support fast and reliable communications throughout a customer's organization as well as communications outside of the customer's organization (for example, with their customers, suppliers and partners).

The services offered by the NWS group include the installation of networks covering a single customer location (local area networks), exclusive end-to-end communications lines between two customer locations (leased lines), and complex virtual private networks (VPN), in which we use our global network to create virtual links between a number of geographically dispersed customer locations. The NWS group also offers VPN through the Internet. For a discussion of a regulatory proceeding affecting the pricing of virtual private networks with respect to voice services, see Regulation Regulation in Germany Special Requirements Applicable to Market-Dominant Providers Pricing Retrospective Review of Tariffs.

The NWS group offers the following VPN services to our multinational corporate customers in Europe, North and South America, Asia and the Pacific Rim, as well as in Australia and South Africa:

Global Frame Relay is a high-speed communications technology that provides businesses with a cost-effective, flexible way to connect local area networks, system network architecture, voice and Internet protocol-based applications.

Global Business-Link is an international private leased circuit service with a bandwidth range from 64/56 Kbit/s to 155 Mbit/s that provides high-speed, high-quality leased line connectivity between two endpoints.

Global Intranet is an Internet Protocol (IP)-based virtual private network (VPN), also referred to as corporate intranets, and consists of a dedicated connection between customer sites.

Global Internet provides Internet connectivity at a range of access speeds and complements the Global Intranet service by extending it to provide public internet services such as e-mail and file-transfer together with private intranet services within an VPN.

The Network Services group also creates customized voice communication networks for its customers and constructs complex call center solutions that assist customers with the professional management of their incoming calls, faxes and e-mails.

Contracts relating to Network Services have an average duration of approximately three years. Voice services provided are billed on a per minute basis, while data services provided are billed in terms of bandwidth provided per month. Customers taking advantage of leased line services pay an initial connection fee based on the type of line leased and thereafter pay monthly subscription charges based on the type of line (analog or digital) and line capacity, the length of the line and the duration of the lease. Prices for leased lines declined steadily in recent years due to intense competition, but since mid-2002 have remained relatively stable due to fewer market competitors. Although bankruptcies and other factors contributed to the decrease in competition, there can be no assurance that prices will continue to remain at current levels.

International Carrier Sales and Solutions (ICSS)

The International Carrier Sales and Solutions business provides customers (typically other fixed-line and mobile carriers) with direct access to our telecommunications networks, including those networks that are leased from other carriers. Since January 1, 2002, the revenues of the ICSS business have been reflected in the revenues of our T-Systems division. Formerly, they were included in the T-Com division. During 2002, ICSS managed total worldwide voice traffic of approximately 13 billion minutes. The ICSS group provides innovative solutions relating to data transmission, voice and wireless, to telecommunications carriers (including, former incumbent or dominant regional/ national carriers, emerging regional and long-distance carriers, Internet service providers and mobile carriers).

To meet the growing needs of both fixed-line and mobile carriers worldwide, our portfolio of services has been expanded through joint ventures and strategic alliances.

Competitive rates and individual leases allow us to provide customized solutions targeted to individual carriers' needs. Through our own network and partnering and leasing arrangements, we offer one of the world's largest telephone networks and provide the most advanced ISDN network with links to more than forty countries.

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ICSS also provides carrier termination and transit services to other fixed-line and mobile carriers for calls that originate outside Germany and are routed through T-Systems' international network for termination in Germany or a third country. We purchase termination services from foreign carriers for termination of T-Systems' outbound international traffic.

The international services that we provide have been augmented by the continuous build up of our own global network through partnering and leasing arrangements. In 2002, we had points of presence (leased space where network infrastructure is installed and maintained) in twenty-two major cities in sixteen countries. Further extensions of our network are planned based on customers' needs and cost considerations.

Hosting and ASP Services (H & ASP)

Hosting and ASP Services enable our customers to employ Internet technologies in their businesses. H & ASP Services provide the underlying infrastructure that enables a customer's business to operate more efficiently and seamlessly. The H & ASP Services group arranges (or hosts) the Internet presence of customers by providing a reliable connection to our network and managing the customer's website. In addition, as an application service provider (or ASP), the H & ASP Services group provides the software necessary to maintain a reliable Internet connection. The H & ASP Services group also provides electronic marketplaces and portals that enable enterprises to conduct business transactions electronically, either within a single industry or between enterprises from different industries. With these electronic marketplaces and portals, our customers can facilitate their relationships with suppliers (supply chain management) or with customers (customer relationship management). In 2003, T-Systems expects to expand this aspect of its business beyond Germany into other parts of Europe and the United States.

In Germany, T-Systems' H & ASP Services are also marketed by the T-Com division to its small and medium-sized business customers. Outside Germany, we also market these services through arrangements with third parties. H & ASP Services generates approximately 35% of its revenues in Germany via T-Com sales channels and about 65% via T-Systems sales channels.

Contracts involving H & ASP services have an average duration of approximately three years.

Media and Broadcast

In Europe, T-Systems is one of the largest providers of broadcast services, including analog and digital terrestrial broadcasting, satellite broadcasting and innovative digital applications. At December 31, 2002, the broadcast network of T-Systems included more than 8,000 analog television and radio transmitters and over 100 digital television and radio transmitters. T-Systems has expertise in providing systems equipment technology and digital radio transmitters. Media and broadcast services include:

providing broadcast services to public broadcasters and private companies that provide content for broadcast media, including traditional (analog and digital) terrestrial broadcasting, satellite broadcasting and innovative digital applications;

planning, building and running multi-media platforms and providing complete solutions for customers;

maintaining a dedicated service and sales staff in order to provide optimal service and retain customers.

T-Systems' media and broadcast customers are comprised of public and private broadcast companies in Germany, as well as television production companies and international audio broadcasters. Customers pay for media broadcast services based on fixed contracts with an average duration of four to six years.

Information Technology Services (IT)

The information technology (IT) services group has broad expertise regarding computer software and hardware and information technology systems solutions. The IT group provides information technology services, including, systems integration services, computing services and desktop services, to large and multinational enterprises. Other operating divisions of Deutsche Telekom account for approximately 41.8% of revenues of the IT services group. For further information, see Item 5. Operating and Financial Review and Prospects - Segment Analysis T-Systems.

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Systems Integration and Consulting

The Systems Integration group provides customers with consulting, implementation and applications support relating to systems solutions in the area of telecommunication and information technology. The Systems Integration group develops software solutions customized for the needs of individual customers and integrates those solutions into the information technology and telecommunications structures of the customer. Examples of the services offered include solutions that assist customers in managing their business processes (e.g., supply chain management solutions that enable business customers to use information technology and telecommunications to organize their relationships with suppliers).

Contracts involving systems integration services have an average duration of approximately one year and provide either for payment at hourly rates or at a fixed payment agreed to in advance.

T-Systems offers customers comprehensive consulting services in all service and business lines. These include management and technology consulting in all lines of business regarding the use of information technology and telecommunications in all facets of a customer's business, such as supply chain management, business process optimization and modeling, customer relationship management and knowledge management. Consulting services also include strategy, organization and technology consulting for companies that are primarily engaged in the information technology and telecommunications markets. Consulting services are an integral part of the services provided by each of the other business lines and service lines.

Computing Services

The IT group provides our customers with the ability to outsource their entire information technology operations. The services offered include the operation of data centers, applications management, user support and network management. The IT group can also facilitate the transfer of information technology assets and personnel from the customer to T-Systems. The IT group also installs, operates and administers central computer systems (mainframes), open computer systems and business applications on behalf of customers.

Generally, contracts involving computing services have an average duration of four years or more. Customers pay for computing services based on contractually agreed service levels. These agreements describe the quantity and quality of services to be provided (for example, 99.9% guaranteed reliability) and the extent of services to be provided.

T-Systems operates a very large computer network, called the Global Computing Factory, as a platform for the information technology services offered to customers. The Global Computing Factory provides the personnel, servers (assets) and infrastructure necessary to operate the information technology resources of its customers. For further information about the Global Computing Factory, see Description of Property Global Computing Factory.

Desktop Services

T-Systems develops and implements for customers complete office systems solutions, desktop operations services, call centers and help desk services. These services may include the sale or lease of desktop computer hardware produced by third parties.

Generally, contracts involving desktop services have an average duration of two years or more. Customers pay for desktop services based on contractually agreed service levels. These agreements describe quantities of goods and services to be provided (for example, the number of computers leased and serviced) and the extent of services to be provided.

Principal Markets

T-Systems' business model is focused on large business customers, German and non-German multinational corporations, and international telecommunication carriers and broadcasters (including companies that provide content for broadcast media). During 2002, T-Systems in Germany offered services to more than 1,500 large business customers (and approximately 10,000 subsidiaries of such customers). T-Systems services customers primarily in the financial services, manufacturing, public and healthcare, retail and distribution, telecommunications, media broadcast, and travel and transport industries as set forth below. Most of these customers are German or European-based with operations in various countries around the world.

Financial services primarily consists of banks and insurance companies. T-Systems develops solutions that enable these customers to conduct banking transactions over the Internet and electronic management of data via the Internet or mobile phone.

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Manufacturing includes manufacturers of automobiles, aircraft, electronics and manufacturers of component parts used by other manufacturers. T-Systems provides electronic supply management, Internet marketplace and information technology outsourcing services.

Public and Healthcare includes government agencies, state pension funds, the armed forces of the Federal Republic of Germany, research and teaching institutions, as well as international organizations. T-Systems enables these customers to establish innovative business processes, such as services to individuals through the Internet and the management of data and voice networks.

Retail and Distribution includes diverse areas of business such as wholesale distribution, energy distribution, information technology service, lottery companies, print and broadcast media and the consumer goods industry. T-Systems provides a variety of services, including billing solutions, shops for direct sales in the Internet and data bank systems.

Telecommunications includes other network operators and companies offering fixed-line, mobile and Internet telecommunications services. T-Systems provides content management systems for the organization of information on their websites and billing systems, among other services.

Travel and Transport includes air transport, rail transport, public transportation systems, logistics and tourism enterprises, hotel chains and rental car companies. T-Systems provides Internet-based reservation and booking systems and Internet portals on behalf of these customers.

Media and Broadcast includes broadcast services to public broadcasters and private companies that provide content for broadcast media including traditional (analog) terrestrial broadcasting, satellite broadcasting and innovative digital applications.

Seasonality

The revenues of the T-Systems division are not materially affected by seasonal variations. However, T-Systems' revenues may be subject to quarterly fluctuations depending upon sales cycles (currently ranging between six and eighteen months) and purchasing patterns and resources of customers, which are subject to general economic conditions and are difficult to predict. Accordingly, revenues received in a particular quarter may not be indicative of future revenues to be received in any subsequent quarter.

Suppliers

The principal goods and services purchased by the T-Systems division are computer hardware for client server and mainframe, computer standard- and application-software, network capacity and network services, telecommunications network components and IT consulting services. T-Systems manages, on behalf of customers, the risk in the supplier relationship as well as quality and cost considerations. We do not believe that T-Systems is dependent on any single supplier.

Dependence on Intellectual Property and Material Contracts

T-Systems does not believe that it is dependent on any individual patent, license or industrial, commercial or financial contracts. However, we are subject to third party software licenses in connection with the services provided to customers. Any breach, violation or misuse of any of such third party software licenses could result in additional costs with respect to the particular project that is the subject of such licenses.

Other operating divisions of Deutsche Telekom (primarily T-Com and T-Mobile) account for approximately 31% of the total revenues of the T-Systems division. In 2002, DaimlerChrysler, through multiple contractual arrangements, accounted for approximately 5% of the external revenues of the T-Systems division.

Competition

T-Systems operates in markets that are subject to intense competitive pressures. T-Systems faces a significant number of competitors, ranging from large IT companies to an increasing number of relatively small, rapidly growing and highly specialized organizations. We believe that T-System's combination of service, performance, quality, reliability and price are important factors in maintaining our competitive position.

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The principal competitors of T-Systems in the telecommunications area include AT&T, France Telecom/ Equant, British Telecom, Cable & Wireless and Colt. The principal competitors of T-Systems in the information technology area include IBM Global Services, EDS, CSC, Cap Gemini Ernst & Young, Siemens Business Service and Accenture.

Competition in the telecommunications area (including network services, IP, voice and data communications) is intense, based primarily on price, service offerings, network connectivity and reliability and customer support. Although prices for leased lines and customer telecommunications networks had been declining for the past several years as a result of this competition, our telecommunications activities at T-Systems were positively affected by the addition of new customers as a consequence of the recent bankruptcies of WorldCom, Global Crossing and KPNQwest.

In the information technology area (including systems integration services), competition is intense and the current market is characterized by strong pricing pressures, reduced IT budgets of customers and an extension of customers sales cycles. As a result of these competitive pressures, many companies, including T-Systems, are attempting to maintain market share through improved productivity, cost-cutting measures, reliance on IT expertise and maintenance of existing customer relationships. This situation has also led to consolidation of the IT sector, which consolidation is expected to continue for the foreseeable future.

Like many of its competitors, T-Systems provides outsourcing services to large enterprises and therefore must allocate significant resources to projects for these customers. Although the allocation of resources in this way has not adversely affected T-Systems business in the past, it is possible that intensified competitive and cost reduction pressures may result in reduced profit margins and/or loss of market opportunities.

We believe that T-Systems can compete effectively, largely due to its strategy of providing comprehensive solutions (planning, building and operating) to its customers needs across a broad spectrum of IT and telecommunications activities. We believe that with T-Systems focus on industry specific expertise, we can reduce complexity and respond to customers requirements with more complete solutions and integration of service offerings, thereby acting as a seamless end-to-end telecommunications and information technology partner with customers.

T-Mobile

Principal Activities

The principal services offered by the T-Mobile division are digital mobile telephony services based on the mobile telecommunications technology known as GSM (or Global System for Mobile Communications) and non-voice services such as SMS (Short Message Services), MMS (Multimedia Messaging Services) and other data services to residential and business subscribers based on CSD (Circuit Switched Data) or GPRS (General Packet Radio Service) technologies. T-Mobile USA, Inc. and Powertel, Inc. operate a Wi-Fi 802.11b wireless broadband (WLAN) network, which can be used by subscribers in more than 2,000 public locations in the United States, including airports, conference centers and coffeehouses. Each of our T-Mobile division subsidiaries offers international roaming services for GSM and GPRS to subscribers through a large number of international roaming agreements with third-party operators, so that subscribers can access mobile services while they are outside their network service area. The T-Mobile division also sells mobile handsets to subscribers as part of packaged service offerings.

Mobile voice and data services are offered both on a prepay basis and on a contract (postpay) basis. Subscribers purchase contract services on the basis of fixed monthly fees and pay time-based airtime, or per message, fees. Some contract service offerings include a limited amount of airtime, data volume or messages in the monthly fee. Prepay services are purchased on the basis of monetary increments that are recorded on the subscribers cards and then deducted based on airtime or messaging usage fees as the cards are used. Usage fees can vary according to the tariff plan selected by the customer, the day and time of day when a call is made, the destination of the call and, in some cases, other provisions applicable to the tariff plan and whether the called party is also a customer of the same network.

Integration and Alliances

T-Mobile International has started to coordinate its European operations (Germany, Austria, the Czech Republic, the United Kingdom and the Netherlands) so that they run more like a single enterprise. Operating areas with potential for efficiencies such as IT/Network Technology and Product Management/ Marketing/ Branding Development are in the process of being combined. The objective of this effort is to achieve economies of scale, including increased purchasing power.

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T-Mobile announced in April 2003 that it intends to join in an alliance with Telefonica Moviles and Telecom Italia Mobile (TIM) to cooperate in several key areas, including the development of joint services relating to roaming, voice and the development of handsets. The key focus of the alliance is to make services more widely available and seamless. The alliance is to be open to other operators as potential members and is still subject to approval by certain regulatory authorities.

New Services

T-Mobile offers mobile online services in Europe developed by T-Mobile International UK Limited (TMO UK Ltd., formerly T-Motion plc.). TMO UK Ltd. was originally established as a joint venture between our T-Mobile group and our T-Online subsidiary. On April 1, 2002, T-Mobile acquired the 40% of TMO UK Ltd. previously owned by T-Online. TMO UK Ltd.'s services were launched in Germany in September 2000, in the United Kingdom in February 2001 and in Austria in May 2001 and are now also available in the Czech Republic. In April, these services were bundled and branded as t-zones. In the future, Deutsche Telekom plans to further expand its mobile online services to other markets where it holds mobile communication interests. Mobile online services can be used through WAP-enabled handsets using GPRS as well as CSD for access.

T-Mobile has invested in network infrastructure relating to the GPRS mobile communications platform. GPRS is a technology that permits transmission of data at rates substantially faster than those that can be achieved using CSD technology. T-Mobile introduced GPRS for contract subscribers on a commercial basis in Germany in February 2001, in Austria in April 2001, in the Czech Republic in August 2001, in the Netherlands in December 2001 and in the United Kingdom in June 2002. In November 2001, GPRS-based services were launched in the United States under the name iStream, which was subsequently branded as t-zones.

Revenues from SMS and other mobile data services (mobile data revenue) in Europe increased in 2002 by 48% compared to 2001, when non-voice revenues were EUR 1.1 billion. Total mobile data revenues in Europe were EUR 1.7 billion in 2002, representing 12.3% of T-Mobile's revenues in Europe. A major part of the data revenues was from SMS services. For more information, see Item 5. Operating and Financial Review and Prospects Segment Analysis T-Mobile.

T-Mobile has also made substantial investments in the next generation mobile communications standard known as Universal Mobile Telecommunications System or UMTS. UMTS is a technology that is expected to permit transmission of data at rates faster than those that can be achieved using GPRS technology. T-Mobile invested EUR 8.5 billion in UMTS licenses in Germany, EUR 171 million in licenses in Austria, EUR 395 million in licenses in the Netherlands and EUR 6.6 billion in licenses in the United Kingdom in 2000, and EUR 103 million in licenses in the Czech Republic in 2001. These investments in licenses do not include the costs of UMTS network build-out in these countries.

In February 2002, T-Mobile announced plans to cooperate with several infrastructure suppliers in the construction of UMTS mobile communications systems. T-Mobile has agreements with mmO2 plc (mmO2) jointly to construct and maintain UMTS networks in Germany and the United Kingdom. We expect these arrangements to reduce total UMTS network construction costs and operational expenditures substantially. The agreements, which are subject to regulatory approval by the EU Commission, provide for the sharing of new and existing base stations, including sites and masts, predominantly in certain urban areas. The parties will also designate certain non-urban areas to one or the other party to construct, maintain and operate a UMTS network. We also entered into a joint venture with Dutchtone N.V. in the Netherlands to jointly construct and maintain a UMTS network there.

Global Branding

As part of T-Mobile's global marketing strategy to increase customer awareness of and loyalty to its brand, we have internationally introduced the T-Mobile brand. T-Mobile's operations in Germany, formerly known as T-Mobil, began operating under the T-Mobile brand in February 2002. In April 2002, the operations in the United Kingdom, formerly known as One 2 One, were rebranded as T-Mobile and the Austrian operations, formerly known as max.mobil, were rebranded as T-Mobile. We began rebranding VoiceStream/ Powertel's operations as T-Mobile with the rollout of its services in California and Nevada in the third quarter of 2002, and completed the rebranding of VoiceStream/ Powertel as T-Mobile throughout the United States in the fourth quarter of 2002. In the Czech Republic, rebranding was completed in 2002, and the Czech company's legal name will be changed from Radiomobil to T-Mobile Czech Republic in

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the first half of 2003. In February 2003, the operations in the Netherlands, formerly known as Ben, were rebranded as T-Mobile as well.

Principal Markets

The T-Mobile division includes the activities of our majority-owned mobile communications subsidiaries in Germany, the United States (June 1, 2001), the United Kingdom, Austria, the Czech Republic (since April 1, 2001) and the Netherlands (since October 1, 2002). Through our T-Mobile division, we also hold minority investments in mobile communications providers in Poland and Russia and indirectly in the Ukraine.

The Deutsche Telekom group also directly or indirectly owns interests in mobile communications companies in Hungary, Croatia, Macedonia, Slovakia, the Philippines and Malaysia. At present, however, none of these investments is included as part of the T-Mobile segment for reporting purposes. For further information regarding these investments, see T-Com and Other Activities.

T-Mobile Deutschland and our other mobile communications subsidiaries count contract customers as subscribers for the length of their contracts and count prepay customers as subscribers for a prescribed amount of time, which differs according to the market. At the end of this time, or in the case of payment default or voluntary disconnection, the subscribers are cancelled or churned. The churn rate for any given period represents the number of subscribers whose service was discontinued during that period, expressed as a percentage of the average number of subscribers during that period, based on beginning and period-end figures.

Germany

Through T-Mobile Deutschland, we offer mobile communications services to individual and business subscribers in Germany. At December 31, 2002, T-Mobile Deutschland had approximately 24.6 million subscribers as compared to approximately 23.1 million subscribers at December 31, 2001. Of the total subscribers at December 31, 2002, approximately 11.5 million were contract subscribers, as compared to approximately 10.7 million at December 31, 2001. T-Mobile Deutschland had approximately 13.1 million prepay subscribers at December 31, 2002, as compared to approximately 12.4 million at December 31, 2001.

T-Mobile Deutschland's average churn rate for 2002 was 1.5% per month compared to 1.4% per month in 2001 and 1.0% per month in 2000. The average churn rate increased between 2000 and 2002 due to the increased proportion of prepay subscribers to total subscribers. Prepay subscribers generally have higher churn rates than contract subscribers, reflecting the tendency of the prepay customers to change mobile communication providers. Generally, a prepay customer is churned after a maximum period of 15 months (depending on the prepay tariff plan) if the customer has neither originated nor received a data or voice communication in that period.

North America

In May 2001, we acquired all of the outstanding equity securities of VoiceStream Wireless Corporation and of Powertel, Inc., two formerly independent U.S. mobile operators, in exchange for an amount of our shares having a market value on the acquisition date of EUR 28.7 billion plus EUR 4.9 billion in cash. As from May 31, 2001, VoiceStream Wireless Corporation and Powertel, Inc. have been fully consolidated within the T-Mobile division. VoiceStream Wireless Corporation was renamed T-Mobile USA, Inc. in August 2002. T-Mobile USA/Powertel as used in this Annual Report refers to T-Mobile USA, Inc. and Powertel, Inc. on a combined basis.

Through T-Mobile USA/Powertel, we offer mobile communications services to individual and business subscribers in the United States. At December 31, 2002, T-Mobile USA/Powertel had approximately 9.9 million subscribers, as compared to approximately 7.0 million at December 31, 2001. Of the total subscribers at December 31, 2002, approximately 8.6 million were contract subscribers, as compared to approximately 5.2 million at December 31, 2001, and approximately 1.4 million were prepay subscribers, as compared to approximately 1.8 million at December 31, 2001.

T-Mobile USA/Powertel's average churn rate for 2002 was 4.0% per month, as compared to 4.7% per month for 2001. For postpay subscribers, the average churn rate decreased to 2.5% in 2002 compared to 3.2% in 2001. For prepay subscribers, the average churn rate increased to 10.2% in 2002 compared to 8.4% in 2001. This increase in prepay churn was the consequence of the integration of Powertel, whose subscriber base was mainly prepay. The higher average churn rate compared to European operations is mainly due to a much higher prepay churn in the United States. This is caused by a different disconnection policy at

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T-Mobile USA/PowerTel. Depending on the voucher customers buy, they are disconnected 15 to 60 days after purchase of the voucher. The decrease in churn in 2002 was achieved by various customer retention and churn prevention measures started in different areas at T-Mobile USA/PowerTel and changed subscriber mix with a higher percentage of contract subscribers.

T-Mobile USA entered into an agreement with Cingular Wireless LLC (Cingular) in November 2001 to share in the ownership and operation of GSM network infrastructures in specified markets. We contributed our network assets in the New York Basic Trading Area (BTA) (the New York City market), and Cingular contributed its network assets in the Los Angeles and San Francisco Major Trading Areas (MTAs), which cover most of California and parts of Nevada (the California/ Nevada market), to a newly formed joint venture entity, GSM Facilities. Concurrent with its formation, GSM Facilities entered into operating agreements with T-Mobile USA and Cingular to manage and maintain the assets previously owned by each company on behalf of the joint venture. In July 2002, we began marketing our commercial service in and around the major population centers of the California/ Nevada market, including San Francisco, Los Angeles and Las Vegas, and Cingular began marketing its commercial service in the New York City market. The monthly cash operating expenses of GSM Facilities are charged to T-Mobile USA and Cingular based on each party's proportionate share of spectrum in each market. Through a separate reciprocal home roaming agreement, Cingular and T-Mobile USA charge each other for usage that differs from the spectrum-based expense allocations in each market. GSM Facilities also incurs non-cash expenses including depreciation on assets in the joint venture and interest charges on certain capitalized tower leases, which are allocated to T-Mobile USA and Cingular based on their relative economic interests in GSM Facilities.

The capital expenditure requirements of the joint venture are funded through capital contributions from T-Mobile USA and Cingular. Pursuant to the operating agreements, T-Mobile USA and Cingular procure services and network equipment on behalf of GSM Facilities in the respective markets in which they operate and resell them to GSM Facilities. Capital contributions to fund the expenditures by GSM Facilities are then allocated to each party based on the nature of the expenditures. Contributions to fund network capacity increases are allocated based on each party's incremental growth in network usage, while contributions to fund technology upgrades and network footprint expansion are generally allocated evenly. Under the terms of the infrastructure sharing agreement, Cingular is obligated to contribute USD 450 million for GSM Facilities' capital expenditures in addition to their share of capital expenditures over two years from inception.

Contractual termination provisions provide for an orderly unwinding of GSM Facilities over a two year period in the event of a change in control of a member, material breach or at the discretion of either member. In an unwinding, the New York City market network assets would be returned to T-Mobile USA and the California/ Nevada market network assets would be returned to Cingular, with a settlement between the members to adjust for contribution differences. Under some circumstances, an unwinding would also include the exchange of certain predetermined spectrum licenses between Cingular and T-Mobile USA, although the spectrum licenses are not held by GSM Facilities. Additionally, an unwinding caused by certain actions of either party may result in substantial cash termination payments by that party. In the event of such termination, T-Mobile USA would incur substantial capital expenditures for the subsequent build-out of a wireless network in the California/ Nevada market and to enhance the network in the New York City market.

United Kingdom

In October 1999, we purchased T-Mobile UK (formerly One 2 One), the fourth largest provider of mobile communications services in the United Kingdom, for a purchase price of EUR 10.9 billion (including the assumption of outstanding shareholder loans).

Through T-Mobile UK, we offer mobile communications services to individual and business subscribers in the United Kingdom. At December 31, 2002, T-Mobile UK had approximately 12.4 million subscribers, as compared to approximately 10.4 million at December 31, 2001. Of the total subscribers at December 31, 2002, approximately 2.2 million were contract subscribers, as compared to 1.7 million at December 31, 2001, and approximately 10.2 million were prepay subscribers, as compared to 8.7 million at December 31, 2001.

Of the total number of T-Mobile UK subscribers at December 31, 2002, approximately 2.4 million were subscribers of Virgin Mobile, a joint venture between T-Mobile UK and the Virgin Group. Virgin Mobile is a so-called mobile virtual network operator established jointly by T-Mobile UK and the Virgin Group. As a virtual network operator, Virgin Mobile purchases airtime minutes and basic mobile services from T-Mobile UK and resells these minutes and services under the Virgin Mobile brand name. For information on court proceedings between T-Mobile UK and the Virgin Group over disputes concerning Virgin Mobile, see Item 8. Financial Information Litigation.

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T-Mobile UK's average monthly churn rate during 2002 was 2.2%, as compared to 1.9% per month in 2001. While T-Mobile UK historically counted prepay subscribers as part of its subscriber base for 12 months after their last outbound call, after July 1, 2001, T-Mobile UK reduced this period to six months, which T-Mobile UK believes is more in line with competitors in the United Kingdom. This change in the churn policy caused customers to be removed from our subscriber base after a shorter period of inactivity. We expect a high rate of disconnection of prepay subscribers in the first quarter of 2003.

Austria

Through T-Mobile Austria (formerly max.mobil), the T-Mobile division offers mobile communications services to individual and business subscribers in Austria. At December 31, 2002, T-Mobile Austria had approximately 2.04 million mobile communications subscribers, slightly below the number of subscribers at December 31, 2001, due to a higher churn rate and less gross additions. Of the total subscribers at December 31, 2002, approximately 0.9 million were contract subscribers, slightly above the number of contract subscribers at December 31, 2001, and approximately 1.1 million were prepay subscribers, slightly below the number of prepay subscribers at December 31, 2001.

T-Mobile Austria's average churn rate during 2002 was 2.3% per month, as compared to 1.6% in 2001. The increase of the churn rate was due to the disconnection of a high number of prepay subscribers. T-Mobile Austria churns prepay subscribers twelve months after their last charged data/voice communication and last reload of their prepay cards.

Czech Republic

T-Mobile International holds an equity interest of approximately 92% in Cmobil, which owns an equity interest of 61% in the Czech mobile communications network operator RadioMobil. Until April 2001, Cmobil owned 49% of RadioMobil. RadioMobil has been fully consolidated in our financial statements since April 1, 2001. At December 31, 2002, RadioMobil had approximately 3.5 million subscribers, as compared to approximately 2.9 million at December 31, 2001. RadioMobil's average churn rate during 2002 was 0.9% per month, as compared to 0.5% in 2001. This is due to a rising prepay churn resulting from the high number of gross additions in 2000 and 2001. Principally, a prepay customer is churned after a period of twelve months if no originating or receiving communication is recorded.

The Netherlands

In October 2000, T-Mobile International acquired an equity interest of 50.0% minus one share in Ben Nederland Holding, B.V., whose wholly-owned subsidiary, Ben Nederland B.V. was one of five operators in the Dutch mobile communications market. The acquisition of the stake in Ben took place after T-Mobile International acquired a third generation UMTS license in the Netherlands in July 2000 in a consortium with Belgacom S.A. and Tele Danmark A/S called 3-G Blue, which subsequently merged with Ben. T-Mobile International had a shareholders agreement with Belgacom, Tele Danmark (TDC Mobile) and Gringots S.A.R.L. (Gringots), which gave T-Mobile International the right, from January 2002 through December 2005, to require Belgacom, TDC Mobile and Gringots to sell all or parts of their shareholdings in Ben to T-Mobile International. T-Mobile exercised the call option on September 20, 2002. The price per share was EUR 17.05 and all 100 million shares held by Belgacom, TDC Mobile and Gringots were acquired at a price amounting to approximately EUR 1.7 billion. T-Mobile Netherlands (formerly Ben) has been fully consolidated in Deutsche Telekom's financial statements since October 1, 2002. In addition, T-Mobile Netherlands repaid all outstanding shareholder loans from Belgacom and TDC Mobile (approximately EUR 274 million) on September 30, 2002.

At December 31, 2002, T-Mobile Netherlands had approximately 1.4 million subscribers, as compared to approximately 1.2 million at December 31, 2001. Ben's average churn rate for 2002 was 2.8% per month, as compared to 3.0% in 2001. If they have not originated or received a call for a period of 180 days, prepay subscribers at T-Mobile Netherlands are churned and removed from the subscriber base.

Poland

T-Mobile International holds a 49.0% equity interest in Polska Telefonia Cyfrowa Sp. z o.o. (PTC). At December 31, 2002, PTC had approximately 4.9 million subscribers, as compared to approximately 3.8 million at December 31, 2001. Deutsche Telekom has a contingent obligation of EUR 128 million to acquire further shares in PTC. PTC's average churn rate for 2002 was 1.6% per month, as compared to 1.8% in 2001. A PTC prepay customer is churned after a period of nine months after the expiration of a customer's

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prepay coupon. A PTC customer is able to receive calls but not originate calls after the customer's coupon has expired. For a discussion of a dispute concerning our investment in PTC, please refer to Item 8. Financial Information Litigation.

Russia

T-Mobile International holds an equity interest of approximately 36.27% in Mobile TeleSystems OJSC (MTS), a Russian mobile telecommunications company. T-Mobile International also owns a 49% stake in a Russian company that owns approximately 4% of MTS outstanding shares. At December 31, 2002, MTS had approximately 6.6 million subscribers, as compared to approximately 2.8 million at December 31, 2001. MTS's average churn rate for 2002 was 3.7% per month, as compared to 2.2% in 2001. In April 2003, T-Mobile is in the process of reducing its interest in MTS to 25.1% through sales of shares to third parties.

Seasonality

T-Mobile's business is affected by seasonal factors, with a general increase in sales of products and services in all markets during the fourth calendar quarter due to holiday purchases. As a result, T-Mobile's performance during the fourth quarter can have a significant influence on its performance for the full year.

Suppliers

T-Mobile purchases network components, as well as mobile handsets for purposes of resale, from a number of different suppliers. T-Mobile has attempted to address the risk of delays in the supply of UMTS network equipment and other technologies by using multiple suppliers where appropriate and by negotiating contractual penalties to be enforced if the supplier does not meet the agreements in time and quality. T-Mobile expects the first market release of commercially viable European Standard UMTS handsets by the fourth quarter of 2003.

Marketing

Each of the principal subsidiaries in our T-Mobile division uses its own combination of distribution channels to market products and services to customers. In each of the principal markets, third-party distributors, who typically market the products and services of multiple mobile phone network operators, play a significant role in marketing. Our mobile communications subsidiaries use a variety of incentives to encourage third-party vendors to sell T-Mobile products and services, such as payment of marketing expenses and special commissions. In addition, T-Mobile markets its products and services to retail customers through direct sales outlets, particularly in Germany and Austria, and markets products and services to business customers through a direct sales force. In Germany, an important distribution channel is our group's T-Punkt retail shops. Mobile telecommunications resellers (who purchase airtime and handsets at a discount from network operators, resell packaged services and handsets through their own distribution channels, charge their customers at rates that they set independently and provide customer service and technical support) are also an important distribution channel. In the United Kingdom, T-Mobile UK sells basic services to Virgin Mobile, a virtual mobile network operator established by T-Mobile UK and the Virgin Group, which resells these services under the Virgin brand name at rates that it sets independently. Because of the Virgin branding, customers of Virgin Mobile may not be aware that they use T-Mobile's network.

Dependence on Patents, Licenses, Industrial, Commercial or Financial Contracts

T-Mobile owns a large number of registered patents and has a number of patent applications outstanding, particularly in Germany, for technical innovations in the area of mobile telecommunications applications resulting from its development activities. We do not believe that our T-Mobile division is dependent on any one or group of patents.

To offer mobile telecommunications services in the different jurisdictions in which we operate, we require and therefore are dependent on licenses from the relevant authorities in each of these jurisdictions. For further information on those licenses, see Regulation Regulation in Germany Licensing and Notification Requirements; Allocation of Frequencies and Regulation International Regulation Different Regulatory Regimes. Some of these licenses have limited terms that expire within the next 20 years. For example, the German GSM license expires on December 31, 2009. Although T-Mobile Deutschland expects to be able to renew this license if necessary, it has no legal entitlement in this regard.

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The Austrian GSM license expires on December 31, 2015 with additional GSM licenses expiring in 2019. In the United Kingdom, T-Mobile UK has an individual Public Telecommunications Operator License that cannot be revoked without cause until May 9, 2020. Otherwise, the PTO license will remain in force indefinitely unless terminated or revoked. Ben holds a DCS 1800-licence expiring in February 2013 as well as a UMTS licence expiring in December 2016. The licence conditions do not contain extensions of the licence period. In Germany, the United Kingdom and Austria, T-Mobile holds UMTS licences expiring in 2020.

We do not believe that our T-Mobile division is dependent on any third party industrial, commercial or financial contract.

Competition

General

Competition in mobile communications is generally intense and conducted on the basis of price, subscription options offered, offers of subsidized handsets, coverage, range of services offered, innovation and quality of service.

In the past, competition in the European mobile communications market has been conducted at the national level. Increasingly, however, competition in this market is being conducted on a more international basis than in the past.

We have not acquired a UMTS license in auction or non-public tender procedures in Italy, Spain or France. It is unclear at the present time, however, to what extent ownership of a UMTS license in each of these major markets will be advantageous in comparison to other strategies for entering those markets, such as participating as a Mobile Virtual Network Operator (MVNO). A MVNO is a provider that relies on another company for its network, focusing its efforts on marketing and customer service.

We believe that the decisions by Germany, the United Kingdom, Austria, the Czech Republic and the Netherlands to auction UMTS licenses, as contrasted with the decisions to conduct non-public tender procedures in Spain and other countries, have created an uneven competitive playing field within the European Union that benefits incumbent telecommunications providers in countries where auctions were not conducted.

In Germany, the United Kingdom, Austria, the Czech Republic and the Netherlands, the rate of mobile phone penetration is quite high. As a result, growth in the number of T-Mobile subscribers in these markets is expected to be significantly lower than in past years, and the focus of competition will shift from customer acquisition to customer retention and to increasing average revenues per user by stimulating demand for new products and services. In this connection, the timely introduction of new technologies that permit faster data transmission and enhanced services is highly significant. Churn rates could rise as mobile network operators seek to acquire subscribers of other mobile network operators. While the focus of competition is shifting, we expect that competition will continue to be intense. Large numbers of subscribers in Europe have taken advantage of prepay tariff packages. Since these prepay subscribers are not bound to T-Mobile or other operators by contract, this trend may generate additional competitive pressure in the future.

The global mobile communications industry has been undergoing consolidation in recent years, which may increase competitive pressure. We expect that the crowded markets caused by the UMTS auctions will lead to further consolidation in Europe. In the United States, we expect that pressures to consolidate will increase due to the expiration of spectrum ownership limits imposed by the U.S. telecommunications regulator in December 2002. In addition, new technologies, whether introduced by us or by others, can be expected to draw subscribers from existing technologies, including those of Deutsche Telekom. The competitive dynamics of the mobile telecommunications industry therefore could change in ways that we cannot predict and that could adversely affect our financial position and results of operations.

Germany

In Germany, T-Mobile Deutschland faces intense competition from the network operators Vodafone D2 (formerly Mannesmann D2), E-Plus and mmO2 (formerly Viag Interkom). In 2002, T-Mobile Deutschland achieved again the same high level of market share compared to 2001. T-Mobile Deutschland had a market share of approximately 41.0% at December 31, 2002, while Vodafone D2 had a market share of approximately 38.0%, E-Plus had a market share of approximately 13.0% and mmO2 had a market share of approximately 8.0% at that date. The penetration rate in the German mobile communications market was approximately 71% at December 31, 2002.

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In the retail market, in addition to competition from other network operators, T-Mobil faces significant competition from resellers.

The German government awarded six UMTS licenses in August 2000, to the four existing German mobile communications network operators, the German mobile services reseller Mobilcom and a joint venture owned by Telefonica and Sonera. A significant number of subscribers on T-Mobile Deutschland's GSM network currently have customer relationships with Mobilcom. The joint venture partners Telefonica and Sonera have announced that they have abandoned their plans to enter the German UMTS market and terminated their German GSM activities in 2002. In November 2002, Mobilcom wrote down its UMTS network and license completely. According to Mobilcom, it agreed with major shareholder France Telecom to suspend the development of its UMTS business in Germany. New entrants, and agreements between new entrants and existing network operators, could cause competition in the German UMTS market to be even more intense than competition in the GSM market has been, particularly as a result of the need operators will have to recoup substantial sums expended on acquiring UMTS licenses.

North America

In the United States, T-Mobile USA/Powertel operates the smallest of the six national mobile networks in terms of subscribers. T-Mobile USA/Powertel faces intense competition in the United States mobile telecommunications market from the national mobile providers, Verizon Wireless, Cingular, AT&T Wireless, Sprint PCS and Nextel, and from some regional operators. The market share of T-Mobile USA/Powertel is approximately 7.2% at December 31, 2002, compared to approximately 5.3% per end of 2001. Most of these competitors have been operating in the U.S. mobile communications market for a considerable time prior to the entry of T-Mobile USA/Powertel's predecessors, VoiceStream and Powertel, into the market.

The U.S. mobile telecommunications market is quite different in a number of respects from the European telecommunications mobile markets. The nationwide network operators use no single communications standard. Cingular Wireless and AT&T Wireless have started to switch their networks to the GSM standard. Licenses to provide wireless services cover numerous localities, rather than the entire nation. It can be difficult for network operators to obtain the spectrum needed in some localities to expand subscriber bases, upgrade the quality of service and add new services, particularly in densely populated urban areas. On the other hand, low population density in some areas can cause problems with network efficiency and result in geographically sizeable areas with no or limited coverage. For these and other reasons, penetration levels for mobile telephony services in the United States are generally lower than penetration levels in Western European countries, with an estimated 52% mobile penetration rate as of December 31, 2002. As a result, operators in the United States market generally continue to invest heavily in order to encourage and capture growth in subscriber numbers.

United Kingdom

In the United Kingdom, T-Mobile UK faces intense competition, principally from Vodafone, mmo2 (formerly BT Cellnet) and Orange, a subsidiary of France Telecom. Vodafone had a market share of approximately 27.0% at December 31, 2002, while mmo2 had a market share of approximately 24.0%, Orange had a market share of approximately 26.0% and T-Mobile UK had a market share of approximately 24.0%. T-Mobile UK's share in 2001 was approximately 22.0%. Compared to its competitors, T-Mobile UK's customer base, including the part provided by Virgin Mobile, has a lower proportion of business subscribers. The penetration rate in the British mobile communications market was approximately 88% at December 31, 2002.

In the retail market, in addition to competition from other network operators, T-Mobile UK faces significant competition from resellers and is starting to compete with virtual mobile network operators who have entered the United Kingdom mobile telecommunications market.

In addition to the existing mobile operators, T-Mobile also faces potential competition from the launch of 3G services from 3 (a brand name of Hutchison 3G UK Limited).

Austria

In Austria, T-Mobile Austria faces competition from Mobilkom (A1), Connect Austria (One) and tele.ring. T-Mobile Austria's market share decreased to approximately 32% at December 31, 2002, compared to approximately 34.8% at December 31, 2001, mainly due to an increased churn among prepay subscribers. A1 had a market share of 42.1%, One had a market share of 20.4% and tele.ring had a market share of 5.4%

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at December 31, 2002. The penetration rate in the Austrian mobile communications market was approximately 80% at December 31, 2002.

Czech Republic

In the Czech Republic, RadioMobil faces competition from Eurotel and Cesky Mobil. At the end of 2002, Eurotel had a market share of approximately 45%, compared to approximately 46% in 2001, and Cesky Mobil had a market share of approximately 15%, compared to approximately 13% in 2001. RadioMobil had a market share of approximately 40% compared to approximately 41% in 2001. The penetration rate in the Czech mobile communications market was approximately 85% at December 31, 2002, up by approximately 17 percentage points in comparison to year-end 2001.

The Netherlands

In the Netherlands, T-Mobile Netherlands (formerly Ben) faces intense competition from KPN Mobile, Vodafone, O2 and Orange (formerly Duchtone). At December 31, 2002, KPN Mobile and Vodafone had market shares of 42% (compared to 43% at December 31, 2001) and 27% (compared to 43% at December 31, 2001), respectively. The market share of T-Mobile Netherlands increased to approximately 12% at December 31, 2002, compared to approximately 10% at December 31, 2001. Compared to its competitors, T-Mobile Netherlands has a high proportion of contract subscribers. The penetration rate in the Dutch mobile telecommunications market was approximately 76% at December 31, 2002, unchanged compared to December 31, 2001.

In the retail market, in addition to competition from other network operators, T-Mobile Netherlands is starting to compete with virtual mobile network operators who have entered the Dutch mobile telecommunications market.

T-Online

We offer Internet services in Europe for residential customers and for small and medium-sized business customers through our subsidiary T-Online International AG. T-Online International AG also offers multimedia applications and services for business customers. Our T-Online division also includes the activities of DeTeMedien, whose primary activity is the marketing of advertising in paper and online telephone directories. Beginning in 2003, DeTeMedien's activities will be included in our T-Com division.

Internet Services

General

With its combined business model of offering both access and non-access Internet services, our T-Online division aims to develop into an Internet media network. Through our subsidiary, T-Online International AG, we market a broad spectrum of online services and operate a variety of Internet portals. The T-Online division also offers a range of value-added services, such as web hosting, web organizer, e-mails, chats and international Internet roaming access.

T-Online International AG was first listed on the Neuer Markt segment of the Frankfurt Stock Exchange in April 2000 through a public offering of newly issued shares representing approximately 10.0% of its then equity capitalization. Our interest was subsequently diluted through new share issuances in connection with acquisitions to approximately 81.7%. In December 2002, we sold shares representing an additional 9.81% of T-Online International AG equity capital. As of December 31, 2002, we had a controlling ownership interest in T-Online International AG of approximately 71.9%. For information concerning our revenues, see Item 5. Operating and Financial Review and Prospects Segment Analysis T-Online.

Access business

With more than 12.2 million subscribers, T-Online International AG is one of the largest European Internet service providers, based on revenues and number of subscribers. T-Online International AG retained its leading position on the German market with 9.96 million subscribers at the end of 2002. In keeping with T-Online division's growth strategy, its international subsidiaries T-Online France in France, Ya.com in Spain and T-Online.at in Austria also capitalized on the expansion of the broadband market to increase their customer base. Key growth drivers for the access business were user-focused Internet access services, a broad

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range of free and pay value-added services for residential and corporate customers, and the expansion of the portal offerings through the introduction of broadband dedicated portals in France and Spain.

Subscribers	At December 31,				
	2002	2001	2000	2002/2001	2001/2000
	(thousands)			(% change)	
Germany	9,962	8,764	6,529	13.7%	34.2%
France	1,031	778	581	32.5%	33.9%
Spain	1,004	892	677	12.6%	31.8%
Others	248	225	153	10.2%	47.1%
	12,245	10,659	7,940	14.9%	34.2%

The systematic marketing of DSL-enabled broadband services drove Internet access subscriber growth in 2002. At December 31, 2002 the number of T-DSL subscribers in Germany had increased to 2.6 million. An important factor influencing the growth of the T-DSL subscriber base was T-Online's usage-based tariff-rate policy. In addition to the T-Online dsl flat rate option (used by roughly two thirds of DSL users), T-Online offers a number of different volume-based rates. The entry-level tariff T-Online dsl 1000 MB, for example, is a broadband package aimed at less active Internet users mainly interested in surfing the Web, chatting online and sending e-mails. Special rate options were also introduced for residential and business customers.

Internet Media and Content

Since 2000, T-Online International AG has focused on becoming Europe's leading Internet media network. In this context, T-Online International AG developed its own portal into a multi-access theme portal (featuring, for example, games, music, sports and movies) and entered into new cooperation agreements with Burda People Group, Axel Springer Verlag and F.C. Bayern Muenchen concerning content. The goal of these measures is to increase the amount and quality of the content provided on T-Online's portals and to thereby increase the time spent on them by visitors.

The availability of multimedia information and entertainment services is likely to shape the future success of the broadband market. T-Online International AG bundled such services together to form T-Online Vision, which went live at the CeBIT 2002 telecommunications trade fair in Hannover. This broadband portal broadcasts live shows, movie trailers, music videos and TV formats. Our wide-ranging broadband strategy, which extends to entertainment content, helps to distinguish T-Online International AG from its competitors.

As previously noted, T-Online International AG entered into cooperation agreements with established content providers in 2002. One of these has been bild.t-online, a joint venture with publishing house Axel Springer, which went live in May 2002 and is now Germany's most popular general interest portal. The portal had received in the region of 250 million hits by the end of the year under review. T-Online also extended its lifestyle content through an agreement with the magazine Bunte, which resulted in the launch of the joint portal www.bunte.t-online.de.

Cross-media availability of content is a key success factor in the future expansion of our content offering. Our German customers already enjoy access to T-Online content over narrowband and broadband wired and wireless connections. This will be extended to include access via television. Launched in June 2002, our multi-access portals are designed to guide the user through the content maze. More than 100 new information and entertainment links were presented at the launch of the new multi-access theme portals news, finance, sports, games, music and movies.

In January 2002, T-Online International AG launched its first paid-content service. By the end of the year, the company was offering more than 3,000 content items in more than 100 different categories. The billing arrangements between T-Online International AG and its customers (through Deutsche Telekom) are crucial to the successful development of the emerging paid-content market. Paid-content premium services evolved into a strategic cornerstone for the T-Online division in 2002. These services are billed on a monthly or pay-per-use basis. Around 250,000 customers signed up for T-Online premium services in the year under review. A further 450,000 users subscribed on a pay-per-use basis.

International Internet Activities

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The T-Online division took a significant step in the development of its international business in March 2000, when T-Online International AG acquired a 99.9% equity interest in T-Online France, the online

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service business of the French Lagardère group, in exchange for 5.69% of T-Online shares (after giving effect to the listing of T-Online shares that took place in April 2000 and to the acquisition of an interest in comdirect bank). T-Online France, known under the name of Club Internet, concentrated on expanding its broadband business last year. T-Online France had approximately 1,031,000 subscribers in France at December 31, 2002. With over 100,000 DSL subscribers, T-Online France is currently France's second largest internet service provider in ADSL business.

In October 2000, T-Online International AG acquired Ya.com, a leading Spanish Internet service provider, in exchange for cash and approximately 1.25% of T-Online shares. Ya.com had approximately 1,004,000 customers in Spain at December 31, 2002.

Regulation

T-Online is not subject to regulation of tariffs under the German Telecommunications Act. However, Internet subscribers are indirectly affected by regulation of tariffs, as wholesale costs include charges for telecommunications services that are regulated by that Act.

Competition

The German and European markets for Internet access and portal services have been and will continue to be very competitive. In the market for Internet access services, competition occurs on multiple fronts, including pricing, brand recognition, network speed and reliability, customer support and timely introduction of new products and services. The regulatory environment can also exert a significant influence on the level of competition in this market. For Internet access providers, the terms on which they and their customers are able to secure telecommunications network services from carriers are important factors in the development of the market, and these services are generally regulated to promote competition. In the market for portal services, we face competition from websites maintained by Internet service providers, Internet information retrieval services, online community websites, homepage services, e-Commerce retailers and shopping portals, as well as from traditional medias, including newspapers, magazines, radio and television.

Publication

The main focus of DeTeMedien's business activities is the marketing of advertising in paper and online telephone directories and the publication and distribution of telecommunications directories in Germany in cooperation with small and medium-sized publishing companies. The products Das Telefonbuch (the telephone book), GelbeSeiten (yellow pages), GelbeSeiten regional (regional yellow pages) and DasÖrtliche (white pages), are published via different channels, such as print, online and mobile. DeTeMedien receives most of its revenues from advertisements contained in these products.

DeTeMedien and its publishing partners are market leaders in Germany for directory media. In recent years, DeTeMedien's products have been subject to increasing pressure from competitors.

Other Activities

As part of our four-pillar strategy, we assigned our telecommunications industry activities to our four corresponding divisions. Our Other Activities segment focuses on cross-division management functions and consists mainly of our administration and operations of our headquarters, including the treasury function and certain shared services relating to our divisions that are combined for greater cost efficiencies. The shared services include, among others, the administration of our owned real estate within Germany, domestic billing services, domestic fleet management, domestic training center and the Personnel Services Agency (PSA) relating to employee transfer and relocation. Furthermore, the segment Other Activities also includes some competence centers and various shareholdings including minority interests in certain foreign entities. The shares of T-Mobile International AG & Co. KG (formerly T-Mobile International AG), T-Online International AG and T-Systems International GmbH are also included in Other Activities.

As part of the repositioning of our divisions, our interests in our Eastern European subsidiaries MATAV, Hrvatski Telecom and Slovak Telecom have been consolidated in the T-Com division as from January 1, 2002. Furthermore, our subsidiaries in New York, Tokyo, London and Singapore, which were to a large extent sales and marketing operations of the T-Systems divisions, were transferred from Other Activities to the T-Systems division from January 1, 2002.

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Activities in Germany

The real estate unit generated the largest proportion of the revenue of the shared services within the segment Other Activities. The real estate unit is responsible for renting and selling commercial real estate and for providing facility management services for our own and third-party-owned real estate. For more information with respect to our real estate management activities and portfolio, see Description of Property Real Estate.

Billing services is another centrally organized service unit. This unit provides billing services for our divisions within Germany (except T-Mobile), and also for certain third party carriers that use our telecommunications networks.

Our fleet management company DeTeFleetServices GmbH was established in July 2002 to capitalize on synergy effects. It manages a fleet operation of approximately 40,000 vehicles throughout all our divisions in Germany. It operates as a full-service provider in the field of fleet management and mobility services.

In connection with our job reduction program, our recently established Personnel Service Agency (PSA) employs displaced workers, and trains and equips them with other employment qualifications for redeployment within the Deutsche Telekom group or other companies, or for project or temporary assignments. By December 31, 2002, the PSA was responsible for the equivalent of approximately 1,700 full-time employees. Approximately 150 of these employees were involved in the administration of the PSA. For more information, see Item 6. Directors, Senior Management and Employees Employees and Labor Relations Other Employees.

Our treasury unit is primarily responsible for cash management and investments in securities, for leasing arrangements and the refinancing of indebtedness through a variety of financial arrangements, including, among other things, bank loans and other credits, as well as the issuance of credit in the capital markets, the handling of payments and clearing transactions, and foreign exchange and hedging activities.

Our Telekom Training Center is responsible for providing training and qualification services and the performance of vocational and professional training for employees within Germany.

Also included in the segment Other Activities is T-Venture Holding GmbH (T-Venture). This holding company invests in young, innovative technology companies that operate in the T.I.M.E.S. (Telecommunications, IT, Multimedia, Entertainment/ Electronic Business and Security) markets. T-Venture also invests in venture capital funds in North America, Europe, Asia and Israel. During the fourth quarter of 2002, we decided to reduce our level of investing activities due to market conditions. Please refer to Innovation Management (Research and Development) for more information.

The segment Other Activities also includes the establishment and maintenance of international property rights for the Deutsche Telekom group, including the T-Mobile, T-Online and T-Systems brands.

In December 2002, the segment Other Activities sold 120 million shares of T-Online International AG to institutional investors for net proceeds of EUR 706 million, reducing its shareholding in our T-Online subsidiary to 71.9%. Additionally, during 2002, we sold all of our remaining shares of France Telecom for approximately EUR 294 million, and our remaining 25% interest in Satelindo for USD 325 million (EUR 321 million).

International Activities

The international activities of the Other Activities segment have decreased considerably as a result of the transfer of certain foreign shareholdings to our other divisions. Since January 1, 2002, the remaining international activities included in Other Activities are our minority shareholdings in South-East Asia.

We currently indirectly hold an 8% minority interest (diluted from 21% during 2002) in the Malaysian telecommunications provider Celcom (Malaysia) Berhad. Celcom is number two in the Malaysian mobile business market, had approximately 1.8 million customers, and generated revenues of approximately USD 632 million (EUR 671 million) in 2002. We apply the cost method to account for this investment.

We also currently indirectly hold a 20% preferred stock interest and directly hold a 25% minority interest in the common stock of Globe Telecom, the leading national mobile communications and fixed-line network operator in the Philippines. Globe Telecom had approximately 6.8 million customers, and generated revenues of approximately USD 888 million (EUR 943 million) in 2002. We apply the cost method to

account for these investments.

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Innovation management focuses on innovation strategy, research and development, product lifecycle management, patents and T-Venture. Our research and development activities are performed primarily in the divisions and are coordinated centrally.

Research and Development Expenditure

In 2002 we incurred approximately EUR 0.9 billion of research and development costs. Of this amount, approximately EUR 77.1 million was invested in cross-divisional medium and long-term product-oriented projects under central innovation management. The divisions themselves invested approximately double this amount in product development. Expenditure for preliminary product-related R&D was therefore at a similar level as in 2001. Approximately EUR 643 million was invested in the development and upgrading of the necessary software systems and architectures, an amount similar to that invested in 2001. Approximately 6,900 employees were involved in these projects, working to create new products and offer them efficiently to the customers of the group. This represents 9% fewer employees than in 2001.

Patents

A total of 547 patent applications were submitted by us in 2002. The number of applications for software patents was higher in 2002 than in 2001. At the end of 2002, we held approximately 4,500 industrial rights. Many of these industrial rights have been strategically implemented within the company and marketing of some of them to third parties has begun.

T-Venture

T-Venture invests in young, innovative technology companies with above-average growth potential in markets of commercial interest to us. Furthermore, T-Venture invests in venture capital funds in North America, Europe, Asia and Israel. An objective of the investment program is to tap into innovative technologies at an early stage. T-Venture invested a total of EUR 10.6 million in the 2002 financial year. There was a decrease in investment activities attributable to the unfavorable prevailing market conditions, which also adversely affected existing investments and activities. Many of the companies in T-Venture's portfolio did not achieve their own targets. This led to valuation adjustments in the case of some shareholdings. Certain companies were forced to file for insolvency. At December 31, 2002, T-Venture's portfolio consisted of forty-one direct shareholdings in companies and nine shareholdings in venture capital funds with an aggregate carrying value of the assets of EUR 64.4 million.

ACQUISITIONS AND DIVESTITURES

As part of our strategic plans, we intend to sell certain non-core assets in order to reduce our indebtedness and improve liquidity. We have sold the assets listed in the table below and we have announced plans to sell, in whole or in part, certain other non-core assets including various real estate assets in Germany. In addition, we are in the process of reducing our stake in MTS. See Description of Business Divisions T-Mobile Principal Markets Russia. The following list contains each of the principal acquisitions and dispositions made by us since January 1, 2000.

Year	Segment	Event	Amount
			(billions of euro)
2003	T-Com	Sale of six regional cable companies	1.7
2002	Other	Sales of real estate	1.3
2002	Other	Sale of shares in T-Online International AG to institutional investors	0.7
2002	T-Systems	Asset-backed securitization transaction	0.3
2002	Other	Sale of interest in Satelindo	0.3
2002	Other	Sale of interest in France Telecom	0.3
2002	T-Mobile	Exercise of call option to acquire 51% of Ben Nederland Holdings B.V.	(1.7)
2002	T-Systems	Acquisition of remaining 49.9% of debis Systemhaus	(4.7)
2001	T-Com	Sale of receivables in an asset-backed securitization transaction	1.4
2001	Other	Sale of real estate	0.7
2001	T-Com	Sale of interest in regional cable television company for Baden-Wuerttemberg	0.9

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Year	Segment	Event	Amount
			(billions of euro)
2001	Other	Sale of interests in Sprint, FON and PCS	3.4
2001	Other	Sale of interest in WIND (net of withholding tax)	2.1
2001	T-Com	Acquisition of interest in Hrvatske telekomunikacije (Croatia)	(0.5)
2001	T-Mobile	Acquisition of T-Mobile USA and Powertel	(33.8)*
2001	T-Mobile	Acquisition of interest in RadioMobil	(0.6)
2001	T-Com	Acquisition of interest in Macedonia Telecom (Maktel)	(0.3)
2000	Other	Sale of Logistic center	0.4
2000		Sale of interest in the regional cable television companies for North Rhine-Westphalia and Hesse	3.0
2000	Other	Sale of interest in Global One	2.9
2000	T-Mobile	Acquisition of UMTS licenses in Germany, UK and Austria	(15.3)
2000	T-Mobile	Initial investment in T-Mobile USA	(5.6)
2000	T-Com	Acquisition of interest in Slovenske Telekomunikacije	(1.0)
2000	T-Mobile	Acquisition of interest in Ben Nederland Holdings BV	(1.1)
2000	T-Com	Acquisition of interest in MATAV	(2.3)
2000	T-Online	Acquisition of Club Internet	(1.9)*
2000	T-Online	Acquisition of interest in comdirect	(0.7)*
2000	T-Online	Acquisition of ya.com	(0.4)*
2000	T-Mobile	Acquisition of interest in PTC	(1.1)
2000	T-Com	Acquisition of interest in Westel 900 (Media One)	(1.0)

* amount invested includes market values of shares exchanged

REGULATION**Regulation in Germany***Liberalization*

The legal framework for the regulation of the telecommunications sector in Germany was completely transformed through the German Telecommunications Act, which came into force on August 1, 1996. The Telecommunications Act required the complete liberalization of the German telecommunications market by January 1, 1998, as mandated by the directives of the EU Commission. This represented the final step in the liberalization effort that began in 1989. The following sections refer to the present framework, which is under legislative review. Following the adoption of the new European Union regulatory framework, amendments to many of the laws and regulations described herein may be passed. For further information about the new European Union Regulatory Framework, see [The European Union Regulatory Framework](#) New Regulatory Framework. A first draft of the new Telecommunications Act by the German Economics Ministry was distributed among market participants in February 2003. For further information, see [Special Requirements Applicable to Market-Dominant Providers](#).

The Regulatory Framework

The Telecommunications Act allows virtually unrestricted market access by qualified entrants. The principal objectives of the Telecommunications Act are to promote competition in the telecommunications sector through regulatory measures, to guarantee appropriate and adequate telecommunications services throughout Germany and to provide for the regulation of frequencies. The Telecommunications Act aims to achieve these objectives principally by requiring licenses for the conduct of certain telecommunications activities, allocating frequencies, securing universal service and subjecting enterprises having dominant positions in particular telecommunications markets (so-called market-dominant providers) to a special regulatory framework.

Regulatory Supervision

Since January 1, 1998, the Regulatory Authority for Telecommunications and Posts (*Regulierungsbehoerde fuer Telekommunikation und Post*) (the German telecommunications regulator), a supervisory body established within the German Economics Ministry (*Bundesministerium fuer Wirtschaft und Arbeit*) has

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carried out regulatory functions under the Telecommunications Act. The German telecommunications regulator has various powers under the Telecommunications Act, including the authority to grant and revoke licenses, control network access and interconnection, and approve or review the tariffs and tariff-related general business terms and conditions of market-dominant providers. It also has the authority to assign and supervise frequencies and to impose universal service obligations.

The German telecommunications regulator is supported by an Advisory Council (*Beirat*) consisting of nine representatives of each of the two houses of the German Parliament, but the matters with respect to which the Advisory Council must be consulted are very limited. The Advisory Council is involved in, among other things, decisions concerning license auctions regarding scarce frequencies and decisions obligating a licensee to provide universal service. The Advisory Council need not, however, be consulted with regard to tariff decisions. A president and two vice-presidents who are nominated by the German Government upon the proposal of the Advisory Council head the German telecommunications regulator.

Licensing and Notification Requirements; Allocation of Frequencies

The Telecommunications Act establishes licensing requirements for the following activities:

the operation of transmission lines for mobile telecommunication services for the public (Class 1 licenses),

the operation of transmission lines for satellite services for the public (Class 2 licenses),

the operation of transmission lines for public telecommunications services (Class 3 licenses), and

the provision of voice telephony services to the public on the basis of self-operated telecommunication networks (Class 4 licenses).

Generally, except in the case of scarce telecommunications frequencies, the number of licenses is not limited, and each applicant satisfying basic qualification requirements is entitled to receive a license. In applying for a license, an applicant is required to specify the geographic scope and the type of activity subject to license. Conditions and obligations may at any time be attached to a license to promote the achievement of the objectives of the Telecommunications Act.

A number of telecommunications services, such as text and data transmission services over leased lines, voice services for corporate networks and closed user groups, and the simple resale of voice telephony services, are not subject to licensing requirements. However, any entity providing telecommunication services is required to notify the German telecommunications regulator of its operations.

By law, frequencies are to be allocated upon request on a non-discriminatory basis according to objective and verifiable criteria. Licenses may be awarded by auction or competitive bidding if the German telecommunications regulator determines that frequencies are not available in sufficient quantity for all applicants or if multiple applications are submitted for the same frequency. The German telecommunications regulator may exclude a company from taking part in an auction or competitive bid for licenses or frequencies if the success of that company in an auction or bid would endanger competition based on principles of equal opportunity. The German telecommunications regulator may also deny approval of an application to transfer a license on the same basis, regardless of whether scarce frequencies are involved.

Payment of an initial license fee or frequency fee is required of parties to whom licenses or frequencies have been granted or allocated. In addition, parties to whom frequencies have been assigned are required to make annual contributions to cover the costs incurred by the German telecommunications regulator in planning and administering efficient and interference-free frequency usage.

The level of licensing fees raised pursuant to the Licensing Fees Ordinance is presently the subject of court proceedings, which are expected to lead to lower licensing fees. On the other hand, a new fee ordinance is currently under discussion that would establish additional fees that depend on the revenues of the regulated company, to cover the costs of regulation. The details of this new fee ordinance still remain open. For further information in this regard, see The European Union Regulatory Framework.

In applying for a license under the Telecommunications Act, the applicant generally has considerable flexibility in choosing the scope and geographical range of the products and services it wishes to offer. Even if a licensee is granted a license covering all of Germany, it generally may choose to provide only those service and geographic combinations that offer the best business opportunities. This flexibility is limited, however, to the extent that the applicant is required to provide universal services, as described below under the heading Universal Services.

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Special Requirements Applicable to Market-Dominant Providers

General

Market-dominant providers and their affiliates are subject to special rules and obligations, including most importantly:

the prior approval or retrospective review of tariffs and related business terms and conditions by the German telecommunications regulator, insofar as such tariffs relate to a market in which the provider is dominant. See Pricing.

the obligation to offer competitors, on the basis of unbundling, special network access (including interconnection) as well as access to essential services and facilities used by the market dominant provider internally on a non-discriminatory basis. See Special Network Access and Interconnection.

potentially, the obligation to provide universal services in a market. See Universal Services.

the possible inclusion of restrictive conditions in licenses, such as, in the case of scarce frequencies, a condition not to combine with another provider in the same market or the rejection of bids for licenses and frequencies in case of scarce frequency capacity to the extent that equal competition on the relevant market is endangered.

In addition, market-dominant providers must maintain segregated accounting systems to allow for transparency in dealings among their various licensed telecommunications services, and between such services and license-free services, in order to prevent, among other things, the cross-subsidization of services. In this regard, the German telecommunications regulator may specify the structure of internal accounting for particular telecommunications services subject to licenses. Furthermore, under general competition law principles, market-dominant enterprises, as a rule, are required to refrain from abuses of their dominant positions. See Competition Law.

Market dominance under the Telecommunications Act is determined by reference to the German Act Against Restraints on Competition (*Gesetz gegen Wettbewerbsbeschaenkungen*). This Act provides, among other things, that a company is rebuttably presumed to have a dominant position if its share equals or exceeds one-third of a relevant market. For information regarding a proceeding on the European Union level relating to this issue, see The European Union Regulatory Framework. The definition of the relevant product and geographic market and the determination that a company is market-dominant under the Telecommunications Act are made by the German telecommunications regulator in agreement with the German federal competition authority.

We believe that for some time to come the German telecommunications regulator is likely to view us as holding a dominant position in the German market for public voice telephony services in the fixed network and in other markets, including most of those in which we had monopoly rights in the past. As a result, we expect that the provisions of the Telecommunications Act relating to the regulation of market-dominant providers will be applied to our activities in those markets. Considering that in many markets our competitors are unlikely to reach dominant positions in the near future, we expect that for some period of time we will have to compete in significant markets with providers not subject to the requirements applicable to market-dominant providers. These competitors may therefore have more flexibility than we have in terms of the selection of services offered and customers served, pricing and the grant of access to their networks. The definition of a market in which dominance exists requires a number of judgments, and is subject to change as competitive conditions further develop.

In December 2002, the German federal government commented on the reports of the German telecommunications regulator and the Monopoly Commission (*Monopolkommission*) regarding the development of competition in the German telecommunications market. The German federal government noted a continuing lack of competition in many areas of the fixed telephony market but clearly stated that regulation should be reduced where markets are competitive. The German federal government also stated that the economic justification for wholesale regulation does not apply to the extent that wholesale products are losing their character as bottlenecks to competition because our competitors are able to make retail offers based on these products.

In February 2003, the Economics Ministry distributed a first draft of the new Telecommunications Act to take account of the changed market conditions in Germany and the new European Union regulatory framework. Our first assessment of the draft reveals the risk of more extensive and intensified regulation. The

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Ministry has not used the opportunities for deregulation currently offered by the by the new European Union regulatory framework. Instead, compared to the present Telecommunications Act, the draft proposes vast discretionary powers for the German telecommunications regulator and a more limited scope for judicial review. These negative aspects currently outweigh positive aspects of the draft, like the possible future treatment of specific markets under general competition law and the limitation of regulatory intervention regarding mobile markets. It cannot be predicted at this time how the proposed amendments of the first draft will influence specific market segments. Overall, the amendments could have a considerable negative impact on our results of operations if enacted in the present form. We are continuing to discuss the draft legislation with the Economics Ministry and other market participants. If adopted by the German parliament in the summer or fall of 2003 based on an official draft expected in April, the new Telecommunications Act is expected to become effective at the end of 2003 or the beginning of 2004.

Pricing

Under the Telecommunications Act, tariffs and tariff-related business terms and conditions for the telecommunications services of market-dominant providers and their affiliates are subject to special regulatory oversight and control insofar as they relate to a market in which such dominance is determined to exist. Other tariffs are essentially unregulated under the Telecommunications Act. The tariffs of all providers in Germany are, however, subject to European and German law of general application, including competition and consumer protection laws and ordinances. In addition, tariffs for universal services must be set at an affordable price. See Universal Services.

The Telecommunications Act distinguishes between tariffs that require prior regulatory approval and tariffs which do not require prior approval, but which are subject to retrospective review. Prior approval is required for the tariffs of a market-dominant provider in the areas of public voice telephony services, the operation of transmission lines for telecommunications services to the public, and access and interconnection services. All other tariffs including tariffs in respect of mobile telephony, subscription fees for cable transmission services and fees for satellite services may be put into effect without prior approval. However, in markets in which a provider is considered to have a market dominant position, such tariffs are subject to retrospective review to the extent that facts become known that indicate that the tariffs are inconsistent with the Telecommunications Act.

Prior Approval of Tariffs

The Telecommunications Act provides for two basic approaches to prior approvals of tariffs: a price-cap approach and an approach involving individual approvals based on an assessment of the costs of providing a particular service (the cost-based approach). The Tariff Regulation Ordinance (*Telekommunikations-Entgeltregulierungsverordnung*) provides that priority is to be given to the price-cap approach. The cost-based approach applies to tariffs for services that under the regulation may not be, or are not, combined in a basket together with other services in accordance with the price-cap approach.

Tariffs may not be approved if they (1) contain surcharges which prevail solely as a result of the applicant's market-dominant position, (2) include discounts which prejudice the competitive opportunities of other companies in a telecommunications market or (3) discriminate among customers for the same or similar services in a telecommunications market, unless such surcharges, discounts or discriminatory features are objectively justified.

Price-Cap Approach. Under the price-cap approach, the German telecommunications regulator establishes baskets of services, lays down an initial price benchmark for each basket and limits tariffs for the blend of services within that basket through the use of a price-cap formula. This formula allows for price increases or requires price decreases from the initial benchmark level based on the general inflation rate, reduced by an amount that reflects expected productivity improvements. In establishing the price-cap formula, the German telecommunications regulator is required to consider a range of factors, including the relationship of the initial tariff levels to the costs of efficient service provision and the productivity improvements being achieved by other enterprises in similar markets. The price-cap formula has the effect of requiring the affected company to reduce, or limiting the extent to which it can increase, the aggregate tariffs for services within a basket.

The price-cap approach to tariff regulation has been applied to voice telephony services to the public. In 1998, the German telecommunications regulator established a price-cap regime that was applicable to the years 1998 through 2001 and that was divided into two two-year periods. The price-cap regime required tariff reductions in each two-year period that reflected an expected productivity improvement of 6% minus an

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estimate of consumer price inflation. In 2001, the German telecommunications regulator established a new price-cap regime that is applicable to the years 2002 through 2004 that is divided into three one-year periods. The new price-cap regime calls for price reductions in each one-year period reflecting productivity improvements of 1% minus a measure of inflation. On December 19, 2002, the German telecommunications regulator approved the details of the price-cap regime until April 31, 2004, including a price increase for analog retail telephone lines of EUR 0.33, rather than EUR 0.99 as aimed at by us based on the assessment of the market situation. The German competition authority has criticized the decision, as it does not sufficiently consider the remaining gap between wholesale and retail line charges in Germany.

Cost-Based Approach. Tariffs requiring prior approval that are not dealt with under a price-cap are based on the costs of efficient provision of the relevant service. The German telecommunications regulator bases its determination of the costs of efficient service provision on the long-term incremental costs of providing a particular service, with an additional amount in respect of overhead costs (including an appropriate return on capital employed), to the extent such costs are necessary for the provision of the service. The applicant is required to submit extensive documentation as to its costs and the methods and parameters on which its determination of costs is based in respect of the service in question. The German telecommunications regulator in general has broad discretion, however, in deciding whether to accept an applicant's attribution of costs to a particular service. In recent years, in determining tariffs under the cost-based approach, the German telecommunications regulator has declined to take into account costs that we believe were properly attributed to the service in question. Discussions continue concerning the appropriate methodology to be used in the calculation of the long-term incremental cost of the services subject to cost-based pricing.

Retrospective Review of Tariffs

All tariffs of market-dominant providers in markets in which such dominance occurs are subject to retrospective regulatory examination, even if the tariffs were initially subject to prior approval. The German telecommunications regulator must initiate examination proceedings if it becomes aware of facts indicating that tariffs that were initially subject to prior approval contain discounts or discriminatory features that are not objectively justified and may ultimately object to such tariffs and declare them to be invalid. In addition, with tariffs not subject to prior approval, the German telecommunications regulator may initiate examination proceedings if it becomes aware of facts indicating that such tariffs contain surcharges, discounts or discriminatory features that are not objectively justified. The German telecommunications regulator may object to such tariffs and declare them invalid.

In 2001, the German telecommunications regulator decided that the rates for external telecommunications services for closed user group members are subject to regulatory approval. We initiated legal proceedings that are still pending. For further information in this regard, see Item 8. Financial Information – Litigation.

In December 2002, the German telecommunications regulator imposed upon us the obligation to raise our contractually-agreed rates with two closed user groups. The German telecommunications regulator decided that part of the tariff structure does not comply with cost-based standards. The application of such standards in this case endangers the competitiveness of our services in this market and could lead to a material loss in market share. We initiated legal proceedings that are still pending. For further information in this regard, see Item 8. Financial Information – Litigation.

Special Network Access and Interconnection

The Telecommunications Act imposes specific obligations concerning access to networks and interconnection. The Network Access Ordinance (*Netzzugangsverordnung*) under the Telecommunications Act provides details concerning these obligations and specifies the manner in which special network access (including interconnection) is to be accomplished.

General Principles and Practice

Every operator of a public telecommunications network, irrespective of the operator's market position, is obligated, upon request, to make an offer to other network operators for interconnection to its network. If the parties cannot reach an agreement on such interconnection, the German telecommunications regulator will order the interconnection upon application of one of the parties. To date, numerous interconnection orders have been issued. The contents of all agreements on special network access must comply with certain requirements of the Network Access Ordinance.

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Provisions Applicable to Market-Dominant Providers

A network operator that offers telecommunications services to the public and is a market-dominant provider in a particular market must allow every user access to its network or parts thereof. Such access may be granted via connections provided for all users (general network access) or via special connections (special network access), which includes the interconnection of networks. Limitations on access may be based only on the essential requirements set forth in the Open Network Provision Directive of the European Union, which include the preservation of the security of network operations, the maintenance of network integrity, the interoperability of services and the protection of data.

A provider dominant in a market for telecommunications services to the public must also grant to competitors active in the same market access to essential services it uses internally for the provision of such services. Such access must be provided under the same conditions it applies to itself, unless the offer of different conditions can be objectively justified.

A market-dominant provider generally is required to unbundle its services for special network access, and must therefore offer its internally used essential services, including transmission, switching and operational interfaces, in such a way that other users need not purchase services they do not want. In addition, a market-dominant provider generally is obligated to allow other network operators to use transmission, switching and operational interfaces to its network on its premises on the same conditions it applies to itself.

Agreements on special network access (including interconnection) must be provided to the German telecommunications regulator immediately following their execution. Conditions in such agreements must be based on objective criteria, be comprehensible and guarantee equal access.

Fixed-Fixed Interconnection

The German telecommunications regulator approved the current interconnection pricing level in October 2001 and in November 2002. The interconnection tariff system that has applied since January 2002 is based on the element-based system, which is the international norm. Under an element-based interconnection tariff system, the tariff for transmission of traffic is based on the number and type of network elements used in transmission and not on the distance over which the traffic is transmitted. The actual prices of our interconnection services are among the least expensive tariffs in Europe.

We are planning to seek approval from the German telecommunications regulator in September 2003 for the regulated fixed-fixed interconnection tariffs for the time period starting December 1, 2003. In the past, when making decisions regarding interconnection rates, the German telecommunications regulator has declined to take into account costs that we believe should have been taken into account. The German telecommunications regulator generally has broad discretion in this regard.

On October 12, 2001, the German telecommunications regulator reached a decision regarding the implementation of element-based interconnection fees. The effect of this decision would be to require us to lower our interconnection rates by an average of approximately 14%. This would permit our competitors to lower their prices for fixed-line international and domestic long-distance calls. This decision, by its terms, took effect on January 1, 2002. We initiated legal proceedings that are still pending. For further information, see Item 8. Financial Information Litigation.

Mobile-Fixed Interconnection

Termination rates for our fixed network are independent of the traffic source. Thus, the same standard interconnection offers are offered to mobile operators and alternative fixed network operators. The German mobile operators do not offer call origination, so the retail pricing for mobile originated calls remains exclusively with the respective mobile operator.

Fixed-Mobile Interconnection

After major price cuts in the first half of 1998 of about 30% and in 2000 of about 45%, national termination rates of the German GSM mobile network operators have remained stable since the beginning of 2001. In March 2003, the rates of T-Mobile Deutschland and Vodafone D2 are the lowest nationwide, followed by E-Plus and O2 Germany. The new UMTS operators Mobilcom and Quam, who operate GSM via roaming on the E-Plus network, had the highest termination rates in 2002. Quam has ceased operation as of

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November 2002. Higher termination rates for younger mobile operators are a common pattern in the European Union.

We are required to offer to interconnection partners access to all German mobile operators at regulated rates. These rates consist of the termination rate paid to the mobile operator plus an amount for transport within the fixed network at the level of fixed interconnection rates. As mobile operators have interconnected with each other and allow for direct termination of alternative fixed network operators, the above transit service has lost its former bottleneck character. However, the German regulator still insists upon prior approval of these rates.

Since November 2002, specific mobile number prefixes are no longer allocated exclusively to each individual mobile operator. Rather, a mobile customer may keep his mobile number when changing the operator. In this case, the former mobile operator forwards the traffic directly to the new operator. Though in some of these cases a relatively small extra charge for the network transit is levied, such mobile number portability has no significant impact on mobile termination rates.

Local Loop Access

As indicated above with regard to special network access, market-dominant providers are obligated to unbundle their service offerings to the extent demanded by their competitors in a public telecommunications market unless the market-dominant provider can demonstrate that unbundling is not objectively justified under the particular circumstances. In light of this obligation, various competitors have asked us to provide unbundled access to our subscriber lines (i.e., the local loop). By allowing competitors to connect to customer access lines in local networks, unbundling of the local loop allows competitors to gain direct access to subscribers without having to build local networks of their own. In this way, competitors are able to use our customer access lines to offer a wide range of local services directly to the customer.

In February 1999, the German telecommunications regulator approved a monthly rate of DM 25.40 (EUR 12.99) for access to a two-wire copper line. At the same time, the German telecommunications regulator approved one-time installation fees and a fee for terminating a lease of a two-wire copper line of DM 107.70 (EUR 55.07). These rates were considerably lower than the rates requested by us, since the German telecommunications regulator did not take into account a number of costs that we believed should have been taken into account. We and some of our competitors initiated legal proceedings that are still pending. For further information in this regard, see Item 8. Financial Information Litigation.

On March 31, 2001, the rates that we were permitted to charge for unbundled access to the local loop expired. In a decision of March 30, 2001, the German telecommunications regulator reduced the monthly line rental charge of DM 25.40 (EUR 12.99) for the unbundled copper pair to DM 24.40 (EUR 12.48) as of April 1, 2001. This new price was valid until March 31, 2003. We and certain of our competitors initiated legal proceedings that are still pending. For further information in this regard, see Item 8. Financial Information Litigation.

In February 2003, we had applied for a monthly line rental charge of EUR 17.40 (DM 34.03), as we believe that the actual costs incurred are higher than the costs recognized by the German telecommunications regulator. In addition, in April 2002, a decrease in charges was also ordered for one-time installation charges as well as charges paid for cancellation of phone service. The new price of the most frequently demanded installation, the simple transfer of a two-wire copper pair without additional work at the customer's premises, is equal to EUR 70.56. Decisions made on these charges will expire on June 30, 2003.

Since January 2001, we have been obligated by standing European Union regulation to make line sharing offers. In March 2002, the German telecommunications regulator issued a decision establishing a monthly price of EUR 4.77 and a one-time connection fee of EUR 85 for this offer. One of our competitors has filed a complaint against this decision. The proceedings are pending.

Due to sharply increased demand from other telecommunications carriers for local loop access, a backlog has developed in our filling of orders for local loop access. We have been ordered by the German telecommunications regulator to make offers of local loop access to other carriers that include, among other things, a commitment to faster provision of local loop access. In July 2002, the German telecommunications regulator set rules for fair access to the unbundled local loop within our network. The German telecommunications regulator introduced penalties in order to enforce the time limits set for the provision of local loop access. In addition, the German telecommunications regulator stated that we must offer access to electronic information systems in the correspondence of subscriber addresses to specific distribution areas, as well as on collocation sites, virtual collocation and so-called OPAL/ISIS lines, an access technology

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combining copper wire and glass-fiber transmission. We initiated legal proceedings. For more information, see Item 8. Financial Information Litigation.

In addition to decisions relating to the appropriate level of network access pricing, the German telecommunications regulator has also made determinations relating to the technical point in the network at which network access must be provided. In one such decision, the German telecommunications regulator took the position that we must provide unbundling in accordance with the demands of competitors to the extent technically feasible. In another decision, the German telecommunications regulator decided that we have to grant unbundled access to the part of subscriber access lines located within customers' premises. In December 1999, without recognizing a legal obligation to do so, we submitted to the German telecommunications regulator a request for approval of the one-time connection fee and the monthly rental charges that we proposed to charge third parties for direct access to the part of subscriber access lines located within customers' premises. In February 2000 and, last, in January 2003, the German telecommunications regulator approved the one-time connection fee proposed by us but denied approval for the proposed monthly rental charge. In addition, competitors have submitted requests to the German telecommunications regulator for further unbundling of local loop access. We have submitted comments on these requests to the German telecommunications regulator.

In February 2001, the German telecommunications regulator opened a formal proceeding relating to potential anti-competitive discounts involved in our offer of T-DSL (digital subscriber line) service, i.e., broad band internet access for end customers. On March 30, 2001, the German telecommunications regulator discontinued this formal proceeding. Although the telecommunications regulator opened another formal proceeding in this regard in December 2001, this additional proceeding was discontinued in January 2002 after we announced plans to raise installation and monthly fees for T-DSL.

In March and May 2002, the German telecommunications regulator imposed upon us the obligation to modify the contractual conditions for the provision of leased lines. We are required among other things, to include in our contracts clauses requiring us to pay penalties in the case of delays, to expand wholesale supply, and to warrant certain delivery periods. We initiated legal proceedings. For more information, see Item 8. Financial Information Litigation.

Resale

In two decisions published in September and November 1999, the German telecommunications regulator had decided that regulatory approval is required for our offers of services to service providers that purchase services for purposes of resale. This position relates to offers of local, domestic, and international long-distance calls as well as local access services. The implementation of the German telecommunications regulator's order is likely to lead to an increase in competition in these markets. We initiated legal proceedings. For more information, see Item 8. Financial Information Litigation.

In July 2002, the Cologne administrative court corroborated its position towards resale in the main legal proceeding. We are obligated to offer services to service providers, network operators or other companies that purchase services for purposes of resale. We appealed this decision before the German federal administrative court. The appeal is still pending.

In March 2001, the German telecommunications regulator issued an order requiring us to offer subscriber network services (i.e., subscriber lines, local calls and city calls) to a particular one of our competitors for purposes of resale. We initiated legal proceedings. For more information, see Item 8. Financial Information Litigation.

In February 2002, the appellate administrative court rejected our appeal within another administrative proceeding, in which an obligation on our part to re-sell services to network operators was articulated. While the appellate administrative court reversed other aspects of the telecommunications regulator's decision in this matter, we are now obligated to make resale offers to riodata and Tele2, and to make resale offers to other companies upon request. Negotiations with several companies that have made requests are ongoing.

In practice, the demand for resale products is small. Demand, however, may change as a result of possible amendments to the German Telecommunications Act. At this stage of the discussion, resale will likely be applied as a regulatory option that may be used by the German telecommunications regulator at its discretion. However, it likely will not include an obligation to re-sell innovative services and non-significant goods and services. The financial consequences for the group are expected to be significant, because resale enables competitors without own their networks to quickly compete with our retail products.

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Internet Access

On December 15, 2000, we began offering access to our public switched telephone network to Internet platform providers at flat (un-metered) rates in response to a decision of the German telecommunications regulator of November 15, 2000, requiring us to offer such a flat rate product. In March 2001, we successfully applied for a preliminary injunction against the obligation to offer a flat rate to Internet platform providers, with the effect that we are currently not obliged to offer such a flat rate product. We still offer un-metered access to our public switched telephone network to Internet platform providers voluntarily. The German telecommunications regulator has suspended the related proceeding at present.

The EU Commission is currently conducting an investigation into our ADSL/line sharing market. The German telecommunications regulator decided to discontinue the proceedings relating to potentially anti-competitive discounts involved in our offer of ADSL (high speed Internet) service. QSC lodged a similar complaint with the EU Commission in May 2002. The EU Commission requested information on the cost of provision of our ADSL product and Line Sharing (which enables our competitors to use the same access line to the end-customer for Internet access as we use) in 2002, which are also part of its formal proceedings on local loop access. We intend to demonstrate that there is no infringement of competition law in respect to our provision of ADSL service.

In June 1999, the German telecommunications regulator ruled that the Internet access charges of T-Online are not subject to price regulation because the dominant feature of online services is not telecommunications, but so-called tele-services (*Teledienste*). There are indications, however, that the German telecommunications regulator may change its legal approach to regulation of prices for online services in the future.

Since January 2001, we have been obligated by standing EU regulation to make line sharing offers. In March 2002, the German telecommunications regulator issued a decision establishing a monthly price of EUR 4.77 and a one-time connection fee of EUR 85 for this offer. One of our competitors has filed a complaint against this decision. The proceedings are pending.

Universal Services

The Telecommunications Act includes provisions to ensure the availability of certain basic telecommunications services (referred to as universal services) throughout Germany. Additional details concerning universal service requirements are provided in the Universal Service Ordinance (*Telekommunikations-Universaldienstleistungsverordnung*) and in the Telecommunications Customer Protection Ordinance (*Telekommunikations-Kundenschutzverordnung*). For more information, see Customer Protection Ordinance.

The Universal Service Ordinance defines universal services to include public fixed-network voice telephony with certain ISDN features, directory services, telephone books, public pay phones and certain categories of transmission lines. These services must be universally available to all customers at a price determined by the German telecommunications regulator to be an affordable price.

Under the Telecommunications Act, if a universal service in a particular product and geographic market is not being appropriately and adequately provided, or where there is reason to believe that such provision will not be accomplished, each licensee with a share of at least 4% of the product market for such service or a dominant position in the relevant product and geographic market can be required to contribute through payments to the cost of providing such universal service. Contributions are required if the provider of a universal service proves that the long-term additional costs of providing the service efficiently in the relevant geographic market, including adequate interest on capital employed, exceed the revenues from providing that service at an affordable price. Details concerning the manner in which this compensatory system will function remain to be determined.

Under the Universal Service Ordinance, which came into effect at the beginning of 1998, market dominant providers in the relevant markets may be required to provide universal services. We provide customers with voice telephony and other universal services within the framework of the law and our General Terms and Conditions. We currently provide the universal services specified by the Universal Service Ordinance without compensation. If we decide to stop providing any of the services referred to in the Universal Service Ordinance, we must give at least one year s advance notice. We expect that we will, for some time to come, be the only provider considered suitable to be subjected to the obligation to offer universal services. Accordingly, it may prove difficult for us to cease providing universal services in some markets, although we may be able to claim special compensation.

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If we become required to offer a universal service, and if the revenues from providing that service are insufficient to cover its additional costs, the compensation granted under the Telecommunications Act may be insufficient to cover the full costs to us of providing that service. This results from the fact that we, like other licensees, are required to contribute to the cost of providing these services in proportion to our market share.

Amendments to the German Telecommunications Act that change universal service provisions are a possible outcome of ongoing discussions. Currently, however, we do not expect such changes.

Customer Protection Ordinance

The Telecommunications Customer Protection Ordinance (Customer Protection Ordinance), as currently in effect, covers the special rights and obligations between providers of telecommunications services to the public and their customers, who may be either end customers or competitors to the extent that they have concluded a contract or intend to conclude a contract with the respective telecommunications provider. As a result, nearly all our products and services, with only a few exceptions, such as the marketing of telephones, are subject to the provisions of the Customer Protection Ordinance.

Under the provisions of the Customer Protection Ordinance, market-dominant providers must make their services available to everyone on the same terms. Exceptions must be objectively justified. Further, although telecommunications providers generally have some flexibility in determining whether to offer services in bundles, the dominant company is required to offer individual services on an unbundled basis when there is a general demand for those individual services in the market. This requirement applies to the description of individual services and the relevant service specifications, as well as the billing for such services. Offering individually listed services as a package is, however, still allowed.

In addition, the market-dominant provider must, upon request, eliminate or repair any malfunction immediately, including at night or on Sundays or holidays. Customers can request a free itemized statement of their calls, which must be detailed enough to allow them to check and monitor the accuracy of their bills. In the event that a customer has made no other arrangements with another provider, the customer will receive a combined bill from his local carrier. In such cases, the charges for all calls that the customer has made via other providers must be listed separately. Finally, as of January 1, 2001, telecommunication service providers have been under an obligation to ensure that any customer who has set a ceiling for his calling charges does not exceed it. The Customer Protection Ordinance also allows for certain limitations on the liability of telecommunication service providers.

On February 21, 2000, the German telecommunications regulator ruled that we must continue to offer billing and collection services for dial-up voice telephony, directory inquiry, value-added services and dial-up Internet-by-Call until December 31, 2000, on the same terms and conditions as had previously prevailed. For the period thereafter, new conditions may be agreed upon. The German telecommunications regulator also ruled that, not later than June 30, 2000, we would be obligated to submit for regulatory approval proposed terms and conditions for the provision of these services after December 31, 2001. We initiated legal proceedings. For more information, see Item 8. Financial Information Litigation.

Even before the revision of the Telecommunications Act, the Economics Ministry intends to enact separate legal requirements in response to the misuse of certain value-added and premium rate services by some of our customers, who offer such services under specific prefixes within our network. Such services are billed directly to the customer and have tariffs. The current proposals drafted by the Ministry would give expanded monitoring powers to the German telecommunications regulator and impose strict and potentially costly requirements on network operators and providers. The law is expected to become effective in spring 2003.

Billing and Collection

In October 1999, we announced that, starting on April 1, 2000, we would no longer provide billing and collection services to our competitors other than services that are mandatory under the Customer Protection Ordinance. In our view, these mandatory services include billing for competitors and forwarding to competitors any payments made to us by our customers for calls made through those competitors, but not collection of bills on behalf of competitors. In response to a complaint submitted by a competitor, however, the German telecommunications regulator instituted proceedings against us in October 1999, alleging that the implementation of our plans to discontinue the provision of billing and collection services for competitors would constitute an abusive practice.

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On February 21, 2000, the German telecommunications regulator ruled that we must continue to offer billing and collection services for dial-up voice telephony, directory inquiry, value-added services and dial-up Internet-by-Call. According to these rulings, however, we were no longer obligated to manage customer complaints, send late payment warnings or enforce late payments on behalf of competitors after January 1, 2001. We initiated legal proceedings. For more information, see Item 8. Financial Information Litigation. The general subject matter is taken up within the framework of possible amendments to the German Telecommunications Act. Changes to the act may lead to the imposition on us of a more extensive billing and collection obligation. We cannot predict how the German legislator will act on this point.

Use of Public Rights of Way

Under the pre-Telecommunications Act laws, we were entitled to utilize the Federal Republic's rights of way over public property free of charge. Pursuant to the Telecommunications Act, the Federal Republic's right to use such rights of way free of charge has been transferred to licensed operators of transmission lines for public telecommunications services. Our right to utilize such rights of way has been carried over under our license. The Telecommunications Act requires that operators of transmission lines obtain the consent of the authority responsible for the maintenance of the relevant public ways before laying new transmission lines or modifying existing transmission lines. We have agreed on a cost-saving and delay-avoiding procedure with federal associations of municipal authorities to simplify the process of obtaining the required consent.

Under the Telecommunications Act, if the establishment of new transmission lines by an operator through the use of public rights of way is not feasible or technically possible or if the cost is disproportionately high, an operator of an existing transmission line using those public rights of way may be obligated to grant to the operator of those new transmission lines the joint use of its installations, such as ducts, for adequate compensation, provided no major construction work is required and such joint use is economically feasible.

Given the upcoming revision of the German Telecommunications Act, an introduction of value-based usage fees for public rights of way is theoretically possible. Such an amendment would have an adverse effect on our business.

Cooperation in Construction of Mobile Networks

On June 5, 2001, the German telecommunications regulator issued an interpretation of the German UMTS license conditions stating that, subject to certain conditions, the shared use by UMTS operators of wireless sites, masts, antennas, cables, combiners and cabinets is compatible with the UMTS license award conditions. The interpretation did not allow for the shared use of frequency allocations or of certain core network elements that regulate services to customers or contain sensitive network and customer data. T-Mobile and mmO2 have concluded an agreement concerning UMTS infrastructure sharing arrangements for their operations in Germany.

Competition Law

The requirements imposed upon us by German competition law should be viewed in the context of European Union competition rules. For more information in this regard, see The European Union Regulatory Framework Competition Law.

The German Act Against Restraints on Competition prohibits the abuse of a market-dominant position as well as the distortion of competition through horizontal agreements or collusive behavior by market participants. Agreements or behavior that impose vertical restraints on competition are generally permitted, but may be prohibited by the German federal competition authority if they pose a threat of significant distortion to the relevant market. They are prohibited if they constitute price-fixing.

Mergers, including the creation of joint ventures, must be notified to the German federal competition authority before they can be executed if the concerned undertakings' turnover reaches a certain threshold but remains below the threshold above which proposed mergers must be notified to the EU Commission. The German federal competition authority will prohibit mergers if they create or strengthen a market-dominant position. The German federal competition authority is empowered to enforce these laws and may impose sanctions if their orders are contravened. Before taking action against abuses of a market-dominant position in the telecommunications sector, the German federal competition authority must consult with the German telecommunications regulator. Market participants damaged by abusive practices on the part of a market-

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dominant provider may sue for compensation under the Telecommunications Act as well as under the German Act Against Restraints on Competition.

The European Union Regulatory Framework

General

Germany is a member state of the European Union. As such, it is required to enact European Union legislation in its domestic law and to take European Union legislation into account in applying its domestic law. European Union legislation can take a number of forms. Regulations have general application, and are binding in their entirety and directly applicable in all member states. Directives are binding, but national authorities may choose the form and method of implementation.

Over the past fifteen years, the EU Commission has opened the telecommunications markets to competition through a series of liberalization directives that gradually abolished the monopoly rights of state-owned telecommunications operators. Public voice telephony services became open to full competition in the majority of European Union member states, including Germany and Austria, with effect from January 1, 1998, and had been open to full competition in the United Kingdom before that date.

The European Union has adopted a number of directives and recommendations regarding open and efficient access to, and use of, public telecommunications networks and services. These are intended to harmonize technical interfaces, usage conditions, mandatory minimum service standards for all fixed-line users, and a general framework for tariffs throughout the European Union. Specific measures have been adopted in a number of areas including licensing and interconnection. Additional obligations in relation to special network access, interconnection charging, accounting separation and cost accounting, publication and non-discrimination are imposed on operators which are designated by the national regulatory authorities in the telecommunications sector (the NRAs) as having significant market power in a telecommunications market.

A European Union regulation on unbundled access to the local loop entered into force in January 2001, containing the obligations to provide full unbundled access to the copper paired wire and at the same time unbundled access to the high frequency spectrum (line sharing).

In an infringement procedure initiated in January 2000, the EU Commission criticized the level of licensing fees in Germany. The EU Commission is currently not pursuing the proceeding but it could re-open it at any time.

On October 30, 2000, the EU Commission commenced against the Federal Republic an infringement proceeding alleging that the Federal Republic has failed to fully implement the European Union interconnection directive with regard to local carrier selection. The German government required us to offer carrier pre-selection and call-by-call selection for local calls starting December 1, 2002. The German telecommunications regulator suspended this obligation for technical reasons with respect to call-by-call until April 24, 2003, and with respect to pre-selection until July 8, 2003. The continuation of this requirement could have an adverse effect on the local calling portion of our business.

In December 2002, the EU Commission commenced a further proceeding against Germany, charging that the revision of the Telecommunications Act limits the obligation to offer carrier pre-selection and call-by-call selection for local calls. The EU Commission does not agree that operators that want to offer local calls on the basis of carrier selection should be obliged to connect with the local network operator on a local level. The EU Commission holds the view that a network operator connected at any level of the network should be able to offer carrier selection for local calls.

In December 2001, the EU Commission opened an infringement proceeding against Germany, among other member states, for alleged failure to implement in national law the provisions of the European Union regulation on unbundling of the local loop. The proceeding is based in particular upon the alleged absence in Germany of an adequately published formal reference offer for line sharing. In view of the approval of a relevant fee for line sharing by the German telecommunications regulator on March 15, 2002, the EU Commission has since closed the proceeding.

In March 2002, the EU Commission opened an infringement proceeding against Germany for alleged failure to implement the European Union regulation on the unbundling of the local loop with regard to access to local sub-loops. Since then, we have published an offer for access to the sub-loop that has been approved by the German telecommunications regulator.

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The EU Commission's 8th Implementation Report of December 2002 examines the status of the implementation of the present European Union regulatory framework. In the Report, the EU Commission expressed doubt that charges new entrants levy for termination on their fixed networks based on reciprocity are satisfactory in view of the fact that those operators are not operators with significant market power and therefore are not subject to the obligation of cost orientation. The German regulator has accepted that we impose reciprocal termination rates in our contracts. An abolition of this reciprocity may lead to an increase of charges that we have to pay for the termination of telephone calls into other networks.

New Regulatory Framework

At the end of 1999, the EU Commission initiated a review of the European Union telecommunications regulatory framework focusing on the development of competition in the European telecommunications sector and the increasing convergence of media, telecommunications and information technology. In February 2002, legislative measures were adopted consisting of a general framework directive, three specific directives regarding (i) access to and interconnection of electronic communications networks, (ii) mandatory minimum service standards for all users (universal service) and users' rights, and (iii) authorization and licensing regimes, as well as a decision on a regulatory framework for radio spectrum policy in the European Union. Member states are under an obligation to implement the directives into their domestic law within 15 months of adoption. Furthermore, a new telecommunications data protection directive was adopted in July 2002.

The new regulatory framework, in particular:

sets out the rights, responsibilities, decision-making powers and procedures of the NRAs and the EU Commission. This includes the NRAs' obligation to submit to the EU Commission and the NRAs of other European Union member states in draft form the regulatory measures that they intend to take with respect to market definition and significant market power, and the EU Commission's power to require NRAs to withdraw such drafts, if the EU Commission considers that they create a barrier to the single European market or are incompatible with law;

identifies specific policy objectives that NRAs must achieve in carrying out their responsibilities (namely, to promote an open and competitive European market for communications services, to promote the interests of European citizens and to consolidate the European Union's internal market in a converging technological environment);

provides that operators with significant market power in relevant communications markets will be subject to certain obligations as set out in the directives on universal service and access. Significant market power, a notion that includes cases where a company has market power individually or jointly with other companies, is defined on the basis of the concept of dominance as developed in the case law of the European Court of Justice and the Court of First Instance of the European Communities.

The EU Commission issued a recommendation on relevant product and services markets in February 2003. The recommendation identifies certain markets having characteristics which may justify the imposition of regulatory obligations, e.g. relating to the cost-orientation of prices, transparency of information, non-discrimination between customers, accounting separation and mandated access to, and use of, network facilities. The EU Commission recommendation refers to, among other things:

the residential and non-residential retail markets for access to the public telephone network at fixed locations, publicly available local and/or national telephone services (both separately for the retail market for customers);

the wholesale markets for call origination as well as call termination and transit in the fixed public telephone network;

unbundled access to the local loop; and

wholesale broadband access.

In the area of mobile communications, the framework directive includes references to:

the wholesale market for access and call origination on public mobile telephone networks;

markets for call termination on individual public mobile telephone networks; and

the national wholesale market for international roaming services on public mobile telephone networks.

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The EU Commission will regularly carry out a review of the recommendation on relevant markets. The first review is planned for June 2004.

Comparing mobile termination rates in the European Union, T-Mobile Deutschland offers the lowest rates of the big five mobile countries: Germany, Italy, the United Kingdom, France and Spain. Its rates are well below the weighted average of all European Union countries (based on the lowest mobile termination rate in each country). Nevertheless, regulatory pressure on mobile termination rates is rising due to the new European Union regulatory framework. In its Recommendation on relevant markets, which lists those markets that can be subject to regulatory obligations, the EU Commission has qualified termination in individual mobile networks as a separate market. This may result in the identification of dominant operators in the individual termination markets and a subsequent examination of mobile termination rates.

We cannot predict what consequences the new regulatory framework will have, but it is possible that, contrary to the stated goal of the framework, it may result in additional regulation of our business. The new regulatory framework applies to all communications markets that the EU Commission has included in its recommendation or that NRAs have decided to include in the scope of sector-specific regulation with the agreement of the EU Commission. Thus, an extension of sector-specific regulation to mobile markets and online communications markets cannot be ruled out. The new regulatory framework obliges NRAs to carry out new market analyses. NRAs may revise their decisions with respect to our possible market power including that of our mobile subsidiaries active in the European Union. If any of our significant subsidiaries or we were considered to be market-dominant in certain markets where market-dominance is not currently considered to exist, this could materially affect our operations and have a material negative impact on our financial position and results of operations. In particular, if any of our mobile telecommunications subsidiaries were considered to be market-dominant in its home market, and consequently an obligation were imposed on that subsidiary to provide mobile termination or international roaming services at cost-oriented prices, this could materially affect our subsidiary's operations.

In certain fields that are currently subject to sector-specific regulation, the new regulatory framework may lead to some reduction of regulatory burdens as a result of greater flexibility of NRAs when choosing appropriate regulatory measures to address alleged market failure and the alignment of the notion of significant market power with the concept of dominance under general European Union competition law. In particular, the new regulatory framework no longer allows for regulation of retail markets unless an NRA concludes that regulation on the level of wholesale markets is not sufficient to achieve the objectives of the directives. Whether any reduction of regulatory burdens will occur will largely depend on the manner in which the directives are implemented in member states and the concepts of the new framework are applied by the EU Commission, NRAs and the newly established European Regulators group. The European Regulators group is a body composed of representatives of NRAs, which will play an important role in assisting the EU Commission in the process of harmonizing the application of the new regulatory framework in the European Union member states.

In this context, we expect that one result of the new framework will be an increase in co-operation between the EU Commission and the NRAs, with the EU Commission taking a leading role in deciding key regulatory issues such as market definition and market power analysis. The EU Commission has indicated that it is planning to adopt a recommendation on the application of specific regulatory remedies to an operator with significant market power in the summer of 2003. We expect that this may significantly influence NRA decisions on the choice of obligations in particular market situations.

The new telecommunications data protection directive allows member states to adopt legislative measures concerning traffic data retention where it is proportionate and necessary to, among other things, safeguard national and public security and to prevent and prosecute criminal offences or unauthorized uses of electronic commerce systems. An obligation to retain traffic data could, depending on scope and duration of the retention, result in significant costs for us as a network operator. At the moment, European Union member states are discussing whether to adopt legislation on traffic data retention for law enforcement purposes at an European level. The German Federal Government has not yet determined whether and to what extent it is necessary and possible under German constitutional law to require tele-service providers and suppliers of telecommunications services to retain traffic data.

Competition Law

The European Union competition rules have the force of law in the member states and are therefore applicable to our operations. The main principles of the European Union competition rules are set forth in Articles 81 and 82 of the Treaty of Rome and in the European Merger Control Regulation.

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Article 81(1) of the Treaty of Rome prohibits concerted practices or other agreements between competitors that may affect trade between member states and which restrict, or are intended to restrict, competition within the European Union. Article 82 prohibits any abuse of a market-dominant position within a substantial part of the European Union that may affect trade between member states. The EU Commission enforces these rules in cooperation with the national competition authorities (i.e. the German federal competition authority). The German federal competition authority may also directly enforce the competition rules of the Treaty of Rome. In addition, the national courts have jurisdiction over alleged violations of European Union competition law.

In 1999 and prior years, we received numerous requests for information from the EU Commission. Through inquiries of this kind, the EU Commission monitors the development of competition in the telecommunication markets in all member states of the European Union. Further investigations and other measures of the EU Commission aimed at promoting competition in the European telecommunications sector may be expected. We and other telecommunications providers are currently subject to sector-specific inquiries in the fields of local loop unbundling, leased lines and roaming.

The European Merger Regulation requires that all mergers, acquisitions and joint ventures involving participants meeting a certain turnover threshold be submitted to the EU Commission for review, rather than to national authorities. Concentrations are prohibited if they pose the risk of creating or strengthening a dominant position on a relevant market.

On July 11, 2001, the EU Commission issued a statement confirming that EU Commission inspectors and officials from national competition authorities had started carrying out simultaneous inspections at the premises of nine European mobile telephony operators located in the United Kingdom and Germany. Our subsidiaries T-Mobile Deutschland and T-Mobile UK were among the companies inspected. The EU Commission asserted that a European Union-wide sector inquiry had established serious competition concerns regarding pricing practices for mobile roaming services that warrant further investigations, particularly in the United Kingdom and Germany. The EU Commission statement indicated that the inspections in the United Kingdom and Germany are to ascertain whether there is consumer price fixing by mobile operators in both countries. The statement further indicated that the inspections aim to verify whether German operators have illegally fixed the wholesale prices they charge to other operators, and whether these prices are excessive or discriminatory. While the EU Commission has not yet opened formal proceedings against any of the operators, it has alluded to the fact that it may do so in the course of 2003. We are cooperating fully in the investigation. If the EU Commission were to establish that any anti-competitive activities have occurred, it could impose fines of up to 10% of prior year group global sales on each company participating in the violation, although we believe that the EU Commission has not as of yet imposed a fine to the maximum extent permissible. We do not believe that our subsidiaries T-Mobile Deutschland or T-Mobile UK have engaged in anti-competitive activities regarding mobile roaming services. This proceeding, however, if determined adversely, or other regulatory action relating to mobile roaming services, could have a negative impact on T-Mobile's and our own business.

On March 17, 1999, Mannesmann Arcor filed a complaint with the EU Commission against the Federal Republic and us. The complaint primarily relates to our prices for unbundled access to the local loop, which are set by the German telecommunications regulator, and to our subscriber line prices that are subject to the German price-cap regime. Other competitors have jointly filed two further complaints to the EU Commission containing similar reproaches. In its statement of objections of May, 7, 2002, as amended by letter of February 21, 2003, the EU Commission held that there was an abuse of a dominant position and has informed us that it intends to require us to end the alleged abuse and that it intends to impose fines. Those fines could range from EUR 1,000 to up to 10% of prior year group global revenues, although we believe that the EU Commission has not as of yet imposed a fine to the maximum extent permissible. In the same matter, the EU Commission opened an infringement proceeding against the Federal Republic in April 2000. The EU Commission is currently not pursuing the proceeding but it could re-open it at any time.

The EU Commission is currently conducting an investigation into our ADSL/line sharing market. After the German telecommunications regulator decided to discontinue the proceedings relating to potential anti-competitive discounts involved in our offer of ADSL service, QSC lodged a similar complaint with the EU Commission in May 2002. The EU Commission requested information on the cost for provision of T-DSL and line sharing in 2002, which are also part of its formal proceedings on local loop access. We intend to demonstrate that there is no infringement of competition law with respect to the provision of ADSL.

Table of Contents**International Regulation***Licenses*

To operate our network internationally, a network operator license or a service provider's license, or both, is required from the regulatory authorities in the respective countries in which we have network operations. The duration of any particular license depends, in part, on the requirements of the respective countries. In some countries, there are no time restrictions, and in others the duration of the license is between 10 and 25 years. Normally, the renewal of a license in Europe and in the United States and Canada will be granted at low cost upon application. We do not anticipate any significant difficulties in renewing our licenses.

Cooperation on the Construction of Mobile Networks

T-Mobile and mmO2 have concluded an agreement concerning UMTS infrastructure sharing arrangements for their operations in the United Kingdom. The arrangements remain subject to regulatory clearances. Similar arrangements have been put in place by T-Mobile International AG's subsidiaries T-Mobile Austria (max.mobil) and Ben in the Netherlands. Both arrangements are subject to regulatory clearance by the relevant national competition authorities.

Different Regulatory Regimes

We are subject to the regulatory regimes of other countries where we or our subsidiaries or affiliates are active. For fixed-line communications, this means principally in Slovakia, Hungary and the Croatia. In the area of mobile communications we are subject to regulation in the United States, the United Kingdom, the Netherlands, the Czech Republic and Austria. Regulation in these countries includes, for instance, procedures for granting or renewing licenses to use scarce resources (mainly frequencies), coverage conditions and other conditions contained in licenses, universal service obligation requirements, price approval and product launch procedures, regulation of the terms of interconnection and network access for other network operators, requirements to permit customers to select a different carrier for individual calls or to reselect a different carrier, number portability requirements, regulation relating to potential health effects of mobile communications devices and all related regulatory cases. In some countries, the general legal framework and the regulatory framework relating to telecommunications are less well developed than in Germany. This leads to legal and regulatory uncertainty that could have an impact on the operations of our group in those countries. Certain regulations may limit the flexibility of our subsidiaries to respond to market conditions. This is especially true for the mobile sector. In the United Kingdom, the National Regulatory Authority is considering whether the mobile-to-fixed and mobile-to-mobile termination rates of T-Mobile U.K. and the other U.K. mobile network operator's mobile termination rates should be subject to price-regulation. The U.K. telecommunications regulator has decided to implement price control measures proposed by the U.K. competition regulator demanding a significant reduction of fixed-to-mobile termination during the coming four years starting in July 2003. T-Mobile UK has challenged that decision in the administrative division of the U.K. High Court. If the proposals of the United Kingdom telecommunications regulator are implemented, they could have a materially adverse effect on T-Mobile UK's and our business. In the Czech Republic, T-Mobile CZ is considered to have significant market power by the Czech telecommunications regulator Czech Telecommunication Office, which is also true for Eurotel in Slovakia. Other national regulatory authorities could take the same view. Any finding of market dominance could subject the affected subsidiary to additional regulation, including price regulation, which could have an adverse effect on that subsidiary's business. The new regulatory framework of the European Union will be relevant in this regard. Current European Union member states are required to implement it by July 25, 2003. Central and Eastern European states that are candidates for accession to the European Union are required to implement it by the time of accession (generally May 1, 2004, under current timetables). For further information regarding this new legal regime, see The European Union Regulatory Framework New Regulatory Framework.

We have acquired UMTS licenses in the United Kingdom, Germany, the Czech Republic and Austria. T-Mobile Netherlands (Ben) has acquired a UMTS license in the Netherlands and Eurotel (a Slovak Telekom affiliate) has acquired a UMTS license in Slovakia. In each country, different rights and obligations for license holders are recorded in the license conditions. This lack of uniformity is relevant particularly with regard to issues such as roaming, coverage obligations and possibilities for infrastructure sharing. The EU Commission recently stated that, for each national telecommunications regulator, it is necessary to take these differences into consideration in order to avoid undue regulatory burdens in different member states. Non-

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compliance with the licensing conditions could result in additional costs to us or in the revocation of licenses. We expect, however, to be able to comply with all current UMTS licensing conditions.

Our U.S. wireless business, through T-Mobile USA/Powertel, is subject to regulation by the Federal Communications Commission (FCC) and various other federal, state and local regulatory agencies. These regulations include, among other things, required service features and capabilities, such as number pooling and portability and emergency 911 service. Any of these agencies having jurisdiction over our wireless business could adopt regulations or take other actions that could adversely affect such business. If we fail to comply with applicable regulations, we may be subject to sanctions, which may have an adverse effect on our wireless business in the United States.

Competition Law

According to a decision by the Dutch National Competition Authority on December 30, 2002, our Dutch subsidiary T-Mobile Netherlands (Ben) will be fined EUR 15.2 million for alleged involvement in an anti-competitive scheme carried out together with the five other Dutch mobile phone operators. T-Mobile Netherlands and other affected companies will appeal against the decision of the Dutch competition regulator on a variety of grounds. Among other things, T-Mobile Netherlands and other affected companies believe that, even if the findings of the National Competition Authority are correct, the fines imposed are disproportionate.

International Obligations

Over 70 member countries of the World Trade Organization, including European Union member states and the United States, have entered into the Basic Telecommunications Agreement, (or BTA), to provide market access to some or all of their basic telecommunications services. This agreement took effect on February 5, 1998. The BTA is part of the General Agreement on Trade in Services, which is administered by the World Trade Organization. Under the BTA, signatories have made commitments to provide market access. Under such commitments, they are to refrain from imposing certain quotas or other quantitative restrictions in specified telecommunications services sectors, and to treat foreign telecommunications service suppliers no differently than national service suppliers. In addition, a number of signatories have agreed to the pro-competitive principles set forth in a reference paper relating to anti-competitive behavior, interconnection, universal service, transparency of licensing criteria, independence of the regulator and scarce resources.

In complaints filed by three U.S. associations in February 2002, the U.S. Trade Representative has been asked to determine whether certain aspects of the telecommunications regulatory framework in Germany comply with Germany's obligations under the BTA. The principles involved relate to, among other things, leased line provisioning, fixed-to-mobile termination rates and ADSL. On April 3, 2002, the U.S. Trade Representative published its 2002 annual review. With regard to European Union member states, it focused its attention on fixed-to-mobile termination rates and leased lines. The U.S. Trade Representative stated that progress has been made with respect to fixed-to-mobile termination rates in the European Union and that it will further monitor ongoing developments.

In October 2002, the U.S. Federal Communications Commission commenced another review of termination rate policies for international calls. Such policies define how telephone companies offset tariffs charged for terminating calls within their network that originated in a competitor's network.

DESCRIPTION OF PROPERTY

Network Infrastructure

We have made substantial investments in our telecommunications and cable networks since 1990, including the installation of a new network in the former East Germany. As a result, our fixed-line network in Germany is one of the most technologically advanced networks in the world, with fully digital switching and nearly 100% digital transmission. We have introduced asynchronous transfer mode (ATM) technology and wavelength division multiplexing (WDM) technology on the basis of its advanced network. These advanced technologies provide much faster voice and data transmissions.

As of December 31, 2002, our domestic fixed-line telephone network and ISDN network in Germany consisted of approximately 5,200 local networks (including approximately 8,000 local exchange areas) connected by a long-distance transmission network. As of December 31, 2002, the transmission network linking our German local networks consisted of approximately 173,000 kilometers of fiber optic cable. The

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transport network is based on the WDM and SDH (Synchronous Digital Hierarchy) backbone. In the fall of 2002, the 10,000th network element for SDH was connected to the Deutsche Telekom network. SDH is the transport platform of our T-Com division upon which practically all digital communications (from leased lines through the Internet to traditional telephone traffic) are based. SDH guarantees nearly 100% availability to the network.

For more information about our network infrastructure, see Description of Business Divisions T-Com.

Cable and Satellite Transmission Infrastructure

Our international transmission infrastructure consists of both cable (underground and submarine cables) and satellite transmission systems, which, as of December 31, 2002, link our German national network directly to approximately 900 other telecommunications service providers worldwide. We own substantially all of the technical equipment, such as switches and routers, for this transmission network.

As of December 31, 2002, we held interests in approximately 80 fiber-optic submarine and terrestrial cable networks worldwide. Restoration contracts with other cable operators and telecommunications carriers are entered into to prevent network failures from affecting our network availability. Our German domestic telecommunications network is connected to submarine cables via four cable landing points, the largest being in the city of Norden, Germany. We also operate and maintain for third parties the submarine cables in German landing stations.

We operate two large satellite earth stations in Usingen and Raisting (both situated in Germany). The station in Usingen is mainly used as a gateway for international voice traffic and the station in Raisting is mainly used for TV and data transmission.

In 2002, we finalized the extension of our wholly-owned terrestrial network in major European countries as well as in the Americas and in Asia. This network is mainly a so-called international backbone and has a ring structure that ensures high performance and connectivity throughout the network. It consists of both purchased and leased network capacities and of technical equipment that is installed at various point of presence locations (a PoP, a leased space or room in a building where technical equipment is stored and maintained). Our T-Systems division is the primary owner of the technical equipment (fixed assets). The worldwide total leased space housing the technical equipment within all of the PoPs amounts to approximately 3,630 square meters. As of December 31, 2002, T-Systems was a party to an aggregate of 576 PoP leases in 52 countries worldwide, of which 33 countries are located in Europe, 12 countries in Asia, and 5 countries in the Americas, Australia and South Africa. Over this network, voice, data and IP services are provided for domestic customers, large national and international corporations, and other telecommunications carriers.

Currently, we do not have plans to extend our existing international transmission facilities or network to anticipate future growth that has not yet materialized. We expect that if the coverage of the network needs to be extended to accommodate new customers, this will be done either by partnering (network to network interface with other major carriers) or by actual customer demand-driven expansion of the network.

We leased some parts of our international network backbone from Global Crossing and Worldcom, both of which have filed for Chapter 11 bankruptcy protection in the United States. Global Crossing has since emerged from bankruptcy protection. Due to the availability of sufficient cable capacity for the rerouting of network traffic, we do not anticipate that the loss of parts of our international network backbone as a result of prior or future bankruptcies of network operators would result in disruptions for our customers. However, securing such alternative capacity would likely result in increased costs to us.

Internet Platforms

The number of broadband accesses introduced in the last couple of years has doubled in Germany showing a further trend upwards. The total volume transmitted in the IP network has increased by the factor six amounting to TByte 160,000. We have an extensive network of Internet platforms throughout Germany with high-capacity bandwidth connections into Western and Eastern Europe and North America, as well as certain high-capacity connections into Asia. With the initiation of Quality of Service (based on MPLS and DiffServ) in the global IP network, a further milestone has been reached for our business customers. We have established significant Internet Protocol (IP) connectivity within North America by establishing a network presence in major cities such as New York, Washington, San Francisco, Los Angeles, Miami and Toronto.

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Over this network backbone, our T-Systems division runs Internet Protocols that enable T-Systems to offer a portfolio of international wholesale and IP services.

T-Systems also has peering agreements with major IP carriers and has established a total peering capacity of 80+ Gbps (gigabytes per second). A peering arrangement is a mutual exchange of network interconnectivity between ISPs and/or carriers with diverse coverage areas in order to maximize traffic flow and provide quality service in areas where network coverage may be lacking for each participant. These arrangements are generally settlement free for both participants. Since we have a direct presence at all major public peering points throughout the world, our costs are reduced when interconnecting with other carriers since we do not have to go through a third party provider.

The following table sets forth our peering capacity in the regions and for the periods indicated.

Year	Peering Capacity (Gbps) US/Europe	Peering Arrangements US/Europe
2001 (since 06/2001)	2.488/14.768	2/27
2002	33.901/48.974	52/205

Global Computing Factory

Our computer network infrastructure is contained in the organizational unit called the Global Computing Factory. It includes the operation of mainframes, open systems servers and storage arrays for outsourcing projects, including operating systems, database software, data communication software, systems automation and monitoring software, software development tools and standard application software. Our T-Systems division owns the server equipment and the necessary software tools for the operation of our computer network infrastructure. At December 31, 2002, the Global Computing Factory mainframe systems had a worldwide combined computing power of 92.698 Millions of Instructions per Seconds (MIPS), and in Europe alone a combined computing power of 89.506 MIPS. The mainframe systems are located in Germany, Italy, Switzerland, South Africa, Austria, France, Brazil, Spain and the United Kingdom. In Germany, the mainframe systems are used on a leased basis. Worldwide, the Global Computing Factory maintains 32 data centers.

Mobile Network Infrastructure

At December 31, 2002, the mobile communications network of Deutsche Telekom's controlled mobile subsidiaries in Germany, the United States, the United Kingdom, Austria, the Czech Republic and the Netherlands consisted of approximately 50,000 base station cells.

Real Estate

Approximately 85% of the book value of the real estate portfolio of the Deutsche Telekom group relates to properties held directly by Deutsche Telekom AG (on an unconsolidated basis) and are allocated to our Other Activities segment. The majority of the remaining book value of real estate in the Deutsche Telekom group is related to the T-Mobile division and Eastern European subsidiaries of the T-Com division. For more information with respect to Deutsche Telekom AG's real estate portfolio, refer to Item 5. Operating and Financial Review and Prospects Segment Analysis Other Activities.

The real estate portfolio of Deutsche Telekom AG consists of approximately 11,500 properties with an aggregate book value at December 31, 2002 of EUR 9.4 billion. The total area of land on which these properties are situated amounts to approximately 54.2 million square meters. The total rentable area relating to these properties amounts to approximately 12.26 million square meters. Substantially all of these properties are used for telecommunications installations, research centers, service outlets, computer centers and offices.

Our real estate unit was restructured in 2002 by reassigning responsibilities of the unit to four companies:

Generalmietgesellschaft mbH (GMG), which is responsible for the internal and external group leasing and rental business;

Deutsche Telekom Immobilien und Service GmbH (DeTeImmobilien), which is responsible for providing facility management services;

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Sireo Real Estate Asset Management GmbH (Sireo), a joint venture of Deutsche Telekom AG (51%), Corpus Immobiliengruppe GmbH & CO KG (24.5%) and Morgan Stanley Bank AG (24.5%), which is responsible for the administration and disposition of our real estate interests; and

Deutsche Funkturm GmbH (DFMG), which was established as part of our real estate unit at the beginning of 2002 to act as the service provider for all of our radio towers and transmitter masts and indirectly owns such towers and transmitter masts. The towers and transmitter masts are used, for example, in mobile, radio, and satellite communications, as well as for television broadcasting.

As a part of our effort to achieve operational efficiencies and our goal to dispose of non-core assets to support investment in core growth areas and increase our ability to reduce our debt balance, we set course on a strategy to monetize certain of our real property assets and to terminate some of our existing leases. Such monetization may be accomplished by direct sales, through the use of structured transactions, sale and leaseback transactions, or through the application of various other financing techniques. The pace and manner of this strategy depends on a number of factors, including, among other things, prevailing market conditions within Germany, and the demand for the types and locations of properties we have available.

In 2002, we entered into agreements for the sale of certain properties for an aggregate of EUR 1.7 billion. Of the EUR 1.3 billion received in 2002, EUR 981 million relates to properties transferred in 2002, and EUR 321 million relates to advance payments and deposits on the remaining properties. The sold properties are located on land with an area of approximately 8.8 million square meters and have 1.2 million square meters of rentable area. We leased back a portion of these sold properties. Rent expense related to the leased back properties will be overcompensated by the reduction of interest payments and other cost savings. For more information with respect to these transactions, please refer to Item 5. Operating and Financial Review and Prospects U.S. GAAP Reconciling Differences between German GAAP and U.S. GAAP.

The headquarters of Deutsche Telekom AG are located in a leased building in Bonn, Germany. Deutsche Telekom also leases a number of other buildings, none of which are considered material to our operations.

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ITEM 5. Operating and Financial Review and Prospects

*You should read the following discussion in conjunction with the annual consolidated financial statements, including the notes to those financial statements. Those financial statements have been prepared in accordance with the requirements of the German Commercial Code (HGB-German GAAP), which differ in certain significant respects from U.S. generally accepted accounting principles (U.S. GAAP). For a discussion of the principal differences between German GAAP and U.S. GAAP as they relate to us and a reconciliation of net income (loss) and total shareholders' equity to U.S. GAAP, see *Reconciling Differences between German GAAP and U.S. GAAP* and notes (40) through (43) to the consolidated financial statements.*

*The strategies and expectations referred to in this discussion are considered forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives we implement and other factors. We cannot provide assurance that the strategies and expectations referred to in this discussion will come to fruition. Forward-looking statements are based on current plans, estimates and projections, and therefore you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. Please refer to *Forward-Looking Statements, Item 3. Key Information Risk Factors and Item 5. Operating and Financial Review and Prospects - Factors Affecting Our Business* for descriptions of some of the factors relevant to this discussion and other forward-looking statements in this report.*

INTRODUCTION

In 2002, our net revenues increased by EUR 5.4 billion, or 11%, to EUR 53.7 billion from EUR 48.3 billion in 2001. The full consolidation in 2002 of companies that became our majority-owned subsidiaries during 2001 and 2002 contributed EUR 3.3 billion to the overall increase in net revenues. Excluding such acquired companies from the consolidated group, net revenues increased by EUR 2.1 billion, or 4%.

Our T-Mobile division recorded the strongest net revenue growth, largely as a result of the consolidation of both T-Mobile USA, Inc. (formerly VoiceStream Wireless Corporation) and Powertel, Inc. for a full year in 2002. Revenue growth excluding the effect of acquisitions resulted primarily from our T-Mobile division and, to a lesser degree, from our T-Online division, through increases in their respective subscriber bases. Despite continued intense competition, our T-Com division also recorded a slight net revenue increase. This increase was mainly due to strong growth in Eastern European operations, whereas net revenues from domestic business in Germany were lower than in 2001. Net revenues from the T-Systems division decreased in 2002 compared to 2001, largely due to continued weak spending by business customers.

Our group reported a consolidated net loss of EUR 24.6 billion for 2002, compared with a net loss of EUR 3.5 billion for 2001. The increase in net loss was primarily attributable to effects of measures taken in connection with our recent strategic review that had a net after-tax impact on results of approximately EUR 19.0 billion, of which EUR 18.4 billion related to nonscheduled amortization of goodwill and mobile communications licenses and nonscheduled depreciation of fixed assets.

OUTLOOK FOR 2003

In 2003, we intend to focus on reducing our indebtedness and strengthening our cash flows, while investing in areas of our business that we believe offer the best potential for sustainable and rewarding growth. We intend to accomplish these financial and operating objectives by increasing consolidated net revenues and increasing operating efficiencies and capital expenditure control measures that should improve our cash flows from operations. Additionally, proceeds from the sale of non-core assets together with cash flows from operations should help to increase our ability to reduce our debt balance. The following discussion provides a brief explanation of our outlook for 2003.

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Net Revenues

Despite the weak economic outlook for 2003, we expect an overall increase in our consolidated net revenues for the year. We expect the following net revenue developments in 2003:

T-Com continued growth in net revenues from ISDN and TDSL access through increases in the number of access lines or charges relating to access lines or both, offset in part by expected price declines in calling charges in Germany due to the introduction of mandated carrier selection alternatives for local calls in 2003. Additionally, possible changes of law and the tightening of regulatory policy in Germany and the Eastern European countries in which we operate may have a negative impact on T-Com's net revenue development in Germany and that of our Eastern European subsidiaries. T-Com's net revenue development will also be negatively affected by the deconsolidation of the German cable operations sold in March 2003.

T-Mobile continued growth in net revenues through development of new markets and an increase in mobile data products and services. Additionally, besides the positive effect of the first complete year of full consolidation of T-Mobile Netherlands, organic revenue growth will be driven mainly by an expected increase in the customer base in Europe and the United States. Net revenue growth will, however, be negatively affected by the expected continued slowing of subscriber growth rates in our Western European markets as market penetration in those markets reaches or nears saturation levels. Adverse actions by regulators may also adversely affect our net revenue development.

T-Systems the ongoing weak economic situation combined with severe competition in the IT sector will continue to affect this segment negatively. However, we do expect growth opportunities in the area of network services and international carrier services and solutions, primarily from large outsourcing solutions that combine information technology and telecommunications.

T-Online continued increase in net revenues, largely as a result of growth in broadband access revenues. We expect an increase in non-access revenues driven mainly by the increasing acceptance of paid content and services.

Costs

We will continue to improve measures to control operating expenses throughout our divisions. However, management must remain flexible with respect to absolute operating expense reductions since, in certain circumstances, an increase in revenue may be coupled with an increase in operating expenses. Additionally, management may determine that additional investment and increased operating expenses will yield increased revenues in the future. For these and other reasons, absolute reduction in costs is not an appropriate measure of achievement of our objectives.

For 2003, we expect that our costs for goods and services purchased will increase, but in an amount that should be disproportionately less than our expected increase in net revenues. Additionally, we have implemented a coordinated purchasing system among our divisions that should yield significant savings on volume purchases of goods and services.

We expect that our personnel costs will increase moderately in 2003, primarily as a result of wage increases under negotiated labor agreements. Although we continue to seek ways of reducing headcount, one should not assume that we will be able to decrease personnel costs at the same rate as our planned employee headcount reductions since employees transferred to our internal personnel services agency will still remain on our group payroll, and we will bear retirement and severance costs for some employees who leave our active employee rolls.

Depreciation and amortization are currently expected to be lower in 2003 than in 2002 since, based on our current outlook and present market conditions, we do not expect the very large nonscheduled amortization on mobile communication licenses and goodwill that were taken in the third quarter of 2002 to be duplicated in 2003.

Although we intend to reduce our debt obligations in 2003, our interest costs and those of recently issued bonds are higher due to our recent credit ratings downgrade and market conditions. Accordingly, we expect our net interest expenses in 2003 to be comparable to 2002, assuming no major changes in market conditions or further downgrades.

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Capital Expenditures

Our 2003 capital expenditures are budgeted to be lower than those of 2002. Capital expenditures are driven mainly by our T-Mobile and T-Com segments. The focus of our investing activities within T-Mobile is on the further rollout of the network infrastructure of T-Mobile USA (approximately EUR 2 billion) and our UMTS network infrastructure in Europe (approximately EUR 0.8 billion). Network extension due to the T-ISDN and T-DSL growth in Germany and the ongoing network rollout in Eastern Europe are the major capital consuming initiatives of T-Com.

Sales of Non-Core Assets

Another factor relevant to our goal of improving our debt position, improving operational efficiencies and better allocating and controlling capital expenditures is additional sales of non-core assets. We expect that, besides the sale of the balance of our German cable operations completed in March 2003, the sale of certain real estate holdings will contribute to our cash flows in 2003. However, no assurance can be given that such sales will actually occur in significant volumes in 2003 or that any such sales will yield anticipated proceeds.

FACTORS AFFECTING OUR BUSINESS

Our business has been affected in recent years by a number of important factors. Investments in new markets and technologies, sales of non-core assets, declines in calling charges in the traditional fixed-line network voice telephony business, increased competition, recent financial strains in the telecommunications sector and regulatory constraints all have influenced and are expected to have significant continued influence on our business. In addition, the expanding market for mobile and Internet communications, growth in the volume of data transmissions and rapid technological change are continuously reshaping our business and our focus. In addition to the matters discussed under Item 3. Key Information Risk Factors, we note the following items that have had and may continue to have an impact on our business.

Investment in UMTS Licenses and Infrastructure

We have made substantial investments in UMTS licenses and are making significant investments in establishing UMTS networks. The economic success of these investments will depend upon the availability of handsets and services based on UMTS technology that will be attractive enough to customers to generate sufficient traffic volume at sufficiently high prices. The level of demand for UMTS services, however, that will prevail in the future is unknown and may not justify the cost of developing and providing UMTS services. These costs include the costs of acquiring UMTS licenses and constructing, maintaining and upgrading UMTS networks. For further information in this regard, see Item 3. Key Information Risk Factors.

Investment in T-Mobile USA

In May 2001, we acquired VoiceStream (renamed T-Mobile USA, Inc.) and Powertel in exchange for Deutsche Telekom shares having a market value on the date of acquisition of EUR 28.7 billion plus EUR 4.9 billion in cash. In the third quarter of 2002, we adjusted the consolidated carrying value of our investment in these companies through nonscheduled amortization of EUR 17.7 billion in respect of goodwill of EUR 8.3 billion and licenses of EUR 9.4 billion. Even after these charges, the amortization of goodwill and depreciation and amortization of assets acquired in this transaction, and as a result, the expected continuing losses, will likely have a negative impact on our results of operations in future years.

Deleveraging

We plan to reduce our indebtedness and strengthen our operating cash flows. We intend to achieve this by increasing operating efficiencies, improving operating results and selling non-core assets. The management of our business will continue to be affected by our deleveraging objectives through the near to medium term. Failure to achieve these financial and operating objectives may have a material adverse effect on our business. See Item 3. Key Information Risk Factors.

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Effects of Acquisitions, Dispositions and Nonscheduled Depreciation and Amortization on Our Statements of Operations for the Three Years Ended December 31, 2002

The comparison of our statements of operations for the years 2002, 2001 and 2000 is complicated by several acquisitions and dispositions that we made during those years and by nonscheduled depreciation and amortization of the carrying values of certain assets that affected items such as other operating income, depreciation and amortization and financial income (expense), net. The effects of acquisitions, dispositions and nonscheduled depreciation and amortization on our results of operations are discussed below and under the caption Consolidated Results of Operations.

Other Operating Income. In 2002, other operating income was influenced by gains on the sale of a portion of our shares in T-Online International AG (EUR 0.3 billion) and gains on the sale of our interest in Satelindo (EUR 0.2 billion).

In 2001, other operating income included gains on the sale of our interest in Sprint (EUR 2.0 billion), gains on the sale of our interest in the regional cable television company for the German state of Baden-Wuerttemberg (EUR 0.9 billion), gains on the sale of other regional cable service companies (EUR 0.1 billion) and nonscheduled depreciation relating to buildings on owned real estate (EUR 0.3 billion) that was offset by gains in an equal amount (EUR 0.3 billion) on the reversal of provisions for general real estate risks.

In 2000, other operating income was affected by the sale of our interest in the Global One joint venture (EUR 2.9 billion), dilution gains from the public offerings of shares of each of T-Online International, Mobile Tele-Systems and comdirect bank (EUR 2.9 billion), and gains from the sales of interests in regional cable television companies for the German states of North Rhine-Westphalia and Hesse (EUR 3.0 billion).

Depreciation and Amortization. Depreciation and amortization in 2002 were affected by the results of our impairment testing of certain of our assets that was conducted in the context of our strategic review. The testing resulted in nonscheduled amortization of goodwill and mobile communication licenses as follows: T-Mobile USA/Powertel (EUR 17.7 billion total nonscheduled amortization, of which EUR 8.3 billion related to goodwill and EUR 9.4 billion related to licenses), T-Mobile UK's nonscheduled amortization of UMTS licenses (EUR 2.2 billion), T-Mobile Netherlands' nonscheduled amortization of goodwill (EUR 1.0 billion), T-Systems (EUR 0.6 billion total nonscheduled amortization of which EUR 0.5 billion related to Siris goodwill and EUR 0.1 billion related to restructuring charges). In addition, we recorded nonscheduled depreciation of EUR 848 million relating to property plant and equipment consisting primarily of buildings (EUR 250 million), submarine cables (EUR 230 million) and property, plant and equipment at T-Systems (EUR 245 million).

Depreciation and amortization in 2001 included nonscheduled amortization of the book value of trade names relating to One 2 One and max.mobil (EUR 1.0 billion) in connection with a rebranding campaign conducted by T-Mobile, a nonscheduled depreciation of the book values of certain real property assets (EUR 0.5 billion) and nonscheduled depreciation of certain buildings (EUR 0.3 billion), which was offset by gains in an equal amount on the reversal of provisions relating to general real estate risks.

Depreciation and amortization in 2000 were influenced by a nonscheduled depreciation of the book values of certain real property (EUR 2.0 billion) and a nonscheduled depreciation of part of the old copper-based long-distance cable network (EUR 1.0 billion).

Financial Income (Expense), Net. Financial income (expense), net in 2002 was affected by nonscheduled writedowns of the book values of shares in France Telecom (EUR 0.6 billion) and the note receivable from Telewest (EUR 0.4 billion), deferred payments owed to us relating to the sale of regional cable companies (EUR 0.3 billion), interests in comdirect bank (EUR 0.1 billion) and the UMTS license of T-Mobile Netherlands (EUR 0.2 billion) relating to the period that T-Mobile Netherlands was not consolidated.

Financial income (expense), net in 2001 included writedowns in the book value of shares in France Telecom (EUR 0.3 billion) and in comdirect Bank (EUR 0.1 billion), debenture bonds we received in connection with the sale of regional cable companies (EUR 0.4 billion) and writedowns in the book value of shares we held in a regional cable company (EUR 0.1 billion).

Financial income (expense), net in 2000 reflected gains from the sale of our interest in the Italian mobile joint venture WIND (EUR 2.3 billion).

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Network Communications

One of the most important trends that has affected us since the introduction of full competition in Germany in January 1998 has been the decline in the percentage of our revenues accounted for by the traditional fixed-line voice telephony business. That business accounted for 27.8% of our external revenues in 2002, as compared to 36.8% in 2000. This trend results from the increasing contribution of other activities to our group's revenues, as well as from the effects of strong competition in the long-distance voice telephony business and the continued substitution of mobile telephone calls for fixed-line calls.

Competition within the fixed-line voice telephony business in Germany is significantly influenced by decisions of the German telecommunications regulator. On the basis of interconnection rates fixed by the German telecommunications regulator, numerous competitors are able to compete against us with minimal or modest investments in network infrastructure and with prices that often undercut our pricing. Additionally, changes in our pricing policy for public fixed-line voice telephony services are subject to regulatory pre-approval. Beginning in 2003, we are required to offer our competitors unbundled access to our local loop (the wire that connects the premises of our customers to our network), which may result in increasing pressure on tariffs for local calls and a loss of market share. For more details concerning the effects of regulation on our fixed-line voice telephony business, see Item 4. Information on the Company Regulation Regulation in Germany Special Network Access and Interconnection and Item 3. Key Information Risk Factors.

Increasing competition has resulted in a decline in our market share. Although our market share for access lines in the consumer sector of the German market was approximately 97% in 2002, our market share for consumer voice minutes declined to approximately 77% in 2002.

In response to regulatory and competitive pressure on tariffs, we developed a variety of pricing plans. These plans offer customers lower traffic prices in return for an additional monthly fee. As a result, it was possible for us to slow the decline in our German fixed-line market share in 2002. To compensate for the reduction of tariffs and the loss of market share, we have focused on migrating customers from analog to higher-priced ISDN access lines and the broadband T-DSL access lines. For 2003, we expect customers to continue to switch from analog to higher-priced ISDN and T-DSL access lines, but we also expect that our market share for fixed-line voice telephony and access lines in Germany will continue to decline.

Regulation and Litigation

Our business has been strongly influenced by the regulatory regime applicable to telecommunications operators and service providers in Germany. We are viewed by the German telecommunications regulator as dominant in markets that form a significant part of our business, particularly the market for fixed-line voice telephony services. Following the adoption of the new European Union telecommunications regulatory framework, amendments to the German Telecommunications Act are likely to be passed and become effective in the fourth quarter of 2003 or the first quarter of 2004. These amendments could affect our business materially. For further information on this topic, please see Item 4. Information on the Company Regulation. Our international expansion has also made us subject to regulation in other jurisdictions, including in the mobile communications sectors in the United Kingdom and the United States.

We are continuously involved in litigation and other forms of dispute resolution with regulators, competitors and other parties, the outcomes of which may have a material adverse effect on our results of operations or financial condition during the years in which such lawsuits and disputes are resolved. For further information concerning these disputes, see Item 8. Financial Information Litigation.

Technology

New technologies can have a profound effect on the way we conduct our business. Technological advances in areas such as mobile services (UMTS, WLAN) and TV-cable services will almost certainly intensify competition for our traditional fixed-line network and may undermine other areas of our business as well. A challenge for us is to select and commercialize new technologies successfully. We cannot offer assurances that we will succeed, or that the revenues and returns we receive from new technologies will be enough to offset the loss of revenues from technologies they displace.

We have made considerable efforts to stimulate and meet market demand for bandwidth in the access and backbone network, which is mainly driven by the increasing demand for Internet services. To be successful in the long-term, we will need to achieve an appropriate balance in the short-term between the capital investment in our networks that is needed to support growth and our deleveraging objectives. We cannot be sure that we will achieve this balance.

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Real Estate

Our group is pursuing a strategy of reducing our holdings of assets that are outside the scope of our core activities. Although we make extensive use of real property in the operation of our business, we do not view the ownership and management of real estate as one of our core activities. Accordingly, we are moving to reduce our real property holdings. The real estate portfolio of our consolidated group had a book value of EUR 11.4 billion at December 31, 2002. The book value of the real estate portfolio owned directly by Deutsche Telekom AG is approximately EUR 9.4 billion. In view of the size of our real estate portfolio and our focus on dispositions of certain of our non-core assets, our ability to dispose of a significant portion of these assets will be influenced by, among other things, the development of the German real estate market, economic growth expectations, the availability of financing and prevailing interest rate levels. For additional information concerning our real estate holdings, please refer to Item 4. Information on the Company Description of Property.

CRITICAL ACCOUNTING POLICIES UNDER GERMAN GAAP

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in Germany. Our reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. We base our estimates on historical experience and on various other assumptions, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

The selection of critical accounting policies, the judgments and other uncertainties affecting the application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

Accounting for Long-Lived Assets

Property, plant and equipment and purchased intangible assets other than goodwill are recorded at acquisition or construction cost. If such assets are acquired in a business combination, the purchase price is allocated to the estimated fair value of the acquired property, plant and equipment and intangible assets. Property, plant and equipment and intangible assets, including mobile communication licenses, are depreciated or amortized on a straight-line basis over their estimated useful lives.

Property, plant and equipment are valued at acquisition or construction cost, less depreciation. Construction costs include directly allocable costs, an appropriate allocation of material and production overhead and interest accruing during the construction period. However, general administration expenses are not capitalized. As permitted by Postreform II, the legislation by which the former Deutsche Bundespost Telekom was legally transformed into a stock corporation, property, plant and equipment transferred to Deutsche Telekom AG on January 1, 1995, were recorded in the opening balance sheet of Deutsche Telekom AG at fair market values at that date. However, due to the short period of time between the acquisition dates and January 1, 1995, property, plant and equipment acquired during 1993 and 1994 were valued at their remaining book value. The remaining useful lives and the depreciation methods applicable to these assets were not changed. Except as otherwise described in this Annual Report, the fair market values shown in the opening balance sheet have been carried forward as the acquisition costs.

We decided in late 2000 to introduce a real estate strategy oriented toward the monetization of our real estate portfolio. As a consequence, a new valuation approach based on the current replacement costs of individual plots of land owned by us was adopted whereby the lower of the net book value or replacement cost was recorded. The comparison of the newly calculated replacement costs with the carrying amounts resulted in downward adjustments to book value totaling EUR 2.5 billion.

Accounting for long-lived assets and intangible assets involves the use of estimates for determining the fair value at the acquisition date, especially in the case of such assets acquired in a business combination, and the useful lives of the assets over which the costs of acquiring these assets are charged to the income statement.

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When an impairment in the value of assets occurs, nonscheduled depreciation and amortization charges are incurred. We assess the impairment of identifiable intangibles and long-lived assets whenever there is reason to believe that the carrying value may exceed the fair value and where a permanent impairment in value is anticipated. The determination of impairments of long-lived and intangible assets involves the use of estimates that include but are not limited to the cause, the timing and the amount of the impairment. Impairment is based on a broad measure of factors. In evaluating assets for impairment, we apply the German commercial law principle of prudence (*Vorsichtsprinzip*) (Sec. 252(1)(4) of the German Commercial Code) in conjunction with the individual valuation principle (*Einzelbewertungsgrundsatz*). We typically consider, among other things, technological obsolescence, discontinuance of services, current replacement costs and other changes in circumstances that indicate an impairment.

In the strategic review, we used a discounted cash flow approach to estimate the fair value of our mobile communication licenses, including our FCC licenses in the United States. Assumptions regarding mid- and long-term business development prospects were reassessed in light of changes in current competitive conditions, future expectations of growth in the wireless communications industry, increased costs of capital and changes in the future availability of financing. The use of this valuation method represents a change in valuation methodology, as previously we had used a market approach based primarily on the prices for mobile communication licenses established in relevant auctions for the initial recognition of these licenses in the acquisitions of T-Mobile USA and Powertel. Due to the length of time that had elapsed since these auctions took place, along with the general lack of an active marketplace for mobile communication licenses, we concluded that there was insufficient basis to use a market-based approach.

Valuation of Goodwill

Goodwill usually arises in business combinations. The amount of goodwill initially recognized is dependent on the allocation of the purchase price of an entity to all identifiable assets acquired and the liabilities assumed. Such allocations are based on the fair values of those assets. The determination of the fair values of assets and liabilities is based to a considerable extent on management's judgment. In addition, the useful life assigned to goodwill is an estimate that is based on the judgment of management at the time of acquisition. Goodwill is then amortized on a straight-line basis over its useful life.

We review, on a regular basis, the performance of our subsidiaries. Nonscheduled amortization charges are recorded when there is reason to believe that goodwill associated with a subsidiary is impaired and that the impairment is of a permanent nature. The amount of the nonscheduled amortization is determined by comparing the carrying amount of that subsidiary to its fair value. The determination of the fair value of a subsidiary involves extensive use of estimates by management. Methods commonly used to determine the fair value of a subsidiary include discounted cash flow based methods and methods that use quoted stock market prices as a basis. Factors affecting estimated fair values typically include discount rates, future cash flows, growth rates, industry developments, market prices and control premiums. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any goodwill amortization.

Financial Assets

We hold minority interests in companies having operations or technology in areas within our strategic focus, some of which are publicly traded and have highly volatile share prices. We record an investment impairment charge when we believe an investment has experienced a decline in value that is permanent. Determining whether an impairment is permanent involves judgment and relies heavily on an assessment by management regarding the future development of the investee. In measuring impairments, we use quoted market prices, if available, or other valuation methods, based on information available from the investee.

Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

Allowance for Doubtful Accounts

Management maintains an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Management bases its estimates on the aging of our accounts receivable balances and our historical write-off experience, customer credit-worthiness and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, actual write-offs might be higher than expected.

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We are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves the jurisdiction-by-jurisdiction estimation of actual current tax exposure and the assessment of temporary differences resulting from differing treatment of items, such as accruals and amortization, for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must assess in the course of our tax planning procedures the fiscal year of the reversal of our deferred tax assets and liabilities and if there will be future taxable profits in those periods. We reverse in the current year deferred tax assets and liabilities for timing differences that have been recorded if we anticipate that the future reversal will take place in a tax loss year. If we estimate that timing differences of a current year will be reversed in a later tax loss year, we do not record deferred tax assets and liabilities for those timing differences.

Significant management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities. Under German GAAP, we do not record deferred tax assets consisting of net operating losses carried forward and foreign tax credits. The analysis is based on the estimates of taxable income in the jurisdictions in which the group operates and the period over which the deferred tax assets and liabilities will be recoverable. If actual results differ from these estimates, or we adjust these estimates in future periods, our financial position and results of operations may be affected materially.

Pension Accounting

Our pension obligations for benefits to non-civil servants are generally satisfied by defined benefit plans. Our pension benefit costs for non-civil servants are determined in accordance with actuarial assumptions, which rely on assumptions including discount rates, life expectancies, and to a limited extent, expected return on plan assets. Estimations of the expected return on plan assets have a limited impact on our pension cost since the amount of funded plan assets are small in relation to our outstanding pension obligation. Other key assumptions for our pension costs are based in part on actuarial valuations, which rely on assumptions, including discount rates used to calculate the amount of our pension obligation. Due to the underfunded status of certain pension plans at their respective measurement dates, a charge representing an additional minimum liability is recorded in net income under German GAAP. During 2002, we recorded an increase of approximately EUR 220 million to our additional minimum pension liability. This increase was mainly attributable to a decrease of the discount rate used in the calculation of our pension liability from 6.00% in 2001 to 5.75% in 2002. In addition, plan assets increased slightly from EUR 405 million at December 31, 2001 to approximately EUR 410 million at December 31, 2002. Our assumptions concerning the expected return on plan assets are determined on a uniform basis, considering long-term historical returns, asset allocation, and future estimates of long-term investment returns. In the event that further changes in assumptions are required with respect to discount rates and expected returns on invested assets, the future amounts of our pension benefit costs may be affected materially.

Our pension plan obligations with respect to civil servant employees and retirees are subject to a special regime that effectively fixes our annual costs at 33% of the pensionable gross remuneration of active civil servants and the notional pensionable gross remuneration of civil servants on leave of absence. The funding of this annual contribution is recognized as a period expense. In accordance with both U.S. and German GAAP, no liability or accrual has been recorded in respect of future payments.

For further information concerning our pension plan arrangements for civil servants and non-civil servants, please refer to note (27) to our consolidated financial statements and Item 6. Directors, Senior Management and Employees Employees and Labor Relations.

Civil Service Health Insurance Fund

We are obligated, under Postreform II, to pay for any operating cost shortfalls between the sources of regular income of the Civil Service Health Insurance Fund (*Postbeamtenkrankenkasse*, PBeaKK) and benefits paid. The PBeaKK provides healthcare and medical benefits for its members and their relatives, who are civil servants employed by or retired from Deutsche Telekom, Deutsche Post AG and Deutsche Postbank AG. When Postreform II came into effect, the PBeaKK was closed to new members. The insurance premium collected by the PBeaKK may only be increased by the amount by which healthcare costs in Germany rise on average and therefore does not reflect the changing age structure of the PBeaKK. We have accrued the actuarially determined present value of the fund's future deficit which we have to cover using a discount rate, assumptions about life expectancy and projections for contributions and future increases in general health care costs. Because the calculation of this accrual involves long-term projections over periods of more than

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50 years, the present value of the liability is sensitive to small variations in the assumptions used for the calculation.

Accrued Liabilities

We exercise considerable judgment in recording our accrued liabilities and our exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. Where we expect that the occurrence of a contingency is reasonably likely, we accrue an amount for the contingent liability that represents management's estimate at the balance sheet date considering all anticipated risks and losses up to that date, even if they became known after the balance sheet date but prior to the preparation of the financial statements. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated amount accrued.

CONSOLIDATED RESULTS OF OPERATIONS

The following table shows information concerning our consolidated statements of operations for the periods indicated.

	For the year ended December 31,						
	2002			2001			2000
	Pre-acquisitions	Effects of acquisitions	Total	Pre-acquisitions	Effects of acquisitions	Total	Total
	(millions of euro)			(millions of euro)			(millions of euro)
Net revenue	50,393	3,296	53,689	42,061	6,248	48,309	40,939
Changes in inventories and other own capitalized costs	463	71	534	630	249	879	864
Total operating performance	50,856	3,367	54,223	42,691	6,497	49,188	41,803
Other operating income	3,792	109	3,901	6,457	162	6,619	11,002
Goods and services purchased	(13,516)	(902)	(14,418)	(11,321)	(2,156)	(13,477)	(11,950)
Personnel costs	(12,874)	(606)	(13,480)	(10,332)	(1,782)	(12,114)	(9,718)
Depreciation and amortization	(34,185)	(2,695)	(36,880)	(12,165)	(3,056)	(15,221)	(12,991)
Other operating expenses	(12,776)	(1,334)	(14,110)	(9,863)	(2,288)	(12,151)	(10,424)
Financial income (expense), net	(5,759)	(263)	(6,022)	(5,094)	(254)	(5,348)	(1,230)
Results from ordinary business activities	(24,462)	(2,324)	(26,786)	373	(2,877)	(2,504)	6,492
Extraordinary income (loss)							(159)
Taxes	2,588	(105)	2,483	(614)	(194)	(808)	(318)
Income (loss) after taxes	(21,874)	(2,429)	(24,303)	(241)	(3,071)	(3,312)	6,015
(Income) losses applicable to minority shareholders	(190)	(94)	(284)	(72)	(70)	(142)	(89)
Net income (loss)	(22,064)	(2,523)	(24,587)	(313)	(3,141)	(3,454)	5,926

Acquisitions

During the three years ended December 31, 2002, we acquired shares and assets in a number of companies, and as a result the financial results of many of these companies were consolidated in our financial statements for the first time during that three-year period. The principal consolidated subsidiaries we acquired during the three years ended December 31, 2002, and the dates on which these entities became

consolidated subsidiaries are as follows:

debis Systemhaus GmbH (October 2000)

RadioMobil (April 2001)

T-Mobile USA (formerly VoiceStream) and Powertel (May 2001)

Hrvatski Telecom (November 2001)

Ben Nederland Holding B.V. (September 2002)

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The consolidation of a newly acquired subsidiary complicates the comparison of the statements of operations for the year prior to the acquisition, the year of the acquisition and the year following the acquisition, because the newly consolidated subsidiary is not reflected in the consolidated financial statements for the year prior to the acquisition, is reflected in the consolidated financial statements for only part of the year when the acquisition takes place and is reflected in the consolidated financial statements for a full year in the year following the acquisition. To facilitate the comparison of our statements of operations for each of the three years in the period ended December 31, 2002, the table above summarizes the effect of acquisitions on our statements of operations.

Net Revenue

Net revenue (total revenues excluding inter-segment revenues) amounted to EUR 53.7 billion in 2002, representing an increase of EUR 5.4 billion, or 11.1%, over 2001. Of this increase, changes in the composition of the Deutsche Telekom consolidated group in 2002 due to acquisitions accounted for EUR 3.3 billion, relating to the first-time full consolidations of T-Mobile USA and Powertel starting from May 2001 (EUR 2.2 billion), RadioMobil starting from April 2001 (EUR 0.2 billion), Hrvatski Telecom starting from November 2001 (EUR 0.7 billion) and Ben starting from September 2002 (EUR 0.2 billion). Without regard to these changes in the composition of our consolidated group in 2002, net revenue increased by EUR 2.1 billion, or 4.3%, from 2001. This increase consisted of increased revenues in the T-Mobile, T-Online and T-Com divisions (before acquisitions) that were partially offset by decreased revenues in the T-Systems division.

Net revenue amounted to EUR 48.3 billion in 2001, representing an increase of EUR 7.4 billion, or 18%, over 2000. Of this increase, changes in the composition of our consolidated group in 2001 accounted for EUR 6.2 billion, including EUR 2.8 billion relating to the first-time consolidation of T-Mobile USA and Powertel and EUR 2.2 billion relating to the first-time consolidation of debis Systemhaus. Without regard to changes in the composition of our consolidated group in 2001, net revenue increased by EUR 1.1 billion, or 2.7%, from 2000. This increase consisted of increased revenues in the T-Mobile and T-Systems divisions (before acquisitions) and in the T-Online division that were partially offset by decreased revenues in the T-Com division.

For further information on our net revenue development and trends, see [Segment Analysis](#).

Changes in Inventories and Other Own Capitalized Costs

Our statement of operations is prepared on the total-cost basis used in Germany. Cost line items in Germany typically include all costs incurred during the year. Total costs, however, often include expense items that are capitalized either in inventories (mainly cost of goods purchased, but not yet used) or as part of other assets (mainly personnel costs or interest relating to construction in progress). To reflect this fact and to permit the presentation of net income (loss) that does not include capitalized costs, the total-cost approach uses the adjusting line item Changes in Inventories and Other Own Capitalized Costs.

Changes in inventories and other own capitalized costs decreased by EUR 345 million, or 39.2%, from 2001 to 2002. Of this decrease, EUR 282 million resulted from inventories of work in process, mainly from changes at Deutsche Telekom AG and T-Systems International, and EUR 63 million resulted from other own capitalized costs relating primarily to planning and construction services. Other own capitalized costs includes interest incurred relating to construction in progress in the amount of EUR 39 million, EUR 65 million and EUR 64 million in 2002, 2001 and 2000, respectively.

Changes in inventories and other own capitalized costs increased by EUR 15 million, or 1.7%, from 2000 to 2001. Inventories of work in process decreased by EUR 168 million, reflecting a mixture of offsetting effects in various companies of our consolidated group. Other own capitalized costs increased by EUR 183 million, primarily due to changes in the composition of our consolidated group.

Other Operating Income

Other operating income consists of tax refunds, reversals of allowances and accruals, cost reimbursements, gains from sales of marketable securities and assets, foreign currency gains and other miscellaneous items.

Other operating income amounted to EUR 3.9 billion in 2002, representing a decrease of EUR 2.7 billion, or 41.1%, compared to 2001. Other operating income for 2002 was affected by gains from the sale of a portion of the shares of T-Online and Satelindo (EUR 0.3 billion and EUR 0.2 billion). These

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gains were modest, however, compared to the 2001 gains from the sale of our shares held in Sprint Corporation (EUR 2.0 billion) and from the sale of the regional cable company in Baden-Wuerttemberg (EUR 0.9 billion). Leaving aside dispositions, the decline in other operating income from 2001 to 2002 was largely a result of lower realized foreign currency gains in 2002 (2002: EUR 0.2 billion; 2001: EUR 0.5 billion).

Other operating income for 2000 was strongly affected by earnings from the sale of our interest in Global One (EUR 2.9 billion), earnings from the sale of interests in regional cable companies in North Rhine-Westphalia and Hesse (EUR 3.0 billion) and the dilution effects resulting from the initial public offering of T-Online International AG (EUR 2.7 billion) and other investments (EUR 0.2 billion).

Pursuant to the German Value-Added Tax Act (*Umsatzsteuergesetz*), we are entitled to recover a portion of the VAT incurred on assets purchased and placed into service before January 1, 1996, the date on which we became fully subject to VAT. We have reclaimed a total of EUR 2.7 billion since 1996. The refund amounted to EUR 68 million, EUR 85 million and EUR 169 million in 2002, 2001 and 2000, respectively.

Goods and Services Purchased

The following table presents information concerning goods and services purchased.

	For the year ended December 31,				
	2002	2001	2000	2002/2001	2001/2000
	(millions of euro)			(% change)	
Goods purchased	4,671	4,397	4,075	6.2%	7.9%
Services purchased					
Domestic network access charges	1,967	2,174	1,985	(9.5)%	9.5%
International network access charges	3,905	3,268	2,819	19.5%	15.9%
Total network access charges	5,872	5,442	4,804	7.9%	13.3%
Other services purchased	3,875	3,638	3,071	6.5%	18.5%
Total services purchased	9,747	9,080	7,875	7.3%	15.3%
Total goods and services purchased	14,418	13,477	11,950	7.0%	12.8%

Total goods and services purchased amounted to EUR 14.4 billion in 2002, representing an increase of EUR 941 million, or 7%, compared to 2001. The increase in goods and services purchased reflects changes in the composition of our consolidated group in 2002 which accounted for EUR 902 million of such increase (mainly T-Mobile USA, Powertel, Hrvatski Telecom and Ben). Without regard to the effects of changes in the composition of our consolidated group, goods and services purchased were nearly at the same level as in 2001.

Goods purchased increased from 2001 to 2002 as well as from 2000 to 2001 as a result of the changes in the composition of our consolidated group (mainly T-Mobile USA and Powertel). Excluding these effects, goods purchased declined from 2001 to 2002 as well as from 2000 to 2001 due to the lower level of terminal equipment purchased.

Domestic network access charges decreased by EUR 207 million, or 9.5%, from 2001 to 2002. These charges arise principally from calls that are initiated by our customers or routed through our network and that are terminated in the networks of other fixed and mobile network operators in Germany. The decrease in 2002 resulted primarily from a decrease in revenues from business with domestic carriers. An increase in the volume of calls routed through our network in 2001 compared to 2000 led to increased domestic network access charges.

International network access charges increased from 2001 to 2002 by EUR 637 million, or 19.5%, primarily due to changes in the composition of our consolidated group (primarily T-Mobile USA and Powertel) and the effect of more favorable purchasing conditions for international network capacities. Similarly, international network access charges increased from 2000 to 2001 primarily due to the impact of newly consolidated companies, particularly T-Mobile UK (formerly One 2 One) and SIRIS, and the effect of an increasing number of minutes of outgoing international traffic from our mobile and fixed networks, which resulted in significantly higher network access charges. These factors

were offset, to some degree, by a decline in international settlement rates.

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Other services purchased consist of maintenance expenses for telecommunications hardware and software and buildings, other maintenance expenses, energy and utility costs and costs for information services. The slight increase in other services purchased from 2001 to 2002 relates primarily to increased services purchased (primarily logistic services) and changes in the composition of our consolidated group.

The increase in other services purchased from 2000 to 2001 of EUR 567 million, or 18.5%, relates primarily to increased services purchased for value-added services, the impact of new acquisitions and services purchased in relation to a real estate development project.

Personnel Costs

The following table presents information concerning our personnel costs.

	For the year ended December 31,				
	2002	2001	2000	2002/2001	2001/2000
	(millions of euro)			(% change)	
Wages and salaries	10,467	9,313	7,470	12.4%	24.7%
Other personnel costs ⁽¹⁾	3,013	2,801	2,248	7.6%	24.6%
Total personnel costs	13,480	12,114	9,718	11.3%	24.7%

(1) Other personnel costs consist primarily of social security costs, which are fixed by law generally as a percentage of wages and salaries, and of pension costs, principally for civil servants.

The average number of full-time equivalent employees increased from 241,660 in 2001 to 255,896 in 2002, an increase of 5.9%. This increase was primarily due to the impact of newly consolidated companies, particularly T-Mobile USA, Powertel and Hrvatski Telecom.

The average number of full-time equivalent employees increased from 205,032 in 2000 to 241,660 in 2001, an increase of 17.9%, primarily as a result of the consolidation of T-Mobile USA, Powertel and RadioMobil.

Personnel costs increased by EUR 1.4 billion, or 11.3%, from 2001 to 2002. Of this increase, EUR 0.6 billion relates to changes in the composition of our consolidated group, mainly due to the impact of the full-year consolidation of personnel costs of T-Mobile USA, Powertel and Hrvatski Telecom. Without regard to the changes in our consolidated group, personnel costs rose by EUR 0.8 billion, or 6.3%, from 2001 to 2002, primarily due to collective bargaining agreement adjustments of wages and salaries to bring them in line with market conditions and to promote performance. Also, structural changes relating to the assignment of personnel in higher-value positions contributed to the increase in personnel costs. Moreover, personnel costs were affected by an accrual for restructuring measures at T-Systems (EUR 0.3 billion) as a result of our strategic review in the third quarter of 2002. For further information on the strategic review, see Item 4. Information on the Company Strategy. Included in total personnel costs in 2002 are additional minimum pension liabilities of EUR 0.2 billion. These additional pension liabilities mainly resulted from changes in interest rates used for actuarial valuations of our pension obligations, for which interest rates are determined at the beginning of the year using the then current long-term interest rate. Generally, most of our pension obligations are not sensitive to future wage increases as they are calculated annually based on current wages of eligible employees. Changes in actual interest rates from year to year will cause a change in the calculation of the present value of our obligations. If above certain thresholds, these changes may result in an increase or decrease in our pension costs for the relevant year. For this purpose, declines in long-term interest rates tend to lead to increases in our pension costs. For more information, see Critical Accounting Policies Under German GAAP Pension Accounting and Item 6. Directors, Senior Management and Employees Employees and Labor Relations Civil Servants.

Personnel costs increased by EUR 2.4 billion, or 24.7%, from 2000 to 2001. Of this increase, EUR 1.8 billion relates to changes in the composition of our consolidated group, principally debis Systemhaus (EUR 1.0 billion) and T-Mobile USA/ Powertel (EUR 0.6 billion). Without regard to changes in our consolidated group, personnel costs rose by EUR 614 million, or 6.3%. This increase was primarily due to pay-scale changes, which attempted to conform salaries to market standards and encourage high performance, as well as to changes in the structure of our workforce. In addition, personnel costs in 2001 were influenced by an additional minimum pension liability (EUR 0.2 billion) as a result of changes in long-term interest rates.

Table of Contents**Depreciation and Amortization**

The following table presents information concerning depreciation and amortization.

	For the year ended December 31,				
	2002	2001	2000	2002/2001	
	(millions of euro)			(% change)	
UMTS license amortization	2,864	724	381	295.6%	90.0%
U.S. mobile communications licenses	10,380	690		n.m	n/a
Goodwill amortization	13,108	3,663	1,248	257.8%	193.5%
Depreciation and amortization on remaining fixed and intangible assets	10,528	10,144	11,362	3.8%	(10.7)%
Depreciation and amortization	36,880	15,221	12,991	142.3%	17.2%

Total depreciation and amortization amounted to EUR 36.9 billion in 2002, representing an increase of EUR 21.7 billion compared to 2001. This increase was primarily attributable to the strategic review in the third quarter of 2002, which resulted in nonscheduled amortization of goodwill at T-Mobile USA and Powertel (EUR 8.3 billion), Ben (EUR 1.0 billion) and SIRIS (EUR 0.5 billion). Additionally, nonscheduled amortization was recorded with respect to the mobile communications licenses of T-Mobile USA and Powertel (EUR 9.4 billion) and the UMTS license of T-Mobile UK (EUR 2.2 billion). In total, the nonscheduled amortization as a result of our strategic review amounted to EUR 21.3 billion. The inclusion of newly consolidated companies generated an increase in scheduled depreciation and amortization (EUR 1.7 billion), mainly attributable to the consolidation of T-Mobile USA and Powertel for a full year in 2002. Scheduled amortization of goodwill increased by EUR 0.7 billion, amortization of UMTS and U.S. mobile communication licenses increased by EUR 0.5 billion and depreciation of property plant and equipment increased by EUR 0.5 billion.

Total depreciation and amortization amounted to EUR 15.2 billion in 2001, representing an increase of EUR 2.2 billion, or 17.2%, compared to 2000. Depreciation and amortization of companies acquired during 2000 and 2001, principally T-Mobile USA, Powertel and debis Systemhaus, accounted for EUR 3.1 billion of the increase in depreciation and amortization. We also recorded a nonscheduled amortization of EUR 466 million relating to the book values of real estate in 2001 and a nonscheduled amortization of EUR 1.0 billion relating to goodwill associated with the trademarks of T-Mobile UK (formerly One 2 One) and T-Mobile Austria (formerly max.mobil) in connection with the T-Mobile rebranding campaign. In addition, in 2001, a nonscheduled depreciation of EUR 350 million was taken with respect to buildings for which no further commercial use was expected. This nonscheduled depreciation was offset by a gain of the same amount on the reversal of provisions for general risks relating to such buildings. Further, nonscheduled depreciation on property, plant and equipment was taken in the amount of EUR 158 million, relating principally to portions of the mobile communications network of T-Mobile UK (EUR 104 million).

Total depreciation and amortization in 2000 was significantly influenced by several factors. UMTS license amortization commenced in 2000, relating primarily to licenses in the United Kingdom and Germany. Our acquisitions during 2000 gave rise to considerable goodwill, which contributed EUR 0.9 billion to the increase in goodwill amortization. Goodwill primarily resulted from the acquisitions of T-Mobile UK, T-Mobile Austria and debis Systemhaus and from the acquisition of Ameritech's interest in MATAV. Further, nonscheduled depreciation of old network components (EUR 1.0 billion) due to the introduction of advanced fiber optic transmission technology in parts of our fixed-line network contributed to depreciation and amortization in 2000. In addition, we recorded a nonscheduled depreciation of EUR 2.0 billion with respect to our real estate portfolio. The remaining increase in depreciation and amortization is primarily related to depreciation and amortization of the assets of newly acquired companies (other than with respect to goodwill and UMTS licenses).

Goodwill relating to T-Mobile USA/ Powertel is denominated in U.S. dollars and, with respect to T-Mobile UK, in British pounds. Exchange rate movements therefore affect the amortization of goodwill relating to T-Mobile USA/ Powertel and T-Mobile UK upon conversion to euros.

Other Operating Expenses

Other operating expenses consist of expenses occurring in the ordinary course of business that cannot be classified in any other line item in the statements of operations.

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Other operating expenses amounted to EUR 14.1 billion in 2002, representing an increase of EUR 2.0 billion, or 16.1%, compared to 2001. This increase principally reflects other operating expenses relating to changes in the composition of our consolidated group (mainly T-Mobile USA: EUR 1.0 billion). Marketing expenses, advertising gifts and commissions increased by EUR 0.6 billion, mainly as a result of the full year consolidation of T-Mobile USA and Powertel. Rental and leasing expenses increased by EUR 0.5 billion over the previous year. This is mainly attributable to changes in the composition of our consolidated group within T-Mobile. Losses on accounts receivable and provisions for doubtful accounts increased by EUR 0.5 billion, primarily at Deutsche Telekom AG. This relates mainly to the discount for credit risks from the asset back securities transactions. Other operating expenses in 2002 were influenced by restructuring expenses of our T-Systems division (EUR 106 million) and our T-Com division (EUR 42 million).

Other operating expenses amounted to EUR 12.2 billion in 2001, representing an increase of EUR 1.7 billion, or 16.6%, compared to 2000. This increase principally reflects other operating expenses for 2001 relating to T-Mobile USA (EUR 1.6 billion) and debis Systemhaus (EUR 0.3 billion). In addition, other operating expenses for 2001 were negatively affected by expenses and consulting fees in the amount of EUR 104 million, particularly relating to the sale of Sprint shares. Positively affecting other operating expenses in 2001 were decreased losses on the disposition of non-current assets, decreased additions to accruals and decreased losses on derivative financial instruments. Losses on accounts receivable and increased provisions for doubtful accounts in the amount of EUR 0.3 billion (excluding losses and provisions relating to T-Mobile USA and Powertel), of which EUR 0.2 billion related to insolvencies of fixed-line network competitors of ours that used our fixed-line network, had an positive influence on other operating expenses, as did increased maintenance costs. In 2000, other operating expenses had been affected by losses on the disposition of non-current assets (EUR 0.5 billion) and additions to certain accruals (EUR 0.4 billion).

Financial Income (Expense), Net

The following table presents information concerning our financial income (expense), net.

	For the year ended December 31,				
	2002	2001	2000	2002/2001	2001/2000
	(millions of euro)			(% change)	
Results related to companies accounted for under the equity method	(430)	(547)	1,890	21.4%	(128.9)%
Other investments	(1,544)	(663)	(23)	(132.8)%	n.m
Income (loss) from financial activities	(1,974)	(1,210)	1,867	(63.1)%	(164.8)%
Net interest expense	(4,048)	(4,138)	(3,097)	2.2%	(33.6)%
Financial income (expense), net	(6,022)	(5,348)	(1,230)	(12.6)%	(334.8)%

Net Interest Expense

Our net interest expense slightly improved during 2002 by EUR 90 million to negative EUR 4.0 billion at year-end 2002, largely attributable to the reversal of interest rate derivatives that were no longer necessary.

The effective weighted average interest rate applicable to our outstanding indebtedness related to bonds and debentures was 6.7% in 2002, 6.8% in 2001 and 6.5% in 2000. The effective weighted average interest rate applicable to outstanding indebtedness related to bank liabilities was 5.7% in 2002, 5.8% in 2001 and 6.7% in 2000. A portion of our debt instruments have provisions that will cause the interest rate on such investments to increase upon the occurrence of certain downgrades in our long-term unsecured debt ratings. For more information, see Liquidity and Capital Resources Capital Resources .

Income (Loss) from Financial Activities

Income (loss) from financial activities includes our share of the income or losses on investments accounted for under the equity method and losses relating to writedowns of other investments. Results related to companies accounted for under the equity method includes the amount of annual amortization of goodwill relating to these investments, which is essentially the amortization of goodwill arising from the difference

between the purchase price we paid and our share of the shareholders' equity for each of these investments. Income and loss from other investments consists primarily of dividends received from our investments as well as provisions for writedowns of the carrying amounts of other investments.

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Losses from other investments amounted to EUR 1.5 billion in 2002. These losses were mainly attributable to writedowns of the net carrying amount of our former stake in France Telecom (EUR 0.6 billion), valuation adjustments for other investments in non-current securities (EUR 0.4 billion) and loans to Kabel Deutschland GmbH (EUR 0.3 billion). In 2002, results related to companies accounted for under the equity method improved, mainly due to the reduction of the high level of expenses resulting from associated companies and depreciation of goodwill of associated companies in 2001.

The decrease in results related to companies accounted for under the equity method from 2000 to 2001 was largely due to gains of EUR 2.3 billion realized by the associated company DT-FT Italian Holding upon the sale of its interests in the Italian mobile joint venture WIND. In addition, other investments were negatively affected in 2001 by a writedown in the amount of EUR 0.3 billion in the book value of our interest in France Telecom and a writedown in the amount of EUR 0.4 billion in the book value of debenture bonds received by us in the sale of interests in regional cable companies.

Results from Ordinary Business Activities

Results from ordinary business activities decreased by EUR 24.3 billion to negative EUR 26.8 billion from 2001 to 2002. Results from ordinary business activities are influenced by all of the factors described above that influenced individual statements of operations line items. The principal factor accounting for the decline in results from ordinary business activities was a substantial increase in the net contribution of nonscheduled depreciation and amortization resulting from the strategic review in 2002. For further information on the strategic review, see

Item 4. Information on the Company Strategy. We estimate that these nonscheduled items had an aggregate positive impact on results from ordinary business activities of EUR 161 million in 2001 and an aggregate negative impact of EUR 16.4 billion in 2002.

Results from ordinary business activities decreased by EUR 9.0 billion from 2000 to 2001. Results from ordinary business activities are influenced by all of the factors described above that influenced individual statements of operations line items. The principal factor accounting for the decline in results from ordinary business activities was a substantial decline in the net contribution of nonscheduled depreciation and amortization. Additional factors contributing to the decline in results from ordinary business activities were losses from companies acquired in 2000 and 2001 (EUR 2.9 billion), principally T-Mobile USA and debis Systemhaus, amortization of goodwill relating to companies acquired in 2000 and 2001, an increase in interest expense resulting from indebtedness incurred in 2000 to finance the acquisition of UMTS licenses and the first-time inclusion of UMTS license amortization for an entire year in 2001.

Extraordinary Income (Loss)

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

Taxes

The following table presents information concerning income taxes and other taxes.

	For the year ended December 31,				
	2002	2001	2000	2002/2001	2001/2000
	(millions of euro)			(% change)	
Income taxes	(2,847)	751	194	(479.1)%	287.1%
Other taxes	364	57	124	n.m	54.0%
Taxes	(2,483)	808	318	(407.3)%	154.1%

Loss before taxes increased to EUR 26.8 billion in 2002. The resulting income tax benefit amounts to EUR 2.8 billion, compared with an expense of EUR 0.8 billion in 2001. This effect was mainly attributable to the reversal of deferred tax liabilities relating to the nonscheduled amortization of mobile communications licenses of T-Mobile USA and Powertel, which generated income from deferred taxes of EUR 3.0 billion. In 2002, the Federal Finance Court confirmed our legal position concerning Deutsche Telekom AG's recognition of goodwill for tax reporting purposes. The retroactive amortization of goodwill to be carried for the years 1996-1999 results in an income tax reduction of

approximately EUR 1.0 billion. In addition, amortization of goodwill increased net operating loss carryforwards (corporate income tax and trade tax) for the years 2000-2002 by EUR 2.2 billion (EUR 741 million per year). The capitalization of this goodwill leads to an

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additional expense of EUR 0.2 billion for wealth tax and trade capital tax for the years 1996 and 1997, which is responsible for the increase in other taxes.

Income tax expense in 2001 amounted to EUR 751 million, an increase of EUR 557 million, or more than 100%, compared to 2000. Due to changes in the character of our income before taxes, income tax expense increased despite the decrease in results from ordinary business activities from 2000 to 2001.

Income before taxes for 2000 included significant items that were not subject to taxation, principally the proceeds of our sale of our interest in Global One, the dilution effect resulting from the initial public offering of T-Online International AG and the proceeds of our sale of our interest in WIND. Income before taxes for 2001 included no significant tax-free items other than the sale of Sprint shares held by us. In addition, in 2001, expenses that had to be recognized for financial accounting purposes but that were not deductible for tax purposes, principally goodwill amortization, were higher in 2001 than in 2000. Furthermore, in 2001, there was an increase in losses of subsidiaries that had to be recognized for financial reporting purposes but may be recognized for tax accounting purposes only when the related tax loss carryforwards are utilized in the future.

Our effective income tax rate (income taxes as a percentage of pre-tax income (loss)) was approximately 11% in 2002, (30)% in 2001 and 3.1% in 2000. The German statutory income tax rate for us was approximately 39% in 2002, 39% in 2001 and 52% in 2000 and included corporate income taxes (assuming that earnings are not distributed), trade income taxes (at a German national average rate) and the solidarity surcharge on corporate income tax (*Solidaritaetszuschlag*). Due to a change in income tax law in Germany, which reduced the statutory corporate tax rate to a uniform 25% tax rate (for both distributed and non-distributed earnings), our income tax rate for 2001 was significantly lower than in prior years. As a result of a new law, the German corporate income tax rate will increase from 25% to 26.5% for fiscal year 2003 only.

(Income) Loss Applicable to Minority Shareholders

(Income) loss applicable to minority shareholders includes EUR 390 million (2001: EUR 322 million; 2000: EUR 189 million) in gains and EUR 106 million (2001: EUR 180 million; 2000: EUR 100 million) in losses. The gains in 2002 relate mainly to MATAV and Hrvatski Telecom. The losses relate mainly to T-Online International AG.

SEGMENT ANALYSIS

The following table presents total revenues (the sum of external or net revenues and revenues between segments), net revenues and inter-segment revenues of our segments for the years indicated.

For the year ended December 31,

	2002			2001			2000		
	Net revenues	Inter-segment revenues	Total revenues	Net revenues	Inter-segment revenues	Total revenues	Net revenues	Inter-segment revenues	Total revenues
	(millions of euro)			(millions of euro)			(millions of euro)		
T-Com	25,422	4,776	30,198	25,028	4,391	29,419	24,455	4,927	29,382
T-Systems	7,793	3,517	11,310	8,316	3,583	11,899	6,021	3,791	9,812
T-Mobile	18,229	1,506	19,735	12,994	1,643	14,637	8,994	1,362	10,356
T-Online	1,672	158	1,830	1,338	111	1,449	1,038	90	1,128
Other Activities	573	3,838	4,411	633	4,481	5,114	431	4,770	5,201
Reconciliation		(13,795)	(13,795)		(14,209)	(14,209)		(14,940)	(14,940)
Group	53,689		53,689	48,309		48,309	40,939		40,939

Reclassification

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The segment information for 2001 and 2000 in the table above and throughout this Annual Report (including in note (35) to the consolidated financial statements included herein) has been reclassified to reflect the 2002 organizational changes among our segments. As of January 1, 2002, operational responsibility for our domestic carrier services business was transferred from the T-Systems segment to the T-Com segment and operational responsibility for our international carrier sales and services solutions business was transferred from the T-Com segment to the T-Systems segment. In addition, international operations were transferred from Other Activities to T-Com as of January 1, 2002. T-Com's international activities are conducted through MATAV in Hungary, Slovak Telecom (Slovak Telecom) in Slovakia and Hrvatski Telecom in Croatia.

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The following table presents 2001 and 2000 segment net revenues before and after this reclassification.

	For the year ended December 31,					
	2001			2000		
	Previous	Change	Reclassified	Previous	Change	Reclassified
	(millions of euro)			(millions of euro)		
T-Com	19,362	5,666	25,028	20,170	4,285	24,455
T-Systems	11,211	(2,895)	8,316	8,460	(2,439)	6,021
T-Mobile	12,994		12,994	8,994		8,994
T-Online	1,338		1,338	1,038		1,038
Other Activities	3,404	(2,771)	633	2,277	(1,846)	431
Total	48,309		48,309	40,939		40,939

The following table shows the components of net revenues affected by the reclassification.

	For the year ended December 31,	
	2001	2000
	(millions of euro)	
T-Com		
Previous net revenues	19,362	20,170
Domestic carrier	3,722	3,469
International carrier	(776)	(999)
Eastern Europe (international operations)	2,719	1,825
Other	1	(10)
Reclassified net revenues	25,028	24,455
T-Systems		
Previous net revenues	11,211	8,460
Domestic carrier	(3,722)	(3,469)
International carrier	776	999
Other	51	31
Reclassified net revenues	8,316	6,021
Other Activities		
Previous net revenues	3,404	2,277
Eastern Europe (international operations)	(2,719)	(1,825)
Other entities	(52)	(21)
Reclassified net revenues	633	431

Table of Contents**T-Com**

The following table presents selected financial information concerning T-Com.

	For the year ended December 31,				
	2002	2001 ⁽¹⁾	2000 ⁽¹⁾	2002/2001	2001/2000
	(millions of euro)			(% change)	
Net revenues	25,422	25,028	24,455	1.6%	2.3%
Inter-segment revenues	4,776	4,391	4,927	8.8%	(10.9%)
Total revenues	30,198	29,419	29,382	2.6%	0.1%
Income before taxes	3,539	4,614	4,904	(23.3%)	(5.9%)

(1) Information for 2001 and 2000 has been reclassified to conform to 2002 organizational changes among segments.

Net Revenues

The net revenues from our T-Com division (total revenues excluding inter-segment revenues) increased by EUR 394 million, or 1.6%, to EUR 25,422 million in 2002 from EUR 25,028 million in 2001. This increase was primarily a result of the full-year consolidation of Hrvatski Telecom in 2002 (EUR 981 million) and increased network communications revenues. Additionally, net revenues were positively affected by increased data communication revenues, due to increases in demand, as well as growth at MATAV. These increases were partially offset by a decrease in net revenues from carrier services and by the deconsolidation of our former cable operation in Baden-Wuerttemberg. On March 13, 2003, we completed the sale of our six remaining cable operations. These operations contributed EUR 897 million in 2002 and EUR 751 million in 2001 to our net revenues. As a result of this sale, these companies will no longer be part of our consolidated group.

Net revenues increased by EUR 573 million, or 2.3%, to EUR 25,028 million in 2001 from EUR 24,455 million in 2000. The increase in 2001 primarily resulted from the full consolidation of Hrvatski Telecom since November 2001 (EUR 153 million), the full consolidation of MakTel, a subsidiary of MATAV, since the first quarter of 2001 (EUR 244 million) and the first full-year consolidation of Slovak Telecom, which was first consolidated in September 2000. This consolidation effect was partially offset by the deconsolidation of the cable companies in Hesse and North-Rhine Westphalia in 2000 and Baden Wuerttemberg in the third quarter of 2001.

Inter-Segment Revenues

In 2002, revenues from business with other segments amounted to EUR 4,776 million, an increase of EUR 385 million, or 8.8%, as compared to inter-segment revenues of EUR 4,391 million in 2001. This increase mainly related to network and support services billed by T-Com to the other segments and the provision of fixed-line network terminal equipment for other segments. Compared to 2002, revenues from business with T-Online increased 10% and revenues from business with T-Systems increased 19%.

In 2001, inter-segment revenues decreased by EUR 536 million, or 10.9%, to EUR 4,391 million from EUR 4,927 million in 2000. This decrease resulted from the reduction in provision of services to other segments primarily attributable to a reduction in business volume from T-Systems, offset in part by increased access for online services by fixed-line network subscribers.

Total Revenues

The following table reflects total revenues by geographic area.

For the year ended December 31,

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	2002	2001	2000	2002/2001	2001/2000
	(millions of euro)			(% change)	
Domestic	26,321	26,670	27,558	(1.3)%	(3.2)%
Eastern Europe	3,877	2,749	1,824	41.0%	50.7%
Total revenues	30,198	29,419	29,382	2.6%	0.1%

In 2002, T-Com's total revenues increased by EUR 779 million, or 2.6%, to EUR 30,198 million from EUR 29,419 million in 2001. Domestic business accounted for approximately 87.2% of T-Com's total

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revenues in 2002. MATAV, Slovak Telecom and Hrvatski Telecom account for all Eastern European revenues and contributed approximately EUR 3,877, or 12.8%, of T-Com's total revenues during 2002. Primarily as a result of the first full-year consolidation of Hrvatski Telecom, total revenues from our Eastern European subsidiaries increased by EUR 1,128 million, or 41.0%, compared to the total revenues for these subsidiaries in 2001. Of this increase, the first full-year consolidation of Hrvatski Telecom contributed approximately EUR 854 million.

In 2001, T-Com's total revenues increased by EUR 37 million, or 0.1%, to EUR 29,419 million from EUR 29,382 million in 2000. Domestic business accounted for approximately 90.7% of T-Com's total revenues during 2001. MATAV, Slovak Telecom and Hrvatski Telecom contributed EUR 2,749 million or 9.3% of total revenues. The first full-year consolidation of Slovak Telecom in the year 2001 and the first-time consolidation of Hrvatski Telecom in November 2001 were primarily responsible for a revenue increase of EUR 925 million, or 50.7%, compared to the total revenues for these subsidiaries in 2000. Additionally, the growth at MATAV and the consolidation of MakTel in MATAV during the first quarter of 2001 contributed to this growth. These increases were partially offset by a decrease in revenues from broadband cable, which was largely the result of the deconsolidation of the regional cable companies in Hesse and North-Rhine Westphalia.

Components of Total Revenues

Total revenues are derived principally from domestic fixed-line network revenues (network communications, data communications, value-added services, terminal equipment sales), domestic carrier services, systems integration and consulting and the consolidation of results from T-Com's Eastern European subsidiaries.

	For the year ended December 31,				
	2002	2001	2000 ⁽¹⁾	2002/2001	2001/2000 ⁽¹⁾
	(millions of euro)			(% change)	
Domestic					
Network communications	15,113	14,788		2.2%	
Data communication	3,407	3,116		9.3%	
Value-added services					