

Deutsche Telekom Network Projects & Services GmbH, Bonn

Balance sheet as of December 31, 2003

Assets

	31.12.2003	31.12.2002 ¹	31.12.2002 ²
	€	('000) €	('000) €
A. Noncurrent assets			
I. Intangible assets			
1. Concessions, industrial property rights and software	4,972,960.30	5,681	7,317
2. Goodwill	171,442,451.00	195,934	195,934
3. Advance payments	308,700.00	0	0
	176,724,111.30	201,615	203,251
II. Property, plant and equipment			
Land and equivalent rights and buildings including buildings on land owned by third parties	251,356.68	60	264
2. Technical equipment and machinery	84,318,000.74	87,228	87,228
3. Other equipment, plant and office equipment	18,061,138.36	3,482	21,625
4. Advance payments and construction in progress	2,788,393.67	547	983
	105,418,889.45	91,317	110,100
III. Financial assets			
Investments in subsidiaries	1,474,100.10	1,470	1,513
	283,617,100.85	294,402	314,864
B. Current assets			
I. Inventories, materials, and supplies			
1. Raw materials and supplies	7,146,981.86	932	12,483
2. Work in process	44,620,297.53	0	48,594
3. Finished goods and merchandise	10,411,137.94	0	9,006
4. Advance payments	1,049,219.51	0	724
	63,227,636.84	932	70,807
II. Receivables and other assets			
1. Trade accounts receivable	9,622,555.31	1,846	13,255
2. Receivables from subsidiaries (of these, from the parent)	299,365,591.66 (263,473,457.92)	306,003 (206,902)	301,810 (168,607)
3. Other assets	2,341,796.24	1,808	2,150
	311,329,943.21	309,657	317,215
III. Cash in hand, cash in banks			
	3,841,846.71	19	643
	378,399,426.76	310,608	388,665
C. Prepaid expenses and deferred charges			
	7,442,839.06	379	8,092
	669,459,366.67	605,389	711,621

¹ T-Data.

² Comparable prior-year figures (including former DeTeLine).

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Liabilities

	31.12.2003	31.12.2002 ¹	31.12.2002 ²
	€	('000)€	('000)€
A. Shareholders' equity			
I. Capital stock	105,173,000.00	102,258	105,173
II. Additional paid-in capital	418,555,867.77	394,232	418,556
III. Retained earnings	244,323.03	244	244
	523,973,190.80	496,734	523,973
B. Accruals			
1. Accruals for pensions and similar obligations	24,713,977.00	1,834	21,214
2. Tax accruals	9,371,467.34	61,780	61,780
3. Other accruals	39,485,666.89	23,556	61,108
	73,571,111.23	87,170	144,102
C. Liabilities			
1. Liabilities to banks	699.93	0	0
2. Advances received	2,886,241.97	0	1,652
3. Trade accounts payable	28,270,465.64	8,381	27,900
4. Payables to subsidiaries	7,448,385.20	12,321	8,846
5. Other liabilities	27,365,588.24	783	4,048
(of which: from taxes)	(23,664,029.25)	(760)	2,286
(of which: from social security)	(2,565,612.84)	(0)	(1,417)
	65,971,380.98	21,485	42,446
D. Deferred income	5,943,683.66	0	1,100
	669,459,366.67	605,389	711,621

Deutsche Telekom Network Projects & Services GmbH, Bonn

Statement of profit and loss for the period from January 1 to December 31, 2003

	2003	2002 ¹	2002 ¹
	€	T€	€
1. Net revenue	1,041,311,312.95	541,582	979,216
2. Cost of sales	887,478,361.68	393,432	776,806
3. Cross profit from sales	153,832,951.27	148,150	202,410
4. Selling costs	79,208,298.58	51,899	86,918
5. General and administrative costs	33,231,420.86	8,009	21,386
6. Other operating income	29,595,427.16	22,909	32,036
7. Other operating expenses	39,281,705.98	29,424	36,450
	31,706,953.01	81,727	89,692
8. Income from profit transfer agreements	19,916,116.49	21,120	21,120
9. Other interest and similar income	4,382,865.12	6,288	6,348
(of which from subsidiaries)	(4,382,240.01)	(86,288)	(6,342)
10. Write-downs on financial assets	0.00	1,848	1,848
11. Interest and similar expenses	2,210,303.42	12,533	13,893
(of which to subsidiaries)	(938,740.03)	(25)	(1,366)
12. Financial income (expense), net	22,088,678.19	13,027	11,727
13. Results from ordinary business activities	53,795,631.20	94,754	101,419
14. Income taxes	-1,248,649.82	55,350	55,350
(of these, attributable to Deutsche Telekom)	(0.00)	(838)	(838)
15. Profit transferred under the terms of a profit transfer agreement	55,044,281.02	39,404	46,069
16. Net income	0.00	0	0
17. Unappropriated net income carried forward from previous year	0.00	0	2,042
18. Unappropriated net income	0.00	0	2,042

¹ T-Data.

² Comparable prior-year figures (including former DeTeLine).

Deutsche Telekom Network Projects & Services GmbH, Bonn

2003 Notes

I. General information

Deutsche Telekom Network Projects & Services GmbH is a wholly owned subsidiary of Deutsche Telekom. The company has its registered office in Bonn, Germany and was filed under HRB 6787 in the commercial register of the Bonn District Court. Network Projects is the successor company to T-Data and DeTeLine. On December 20, 2002 the shareholders' meetings of both companies decided to merge DeTeLine into T-Data with effect from January 1, 2003. The new company has been operating under its new name Deutsche Telekom Network Projects & Services GmbH (Network Projects) since registering under that name on February 19, 2003. The new company was entered in the commercial register of the Bonn District Court on March 10, 2003. The assets and liabilities listed in DeTeLine's closing balance sheet dated December 31, 2002 and transferred under the merger agreement were reported in the merger balance sheet as permitted under § 24 of the German Reorganization and Transformation Act (*Umwandlungsgesetz/UmwG*).

Effective from July 1, 2003 products in the area of national networks (NAN), PABXs (MVC72) and some units in the service and support area were transferred from T-Com to Network Projects. The responsibility for the entire customized solutions business of T-Com Production and Service now lies with Network Projects. 651 employees were transferred to Network Projects in the course of the migration.

In accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch/HGB*) and the German Limited Liability Companies Act (*GmbH-Gesetz/GmbHG*) applicable to large corporations, the annual financial statements as at December 31, 2003 were prepared and included in the consolidated financial statements of Network Projects in accordance with § 271 (2) HGB. Deutsche Telekom forms the largest consolidated group.

Effective from January 1, 1998 the company signed a profit transfer agreement with Deutsche Telekom. In addition, on December 10, 1998 it signed a control agreement with Deutsche Telekom that came into force upon its entry into the commercial register on June 30, 1999.

The company holds a 100 percent investment in I.T.E.N.O.S. International Telecom Network Operation Services GmbH, Bonn. On December 20, 2001 it signed an agreement with I.T.E.N.O.S. that took retroactive effect on January 1, 2001. The investment was included in the consolidated financial statements of Network Projects as at December 31, 2002.

In addition, until October 1, 2003 the company held a 100 percent investment in DeTeLine Budapest, Deutsche Telekom Távközlési Hálózatok Kft. This company provided services to Deutsche Telekom companies including Network Projects as well as to third parties until June 30, 2003. The company's entire operations, including all noncurrent and current assets, liabilities, contracts, employees and rights, legal relationships, know-how and customers connected to the business were transferred with legal force prior to that date to Matáv RT and MagyarCom Services.

On 1 October, 2003 Network Projects sold its investment in the company for EUR 32,000 to CTDI Nethouse Services GmbH.

Further, Network Projects holds a 3 percent investment on a trust basis in Deutsche Telekom gAG, Moscow.

II. Accounting policies

Intangible assets and property, plant and equipment are carried at cost less depreciation and amortization. Production costs include directly attributable costs and an appropriate proportion of required indirect material and labor costs. Borrowing costs are not capitalized under acquisition or production cost. Excluding goodwill, which is amortized over 15 years in accordance with § 255 (4) sentence 3 HGB, intangible assets are amortized on a straight-line basis over 3 to 4 years in accordance with § 7 (1) of the German Income Tax Act (*Einkommensteuergesetz/ESTG*). Under application of tax simplification rule R44 (2) of the German Income Tax Regulations (*Einkommensteuerregeln/ESTR*), a full year's depreciation charge is taken on moveable assets acquired in the first half of the year, while for additions in the second half of the year the annual charge is halved. The useful lives of items of property, plant and equipment are based on the official depreciation and amortization (AfA) tables. Buildings included under property, plant and equipment are depreciated in accordance with § 7(4) EStG. In accordance with § 6 (2) EStG low-value assets whose acquisition cost does not exceed EUR 410 in each case are written off in the year following their addition. No write-ups were performed in the current financial year.

Financial assets are carried at acquisition cost. No write-downs have been required to date.

Inventories are carried at the lower of moving average or market value in accordance with § 253 (2) and (3) HGB. Work in process is carried at production cost which is based on the fiscal floor value in accordance with the Deutsche Telekom Accounting Manual.

Business transactions in foreign currencies are carried based on the exchange rate on the date of first entry. Translation gains and losses from measuring monetary assets and liabilities in foreign currencies as at the balance sheet date are reported in income at the lower of cost or market value under "Other operating income/expenses." Amounts are translated at the mean rate at the balance sheet date. The remaining assets are carried at acquisition cost less any valuation adjustments.

Sufficient accruals are accrued for uncertain liabilities and identifiable risks. Based on previous evidence and better knowledge, the calculation basis for guarantee accruals was changed, which caused a decrease of approximately EUR 3 million. The calculation of pension accruals is based on an actuarial analysis. Minimum accruals for the company's share in the special pension fund were calculated based on the new Heubeck life expectancy tables with an assumed rate of interest of 6 percent.

Accruals for direct commitments were formed in accordance with § 6a EStG. Pension commitments include indirect obligations in the amount of EUR 9.0 million.

Liabilities are carried at their repayment amount in accordance with § 253 (1) sentence 2.

When Deutsche Telekom was restructured in line with the four-pillar concept and the consolidation systems for actual and projected consolidation were adjusted, the Board of Management (see Information for the Board of Management dated June 26, 2001) resolved to switch the income statements of Group companies from total-cost accounting to the internationally more common cost-of-sales accounting method in accordance with § 275 (3) HGB. The company has prepared its reports using cost-of-sales accounting since January 1, 2003. To ensure comparability (§ 265 (2) HGB) the 2003 income statement contains comparable figures from the prior year drawn from parallel financial statements that were prepared by T-Data and DeTeLine using the cost-of-sales accounting in 2002. The balance sheet shows the consolidated figures of both T-Data and DeTeLine for comparison.

III. Notes to the balance sheet

1. Intangible assets and property, plant and equipment

The statement of noncurrent assets illustrates the development of intangible assets, property, plant and equipment, and financial assets.

2. Inventories, materials, and supplies

Inventories, materials, and supplies consist primarily of work in process in the amount of EUR 44.6 million. This figure includes raw materials and supplies (EUR 7.1 million) and technical and service equipment (EUR 10.4 million) identified in the course of a stock-take.

3. Receivables and other assets

Receivables mainly relate to Deutsche Telekom (EUR 263.5 million), TSI (EUR 22.4 million), third parties (EUR 9.6 million) and I.T.E.N.O.S. (EUR 7.7 million.) Receivables from the parent consist of existing receivables less liabilities (EUR 269.5 million) to the parent. Specifically, these consist of trade accounts payable (EUR 218.3 million), trade tax liabilities (EUR 23.0 million) and profits to be transferred in the amount of EUR 55.0 million.

Receivables from Deutsche Telekom consist of liquid assets (EUR 254.8 million) held by the parent at the interest rate normally applied within the Group, alongside trade accounts receivable from Deutsche Telekom (EUR 305.2 million.)

All receivables and other assets are due in less than one year.

4. Prepaid expenses and deferred charges

This account primarily consists of prepaid services.

5. Shareholders' equity

The fully paid share capital of EUR 105.2 million consists of EUR 102.3 million in original T-Data share capital and the issue of a new investment holding to Deutsche Telekom of EUR 2.9 million in the course of the merger.

Additional paid-in capital consists of T-Data's additional paid-in capital of EUR 394.2 million and the portion of net assets of DeTeLine that exceeds the issue price of the new investment at the merger date (EUR 24.3 million – reserves and unappropriated net income). Retained earnings (EUR 0.2 million) includes unappropriated net income generated prior to fiscal unity that was appropriated to retained earnings.

6. Accruals

The EUR 52.4 million drop in tax accruals is attributable to payments made against accruals for amended corporate income tax and solidarity surcharge notices for 1996 and 1997, and to the partial reallocation of trade tax accruals to liabilities to the parent company. The tax notices were changed exclusively due to insights gained in the course of a tax audit in 1999, mainly in connection with objections to the goodwill reported in the tax accounts. Accruals of EUR 9.1 million were formed for trade tax back payments for 1996 and 1997.

Other accruals primarily consist of personnel accruals totaling EUR 26.0 million, which in turn mainly comprise accruals for variable remuneration (EUR 13.6 million), overtime and flexitime pay (EUR 4.9 million), partial retirement (EUR 4.7 million) and outstanding vacation pay (EUR 2.5 million). In addition, this item includes accruals for outstanding invoices (EUR 7.8 million) and expenses for interest to be paid on tax payments for prior years (EUR 2.8 million).

7. Liabilities

Liabilities both to subsidiaries and third parties are largely a result of trade relations and are mainly due within one year. Only the liabilities for partial retirement to Deutsche Telekom in the amount of EUR 0.2 million have maturities of between 1 and 5 years. The Other liabilities item includes, amongst other things, liabilities to the tax authorities for corporate income tax payments from 1997 (EUR 21.0 million).

8. Guarantees and commitments

There were no guarantees and commitments at the balance sheet date. Other financial obligations (EUR 64.8 million) include rental obligations in the amount of EUR 49.8 million as well as EUR 15.0 million in purchase commitments.

9. Deferred income

This item includes income already received for services in coming years.

IV. Notes to the income statement

1. Net revenue

Net revenue (EUR 1,041.3 million) relates largely to the area of data transmission services and was generated almost exclusively in business with subsidiaries. The net revenue item breaks down into the following product areas:

T-LAN	EUR 273.3 million
LAN to LAN	EUR 189.5 million
KULT	EUR 158.9 million
Project management for Group networks	EUR 124.3 million
DATEX-P	EUR 118.8 million
Frame relay	EUR 106.4 million
Communication networks	EUR 51.8 million
Industry solutions	EUR 5.8 million
Other revenue	EUR 12.5 million

Of this revenue, EUR 1,036.3 million was generated in Germany. International revenue came mainly from Africa (EUR 2.8 million) and Europe (EUR 2.2 million).

2. Cost of sales

This item primarily includes expenses for wholesale services purchased from Deutsche Telekom and for production materials. The item mainly consists of goods and services purchased (EUR 715.9 million), personnel expenses (EUR 106.7 million), depreciation of property, plant and equipment (EUR 33.6 million) and other operating expenses in the amount of EUR 33.2 million.

3. Selling costs

Selling costs primarily consist of personnel costs (EUR 41.9 million) and other operating expenses (EUR 27.8 million.)

4. General and administrative costs

General and administrative costs mainly include personnel costs (EUR 18.0 million) and other operating expenses (€11.9 million.)

5. Other operating income

Other operating income (EUR 29.6 million) includes EUR 12.4 million in income from the elimination of liabilities. In addition, it includes income from the reversal of accruals (EUR 7.9 million), income from currency translation (EUR 3.3 million), and income generated in other accounting periods (EUR 4.7 million) and other operating income in the amount of EUR 1.3 million. Income from other accounting periods mainly consists of reversed valuation adjustments in inventories, materials, and supplies (EUR 3.2 million) and reimbursed customs duties (EUR 1.0 million).

6. Other operating expenses

Other operating expenses (EUR 39.3 million) largely consist of scheduled goodwill amortization in the amount of EUR 24.5 million, expenses incurred in other accounting periods of EUR 7.6 million, currency translation expenses (EUR 4.9 million), and losses from the disposal of property, plant and equipment (EUR 1.9 million). Expenses incurred in other accounting periods include, among others, corrections to input tax expenses from prior years incurred in connection with settlement of accounts with DTAG in the annual financial statements (EUR 2.5 million). They also include rental costs incurred in prior years (EUR 1.0 million) and payments in connection with wage tax audits (EUR 0.6 million.) The remainder is spread over backdated payments for wholesale services received, variable remuneration of managing directors from prior years, and settlement of trade accounts payable from the prior period.

7. Financial income / expense, net

This item amounts to EUR 19.9 million resulting from the profit transfer agreement with I.T.E.N.O.S.

Interest income of EUR 4.4 million is set off by interest expenses of EUR 2.2 million, incurred mainly by an addition to accruals for penalties on arrears resulting from the audit.

8. Income taxes

Network Projects has been part of Deutsche Telekom's consolidation group since January 1, 1998. As a result, no allocation charge is formed for corporate income taxes and solidarity surcharges. An annulment agreement dated December 20, 2002 rescinded the trade tax allocation agreement between Deutsche Telekom and Network Projects with retroactive effect from January 1, 2002. In consequence, from 2002 onwards no trade tax allocation charge is levied. In this context, taxes include income from the reversal of a trade tax accrual in the amount of EUR 1.3 million.

9. Expenses for goods and services

This item, broken down in accordance with § 275 (2) No. 5 HGB, includes expenses for raw materials and supplies of EUR 165.5 million and for other services received in the amount of EUR 544.8 million. Other operating expenses mainly include telecommunications services purchased in Germany (EUR 459.6 million) and abroad (EUR 15.5 million), and EUR 69.7 million for other services purchased.

10. Personnel costs

Personnel costs (EUR 166.6 million), reported in accordance with § 275 (2) No. 6 HGB, include EUR 132.2 million in salary payments and EUR 34.4 million in expenses for social security contributions and pension plans and benefits. Of this, EUR 13.1 million are accounted for by the latter item.

V. Other disclosures

Employees

On average the company employed 2,650 employees and 20 executives in the financial year.

Executive bodies of the company

The company's Managing Directors are Dipl.-Ökonom Frank Heller, St. Augustin, and Dipl.-Kfm. (FH) Klaus-H. Stein (Commercial Director), Kalchreuth. By resolution of the Supervisory Board dated February 28, 2002 Mr Heller was appointed Chairman and Mr Stein was appointed Deputy Chairman of the Board of Directors. By resolution of the Supervisory Board dated November 28, 2002, Dipl.-Ing. Bernhard Bresonik, Kleinmachnow and Dipl.-Ing. Hardy Rehmann (Managing Director for Sales Management), Sinzig, were appointed as additional Managing Directors of the company with effect from January 1, 2003.

By resolution of the Supervisory Board dated July 2, 2003 Mr Bresonik was appointed Chairman of the Board of Directors. With effect from the same date Dipl.-Juristin Rita Lietzke, Potsdam, was appointed Director of Industrial Relations. Ms Lietzke already took up her post as Managing Director at Network Projects on February 15, 2003. The Managing Directors' salaries amount to EUR 1.2 million in the reporting year. They are paid by Deutsche Telekom and billed to Network Projects.

Members of the Supervisory Board to July 2, 2003:

Dipl.-Kfm. Albert Matheis (Head of Production and Service Controlling, T-Com)
Münster near Darmstadt
Chairman

Dipl.-Ing. Hermann Josef Becker (Head of Business Sales, T-Com)
Rheinbreitbach
Deputy Chairman

Dipl.-Ing. Joseph Eisenried (Advisor to T-Systems CSM)
Nuremberg

Frank Helm (Manager, Personal Network Projects)
Krefeld

Wilhelm Bunse (Central Works Council Chairman, Network
Projects)
Grafschaft

The new Network Projects Supervisory Board was constituted on July 2, 2003:

Representatives of the parent company

Konrad F. Reiss, Deutsche Telekom Board of Management
Friedrichsdorf, Chairman
from July 2, 2003

Josef Brauner, Deutsche Telekom Board of Management
Jüchen-Damm

Jan Geldmacher, Member of the Board of Directors, TSI
Essen

Roland Kittel, T-Com Board of Management, Production and
Bonn Service

Dr. Ralph Rentschler, T-Com Board of Management, Finance
Aalen

Dr. Joachim Ströfer, Head of Section, Federal Ministry of Finance
Meckenheim

Employee representatives:

Wolfgang Schmidt Deputy Chairman, Central Works Council

Herbstein

Deputy Chairman from July 2, 2003

Wilhelm Bunse Chairman, Central Works Council

Grafschaft

Frank Helm Personnel Manager

Krefeld

Thomas Meistrell Head of South-West Branch Office

Merchweiler

Executives' Representative

Christine Schulze-Girnstein Union Secretary, ver.di

Bonn

Uwe Lehmann Union Secretary, ver.di

Berlin

In the reporting year the Members of the Supervisory Board received remuneration in the amount of EUR 21,000 for their services in 2001 and 2002. No remuneration has been paid to date for 2003. An accrual of EUR 24,000 was formed for this purpose.

Statement of noncurrent assets at December 31, 2003

	Acquisition costs					
	T-Data Jan. 1, 2003	Addition DeTeLine	Additions	Disposals	Reclassifications	Dec. 31, 2003
	€	€	€	€	€	€
I. Intangible assets						
1. Concessions, industrial property rights and software						
a) Property rights and software	13,355,231.13	3,737,613.31	1,698,588.53	7,682.73	0.00	18,783,750.24
b) Low-value assets	0.00	0.00	417,797.74	417,797.74	0.00	0.00
	13,355,231.13	3,737,613.31	2,116,386.27	425,480.47	0.00	18,783,750.24
2. Goodwill	367,367,682.36	4,349,782.33	0.00	0.00	0.00	371,726,464.69
3. Advance payments	0.00	0.00	308,700.00	0.00	0.00	308,700.00
	380,731,913.49	8,087,395.64	2,425,086.27	425,480.47	0.00	390,818,914.93
II. Property, plant and equipment						
1. Land and equivalent rights and buildings including buildings on land owned by third parties						
a) Land	0.00	132,480.76	0.00	0.00	0.00	132,480.76
b) Buildings	0.00	1,626,237.88	0.00	2,362.17	0.00	1,623,875.71
c) Buildings on land owned by third parties	83,379.74	0.00	3,386.68	0.00	0.00	86,766.42
2. Technical equipment and machinery						
a) Data transmission equipment	269,860,684.97	0.00	19,904,869.83	11,062,759.85	6,677,843.30	285,380,638.25
b) Backbone	485,461.18	0.00	35,154.23	23,155.07	0.00	497,460.34
	270,346,146.15	0.00	19,940,024.06	11,085,914.92	6,677,843.30	285,878,098.59
3. Other equipment, plant and office equipment						
a) IT hardware	6,088,493.13	25,434,613.86	7,481,737.89	1,223,058.18	-6,118,957.80	31,662,828.90
b) Passenger vehicles	0.00	6,838,990.08	15,276.76	607,078.49	0.00	6,247,188.35
c) Air conditioning and supply systems	387,471.75	0.00	175,526.62	5,980.80	1,653.31	558,670.88
d) Technical office equipment	733,031.52	1,061,101.37	160,849.92	100,147.09	0.00	1,854,835.72
e) Measuring and operator devices	1,047,105.26	3,150,908.55	505,192.53	62,942.21	-1,653.31	4,638,610.82
f) Office furniture and equipment	985,765.95	1,224,311.48	300,407.17	4,448.80	0.00	2,506,035.80
g) Telecommunications equipment	1,330,261.37	0.00	42,691.73	4,887.82	0.00	1,368,065.28
h) Low-value assets	0.00	0.00	1,068,054.11	1,068,054.11	0.00	0.00
	10,572,128.98	37,709,925.34	9,749,736.73	3,076,597.50	-6,118,957.80	48,836,235.75
4. Advance payments and construction in progress	546,612.71	435,380.92	2,433,332.68	68,047.14	-558,885.50	2,788,393.76
	281,548,267.58	39,904,024.90	32,126,480.15	14,232,921.73	0.00	339,345,850.90
III. Financial assets						
Investments in subsidiaries	1,470,265	42,283.4	0.00	38,449.15	0.00	1,474,100.10
	663,750,446.48	48,033,704.38	34,551,566.42	14,696,851.35	0.00	731,638,865.93

¹ Net carrying amount at December 31, 2002 following addition of DeTeLine.

Changes in depreciation, amortization and write-downs						Net carrying amount		
T-Data Jan. 1, 2003	Addition to DeTeLine	Additions	Disposals	Reclassifi- cations	Dec. 31, 2003	T NetPro Dec. 31, 2003	T NetPro Dec. 31, 2002 ¹	T-Data Dec. 31, 2002
€	€	€	€	€	€	€	€	€
7,674,177.13	2,101,634.05	4,042,661.49	7,682.73	0.00	13,810,789.94	4,972,960.30	7,317,033.26	5,681,054.00
0.00	0.00	417,797.74	417,797.74	0.00	0.00	0.00	0.00	0.00
7,674,177.13	2,101,634.05	4,460,459.23	425,480.47	0.00	13,810,789.94	4,972,960.30	7,317,033.26	5,681,054.00
171,442,452.36	4,349,782.33	24,491,779.00	0.00	0.00	200,284,013.69	171,442,451.00	195,934,230.00	195,934,230.00
0.00	0.00	0.00	0.00	0.00	0.00	308,700.00	0.00	0.00
179,116,629.49	6,451,416.38	28,952,238.23	425,480.47	0.00	214,094,803.63	176,724 111.30	203,251,263.26	201,615,284.00
0.00	0.00	0.00	0.00	0.00	0.00	132,480.76	132,480.76	0.00
0.00	1,554,492.71	6,782.69	1,451.61	0.00	1,559,823.79	64,051.92	71,745.17	0.00
23,396.74	0.00	8,545.68	0.00	0.00	31,942.42	54,824.00	59,983.00	59,983.00
23,396.74	1,554,492.71	15,328.37	1,451.61	0.00	1,591,766.21	251,356.68	264,208.93	59,983.00
183,003,083.97	0.00	25,650,198.67	9,165,719.33	1,925,153.20	201,412,716.51	83,967,921.74	86,857,601.00	86,857,601.00
114,760.18	0.00	32,637.48	16.32	0.00	147,381.34	350,079.00	370,701.00	370,701.00
183,117,844.15	0.00	25,682,836.15	9,165,735.65	1,925,153.20	201,560,097.85	84,318,000.74	87,228,302.00	87,228,302.00
4,456,411.13	12,777,958.10	5,456,212.14	1,136,056.09	-1,925,153.20	19,629,372.08	12,033,456.82	14,288,737.76	1,632,082.00
0.00	3,343,308.32	1,150,636.91	433,225.49	0.00	4,060,719.74	2,186,468.61	3,495,681.76	0.00
113,158.75	0.00	55,926.21	0.00	1,653.31	170,738.27	387,932.61	274,313.00	274,313.00
319,810.52	687,239.92	193,528.10	80,320.22	0.00	1,120,258.32	734,577.40	787,082.45	413,221.00
875,538.26	2,032,251.40	490,418.92	53,613.43	1,653.31	3,342,941.84	1,295,668.98	1,290,224.15	171,567.00
474,693.95	726,236.31	223,056.39	2,577.97	0.00	1,421,408.68	1,084,627.12	1,009,147.17	511,072.00
850,312.37	0.00	183,974.91	4,628.82	0.00	1,029,658.46	338,406.82	479,949.00	479,949.00
0.00	0.00	1,068,054.11	1,068,054.11	0.00	0.00	0.00	0.00	0.00
7,089,924.98	19,566,994.05	8,821,807.69	2,778,476.13	-1,925,153.20	30,775,097.39	18,061,138.36	21,625,135.29	3,482,204.00
0.00	0.00	0.00	0.00	0.00	0.00	2,788,393.67	981,993.63	546,612.71
190,231,165.87	21,121,486.76	34,519,972.21	11,945,663.39	0.00	233,926,961.45	105,418,889.45	110,099,639.85	91,317,101.71
0.00	0.00	0.00	0.00	0.00	0.00	1,474,100.10	1,512,549.25	1,470,265.41
369,347,795.36	27,572,903.14	63,472,210.44	12,371,143.86	0.00	448,021,765.08	283,617,100.85	314,863,452.36	294,402,651.12

Accruals as of December 31, 2003

	T-Data Jan. 1, 2003	Addition of DeTeLine	Accruals realized	Accruals reversed	Additions	As at Dec. 31, 2003
	('000) €	('000) €	('000) €	('000) €	('000) €	('000) €
Pensions and similar obligations	1,834	19,380	2,602	0	6,102	24,714
Tax accruals						
Trade taxes	30,986	0	20,654	1,249	0	9,083
Corporate income tax	30,777	0	30,777	0	0	0
Other taxes	17	0	0	0	272	289
	61,780	0	51,431	1,249	272	9,372
Other accruals						
Personnel accruals						
Variable compensation	3,525	842	4,293	74	13,634	13,634
Expenses for anniversaries	0	542	21	355	35	201
Partial and early retirement	18	2,542	1,037	69	3,269	4,723
Outstanding settlements for vacation pay	2,246	3,305	5,551	0	2,554	2,554
Remaining personnel expenses	898	2,446	2,134	223	3,866	4,853
	6,687	9,677	13,036	721	23,358	25,965
Other accruals						
Outstanding invoices	4,033	21,767	21,613	1,778	5,347	7,756
Guarantees	88	3,157	0	3,013	0	232
Accruals for loss contingencies	0	763	558	205	2,036	2,036
Year-end closing costs	210	95	263	42	335	335
Litigation costs and risks	0	298	0	279	145	164
Accruals for interest relating to risks arising from tax audits	12,516	0	9,039	770	85	2,792
Other accruals	22	1,794	672	1,122	183	205
	16,869	27,874	32,145	7,209	8,131	13,520
	23,556	37,551	45,181	7,930	31,489	39,485
	87,170	56,931	99,214	9,179	37,863	73,571

Deutsche Telekom Network Projects & Services GmbH, Bonn

Management Report 2003

A. Business developments

On November 28, 2002 the Supervisory Boards of T-Data Gesellschaft für Datenkommunikation mbH, Bonn and DeTeLine Deutsche Telekom Kommunikationsnetze GmbH, Berlin, proposed to the companies' shareholders' meetings to merge DeTeLine into T-Data with effect from January 1, 2003. The shareholders' meetings of both companies adopted a resolution to this effect on December 20, 2002, following which a **merger agreement** was signed by both companies.

The companies were **merged** with effect from **January, 1 2003** and have since traded under the name Deutsche Telekom Network Projects & Services GmbH. The new company is domiciled in Bonn. The amendment entry was filed on February 19, 2003 and the merger entered into the commercial register of the Bonn District Court on March 10, 2003.

To round off the company's portfolio of data communication solutions in line with its business mandate, additional **organizational units and sub-units of T-Com** were **transferred** to Network Projects as per July 1, 2003. These included project activities and the service center for customer-specific solutions from T-Com's production area, as well as T-Com's Competence Center for telecommunications systems. The DTAG production section of T-Com hence focuses on the mass business while production, operations, and planning of customer-specific activities are consolidated within Network Projects.

The new company has hence considerably strengthened its position as one of **T-Com's main elements**. Its strong integration in the Group is reflected e.g. in the fact that the company is subject to the Deutsche Telekom Group's risk management system. In addition, the business and financial situation of Network Projects is very closely connected to that of Deutsche Telekom AG.

Thanks to its new structure Network Projects is in a position to develop, implement and operate customer-specific telecommunications solutions on behalf of the Group's sales units and all of its divisions.

The company is managed from Berlin and Bonn, while six branches and several offices throughout Germany handle its day-to-day business. The **nationwide presence** the company enjoys as a result of its original structure and activities has been maintained and remains crucial to fulfilling its business mandate.

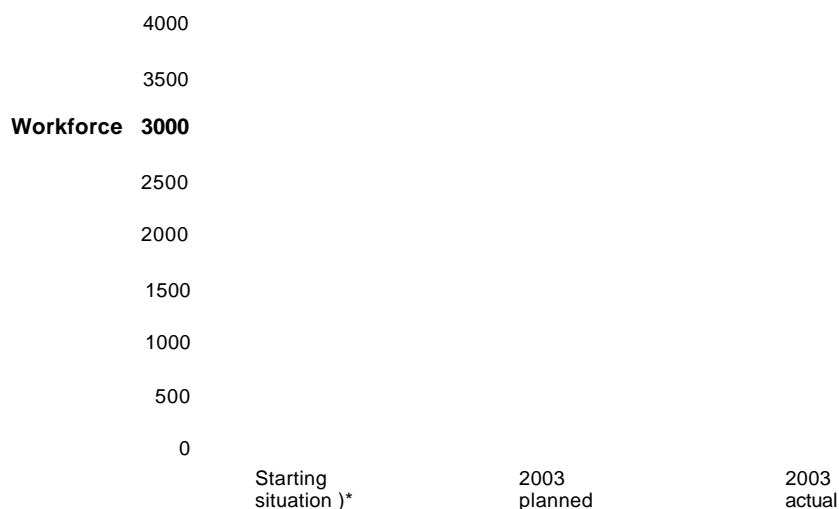
The merger resulted in a number of profound changes. Besides a new Supervisory Board, whose members were selected according to codetermination regulations, and a five-strong Board of Directors, the objectives of the company have changed in comparison to its predecessors. This is reflected also in the company's **business mandate**:

"The objective of the company is to plan, implement and operate customer-specific solutions in the field of telecommunications, LAN (local area networks) and WAN (wide area networks) for voice and data applications, including network security, network-related applications and similar areas; to market, implement and operate telecommunications services in competition; and to perform services for public and private telecommunications networks in Germany and abroad. The activities performed by the company include, in particular, planning, development, realization, documentation, maintenance, consulting, training, operation and switched data services."

The following **strategic objectives** were defined to ensure fulfilment of this business mandate:

- Economic success through best practices
- Innovation leadership in solutions development
- Quality leadership through Total Quality Management
- Customer focus through personal commitment
- Employees as the foundation of our success
- Leadership – A crucial factor for business success
- Partnerships with mutual benefits

As a **“producer” of customer solutions** Network Projects provides its internal sales partners with effectively designed services. One of the major indicators used to manage the business is the so-called Economic Value Added (EVA), an indicator of the company's value maintenance and enhancement capacities. The use of this indicator for management purposes forms the basis of Network Project's controlling concept. In terms of the intragroup provision of services, the use of EVA to maintain and enhance the company's value ensures that the efficiency gains achieved each year can be passed on to its internal customers in the form of lower transfer prices the following year. In other words, the higher the efficiency gains in one year, the lower the pre-tax results in the following year. An apparent decrease in results compared with the previous year hence does not necessarily indicate that the company's performance is deteriorating. Performance can therefore not be measured on the basis of actual profit developments over time, but rather using efficiency indicators such as lower price levels on the sales side. For instance, for 2004 the company plans to lower prices in the WAN Classic area to the tune of around EUR 50 million. Its performance in 2003 is also illustrated by the development of personnel as a production factor over time:



)* prior to consolidation of customer-specific solution units

While T-Com required around 3,650 **employees** prior to the consolidation of its customer-specific solutions activities in Network Solutions, the same activities are now performed by around 2,950 employees. Although the lower personnel deployment factors also reflect an adjustment to the lower level of activity, a considerable part is attributable to improved performance, which underlines the efficiency of the realigned company already in its first year of existence.

The restructuring of the company is hence one further step towards making it fit for the future.

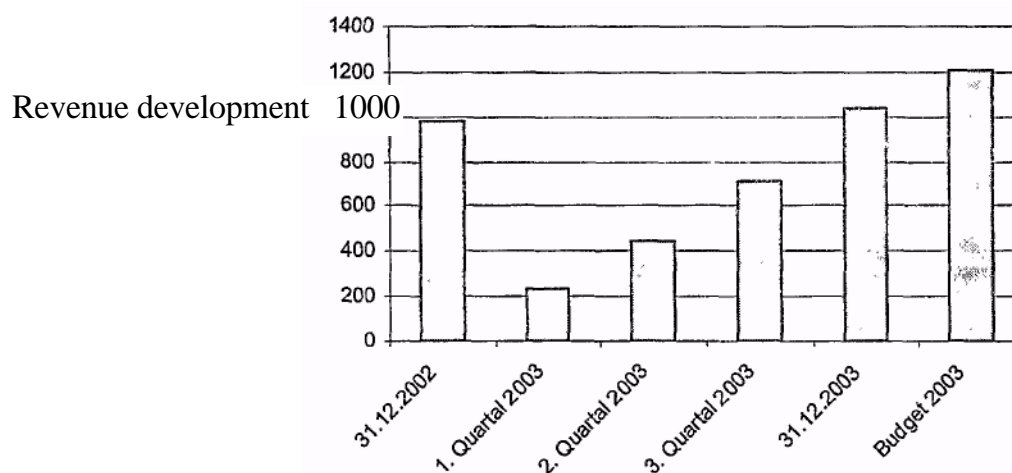
Despite the structural changes, in 2003 and going forward the company will **fund** its entire capital requirements itself.

In the past financial year the **investment** in DeTeLine Budapest, Deutsche Telekom Tvkozzlesi Hlzatok Kft. was sold as the company had fulfilled its business mandate and the activities to improve its economic performance further had meanwhile been transferred to the new NatCos of the T-Com division. After the divisions of DeTeLine Budapest were transferred at their carrying amounts to Matv Rt. and MagyarCom Services as part of an internal asset deal, the remaining shell of the company was successfully sold. The agreements stipulated socially responsible treatment of employees who were transferred together with the divisions.

The structural and strategic changes that took place in Network Projects in 2003 mean that comparison is possible only for those parts of the company that originated in T-Data and DeTeLine. There are no comparable, audited annual figures for 2002 for the company's parts that originated in T-Com.

Network Projects operates in a market environment that for approximately the last two years has been impacted by the general economic situation in Germany and, in turn, by low corporate investment activity.

Network Projects closed its first financial year on December 31, 2003 with **net revenue** of EUR 1,041 million. This figure was lower by EUR 164 million or 13.6 percent than planned for 2003. Revenue decreases in telecommunications networks and LAN were not fully compensated by additional revenues above all in ATM solutions. In addition, unexpected price drops impacted negatively on revenue.



The solutions portfolio of Network Projects is characterized by state-of-the-art technology and enables our customers to employ forward-looking, growth-oriented data communication solutions.

At the beginning of the financial year **orders** amounted to EUR 733 million and were reported at EUR 719 million at December 31, 2003. Disregarding price measures, the level of WAN orders received corresponded to budgeted figures, while the other areas of the business did not meet projections. This was mainly attributable to the modest number of orders received in Q1/2003.

Revenue development in the various **product areas** in 2003 was impacted by the difficult market environment. While net revenue with WAN products grew over the previous year to total EUR 590 million, **LAN** revenue dropped,

LAN being an area whose revenue was impacted far more by poor investment activity than WAN, which thanks to long-term contracts is considerably less vulnerable to the overall economic situation.

In consequence, the anticipated revenue drop in the Datex-P segment had a weaker effect on **WAN**. As customers are withdrawing more slowly from this technology the WAN area was able to exceed its targets. The FrameLink Plus product succeeded in generating the projected revenues of EUR 106 million, although the figure remained far below the previous year's level. Faced with price pressure on the market, on September 1, 2003 the company lowered a number of prices in this product segment by almost 50 percent. These price drops also impacted on the WAN products with managed components that use FrameLink Plus as an upstream product. Nevertheless, the company succeeded in shielding value-added management services (LAN to LAN / IntraSelect) from this trend, with revenues rising to EUR 190 million in this strategic product segment. At EUR 6 million in revenue, industry solutions reached neither the previous year's nor the planned figures. The WAN product ATM-Solution, which was included in the portfolio for the first time in 2003, generated EUR 133 million in revenue which compensated the slowdown in Datex-P sales. As a result, the targets set in connection with the allocation of this customer solutions product to Network Projects were reached.

While the customer-specific services business which was transferred from T-Com on July 1, 2003 managed to generate EUR 124 million in revenues, this fell short of the original targets. These activities, which were transferred on the back of individual projects, will be placed on a stable foundation in 2004.

Developments in the communication networks (CN) segment were not satisfactory in the reporting year, leading to lower order volumes and in turn, lower revenues. One factor was the slowdown in infrastructural activities at T-Com, which has not been compensated yet due to the delay in UMTS developments. The cooperation with Deutsche Funkturm GmbH (DFMG) was stabilized in 2003, which will enhance the company's contracting volumes in connection with UMTS investments in 2004 and gives reason to anticipate a higher level of activity. The successful cooperation to date with DFMG and the forecast expansion of the UMTS network indicates that order volumes in the field of mobile networks will rise.

To stabilize the CN business long-term and protect it against cyclical fluctuations, the company followed the Group's example and continued to pursue measures to safeguard profits, including a recruitment freeze, flexible personnel deployment, transfers of personnel to areas outside CN, no purchasing of third-party services, clearance of leave entitlements, and cost and savings measures. To ensure the activities remain successful long-term, the CN segment will be repositioned in 2004 as Network Project's seventh branch.

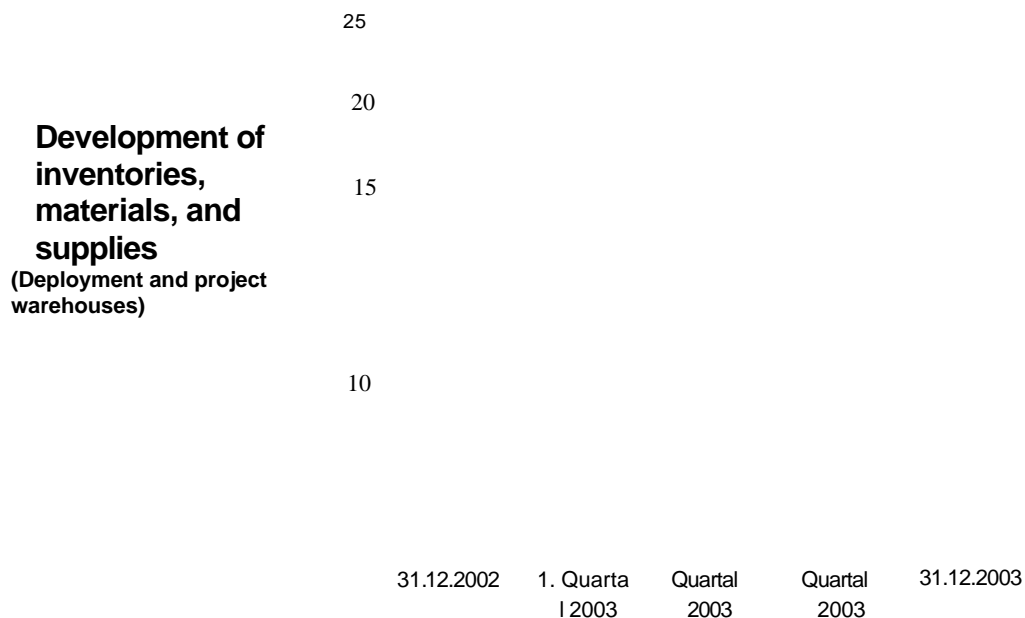
Raising order volumes, however, remains a top priority. The measures that were initiated to improve CN sales via the T-Com and T-Systems sales channels will be continued. This approach has already shown success in terms of marketing microwave radio solutions. In cooperation with T-Com sales the company is continuing to submit tenders for TETRA trunked radio solutions.

Network Projects is also pursuing a close **partnership** with T-Com, DFMG and T-Mobil with the aim of cooperating on network infrastructure projects.

In **purchasing**, all framework agreements were successfully converted over the course of 2003 following the merger. In 2003 major suppliers of routers introduced new service structures and discount systems, yet resulting price increases were successfully avoided. In some cases, lower prices were even negotiated. The company is not dependent on just one supplier thanks its multiple vendor strategy.

Despite a drop in the purchasing volume prices were maintained at the previous level and in some cases even lowered. In 2003, a professional offer system was again one of the main reasons for generating price advantages in a competitive environment. All new suppliers and those where irregularities occurred were monitored in advance for solvency (Solventec) to prevent problems from arising with insolvent vendors. The introduction of a new service purchasing database has simplified the tendering process, and also ensures that all subcontractors are assessed in a comprehensive, standardized manner. Purchasing risks (price, quality) were negligible.

In terms of **materials administration**, ongoing stock controls and process adjustments yielded good results and prevented assets from becoming tied up in inventories. Thanks to innovative deployment, for example, gross outgoing logistics stocks dropped by 62.6 percent and valuation adjustments by 72.3 percent. This is directly linked to a reduction in warehousing time, which in 2003 was reduced from 127 to 20 days in the project warehouse and from 33 to 12 days in the deployment warehouse. Configured CPEs for the projects of Network Projects and the Company Connect and Intra Select products were supplied with an average punctuality level of 98.8 percent. The company received express acknowledgement of its strong logistics performance in the course of a T-Com-wide warehouse optimization project.



In the area of **resource management** all relocations and infrastructural changes resulting from the merger were completed as scheduled. 72 sites were affected by these changes.

Investments in 2003 amounted to EUR 35 million, of which EUR 22 million were spent on technical facilities and construction in progress, mainly for specific customers in the context of customized projects.

In the course of the establishment of Network Projects new **collective agreements** were negotiated by the social partners. In consequence, with effect from July 1, 2003 all employees were offered new standardized employment contracts with flexible, competitive and attractive compensation, working time and working conditions, alongside social security benefits in line with Deutsche Telekom standards.

Besides flexitime and long-term working time accounts, employees participate in the company's successful performance through a variable pay component which depends on performance appraisals and the achievement of agreed targets. Two major objectives were hence reached:

- The introduction of long-term working time accounts has enabled us to respond flexibly to short and medium-term capacity fluctuations caused by the market situation, without having to adjust staffing levels straight away. This ensures that employee know-how is retained and is also a prerequisite for comparatively high job security.

- Over time, the introduction of variable pay components will strengthen employees' sense of identification with the company and is key to ensuring that each member of staff takes responsibility for contributing to the company's success in their area of activity.

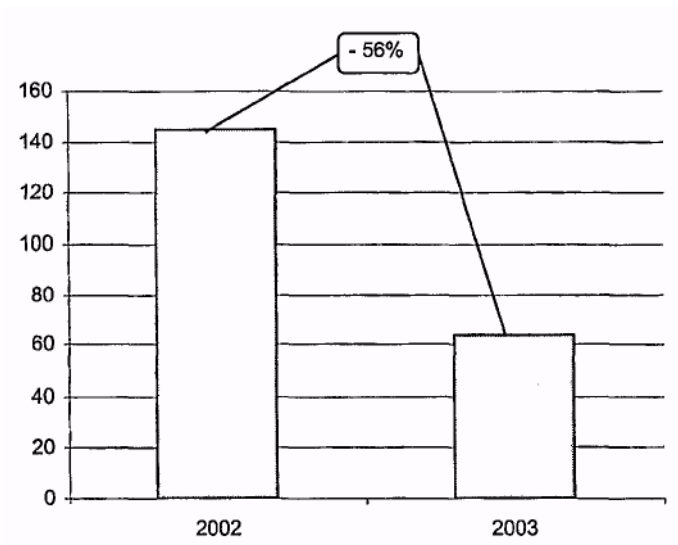
As part of the strategic goal of recognizing employees as the basis of the company's success, the personnel department provides them with support in connection with training and developing their personal skills. The training courses on offer include a range of group seminars to enhance participants' professional, social and leadership skills. Other measures include qualification and certification programs alongside specific personalized training. Employees' potential and their personal development needs are assessed by the employees and their supervisors in the annual career review.

To strengthen employees' sense of commitment to the new company and overcome cultural differences between the original organizational units, the management initiated a number of **integration measures** in the form of roadshows, integration workshops and groups, chats, staff memos, and interviews. Many of these activities were designed as interactive measures that aimed to get employees actively involved.

B. Financial position

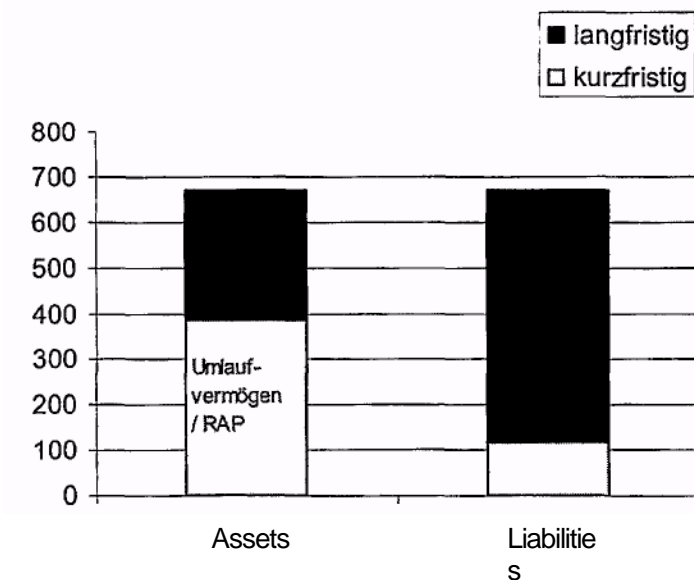
The **balance sheet** ratios of Network Projects are excellent, thanks to an excess in long-term tied up assets through long-term capital in the amount of EUR 269 million. In other words, the noncurrent assets and a large proportion of current assets are covered by its long-term capital. In line with statutory requirements, receivables and liabilities to Group companies are netted out on the balance sheet. As Network Projects provides infrastructural services to the Group as well as third-party services through the divisional sales channels, this figure also includes trade receivables from and liabilities to end customers. Extracted from the total Deutsche Telekom current account activities, these trade receivables and liabilities compare to third party business as follows:

Development of accounts receivable



Besides the reduction in assets tied-up in inventory detailed above, the reduction in various current asset items, particularly internal accounts receivable, has improved the overall balance sheet ratios.

Balance sheet ratios



The company's **financial situation** continues to be very positive, with net cash from operating activities totaling EUR 166 million.

At year-end Network Projects reported EUR 54 million in **results** from ordinary business activities, despite bringing forward price adjustments in the systems

customer project segment in the amount of EUR 25 million due to price measures that were already planned for 2004.

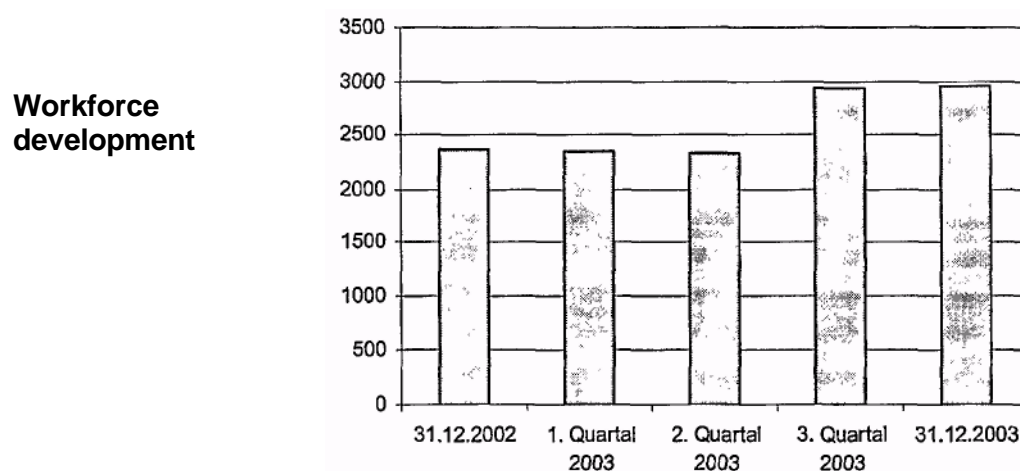
Due to the rescinded trade tax allocation agreement with Deutsche Telekom, Network Projects is no longer liable to income tax. The tax item in the statement of income is largely attributable to the reversal of tax accruals.

The statement of income shows income of EUR 1,096 million and expenses of EUR 1,041 million, resulting in EUR 55 million in transferred income.

In 2003 net revenue totaled EUR 1,041 million, of which around one third was generated in the LAN segment and the remainder by WAN business. This represented a drop of EUR 164 million or 13.6 percent over planned figures for 2003, due to both price reductions and the general economic environment.

At year-end the company's **workforce** totaled 2,951 full-time equivalents. In the 2003 financial year the company recorded total personnel costs of EUR 167 million.

The workforce had 395 employees fewer than planned (3,346) in the company's first budget as at July 1 following the structural changes. This was due to additional efficiency improvements and a moderate increase in the size of the workforce, with negligible fluctuation and a general business slowdown. The low employee figures were also a result of measures that were initiated to balance out workforce levels within the company depending on capacity requirements.



Financial income in 2003 totaled EUR 22 million, of which EUR 20 million (2002: EUR 21 million) are attributable to the wholly-owned subsidiary I.T.E.N.O.S.

C. Forecast business development

While 2003 was marked by unstable economic development and a stagnation or even slowdown of the domestic economy, overall economic indicators suggested a moderate upturn especially for the fourth quarter. These were based on overall economic factors that indicated an upswing primarily outside Germany. In this context, close attention will have to be paid to a rise in the euro. On balance, the general economic situation gives rise to hopes of an improved business situation as compared to one year ago. As a result the company anticipates a **positive business performance** in 2004. There are no risks to its existence as a going concern.

After a year that was dominated by a merger of two different companies and the fulfilment of the company's business mandate, in 2004 the focus will be on raising the level of **process integration**. To this end, a centralized process and quality management system will be created to consolidate the company's process coordination activities and bring about an enhancement in process performance, in turn safeguarding the seamless interaction between the various processes. The inclusion of quality management makes this a logical, efficient continuation of the company's previous quality management philosophy.

A logical **integration of areas of activity** and defined areas of responsibility is intended to open up additional synergy potential, enabling the company to keep up with the dynamic pace of developments in the industry. Process interaction will be further enhanced in coordination with regional managers in the various sites. To this end, until June 30, 2006 Network Projects will perform an audit of all areas of activity, as agreed by the social partners in the collective agreement dated May 28, 2003. The existing initial allocation to salary bands that was agreed by the social partners on the basis of the predecessor organization's 'old' functions will then become void.

In terms of the **product and service portfolio**, in 2004 the customer-specific production assets used to realize T-Com's customized solutions will gradually be taken over on a project basis; this is another measure to achieve additional efficiency gains for Network Projects.

Network Projects will develop a new strategic offering in 2004 that merges WAN, LAN and service/management services into one single, customer-specific solution from one LAN port to another – a genuine unique selling point for the sales units.

The continued development of IntraSelect Classic to include an MPLS-based Any to Any component and the introduction of a standardized MPLS based on a common IP2 Group platform will create the first and only cross-platform range of customized IP VPN solutions – a measure that will enable Network Projects to continue participating in the highly dynamic IP VPN market.

Network Projects will enhance customer retention, generate further market shares and create **additional value** by increasing the proportion of services in the Consulting and Network Management/Outsourcing business and harmonizing services throughout the entire company.

The existing product and service portfolio will be harmonized and developed in order to derive the maximum benefit from the USP the company enjoys on the market as a result of the merger. These efforts will focus primarily on solutions in the field of security, voice, and voice/data convergence.

In 2004 the company will strengthen its focus on T-Com's **solutions market**. These portfolio adjustments will enable Network Projects to raise its net revenue in 2004.

The integration of the various, in some cases still overlapping **IT applications** will be completed in 2004. A standardized SAP system, a uniform office communications infrastructure with a meshed Any-to-Any backbone and a single voice communications system will conclude the IT integration process in 2004 after just 18 months. The new environment will then enable the company to continue leveraging additional efficiency potential.

Zum Lagebericht im Jahresabschluss
Deutsche Telekom Network Projects & Services GmbH.

Bonn, January 23, 2004

Bernhard Bresonik

Frank Heller

Rita Lietzke

Hardy Rehmann

Klaus-H. Stein

Legal, financial and tax situation

Company	Deutsche Telekom Network Projects & Services GmbH
Registered office	Bonn
Commercial register	HRB 6787, Bonn District Court
Articles of association	Latest version dated June 12, 2003
Financial year	Calendar year
Share capital	The company's share capital as of December 31, 2003 amounted to €105,173,000.00.
Shareholder	Deutsche Telekom AG
Major shareholder resolutions	<p>On December 20, 2002, the shareholders' meetings of T-Data and DeTeLine adopted the resolution to merge DeTeLine with T-Data with effect from January 1, 2003. A merger agreement was signed between the two companies as of the same date.</p> <p>The merger was based on the closing balance sheet of DeTeLine as of December 31, 2002. Pursuant to § 24 of the Umwandlungsgesetz (UmwG – the German Reorganization and Transformation Act) the option was used to recognize the assets and liabilities to be transferred through the merger as acquisition costs in the merger balance sheet. In transferring the assets of DeTeLine, T-Data accords Deutsche Telekom, as sole shareholder of the two companies, a new share of €2.9 million.</p> <p>The merger was entered into the commercial register of the Bonn District Court on March 10, 2003. The change of name to Deutsche Telekom Network Projects & Services GmbH, specified in the merger agreement, was registered on February 19, 2003.</p> <p>The financial statements for T-Data and DeTeLine as of December 31, 2002, and the actions of the Managing Directors and the Supervisory Boards of both companies, were approved by shareholders' meetings on February 27, 2003.</p>
Corporate bodies	<ul style="list-style-type: none"> • Shareholders' meeting • Supervisory Board (for details, see annex) • Board of Management (for details, see annex)

Power of attorney	<p>The following personas were granted power of attorney in the financial year:</p> <ul style="list-style-type: none"> • Wolfgang Greven, Düsseldorf (to October 23, 2003) • Klaus-Rainer Humpert, Euskirchen (to October 23, 2003) • Hans-Bernhard Mann, Essen (to October 23, 2003) • Gerd Meier, Mönchengladbach (to October 23, 2003) • Peter Michael Rütter, Bonn (to October 23, 2003) • Thomas Schmitz, Bochum
Business activities	<p>The object of the company is the planning, implementation and operation of customized solutions in the fields of telecommunications, LANs (Local Area Networks) and WANs (Wide Area Networks) for voice and data applications, including network security, network applications and related areas, the competitive marketing, provision and operation of telecommunications services and services for public and private telecommunications networks in Germany and abroad.</p> <p>The services provided by the company encompass planning, development, implementation, documentation, maintenance, consulting, training, operation and switched data services.</p> <p>The company may take over, represent, or acquire a stake in other companies of the same or similar nature within Germany or in other countries, even as a personally liable partner. It can establish subsidiaries and set up branch offices provided that this is conducive to the business objectives.</p>
Corporate affiliations / major holdings	<p>The company is a wholly owned subsidiary of Deutsche Telekom, included in its consolidated financial statements. The company holds 100% of the shares in I.T.E.N.O.S.</p> <p>Its shares in Deutsche Telekom Távközlesi Hálózatok Kft, Budapest, Hungary (DeTeLine Budapest) were sold on October 1, 2003.</p>
Control agreement	Concluded with Deutsche Telekom on December 10, 1998, with effect from January 1, 1998
Profit and loss transfer agreement	Concluded with Deutsche Telekom on December 4/10, 1998, with effect from January 1, 1998
Human resources	The company employed an average of 2,675 people in the 2003 financial year.
Tax situation	Fiscal unity with Deutsche Telekom for VAT, trade tax and corporate income tax purposes

Detailed presentation of the net worth, financial position and results

a) Fixed assets and financial position

1. To present the net assets and financial position, we have summarized the figures from the **balance-sheet** (see annex I). The reference values for the previous year have been taken from the merger balance sheet for T-Data and DeTeLine. The following presentation, including the cash flow statement, relate to these reference values. On this basis, the net asset and financial position is as follows:

	Dec 31, 2003		Dec 31, 2002		Change
	€'000	%	€'000	%	€'000
Assets					
Noncurrent assets					
Intangible assets	176,724	26	203,251	29	-26,527
Property, plant and equipment	105,419	16	110,100	15	-4,681
Financial assets	1,474	0	1,513	0	-39
	283,617	42	314,864	44	-31,247
Current assets					
Inventories, materials and supplies	63,228	10	70,807	11	-7,579
Trade accounts receivable	9,623	1	13,255	2	-3,632
Receivables from subsidiaries	299,366	45	301,810	41	-2,444
Other assets (including prepaid expenses and deferred charges)	13,626	2	10,885	2	2,741
	385,842	58	396,757	56	-10,915
	669,459	100	711,621	100	-42,162
Liabilities					
Shareholders' equity and long-term borrowing					
Shareholders' equity	523,973	78	523,973	73	0
Long-term accruals	28,681	4	25,693	4	2,988
Long-term liabilities	180	0	0	0	180
	552,835	82	549,666	77	3,169
Short-term borrowing					
Short-term accruals	44,890	7	118,408	17	-73,518
Liabilities	71,735	11	43,547	6	28,188
	116,625	18	161,955	23	-45,330
	669,459	100	711,621	100	-42,162

This translation is for courtesy purposes only. The German original prevails.

2. Total assets of Network Projects decreased by €42.2 million against the previous year. Within **assets**, this drop is the result of a decrease of €31.2 million in current assets to €283.6 m, and a fall of €10.9 million in prepaid expenses and deferred charges to €385.8 m.
3. The fall in **noncurrent assets** arises from depreciation and amortization of €63.5 million against investments of €34.6 million and disposals at residual carrying values of €2.3 million. The depreciation and amortization of fixed assets included planned amortization of goodwill amounting to €24.5 million.
4. Within **current assets**, inventories went down by €7.6 million, trade accounts receivable by €3.6 million, and receivables from affiliated companies by €2.4 million. Against this, other assets rose by €2.7 million.
5. The raw materials and supplies included in **inventories** are valued at average cost, and work in progress at production cost. Production costs are calculated in accordance with Deutsche Telekom Group accounting standards, using the lower limit for taxation. Contingent losses from projects were offset against project assets in that positive work in progress were capitalized; amounts exceeding the capitalized balances were posted to liabilities as accruals for contingent losses from transactions not yet settled.

The causes of the fall in inventories are mainly reduced stocks of raw materials and supplies (€-5.3 million) and work in progress (€-4.0 million). The amount of €3.7 million for the IP backbone network, written down in the previous year, was returned to the manufacturer in return for credit notes, leading to an equivalent reversal of write-downs.

6. **Receivables from subsidiaries** of €299.4 million are mainly against the sole shareholder (€263.5 million), and comprise predominantly liquid assets held by Deutsche Telekom (see text 17).
7. On the liabilities side, the reduction in short-term accruals (€73.5 million) and liabilities to affiliated companies (€1.4 million) are set against the increase in other liabilities (€23.3 million) and trade accounts payable (€1.4 million).
8. **Accruals** relate to pension provisions (€24.7 million), tax accruals (€9.4 million) and other accruals (€39.5 million). For a more detailed breakdown and information on the growth or accruals, please refer to the statement of accruals in the annex to the notes.
9. **Liabilities to subsidiaries** (€7.4 million) mainly relate to liabilities to GMG.
10. The increase in **other liabilities** is mainly caused by the posting of a liability of €21.3 million to the tax authorities, in connection with an amended tax assessment following an audit; accruals were reduced by the same amount.

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11. The **equity ratio** is 78.3% (previous year: 73.6%). Long-term liabilities cover all noncurrent assets and inventories, and parts of receivables. Short-term assets exceed short-term commitments.
12. All **liabilities** of Network Projects, apart from a liability to Deutsche Telekom for partial retirement payments amounting to €0.2 million, are due within one year, and hence classified as short-term borrowing.
13. There were no **guarantees or commitments** under § 251 HGB as of the balance sheet date. With regard to other financial commitments, please refer to the explanation in the Notes (annex III).
14. The **financial position** of the company, based on the **cash flow statement** below, is as follows. Because of the reorganization of the company during the financial year, we have dispensed with reference values.

	€'000
Profit (before transfer of profit)	55,044
Depreciation and amortization of noncurrent assets	63,472
Book losses from disposal of noncurrent assets (balance of expenditure and income)	1,939
Net interest income/expense	-2,173
Increase in pension accruals	3,500
Cashflow before change to working capital	121,782
Changes to trade accounts receivable	3,632
Change to receivables from subsidiaries	76,180
Changes to inventories	7,579
Changes to other fixed assets and prepaid expenses and deferred charges	457
Changes to trade accounts payable	1,604
Change to liabilities to subsidiaries	-1,398
Changes to accruals and deferred income	-69,186
Changes to other liabilities (short-term)	23,319
	163,969
Interest paid	-2,210
Interest received	4,383
Cashflow from operating activities	166,142
Investment in noncurrent assets	-34,552
Proceeds from disposals of noncurrent assets	389
Cashflow from investment activities	-34,163
Transfer of profit	-55,044
Cashflow from financing activities	-55,044
Net change to liquid assets	76,935
Balance of liquid assets due up to 3 months from start of year	181,672
Balance of liquid assets due up to 3 months from balance sheet date	258,607
	76,935

15. The positive liquidity position, which includes not only liquid assets but also the Deutsche Telekom clearing account (cash pool), increased by €76.9 million.
16. For the reporting period, the company is showing cash flow from operating activities of € 166.1 million, from which net investment expenses of €32.1 million and transferred profits (€55.0 million) can be financed in full.
17. Within the Deutsche Telekom Group, the company is part of the General balance sheet consolidation procedure (ASZ - Allgemeines Saldenzusammenführungsverfahren). Network Projects is also covered by the Deutsche Telekom "cash concentration" procedure, so the balance sheet shows only very limited liquid assets as of December 31, 2003. The cash flow statement therefore also includes funds held in Deutsche Telekom clearing accounts (€254.8

million; December 31, 2002: € 181.0 million) in the balance of liquid assets.

18. Because of the close commercial integration, a definitive assessment of the financial and liquidity position only makes sense at the Group level.

b) Results

19. To present the results of Network Projects, we have broken down the income statement (annex II) on business management principles.

On the instructions of Deutsche Telekom, the income statement for the financial year was produced by the cost of sales method. To provide comparability with the previous year, we have set these figures against reference values for the previous year, calculated in parallel financial statements for T-Data and DeTeLine in 2002 by the cost of sales method and adjusted for transactions between the two companies:

	2003		2002		Change	
	€'000	%	€'000	%	€'000	%
Net revenue	1,041,311	100	979,216	100	62,095	6
Cost of sales	887,478	85	776,806	79	-	-14
					110,672	
Gross margin	153,833	15	202,410	21	-48,577	-24
Selling costs	79,208	8	86,918	9	7,710	9
Administrative expenses	33,231	3	21,386	2	-11,845	-55
Amortization of goodwill	24,492	2	24,492	3	0	0
Current income	16,902	2	69,614	7	-52,712	-76
Financial income, net	22,089	2	11,727	1	10,362	88
Non-operating income	14,805	1	20,078	2	-5,273	-26
Income before income taxes	53,796	5	101,419	10	-47,623	-47
Income taxes	-1,248	0	55,350	6	56,598	102
Income before transfer of profit	55,044	5	46,069	5	8,975	19
Transfer of profit	55,044	5	46,069	5	-8,975	-19
Net income	0	0	0	0	0	

20. The **results** of Network Projects in 2003 shows a decrease in **current income** of €52.7 million compared to the previous year. The main reason for this is the fall in gross margin from 21% to 15%. Financial income improved by €10.4 million over the previous year, and non-operating income fell by €5.3 million. Income before income taxes therefore dropped by €47.6 million.

21. Net revenue is made up as follows:

	2003	2002	Change	
	€'000	€'000	€'000	%
Product area: DATEX-P				
X25	113,069	161,750	48,681	-30
X75	5,710	7,110	-1,400	-20
	118,779	168,860	-50,081	-30
Product area: LAN to LAN	189,490	184,513	4,977	3
Product area: Frame Relay	106,423	140,286	-33,863	-24
Product area: Sector solutions	5,812	8,158	-2,346	-29
Product area: Customized solutions	158,902	22,000	136,902	622
Project management: Group networks	124,298	0	124,298	-
Product area: Corporate networks (T-LAN)	273,290	333,617	-60,327	-18
Product area: Communications networks	51,820	104,017	-52,197	-50
Other revenue	12,497	17,765	-5,268	-30
	922,532	810,356	112,176	14
Net revenue	1,041,311	979,216	62,095	6

22. Revenue for the product areas DATEX-P, Frame Relay, T-LAN and Communications networks declined sharply. In contrast, revenue from customized solutions showed positive growth.

“Project management: Group networks” includes the “Customer projects” and “selling” business areas. Under the agreement to transfer production responsibility for customer projects within T-Com to Network Projects, Network Projects transferred to T-Com a fixed monthly revenue amount of approx. € 18.3 million in accordance with the individual agreements taken over. Total revenues of € 103.6 million were generated in the “Customer projects” area. T-Com bills Network Projects for € 12.6 million per month in wholesale services and capital costs. Network Projects also bears the personnel costs for the employees migrated from T-Com to Network Projects from July 1, 2003, and other organizational costs. The “selling” business also transferred from T-Com to Network Projects generated € 20.7 m in revenue, as agreed.

23. **Production costs** rose by €110.7 million (14%) against the previous year. Production costs therefore increased above average compared with net revenue, generating a significant decline in gross margin. According to the document presented to use, one reason for the fall in gross margin was the granting of discounts. In an agreement between T-Com, TSI and Network Projects, it was stipulated that the company should grant discounts of € 25.0 million.

24. **Selling costs** went down because of reduced sales outside the Deutsche Telekom Group and the reallocation of costs. The increase in **administrative costs** arises from the allocation of costs for office locations to administrative expenses from 2003 (where they were previously allocated to other functional costs), as well as the costs of the merger and increased rental payments.

25. The company’s **financial income** (€22.1 million) mainly comprises income from

the transfer of net income from I.T.E.N.O.S. (€ 19.9 million; previous year: €21.1 million).

26. Within **non-operating income**, non-operating proceeds fell by € 2.5 million compared to the previous year, while non-operating expenses rose by € 2.8 million, resulting in a drop in net non-operating income of €5.3 million. Non-operating receipts mainly relate to income from clearing liabilities (€ 12.5 million) and income from cancelling accruals (€7.9 million).

Pursuant to the cancellation agreement of December 2002, no trade income tax amounts were cancelled by Deutsche Telekom from the 2002 cancellation period onwards.