

DEUTSCHE TELEKOM AG

Form 20-F

April 17, 2003

Table of Contents

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.**

Edgar Filing: DEUTSCHE TELEKOM AG - Form 20-F

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.

Item 17 Item 18

* 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.

TABLE OF CONTENTS

PART I

ITEM 1. Identity of Directors, Senior Management and Advisors

ITEM 2. Offer Statistics and Expected Timetable

ITEM 3. Key Information

ITEM 4. Information on the Company

ITEM 5. Operating and Financial Review and Prospects

ITEM 6. Directors, Senior Management and Employees

ITEM 7. Major Shareholders and Related Party Transactions

ITEM 8. Financial Information

ITEM 9. The Offer and Listing

ITEM 10. Additional Information

ITEM 11. Quantitative and Qualitative Disclosures About Market Risk

ITEM 12. Description of Securities Other than Equity Securities

PART II

ITEM 13. Defaults, Dividend Arrearages and Delinquencies

ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

ITEM 15. Controls and Procedures

ITEM 16. [Reserved]

PART III

ITEM 17. Financial Statements

ITEM 18. Financial Statements

ITEM 19. Exhibits

MEMORANDUM AND ARTICLES OF ASSOCIATION

LIST OF SUBSIDIARIES

CONSENT OF ERNST & YOUNG

CONSENT OF PWC

CERTIFICATION

Table of Contents**TABLE OF CONTENTS**

	Page
PART I	
Item 1. Identity of Directors, Senior Management and Advisors	5
Item 2. Offer Statistics and Expected Timetable	5
Item 3. Key Information	5
Item 4. Information on the Company	15
Item 5. Operating and Financial Review and Prospects	65
Item 6. Directors, Senior Management and Employees	120
Item 7. Major Shareholders and Related Party Transactions	136
Item 8. Financial Information	140
Item 9. The Offer and Listing	147
Item 10. Additional Information	150
Item 11. Quantitative and Qualitative Disclosures About Market Risk	160
Item 12. Description of Securities Other than Equity Securities	167
PART II	
Item 13. Defaults, Dividend Arrearages and Delinquencies	168
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	168
Item 15. Controls and Procedures	168
Item 16. [Reserved]	168
PART III	
Item 17. Financial Statements	169
Item 18. Financial Statements	169
Item 19. Exhibits	169

Table of Contents

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;

Table of Contents

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.

Edgar Filing: DEUTSCHE TELEKOM AG - Form 20-F

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.

Table of Contents

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.

Edgar Filing: DEUTSCHE TELEKOM AG - Form 20-F

- (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.

6

Table of Contents

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