

Clear Channel Outdoor Holdings, Inc.

Form 10-K

March 16, 2010

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-K**

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2009, or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 1-32663

**CLEAR CHANNEL OUTDOOR HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

86-0812139  
(I.R.S. Employer Identification No.)

200 East Basse Road

San Antonio, Texas  
(Address of principal executive offices)

78209  
(Zip code)

(210) 832-3700

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class  
Class A Common Stock, \$.01 par value per share  
Securities registered pursuant to Section 12(g) of the Act: None.

Name of Exchange on Which Registered  
New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. YES ☐ NO ☒

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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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☐ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of June 30, 2009, the aggregate market value of the common stock beneficially held by non-affiliates of the registrant was approximately \$172.2 million based on the closing sales price of the Class A Common Stock as reported on the New York Stock Exchange. (For purposes hereof, directors, executive officers and 10% or greater shareholders have been deemed affiliates).

On March 10, 2010, there were 40,833,960 outstanding shares of Class A Common Stock, excluding 43,637 shares held in treasury, and 315,000,000 outstanding shares of Class B Common Stock.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of our Definitive Proxy Statement for the 2010 Annual Meeting, expected to be filed within 120 days of our fiscal year end, are incorporated by reference into Part III.

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### **PART I**

#### **ITEM 1. Business**

##### **The Company**

Clear Channel Outdoor Holdings, Inc., a Delaware Corporation ( the Company ), provides clients with advertising opportunities through billboards, street furniture displays, transit displays and other out-of-home advertising displays, such as wallsapes, spectaculars, neons and mall displays, which we own or operate in key markets worldwide. Our business consists of two reportable operating segments: Americas and International. As of December 31, 2009, we owned or operated approximately 834,000 advertising displays worldwide. For the year ended December 31, 2009, we generated revenue of approximately \$2.7 billion, with \$1.2 billion and \$1.5 billion from our Americas and International segments, respectively.

##### **Our History**

In 1997, Clear Channel Communications, Inc., or Clear Channel Communications, our parent company, entered the outdoor advertising industry with its acquisition of Eller Media Company. In 1998, Clear Channel Communications acquired Universal Outdoor, giving Clear Channel Communications an outdoor presence in 33 major United States markets with over 88,000 displays. Also in 1998, Clear Channel Communications acquired More Group plc, a European-based company operating in 25 countries. In June 2002, Clear Channel Communications acquired The Ackerley Group, further increasing its market share.

On November 11, 2005, we became a publicly traded company through an initial public offering, or IPO, in which we sold 10%, or 35.0 million shares, of our Class A common stock. Prior to our IPO, we were an indirect wholly-owned subsidiary of Clear Channel Communications. Clear Channel Communications currently owns all of our outstanding shares of Class B common stock representing approximately 89% of the outstanding shares of our common stock and approximately 99% of the total voting power of our common stock.

Prior to or at the time of our IPO, we entered into agreements with Clear Channel Communications that govern the relationship between Clear Channel Communications and us and provide for, among other things, the provision of services by Clear Channel Communications to us and the allocation of employee benefit, tax and other liabilities and obligations attributable to our operations. These agreements include the Master Agreement, Corporate Services Agreement, Employee Matters Agreement and Tax Matters Agreement. All of the agreements relating to our ongoing relationship with Clear Channel Communications were made in the context of a parent-subsidiary relationship and the terms of these agreements may be more or less favorable to us than if they had been negotiated with unaffiliated third parties.

Clear Channel Communications has the right to terminate these agreements in various circumstances. As of the date of the filing of this report, no notice of termination of any of these agreements has been received from Clear Channel Communications.

For as long as Clear Channel Communications continues to own shares of our common stock representing more than 50% of the total voting power of our common stock, it will have the ability to direct the election of all members of our Board of Directors and to exercise a controlling influence over our business and affairs, including any determination with respect to mergers or other business combinations, our acquisition or disposition of assets, our incurrence of indebtedness, our issuance of any additional common stock or other equity services, our repurchase or redemption of common stock or any preferred stock, if applicable, and our payment of dividends. Similarly, Clear Channel Communications will have the power to determine or significantly influence the outcome of matters submitted to a vote of our shareholders, including the power to prevent an acquisition or any other change in control, and to take other actions that might be favorable to Clear Channel Communications.

On July 30, 2008, Clear Channel Communications completed its merger with a subsidiary of CC Media Holdings, Inc., or CC Media Holdings, a company formed by a group of private equity funds sponsored by Bain Capital Partners, LLC and Thomas H. Lee Partners, L.P. Clear Channel Communications is now owned indirectly by CC Media Holdings.

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### **Recent Developments**

In 2008 and continuing into 2009, the global economic downturn adversely affected advertising revenues across our businesses. In the fourth quarter of 2008, we initiated an ongoing, company-wide strategic review of our costs and organizational structure to identify opportunities to maximize efficiency and realign expenses with our current and long-term business outlook (the restructuring program). As of December 31, 2009, we incurred a total of \$88.7 million of costs in conjunction with the restructuring program. We estimate the benefit of the restructuring program was an approximate \$170.6 million aggregate reduction to fixed operating and corporate expenses in 2009 and that the benefit of these initiatives will be fully realized by 2011.

No assurance can be given that the restructuring program will achieve all of the anticipated cost savings in the timeframe expected or at all, or that the cost savings will be sustainable. In addition, we may modify or terminate the restructuring program in response to economic conditions or otherwise.

Also, as a result of the economic downturn and the corresponding reduction in our revenues, we recorded non-cash impairment charges primarily related to goodwill and indefinite-lived intangibles at June 30, 2009 and December 31, 2008 of approximately \$812.4 million and \$3.2 billion, respectively.

You can find more information about us at our Internet website located at [www.clearchanneloutdoor.com](http://www.clearchanneloutdoor.com). Our filings are available free of charge via a link on our Internet website after we electronically file such material with the Securities and Exchange Commission (SEC). The contents of our website are not deemed to be part of this Annual Report on Form 10-K or any of our other filings with the SEC.

### **Our Business Segments**

We have two reportable business segments, Americas outdoor advertising, or Americas, and International outdoor advertising, or International, which represented 46% and 54% of our 2009 net revenue, respectively.

We believe we offer advertisers a diverse platform of media assets across geographies and outdoor products. We intend to continue to execute upon our long-standing outdoor advertising strategies, while closely managing expenses and focusing on achieving operating efficiencies throughout our businesses. Within each of our operating segments, we share best practices across our markets in an attempt to replicate our successes throughout the markets in which we operate.

#### **Americas Outdoor Advertising**

Our Americas business segment includes our operations in the United States, Canada and Latin America, with approximately 91% of our 2009 revenue in this segment derived from the United States. We own or operate approximately 195,000 displays in our Americas segment and have operations in 49 of the 50 largest markets in the United States, including all of the 20 largest markets. For the year ended December 31, 2009, Americas outdoor advertising represented 46% of our consolidated net revenue.

Our Americas assets consist of billboards, street furniture and transit displays, airport displays, mall displays, and wallsapes and other spectacles, which we own or operate under lease management agreements. Our Americas advertising business is focused on urban markets with dense populations.

#### *Our Strategy*

We believe outdoor advertising has attractive industry fundamentals, including a broad audience reach and a highly cost effective media for advertisers as measured by cost per thousand persons reached compared to other traditional media. Our Americas strategy focuses on our competitive strengths to position the Company through the following strategies:

*Promote Overall Outdoor Media Spending.* Outdoor advertising represented 3% of total dollars spent on advertising in the United States in 2008. Our strategy is to drive growth in outdoor advertising's share of total media spending and leverage such growth with our national scale and local reach. We are focusing on developing and implementing better and improved outdoor audience delivery measurement systems to provide advertisers with



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tools to determine how effectively their message is reaching the desired audience. As a result of the implementation strategies above, we believe advertisers will shift their budgets towards the outdoor advertising medium.

*Significant Cost Reductions and Capital Discipline.* To address the softness in advertising demand resulting from the global economic downturn, we have taken steps to reduce our fixed costs. In the fourth quarter of 2008, we commenced a restructuring plan to reduce our cost base through renegotiations of lease agreements, workforce reductions, the elimination of overlapping functions and other cost savings initiatives. In order to achieve these cost savings, we incurred a total of \$17.4 million in costs in 2008 and 2009. We estimate the benefit of the restructuring program was an approximate \$50.5 million aggregate reduction to fixed operating expenses in 2009 and that the benefit of these initiatives will be fully realized in 2010.

No assurance can be given that the restructuring program will achieve all of the anticipated cost savings in the timeframe expected or at all, or that the cost savings will be sustainable. In addition, we may modify or terminate the restructuring program in response to economic conditions or otherwise.

We plan to continue controlling costs to achieve operating efficiencies, sharing best practices across our markets and focusing our capital expenditures on opportunities that we expect to yield higher returns, leveraging our flexibility to make capital outlays based on the environment.

*Continue to Deploy Digital Billboards.* Digital outdoor advertising provides significant advantages over traditional outdoor media. Our electronic displays may be linked through centralized computer systems to instantaneously and simultaneously change advertising copy on a large number of displays. The ability to change copy by time-of-day and quickly change messaging based on advertisers' needs creates additional flexibility for our customers. The advantages of digital allow us to penetrate new accounts and categories of advertisers as well as serve a broader set of needs for existing advertisers. We expect this to continue as we increase our quantity of digital inventory. We have deployed a total of approximately 457 digital displays in 33 markets as of December 31, 2009, of which approximately 292 are in the top 20 U.S. markets.

*Sources of Revenue*

Americas generated 46%, 43% and 45% of our revenue in 2009, 2008 and 2007, respectively. Americas' revenue is derived from the sale of advertising copy placed on our display inventory. Our display inventory consists primarily of billboards, street furniture displays and transit displays. The margins on our billboard contracts tend to be higher than those on contracts for other displays, due to their greater size, impact and location along major roadways that are highly trafficked. Billboards comprise approximately two-thirds of our display revenues. The following table shows the approximate percentage of revenue derived from each category for our Americas advertising inventory:

	Year Ended December 31,		
	2009	2008	2007
Billboards			
Bulletins (1)	52%	51%	52%
Posters	14%	15%	16%
Street furniture displays	5%	5%	4%
Transit displays	17%	17%	16%
Other displays (2)	12%	12%	12%
Total	100%	100%	100%

(1) Includes digital displays.

(2) Includes spectaculars, mall displays and wallscapes.

Our Americas segment generates revenues from local, regional and national sales. Our advertising rates are based on a number of different factors including location, competition, size of display, illumination, market and gross ratings points. Gross ratings points are the total number of impressions delivered, expressed as a percentage of a market population, of a display or group of displays. The number of impressions delivered by a display is





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measured by the number of people passing the site during a defined period of time. For all of our billboards in the United States, we use independent, third-party auditing companies to verify the number of impressions delivered by a display. **Reach** is the percent of a target audience exposed to an advertising message at least once during a specified period of time, typically during a period of four weeks. **Frequency** is the average number of exposures an individual has to an advertising message during a specified period of time. Out-of-home frequency is typically measured over a four-week period.

While location, price and availability of displays are important competitive factors, we believe that providing quality customer service and establishing strong client relationships are also critical components of sales. In addition, we have long-standing relationships with a diversified group of advertising brands and agencies that allow us to diversify client accounts and establish continuing revenue streams.

### *Billboards*

Our billboard inventory primarily includes bulletins and posters.

**Bulletins.** Bulletins vary in size, with the most common size being 14 feet high by 48 feet wide. Almost all of the advertising copy displayed on bulletins is computer printed on vinyl and transported to the bulletin where it is secured to the display surface. Because of their greater size and impact, we typically receive our highest rates for bulletins. Bulletins generally are located along major expressways, primary commuting routes and main intersections that are highly visible and heavily trafficked. Our clients may contract for individual bulletins or a network of bulletins, meaning the clients' advertisements are rotated among bulletins to increase the reach of the campaign. Our client contracts for bulletins generally have terms ranging from four weeks to one year.

**Posters.** Posters are available in two sizes, 30-sheet and 8-sheet displays. The 30-sheet posters are approximately 11 feet high by 23 feet wide, and the 8-sheet posters are approximately 5 feet high by 11 feet wide. Advertising copy for 30-sheet posters is digitally printed on a single piece of polyethylene material that is then transported and secured to the poster surfaces. Advertising copy for 8-sheet posters is printed using silk screen, lithographic or digital process to transfer the designs onto paper that is then transported and secured to the poster surfaces. Posters generally are located in commercial areas on primary and secondary routes near point-of-purchase locations, facilitating advertising campaigns with greater demographic targeting than those displayed on bulletins. Our poster rates typically are less than our bulletin rates, and our client contracts for posters generally have terms ranging from four weeks to one year. Premiere displays, which consist of premiere panels and squares, are innovative hybrids between bulletins and posters that we developed to provide our clients with an alternative for their targeted marketing campaigns. The premiere displays utilize one or more poster panels, but with vinyl advertising stretched over the panels similar to bulletins. Our intent is to combine the creative impact of bulletins with the additional reach and frequency of posters.

### *Street Furniture Displays*

Our street furniture displays, marketed under our global Adshel brand, are advertising surfaces on bus shelters, information kiosks, public toilets, freestanding units and other public structures, and are primarily located in major metropolitan cities and along major commuting routes. Generally, we own the street furniture structures and are responsible for their construction and maintenance. Contracts for the right to place our street furniture displays in the public domain and sell advertising space on them are awarded by municipal and transit authorities in competitive bidding processes governed by local law. Generally, these contracts have terms ranging from 10 to 20 years. As compensation for the right to sell advertising space on our street furniture structures, we pay the municipality or transit authority a fee or revenue share that is either a fixed amount or a percentage of the revenue derived from the street furniture displays. Typically, these revenue sharing arrangements include payments by us of minimum guaranteed amounts. Client contracts for street furniture displays typically have terms ranging from four weeks to one year, and are typically for network packages.

**Table of Contents***Transit Displays*

Our transit displays are advertising surfaces on various types of vehicles or within transit systems, including on the interior and exterior sides of buses, trains, trams, and within the common areas of rail stations and airports. Similar to street furniture, contracts for the right to place our displays on such vehicles or within such transit systems and to sell advertising space on them generally are awarded by public transit authorities in competitive bidding processes or are negotiated with private transit operators. These contracts typically have terms of up to five years. Our client contracts for transit displays generally have terms ranging from four weeks to one year.

*Other Inventory*

The balance of our display inventory consists of spectaculars, wallscapes and mall displays. Spectaculars are customized display structures that often incorporate video, multidimensional lettering and figures, mechanical devices and moving parts and other embellishments to create special effects. The majority of our spectaculars are located in Times Square in New York City, Dundas Square in Toronto, Fashion Show in Las Vegas, Miracle Mile in Las Vegas, Westgate City Center in Glendale, Arizona, the Boardwalk in Atlantic City and across from the Target Center in Minneapolis. Client contracts for spectaculars typically have terms of one year or longer. A wallscape is a display that drapes over or is suspended from the sides of buildings or other structures. Generally, wallscapes are located in high-profile areas where other types of outdoor advertising displays are limited or unavailable. Clients typically contract for individual wallscapes for extended terms. We also own displays located within the common areas of malls on which our clients run advertising campaigns for periods ranging from four weeks to one year.

*Competition*

The outdoor advertising industry in the Americas is fragmented, consisting of several larger companies involved in outdoor advertising, such as CBS and Lamar Advertising Company, as well as numerous smaller and local companies operating a limited number of display faces in a single or a few local markets. We also compete with other advertising media in our respective markets, including broadcast and cable television, radio, print media, direct mail, the Internet and other forms of advertisement.

Outdoor companies compete primarily based on ability to reach consumers, which is driven by location of the display.

*Advertising Inventory and Markets*

As of December 31, 2009, we owned or operated approximately 195,000 displays in our Americas segment. Our displays are located on owned land, leased land or land for which we have acquired permanent easements. The majority of the advertising structures on which our displays are mounted require permits. Our permits are effectively issued in perpetuity by state and local governments and are typically transferable or renewable at little or no cost. Permits typically specify the location which allows us the right to operate an advertising structure at the specified location.

The following table sets forth certain selected information with regard to our Americas advertising inventory, with our markets listed in order of their designated market area (DMA) region ranking (DMA is a registered trademark of Nielsen Media Research, Inc.):

DMA®		Billboards					
Region Rank	Markets	Bulletins	Posters	Street Furniture Displays	Transit Displays <sup>(1)</sup>	Other Displays <sup>(2)</sup>	Total Displays
	<i>United States</i>						
1	New York, NY						2,636
2	Los Angeles, CA						10,361
3	Chicago, IL						11,264
4	Philadelphia, PA						5,251
5	Dallas-Ft. Worth, TX						15,414
6	San Francisco-Oakland-San Jose, CA						9,331



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DMA®		Billboards		Street Furniture Displays	Transit Displays <sup>(1)</sup>	Other Displays <sup>(2)</sup>	Total Displays
Region Rank	Markets	Bulletins	Posters				
7	Boston, MA (Manchester, NH)						2,762
8	Atlanta, GA						2,354
9	Washington, DC (Hagerstown, MD)						2,907
10	Houston, TX						3,104
11	Detroit, MI						318
12	Phoenix, AZ						9,566
13	Seattle-Tacoma, WA						13,057
14	Tampa-St. Petersburg (Sarasota), FL						2,273
15	Minneapolis-St. Paul, MN						1,899
16	Denver, CO						1,001
17	Miami-Ft. Lauderdale, FL						5,267
18	Cleveland-Akron (Canton), OH						3,479
19	Orlando-Daytona Beach-Melbourne, FL						3,798
20	Sacramento-Stockton-Modesto, CA						2,623
21	St. Louis, MO						297
22	Portland, OR						1,191
23	Pittsburgh, PA						94
24	Charlotte, NC						12
25	Indianapolis, IN						3,193
26	Raleigh-Durham (Fayetteville), NC						1,803
27	Baltimore, MD						1,910
28	San Diego, CA						765
29	Nashville, TN						756
30	Hartford-New Haven, CT						656
31	Salt Lake City, UT						66
32	Kansas City, KS/MO						1,173
33	Cincinnati, OH						12
34	Columbus, OH						1,635
35	Milwaukee, WI						6,473
36	Greenville-Spartanburg, SC-Asheville, NC-Anderson, SC						91
37	San Antonio, TX						7,227
38	West Palm Beach-Ft. Pierce, FL						1,465
39	Harrisburg-Lancaster-Lebanon-York, PA						174
41	Grand Rapids-Kalamazoo-Battle Creek, MI						312
42	Las Vegas, NV						1,121
43	Norfolk-Portsmouth-Newport News, VA						390
44	Albuquerque-Santa Fe, NM						1,298
45	Oklahoma City, OK						3
46	Greensboro-High Point-Winston Salem, NC						1,047

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DMA <sup>®</sup>				Street	Transit	Other	Total
Region	Markets	Bulletins	Posters	Furniture Displays	Displays <sup>(1)</sup>	Displays <sup>(2)</sup>	Displays
47	Jacksonville, FL						978
48	Austin, TX						46
49	Louisville, KY						159
50	Memphis, TN						1,747
51-100	Various U.S. Cities						15,349
101-150	Various U.S. Cities						4,119
151+	Various U.S. Cities						2,224
	<i>Non-U.S. Markets</i>						
n/a	Australia						1,466
n/a	Brazil						7,199
n/a	Canada						4,706
n/a	Chile						1,085
n/a	Mexico						4,998
n/a	New Zealand						1,695
n/a	Peru						2,659
n/a	Other <sup>(3)</sup>						4,316
<b>Total Americas Displays</b>							<b>194,575</b>

- (1) Included in transit displays is our airport advertising business which offers products such as traditional static wall displays, visitor information centers, and other digital products including LCD screens and touch screen kiosks. Our digital products provide multiple display opportunities unlike our traditional static wall displays. Each of the digital display opportunities is counted as a unique display in the table.
- (2) Includes wallscapes, spectaculars, mall and digital displays. Our inventory includes other small displays not in the table since their contribution to our revenue is not material.
- (3) Includes displays in Antigua, Aruba, Bahamas, Barbados, Belize, Costa Rica, Dominican Republic, Grenada, Guam, Jamaica, Netherlands Antilles, Saint Kitts and Nevis, Saint Lucia and Virgin Islands.

*Production*

In a majority of our markets, our local production staff performs the full range of activities required to create and install advertising copy. Production work includes creating the advertising copy design and layout, coordinating its printing and installing the copy on displays. We provide creative services to smaller advertisers and to advertisers not represented by advertising agencies. National advertisers often use preprinted designs that require only installation. Our creative and production personnel typically develop new designs or adopt copy from other media for use on our inventory. Our creative staff also can assist in the development of marketing presentations, demonstrations and strategies to attract new clients.

*Client Categories*

In 2009, the top five client categories in our Americas segment were retail, telecommunications, banking and financial services, gambling and amusements.

*Construction and Operation*

We typically own the physical structures on which our clients' advertising copy is displayed. We build some of the structures at our billboard fabrication business in Illinois and erect them on sites we either lease or own or for which we have acquired permanent easements. The site lease

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terms generally range from 1 to 20 years. In addition to the site lease, we must obtain a permit to build the sign. Permits are typically issued in perpetuity by the state or local government and typically are transferable or renewable for a minimal, or no, fee. Bulletin and poster advertising copy is either printed with computer generated graphics on a single sheet of vinyl or placed on lithographed or silk-screened paper sheets supplied by the advertiser. These advertisements are then transported to the site and in the case of vinyl, wrapped around the face of the site, and in the case of paper, pasted and applied like

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wallpaper to the site. The operational process also includes conducting visual inspections of the inventory for display defects and taking the necessary corrective action within a reasonable period of time.

### **International Outdoor Advertising**

Our International business segment includes our operations in the U.K., France, Asia and Australia, with approximately 39% of our 2009 consolidated revenue in this segment derived from France and the United Kingdom. We own or operate approximately 639,000 displays in 32 countries. For the year ended December 31, 2009, International outdoor advertising represented 54% of our consolidated net revenue.

Our International outdoor assets consist of street furniture and transit displays, billboards, mall displays, Smartbike schemes, wallscapes and other spectaculars, which we own or operate under lease agreements. Our International business is focused on urban markets with dense populations.

#### *Strategy*

Similar to our Americas outdoor advertising, we believe International outdoor advertising has attractive industry fundamentals including a broad audience reach and a highly cost effective media for advertisers as measured by cost per thousand persons reached compared to other traditional media. Our International strategy focuses on our competitive strengths to position the Company through the following strategies:

*Promote Overall Outdoor Media Spending.* Our strategy is to continue to drive growth in outdoor advertising's share of total media spending and leverage such growth with our international scale and local reach. We are focusing on developing and implementing better and improved outdoor audience delivery measurement systems to provide advertisers with tools to determine how effectively their message is reaching the desired audience. As a result of the implementation strategies above, we believe advertisers will shift their budgets towards the outdoor advertising medium.

*Significant Cost Reductions and Capital Discipline.* To address the softness in advertising demand resulting from the global economic downturn, we have taken steps to reduce our fixed costs. In the fourth quarter of 2008, we commenced a restructuring plan to reduce our cost base through renegotiations of lease agreements, workforce reductions, elimination of overlapping functions, takedown of unprofitable advertising structures and other cost savings initiatives. In order to achieve these cost savings, we incurred a total of \$65.0 million in costs in 2008 and 2009. We estimate the benefit of the restructuring program was an approximate \$120.1 million aggregate reduction to our 2008 fixed operating expense base in 2009 and that the benefit of these initiatives will be fully realized by 2011.

No assurance can be given that the restructuring program will achieve all of the anticipated cost savings in the timeframe expected or at all, or that the cost savings will be sustainable. In addition, we may modify or terminate the restructuring program in response to economic conditions or otherwise.

We plan to continue controlling costs to achieve operating efficiencies, sharing best practices across our markets and focusing our capital expenditures on opportunities that we expect to yield higher returns, leveraging our flexibility to make capital outlays based on the environment.

*Capitalize on Product and Geographic Opportunities.* We are also focused on growing our business internationally through new product offerings, optimization of our current display portfolio and selective investments targeting promising growth markets. We have continued to innovate and introduce new products, such as our Smartbike programs, in international markets based on local demands.

**Table of Contents***Sources of Revenue*

Our International segment generated 54%, 57% and 55% of our revenue in 2009, 2008 and 2007, respectively. International revenue is derived from the sale of advertising copy placed on our display inventory. Our International display inventory consists primarily of billboards, street furniture displays, transit displays and other out-of-home advertising displays, such as neon displays. The following table shows the approximate percentage of revenue derived from each category of our International segment:

	Year Ended December 31,		
	2009	2008	2007
Billboards (1)	32%	35%	39%
Street furniture displays	40%	38%	37%
Transit displays (2)	8%	9%	8%
Other displays (3)	20%	18%	16%
Total	100%	100%	100%

(1) Includes revenue from spectaculars and neon displays.

(2) Includes small displays.

(3) Includes advertising revenue from mall displays, other small displays, and non-advertising revenue from sales of street furniture equipment, cleaning and maintenance services, operation of Smartbike schemes and production revenue.

Our International segment generates revenues worldwide from local, regional and national sales. Similar to the Americas, advertising rates generally are based on the gross ratings points of a display or group of displays. The number of impressions delivered by a display, in some countries, is weighted to account for such factors as illumination, proximity to other displays and the speed and viewing angle of approaching traffic.

While location, price and availability of displays are important competitive factors, we believe that providing quality customer service and establishing strong client relationships are also critical components of sales. Our entrepreneurial culture allows local management to operate their markets as separate profit centers, encouraging customer cultivation and service.

*Billboards*

The sizes of our International billboards are not standardized. The billboards vary in both format and size across our networks, with the majority of our International billboards being similar in size to our posters used in our Americas business (30-sheet and 8-sheet displays). Our International billboards are sold to clients as network packages with contract terms typically ranging from one to two weeks. Long-term client contracts are also available and typically have terms of up to one year. We lease the majority of our billboard sites from private landowners. Billboards include our spectacular and neon displays. DEFI, our International neon subsidiary, is a global provider of neon signs with approximately 361 displays in more than 16 countries worldwide. Client contracts for International neon displays typically have terms of approximately five years.

*Street Furniture Displays*

Our International street furniture displays are substantially similar to their Americas street furniture counterparts, and include bus shelters, freestanding units, public toilets, various types of kiosks and benches. Internationally, contracts with municipal and transit authorities for the right to place our street furniture in the public domain and sell advertising on such street furniture typically provide for terms ranging from 10 to 15 years. The major difference between our International and Americas street furniture businesses is in the nature of the municipal contracts. In our International business, these contracts typically require us to provide the municipality with a broader range of urban amenities such as bus shelters with or without advertising panels, information kiosks and public wastebaskets, as well as space for the municipality to display maps or



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other public information. In exchange for providing such urban amenities and display space, we are authorized to sell advertising space on certain sections of the structures we erect in the public domain. Our International street furniture is typically sold to clients as

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network packages, with contract terms ranging from one to two weeks. Long-term client contracts are also available and typically have terms of up to one year.

*Transit Displays*

Our International transit display contracts are substantially similar to their Americas transit display counterparts, and typically require us to make only a minimal initial investment and few ongoing maintenance expenditures. Contracts with public transit authorities or private transit operators typically have terms ranging from three to seven years. Our client contracts for transit displays generally have terms ranging from one week to one year, or longer.

*Other International Inventory and Services*

The balance of our revenue from our International segment consists primarily of advertising revenue from mall displays, other small displays and non-advertising revenue from sales of street furniture equipment, cleaning and maintenance services and production revenue. Internationally, our contracts with mall operators generally have terms ranging from five to ten years and client contracts for mall displays generally have terms ranging from one to two weeks, but are available for up to six-month periods. Long-term client contracts for mall displays are also available and typically have terms of up to one year. Our International inventory includes other small displays that are counted as separate displays since they form a substantial part of our network and International revenue. We also have a bike rental program which provides bicycles for rent to the general public in several municipalities. In exchange for providing the bike rental program, we generally derive revenue from advertising rights to the bikes, bike stations, additional street furniture displays or fees from the local municipalities. Several of our International markets sell equipment or provide cleaning and maintenance services as part of a billboard or street furniture contract with a municipality. Production revenue relates to the production of advertising posters, usually for small customers.

*Competition*

The International outdoor advertising industry is fragmented, consisting of several larger companies involved in outdoor advertising, such as CBS and JC Decaux, as well as numerous smaller and local companies operating a limited number of display faces in a single or a few local markets. We also compete with other advertising media in our respective markets, including broadcast and cable television, radio, print media, direct mail, the Internet and other forms of advertisement.

Outdoor companies compete primarily based on ability to reach consumers, which is driven by location of the display.

*Advertising Inventory and Markets*

As of December 31, 2009, we owned or operated approximately 639,000 displays in our International segment. The following table sets forth certain selected information with regard to our International advertising inventory, which are listed in descending order according to 2009 revenue contribution:

<b>International Markets</b>	<b>Billboards(1)</b>	<b>Street Furniture Displays</b>	<b>Transit Displays(2)</b>	<b>Other Displays(3)</b>	<b>Total Displays</b>
France					122,930
United Kingdom					57,685
China					66,965
Italy					53,589
Spain					31,603
Australia/New Zealand					18,611
Belgium					24,079
Switzerland					17,962
Sweden					113,622
Denmark					40,309
Norway					21,548



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<b>International Markets</b>	<b>Billboards(1)</b>	<b>Street Furniture Displays</b>	<b>Transit Displays(2)</b>	<b>Other Displays(3)</b>	<b>Total Displays</b>
Ireland					9,493
Turkey					13,248
Holland					5,289
Finland					14,236
Poland					7,561
Baltic States/Russia					15,146
Greece					1,121
Singapore					3,845
Romania					134
Hungary					34
India					166
Austria					15
Portugal					14
Germany					46
Czech Republic					11
United Arab Emirates					1
<b>Total International Displays</b>					<b>639,263</b>

(1) Includes spectaculars and neon displays.

(2) Includes small displays.

(3) Includes mall displays and other small displays counted as separate displays in the table since they form a substantial part of our network and International revenue.

*Equity Investments*

In addition to the displays listed above, as of December 31, 2009, we had equity investments in various out-of-home advertising companies that operate in the following markets:

<b>Market</b>	<b>Company</b>	<b>Equity Investment</b>	<b>Billboards(1)</b>	<b>Street Furniture Displays</b>	<b>Transit Displays</b>
<b><i>Outdoor Advertising Companies</i></b>					
Italy	Alessi	36.75%			
Italy	AD Moving SpA	18.75%			
Hong Kong	Buspak	50.0%			
Spain	Clear Channel Cemusa	50.0%			
Thailand	Master & More	32.5%			
Belgium	MTB	49.0%			
<b><i>Other Media Companies</i></b>					
Norway	CAPA	50.0%			

(1) Includes spectaculars and neon displays.

*Production*

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The majority of our International clients are advertisers targeting national audiences whose business generally is placed with us through advertising agencies. These agencies often provide our International clients creative services to design and produce both the advertising copy and the physical printed advertisement. Advertising copy, both paper and vinyl, is shipped to centralized warehouses operated by us. The copy is then sorted and delivered to sites where it is installed on our displays.

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### *Client Categories*

In 2009, the top five client categories in our International segment, based on International revenue derived from these categories, were retail, food and food products, telecommunications, entertainment and automotive.

### *Construction and Operation*

The International manufacturing process largely consists of two elements: the manufacture and installation of advertising structures and the weekly preparation of advertising posters for distribution throughout our networks. Generally, we outsource the manufacturing of advertising structures to third parties and regularly seek competitive bids. We use a wide range of suppliers, located in each of our markets. The design of street furniture structures (such as bus shelters, bicycle racks, kiosks and public toilets) is typically done in conjunction with a third party design or architectural firm. These street furniture designs then form the basis of a competitive bidding process to select a manufacturer. Our street furniture sites are posted by our own employees or subcontractors who also clean and maintain the sites. The decision to use our own employees or subcontractors is made on a market-by-market basis taking into consideration the mix of products in the market and local labor costs.

### **Employees**

As of March 10, 2010, we had approximately 1,996 United States-based employees and approximately 4,315 non-United States-based employees, of which approximately 139 were employed in corporate activities. Approximately 164 of our United States employees and approximately 337 of our non-United States employees are subject to collective bargaining agreements in their respective countries. We are a party to numerous collective bargaining agreements, none of which represent a significant number of employees. We believe that our relationship with our employees is good.

### **Regulation of our Business**

The outdoor advertising industry in the United States is subject to governmental regulation at the Federal, state and local levels. These regulations may include, among others, restrictions on the construction, repair, maintenance, lighting, upgrading, height, size, spacing and location of and, in some instances, content of advertising copy being displayed on outdoor advertising structures. In addition, the outdoor advertising industry outside of the United States is subject to certain foreign governmental regulation.

Domestically, in recent years, outdoor advertising has become the subject of targeted state and municipal taxes and fees. These laws may affect prevailing competitive conditions in our markets in a variety of ways. Such laws may reduce our expansion opportunities, or may increase or reduce competitive pressure from other members of the outdoor advertising industry. No assurance can be given that existing or future laws or regulations, and the enforcement thereof, will not materially and adversely affect the outdoor advertising industry. However, we contest laws and regulations that we believe unlawfully restrict our constitutional or other legal rights and may adversely impact the growth of our outdoor advertising business.

Federal law, principally the Highway Beautification Act, or HBA, regulates outdoor advertising on Federal-Aid Primary, Interstate and National Highway Systems roads within the United States ( controlled roads ). The HBA regulates the size and placement of billboards, requires the development of state standards, mandates a state s compliance program, promotes the expeditious removal of illegal signs and requires just compensation for takings.

To satisfy the HBA s requirements, all states have passed billboard control statutes and regulations which regulate, among other things, construction, repair, maintenance, lighting, height, size, spacing, the placement and permitting of outdoor advertising structures. We are not aware of any state which has passed control statutes and regulations less restrictive than the prevailing Federal requirements, including the requirement that an owner remove any non-grandfathered non-compliant signs along the controlled roads, at the owner s expense and without compensation. Local governments generally also include billboard control as part of their zoning laws and building codes regulating those items described above and include similar provisions regarding the removal of non-grandfathered structures that do not comply with certain of the local requirements. Some local governments have initiated code enforcement and permit reviews of billboards within their jurisdiction challenging billboards located

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within their jurisdiction, and in some instances the Company has had to remove billboards as a result of such reviews.

As part of their billboard control laws, state and local governments regulate the construction of new signs. Some jurisdictions prohibit new construction, some jurisdictions allow new construction only to replace existing structures and some jurisdictions allow new construction subject to the various restrictions discussed above. In certain jurisdictions, restrictive regulations also limit our ability to relocate, rebuild, repair, maintain, upgrade, modify, or replace existing legal non-conforming billboards. While these regulations set certain limits on the construction of new outdoor advertising displays, they also benefit established companies, including us, by creating barriers to entry and by protecting the outdoor advertising industry against an oversupply of inventory.

Federal law neither requires nor prohibits the removal of existing lawful billboards, but it does mandate the payment of compensation if a state or political subdivision compels the removal of a lawful billboard along the controlled roads. In the past, state governments have purchased and removed existing lawful billboards for beautification purposes using Federal funding for transportation enhancement programs, and these jurisdictions may continue to do so in the future. From time to time, state and local government authorities use the power of eminent domain and amortization to remove billboards. Thus far, we have been able to obtain satisfactory compensation for our billboards purchased or removed as a result of these types of governmental action, although there is no assurance that this will continue to be the case in the future.

Other important outdoor advertising regulations include the Intermodal Surface Transportation Efficiency Act of 1991 (currently known as SAFETEA-LU), the Bonus Act/Bonus Program, the 1995 Scenic Byways Amendment and various increases or implementations of property taxes, billboard taxes and permit fees. From time to time, legislation has been introduced in both the United States and foreign jurisdictions attempting to impose taxes on revenue from outdoor advertising. Several state and local jurisdictions have already imposed such taxes as a percentage of our outdoor advertising revenue in that jurisdiction. While these taxes have not had a material impact on our business and financial results to date, we expect state and local governments to continue to try to impose such taxes as a way of increasing revenue.

We have introduced and intend to expand the deployment of digital billboards that display static digital advertising copy from various advertisers that change up to several times per minute. We have encountered some existing regulations that restrict or prohibit these types of digital displays. However, since digital technology for changing static copy has only recently been developed and introduced into the market on a large scale, existing regulations that currently do not apply to digital technology by their terms could be revised to impose greater restrictions. These regulations may impose greater restrictions on digital billboards due to alleged concerns over aesthetics or driver safety.

International regulations have a significant impact on the outdoor advertising industry and our business. International regulation of the outdoor advertising industry can vary by municipality, region and country, but generally limits the size, placement, nature and density of out-of-home displays. Other regulations may limit the subject matter and language of out-of-home displays.

## **NYSE Matters**

The certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act have been filed as Exhibits 31.1 and 31.2 to this Annual Report. Additionally, in 2010 our Chief Executive Officer submitted a Section 303A.12(a) CEO Certification to the New York Stock Exchange ( NYSE ) certifying that he was not aware of any violation by Clear Channel Outdoor Holdings, Inc. of the NYSE's corporate governance listing standards.

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### **ITEM 1A. Risk Factors**

#### **Risks Related to Our Business**

*We may be adversely affected by a general deterioration in economic conditions.*

The risks associated with our businesses become more acute in periods of a slowing economy or recession, which may be accompanied by a decrease in advertising. Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. The global economic downturn resulted in a decline in advertising and marketing by our customers, resulting in a decline in advertising revenues across our businesses. This reduction in advertising revenues has had an adverse effect on our revenue, profit margins, cash flow and liquidity. The continuation of the global economic downturn may continue to adversely impact our revenue, profit margins, cash flow and liquidity.

Primarily as a result of the global economic downturn, revenue decreased by \$591.3 million during 2009 as compared to 2008. Our Americas revenue declined \$192.1 million during 2009 compared to 2008, attributable to decreases in poster and bulletin revenues associated with cancellations and non-renewals from major national advertisers. Our International outdoor revenue also declined \$399.2 million primarily as a result of challenging advertising markets and the negative impact of foreign exchange.

Additionally, we performed an interim impairment test in the fourth quarter of 2008, and again in the second quarter of 2009, primarily on our indefinite-lived assets and goodwill and recorded non-cash impairment charges of \$3.2 billion and \$812.4 billion, respectively. While we believe we have made reasonable estimates and utilized appropriate assumptions to calculate the fair value of our licenses, billboard permits and reporting units, it is possible a material change could occur. If future results are not consistent with our assumptions and estimates, we may be exposed to further impairment charges in the future.

*Our restructuring program may not be entirely successful.*

In the fourth quarter of 2008, we commenced a restructuring program targeting a reduction in fixed costs through renegotiations of lease agreements, workforce reductions, the elimination of overlapping functions and other cost savings initiatives. The program has resulted in restructuring and other expenses, and we may incur additional costs pursuant to the restructuring program in the future. No assurance can be given that the restructuring program will achieve the anticipated cost savings in the timeframe expected or at all, or for how long any cost savings will persist. In addition, the restructuring program may be modified or terminated in response to economic conditions or otherwise.

*To service our debt obligations and to fund capital expenditures, we will require a significant amount of cash to meet our needs, which depends on many factors beyond our control.*

Our ability to service our debt obligations and to fund capital expenditures for display construction or renovation will require a significant amount of cash, which depends on many factors beyond our control. This is subject to general economic, financial, competitive, legislative, regulatory and other factors beyond our control, which may prevent us from securing sufficient cash to meet these needs. Our ability to make payments on and to refinance our indebtedness will also depend on our ability to generate cash in the future.

We cannot ensure that our business will generate sufficient cash flow or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. If our future cash flow from operations, cash on hand and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to reduce or delay our business activities and capital expenditures, sell assets, or attempt to obtain additional equity capital or restructure or refinance all or a portion of indebtedness debt on or before maturity. We cannot ensure that we will be able to refinance any of our debt on a timely basis or on satisfactory terms, if at all. In addition, the terms of our existing indebtedness and other future indebtedness may limit our ability to pursue these alternatives.



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*The Clear Channel Worldwide Holdings, Inc. \$500.0 million Series A Senior Notes and \$2.0 billion Series B Senior Notes, Clear Channel Communications Bank Credit Facility (of which the Company is a Restricted Subsidiary) and the Master Agreement with Clear Channel Communications impose restrictions on our ability to finance operations and capital needs, make acquisitions or engage in other business activities.*

The Clear Channel Worldwide Holdings, Inc. \$500.0 million Series A Senior Notes and \$2.0 billion Series B Senior Notes, Clear Channel Communications Bank Credit Facility and Master Agreement with Clear Channel Communications include restrictive covenants that, among other things, restrict our ability to:

issue any shares of capital stock or securities convertible into capital stock;

incur additional indebtedness;

pay dividends and make distributions;

make certain acquisitions and investments;

repurchase our stock;

create liens;

enter into transactions with affiliates;

enter into sale leaseback transactions;

dispose of all or substantially all of our assets; and

merge or consolidate.

In addition, the indentures governing the Clear Channel Worldwide Holdings, Inc. \$500.0 million Series A Senior Notes and \$2.0 billion Series B Senior Notes require us to prepay it in full upon a change in control (as defined in the note), and, upon asset sales, subject to certain exceptions, to prepay the note in the amount of excess proceeds received from such asset sales. Our failure to comply with the terms and covenants in our indebtedness could lead to a default under the terms of those documents, which would entitle the holders to accelerate the indebtedness and declare all amounts owed due and payable.

The existence of these restrictions limits our ability to finance operations and capital needs, make acquisitions or engage in other business activities, including our ability to grow and increase our revenue or respond to competitive changes. The following is a discussion of our sources of capital:

Certain of our International subsidiaries may borrow against a \$150.0 million sub-limit included in Clear Channel Communications \$2.0 billion revolving credit facility, to the extent Clear Channel Communications has not already borrowed

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against this capacity and is in compliance with its covenants under the credit facility. On February 6, 2009, Clear Channel Communications borrowed the remaining availability under its \$2.0 billion revolving credit facility, including the remaining availability under the \$150.0 million sub-limit. Our international subsidiaries have borrowed \$30.0 million against the \$150.0 million sub-limit.

As part of the day-to-day cash management services provided by Clear Channel Communications, we maintain accounts that represent net amounts due to or from Clear Channel Communications, which is recorded as Due from/to Clear Channel Communications on the consolidated balance sheet. The accounts represent the net of the balances on our revolving promissory note issued by us to Clear Channel Communications and the revolving promissory note issued by Clear Channel Communications to us, each in the face amount of \$1.0 billion, or if more or less than such amount, the aggregate unpaid principal amount of all advances. Clear Channel Communications is not required to provide us with funds to finance our working capital or other cash requirements. Our claim in relation to cash transferred from our concentration account is on an unsecured basis and is limited to the balance of the Due from Clear Channel Communications account. If Clear Channel Communications were to become insolvent, we would be an unsecured creditor of Clear Channel Communications with respect to the revolving promissory note issued by Clear Channel

Financial assets

3,492

4,169

Total noncurrent assets

98,753

111,526

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The decline in intangible assets from EUR 53.4 billion to EUR 47.4 billion (11.2 percent) is due primarily to the effect of exchange rate losses on the translation of foreign Group companies (mainly relating to the decrease in value of the U.S. dollar compared with the euro) and to continued amortization.

The EUR 6.1 billion decrease in the carrying amount of property, plant and equipment is due primarily to the sale and deconsolidation of the remaining cable businesses and scheduled depreciation, combined with a decrease in the amount of capital expenditures during 2003.

### *Investments*

The capital expenditures for the nine months ended September 30, 2003 and 2002 are as follows:

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For the nine months ended September  
30,

2003                      2002

(millions of €)

Intangible assets	425	5,038
Property, plant and equipment	3,134	4,777
Financial assets	<u>444</u>	<u>765</u>
Total investments	<u>4,003</u>	<u>10,580</u>

The decrease in investments is due in part to the reductions in capital expenditures during 2003 as part of the Triple-E program, our program to enhance efficiency and achieve cost savings. Furthermore, investments in intangible assets were higher during 2002 in part due to the acquisition of the remaining shares in T-Systems ITS GmbH (formerly debis Systemhaus GmbH) for EUR 2.7 billion and T-Mobile Netherlands for EUR 1.7 billion.

**Note (10) Shareholders' equity**

The components of shareholders' equity as of September 30, 2003 and December 31, 2002 are as follows:

As of

September 30,              December 31,  
2003                      2002

(millions of €)

Capital stock	10,746	10,746
Additional paid-in capital	50,087	50,077
Retained earnings	248	248
Unappropriated net income (loss) carried forward	(24,564)	23
Net income (loss)	1,617	(24,587)
Cumulative translation adjustment account	<u>(7,158)</u>	<u>(5,079)</u>
	30,976	31,428
Minority interest	<u>4,155</u>	<u>3,988</u>
Total shareholders' equity	<u>35,131</u>	<u>35,416</u>

The slight decrease in shareholders' equity compared with December 31, 2002, despite the positive Group result, is primarily due to foreign exchange rate effects from the translation of foreign Group companies to euros.

2,670,828 treasury shares were held at September 30, 2003 and December 31, 2002, and are included within marketable securities in the condensed consolidated balance sheets.

### Note (11) Liabilities

The components of liabilities as of September 30, 2003 and December 31, 2002 are as follows:

	As of	
	September 30, 2003	December 31, 2002
	(millions of €)	
Debt		
Bonds and debentures	55,223	56,752
Liabilities to banks	<u>4,357</u>	<u>6,292</u>
	59,580	63,044
Other liabilities	<u>10,552</u>	<u>10,541</u>
Total liabilities	<u>70,132</u>	<u>73,585</u>

In February 2003, we generated proceeds of approximately EUR 2.3 billion from the issuance of mandatory convertible bonds. The bonds are convertible into shares of Deutsche Telekom no later than June 1, 2006 at a conversion rate that, depending on share price performance, may vary from 3,417.1769 shares to 4,237.2881 shares for each bond (EUR 50,000 notional amount). The conversion of the bonds will result in an increase in shareholders' equity and, upon conversion, dilution to currently outstanding shares. The bonds bear interest at 6.5% per annum.

On June 30, 2003, T-Mobile USA repurchased bonds via a successful tender offer with a face amount of USD 1.1 billion.

On July 15, 2003, our Dutch finance subsidiary, Deutsche Telekom International Finance N.V., issued a series of bonds in the principal amount of USD 2 billion, which were guaranteed by us. The bonds were issued in two tranches: a USD 1.25 billion ten-year tranche and a USD 750 million five-year tranche. The ten-year tranche, which matures on

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July 22, 2013, has an interest rate of 5.25 percent and the five-year tranche, which matures on July 22, 2008, has an interest rate of 3.875 percent. Proceeds of these bonds were used to refinance debt which was approaching maturity and to strengthen our liquidity position.

On August 19, 2003, we repurchased T-Mobile USA bonds in an amount of USD 36 million.

During the first nine months of 2003, we issued fixed medium term notes aggregating EUR 2.5 billion as part of our multi-currency debt issuance program, as follows:

Notional amount in				
Currency	millions of €	Average interest rate	Date of issuance	Maturity
USD	26	4.75%	January 2003	2005
JPY	36	1.80%	February 2003	2006
EUR	1,000	5.70%	February 2003	2008
EUR	63	5.70%	January 2003	2008
GBP	361	6.25%	April 2003	2010
EUR	500	6.63%	April 2003	2018
EUR	500	7.50%	January 2003	2033

Proceeds of these bonds and medium term note issuances were used to refinance debt that was approaching maturity and to strengthen our liquidity position.

EUR 2.4 billion of these medium term notes contain step-up provisions that would result in a 50 basis points increase in interest rates in the event of a lowering of our senior unsecured debt rating below Baa1 by Moody's and BBB+ by Standard & Poor's. In January 2003, Moody's downgraded our senior unsecured debt rating to Baa3. We will be subject to these interest rate step-ups if Standard & Poor's reduces our debt rating below BBB+.

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### **Note (12) Guarantees and commitments, and other financial obligations**

The amount of our guarantees and commitments, and other financial obligations increased by EUR 1.7 billion at September 30, 2003, as compared with the amount at December 31, 2002. This increase is mainly attributable to new purchase commitments and new lease agreements consummated during 2003.

**Note (13) Segment information in accordance with SFAS 131**

The structure of our segments was adapted to the adjusted reporting structure at T-Com and T-Online in the first quarter of 2003. DeTeMedien, previously included under T-Online, has been reported under T-Com since January 1, 2003. In the same way, subsequent measurement resulting from the admission of new shareholders at T-Online, and which affects the income (loss) related to associated and related companies and depreciation and amortization, is no longer reported under the T-Online segment, but rather in the reconciliation to consolidated amounts set forth in the table below. Furthermore, the direct allocation of the agency business from the T-Systems segment to the T-Com and T-Mobile segments has led to a redistribution of intersegment revenue and net revenue which does not affect total income. To facilitate comparison, prior-year figures have been adjusted in accordance with the aforementioned changes.

The first-time application of the cost-of-sales method from January 1, 2003 led to a change in the composition of income before taxes, which now includes other taxes. As no extraordinary items arose in any of the periods, the income before income taxes presented in the tables below corresponds to results from ordinary business activities. All segment information in this report has been prepared in accordance with U.S. Statement of Financial Accounting Standards No. 131 ( SFAS 131 ) and German Accounting Standard 3, Segment Reporting ( DRS 3 ).

The following tables give an overall summary of our segments for the third quarter and first nine months of both 2002 and 2003. In addition to the amounts disclosed for the segments, there also is a reconciliation line, which mainly contains consolidation entries.

For the three months ended						Income (loss) related to associated and related companies	Income (loss) before taxes <sup>(2)</sup>
September 30, 2003	Net revenue	Inter-segment revenue	Total revenue	Depreciation and amortization	Net interest income (expense)		
(millions of €)							
T-Com <sup>(1)</sup>	6,152	952	7,104	(1,265)	(60)	(7)	1,211
T-Systems <sup>(1)</sup>	1,798	819	2,617	(373)	(6)	1	10
T-Mobile <sup>(1)</sup>	5,632	288	5,920	(1,298)	(216)	27	239
T-Online <sup>(1)</sup>	413	40	453	(104)	26	97	103
Group Head-quarters & Shared Services	82	974	1,056	(195)	(659)	(5)	(878)
Reconciliation <sup>(1)</sup>	<u>0</u>	<u>(3,073)</u>	<u>(3,073)</u>	<u>70</u>	<u>(28)</u>	<u>(14)</u>	<u>6</u>
Group	<u>14,077</u>	<u>-</u>	<u>14,077</u>	<u>(3,165)</u>	<u>(888)</u>	<u>99</u>	<u>691</u>

For the three months ended						Income (loss) related to associated and related companies	Income (loss) before taxes (2)
September 30, 2002	Net revenue	Inter-segment revenue	Total revenue	Depreciation and amortization	Net interest income (expense)		
(millions of €)							
T-Com <sup>(1)</sup>	6,602	888	7,490	(1,385)	(112)	(8)	1,078
T-Systems <sup>(1)</sup>	1,676	912	2,588	(1,006)	(37)	(10)	(1,111)
T-Mobile <sup>(1)</sup>	4,711	394	5,105	(22,753)	(230)	(278)	(21,985)
T-Online <sup>(1)</sup>	338	45	383	(106)	33	(236)	(274)
Group Head-quarters & Shared Services	96	1,154	1,250	(307)	(574)	(286)	(1,201)
Reconciliation <sup>(1)</sup>	<u>0</u>	<u>(3,393)</u>	<u>(3,393)</u>	<u>78</u>	<u>27</u>	<u>136</u>	<u>172</u>
Group	<u>13,423</u>	<u>-</u>	<u>13,423</u>	<u>(25,479)</u>	<u>(948)</u>	<u>(682)</u>	<u>(23,321)</u>

For the nine months ended						Income (loss) related to associated and related companies	Income (loss) before taxes (2)
September 30, 2003	Net revenue	Inter-segment revenue	Total revenue	Depreciation and amortization	Net interest income (expense)		
(millions of €)							
T-Com <sup>(1)</sup>	18,716	3,031	21,747	(3,865)	(291)	(26)	3,488
T-Systems <sup>(1)</sup>	5,267	2,477	7,744	(1,120)	(32)	3	(79)
T-Mobile <sup>(1)</sup>	15,871	916	16,787	(3,857)	(817)	36	637
T-Online <sup>(1)</sup>	1,209	138	1,347	(311)	86	91	126
Group Head-quarters & Shared	225	2,995	3,220	(694)	(1,814)	2	(2,330)

# Services

## Reconciliation

(1)	<u>0</u>	<u>(9,557)</u>	<u>(9,557)</u>	<u>201</u>	<u>50</u>	<u>(22)</u>	<u>(59)</u>
Group	<u>41,288</u>	<u>-</u>	<u>41,288</u>	<u>(9,646)</u>	<u>(2,818)</u>	<u>84</u>	<u>1,783</u>

For the nine months ended						Income (loss) related to associated and related companies	Income (loss) before taxes <sup>(2)</sup>
September 30, 2002	Net revenue	Inter-segment revenue	Total revenue	Depreciation and amortization	Net interest income (expense)		
				(millions of €)			
T-Com <sup>(1)</sup>	19,707	2,825	22,532	(4,081)	(463)	(300)	2,750
T-Systems <sup>(1)</sup>	5,076	2,591	7,667	(2,016)	(58)	(24)	(1,651)
T-Mobile <sup>(1)</sup>	13,150	1,095	14,245	(26,212)	(686)	(422)	(23,528)
T-Online <sup>(1)</sup>	987	134	1,121	(314)	96	(253)	(423)
Group Head-quarters & Shared Services	257	2,916	3,173	(947)	(1,897)	(667)	(3,932)
Reconciliation <sup>(1)</sup>	<u>0</u>	<u>(9,561)</u>	<u>(9,561)</u>	<u>217</u>	<u>(23)</u>	<u>137</u>	<u>116</u>
Group	<u>39,177</u>	<u>-</u>	<u>39,177</u>	<u>(33,353)</u>	<u>(3,031)</u>	<u>(1,529)</u>	<u>(26,668)</u>

(1)

Adjusted to reflect the 2002 and 2003 reporting structures.

(2)

Income before income taxes



## Note (14) Subsequent events

### *Toll collection system*

In September 2002, Deutsche Telekom AG, DaimlerChrysler Services AG, and Compagnie Financière et Industrielle des Autoroutes S.A. (Cofiroute) (individually, the partners and collectively, the consortium) entered into an agreement with the Federal Republic of Germany (Federal Ministry of Transport) relating to the collection of toll charges for the use of German highways by heavy vehicles, and the creation and operation of a toll system for the collection of highway toll charges for heavy vehicles (the operating agreement). The toll collection system is to be created and operated by the joint venture Toll Collect GmbH (Toll Collect). We and DaimlerChrysler Services each hold a 45 percent stake in Toll Collect, with the remaining 10 percent being held by Cofiroute. Toll Collect's total assets, financial liabilities, total liabilities, and shareholders' equity at September 30, 2003 were EUR 0.7 billion, EUR 0.4 billion, EUR 0.5 billion, and EUR 105 million, respectively. Our involvement with Toll Collect includes our equity interest in Toll Collect that is recognized in the consolidated financial statements using the equity method of accounting, and certain financial guarantees.

We believe our maximum exposure to loss as a result of our interest in Toll Collect could extend beyond the carrying amount of our investment because of other risks associated with the financial guarantees issued for Toll Collect.

Pursuant to the provisions of the operating agreement, we, together with our partners, Daimler Chrysler Services and Cofiroute, on a joint and several basis, guaranteed that Toll Collect will duly perform its duties in line with the operating agreement for the period of one year after the agreed start of operations.

In addition, the partners of Toll Collect, on a joint and several basis, undertook to fund Toll Collect in order to maintain a minimum equity ratio for Toll Collect of 20 percent (based on German GAAP) until August 31, 2004, and 15 percent thereafter (Equity Maintenance Undertaking) until the operating agreement expires. These funding requirements would be triggered by, among other events, losses incurred by Toll Collect due to penalties for delays in the start of the operation of the toll collection system.

The start of operations initially was scheduled for August 31, 2003, but is delayed. In the event that the toll collection system is not operational by December 1, 2003, the consortium, or Toll Collect (provided it joins as a party to the operating agreement) will become liable for contractual penalties of EUR 250,000 per day until the end of February 2004 and EUR 500,000 per day thereafter. Beside these penalties, further penalties or liability for fault are excluded in the operating agreement.

Further funding requirements could arise during the operational phase, after having obtained the preliminary operating permit, as a result of penalties, payment of compensation for damages, or revenue reductions Toll Collect may be exposed to in the event that certain contractual obligations are violated or the toll collection system does not operate effectively as set forth in the operating agreement. The penalties are limited during the first nine months following the issuance of the preliminary operating permit to an aggregate of EUR 56.25 million, then to EUR 150 million per annum until the issuance of the final operating permit, and thereafter to a EUR 100 million per annum, with these amounts increasing by 3 percent per year of operation.

In case of a culpable violation of contractual duties within the operational phase, the Federal Republic of Germany will not be prevented from claiming without any limitation further damages from Toll Collect. If such penalties, revenue reductions, and other events eventually result in an equity ratio of Toll Collect below the ratio agreed upon in the Equity Maintenance Undertaking, the partners are obligated to fund operations to the extent needed to reach these equity levels.

Specific circumstances may entitle the parties to terminate the agreement. For termination to be effective, notice of termination must generally be given at least two months before the termination takes effect. This period may be used

to rectify the reasons for termination. Termination of the agreement may have significant consequences for us as financial guarantor of certain obligations of Toll Collect.

Until funds become available through the operating performance of the toll collection system, Toll Collect has and expects to continue to fund its operating needs through bridge loans from banks. The loans are guaranteed by us on a several and independent basis to the extent of our 45 percent interest in Toll Collect. For these guarantees, we receive market equivalent remuneration from Toll Collect. Our guaranteed portion of such indebtedness amounts to approximately EUR 312 million as of October 31, 2003. Such indebtedness matures on December 30, 2003, at which time Toll Collect must refinance such indebtedness or obtain an extension of its repayment. Toll Collect is

currently negotiating with the lending banks to conclude a project financing arrangement that is expected to refinance existing indebtedness and to provide necessary working capital for the foreseeable future. No assurance can be given that such negotiations will be successfully concluded prior to the maturity date of the indebtedness, if at all. In such event, we, and our partners in the consortium, may be required to satisfy our obligations under the financial guarantees.

*Sale of remaining minority equity investments in Globe Telecom*

On October 30, 2003, we concluded the sale of our 24.8 percent stake in the Philippine telecommunications operator Globe Telecom to Ayala Corporation, Singapore Telecom International Pte Ltd. and Globe Telecom. The proceeds received from the sale were USD 472 million (EUR 402 million).

**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, contained in our Annual Report on Form 20-F/A filed with the Securities and Exchange Commission on June 27, 2003. 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 contained in our Annual Report on Form 20-F/A.

## INTRODUCTION

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

T-Online (for consumer Internet services).

In addition to the reorganization of our businesses into four main operating divisions, we have created a virtual strategic management holding company that includes those operations formerly under "Other Activities" and is now known as "Group Headquarters & Shared Services."

In 2003, we continue 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 have increased consolidated net revenues and have introduced measures to improve our operating efficiencies and control our costs and capital expenditures. Our cash flows have improved in part as a result of these measures. Additionally, proceeds from the sale of non-core assets together with cash flows from operations have increased our ability to reduce our debt balance.

Until the end of 2002, we classified our consolidated statement of operations using the total-cost method. In this Report, we are publishing our consolidated statement of operations in accordance with the cost-of-sales method. Besides allocating operational expenses to functional areas, this method also includes other taxes in the operating results or results from ordinary business activities. The 2002 comparative figures have been restated accordingly to conform to the change to cost-of-sales presentation.

### Sales of Assets

Another factor relevant to our goal of improving our debt position, improving operational efficiencies, controlling costs and better allocating and controlling capital expenditures, is the monetization and sales of non-core assets. We expect that, in addition to the sale of the remainder of our German cable operations completed in March 2003, the sale of certain real estate holdings will contribute to our cash flows in 2003 and beyond. However, these sales may not actually occur in significant volumes and they may not yield the proceeds we anticipate.

Furthermore, during the period ended September 30, 2003, gains totaling approximately EUR 140 million were recognized on the sale of shares in Eutelsat S.A., Paris (EUR 65 million), the UMC (Ukrainian Mobile Communications) joint venture, Kiev (EUR 54 million), and Celcom Sdn. Bhd., Kuala Lumpur (EUR 20 million).

On October 30, 2003, we concluded the sale of our 24.8 percent stake in the Philippine telecommunications operator Globe Telecom to Ayala Corporation, Singapore Telecom International Pte Ltd. and Globe Telecom. The proceeds received from the sale were USD 472 million (EUR 402 million).

## **Offer to purchase PTC shares**

On August 25, 2003, we made an offer to Elektrim S.A., Vivendi Universal S.A. and Ymer Finance, to acquire their respective shares in the Polish mobile communications company Polska Telefonia Cyfrowa (PTC). We currently hold 49 percent of the shares in PTC via our mobile communications subsidiary T-Mobile. The other shareholders have pooled the majority of their 51 percent of PTC in a holding company. Our intention in attempting to increase our stake in PTC to 100 percent was to round off our already strong position in the mobile communications markets of Central and Eastern Europe. A general agreement was reached between all parties on September 14, 2003 concerning a revised offer for EUR 1.1 billion. On September 26, 2003, due to the failure of Elektrim to reach an understanding with its bond holders, the offer to purchase expired. We will continue to maintain our relationship with PTC on the basis of our current shareholding and will cooperate with the other shareholders of PTC to support the development of the Polish mobile communications provider's business activities.

## **Regulation**

Our business has been significantly influenced by the regulatory regime applicable to telecommunications operators and service providers in Germany and other countries. We are viewed by the German telecommunications regulator as dominant in certain markets that form a significant part of our business, particularly the market for fixed-line voice telephony services in Germany. Following the adoption of the new European Union telecommunications regulatory framework, amendments to the German Telecommunications Act are likely to affect our business materially. The future regulatory and competitive environment for us in Germany will be largely determined by these forthcoming amendments of the Telecommunications Act. The amended Telecommunications Act is not expected to become effective until mid-2004 at the earliest. The Federal Government approved a draft of the new act on October 15, 2003. We believe there are plans to considerably extend regulation, particularly in the area of access services obligations, which could entail appreciable risks for us.

Our international expansion also has made us subject to regulation in other jurisdictions, including in the mobile communications sectors in the United Kingdom and the United States.

A discussion of significant regulatory decisions applicable to our businesses and services is included in Item 4. Information on the Company - Regulation in our 2002 Annual Report on Form 20-F/A as well as in our Form 6-K filed on June 26, 2003, July 14, 2003, July 21, 2003 and August 25, 2003. Additional developments are summarized below.

## *Access Cost Contribution*

On September 23, 2003, the German telecommunications regulator terminated the formerly approved access cost contribution (surcharge) of EUR 0.04. The access cost contribution was to have originally been levied on each access minute on local calls from July 1, 2003 through November 30, 2003. The German telecommunications regulator determined not to continue the access cost contribution since we increased our access fees effective September 1, 2003. We disagree with the German telecommunication regulator's determination as the access cost contribution was originally approved to cover initial capital investments in infrastructure facilities made by network operators on the basis of a fair cost sharing structure. The related lawsuits filed with the Appellate Administrative Court (OVG) opposing the temporary injunction of the Cologne Administrative Court on June 27, 2003 are still pending. It is possible, therefore, that we may still receive the surcharge for the above-mentioned period.

### *Line Sharing*

As previously reported, we filed an application with the German telecommunications regulator for an extension of current tariffs for line sharing (i.e. the use of a single access line for multiple purposes, including sharing access with competitors). On September 10, 2003, the German telecommunications regulator approved our application, which also required us to slightly reduce certain one-time tariffs. Our line sharing tariffs will therefore stay the same as before.

### *Interconnection*

Since the approval for the current interconnection tariffs will end on December 1, 2003, we filed an application with the German telecommunications regulator for new interconnection tariffs on September 22, 2003 to maintain the current level of tariffs until June 30, 2004. An application has also been submitted for an increase of approximately 10 percent in charges for tariff zone II (single transit) from July 1, 2004. The German telecommunications regulator must reach a decision concerning these applications by December 2, 2003.

Additionally, 15 local carriers have applied to the German telecommunications regulator for higher call termination charges. Currently call termination charges are calculated on a reciprocal basis (i.e., at the respective rate approved for T-Com). Local carriers have argued that their networks are smaller and are not operating at full capacity. Therefore, their networks are not covering their costs. The application of the local carriers may result in a new model that no longer calculates call termination charges on a reciprocal basis. This would effectively require us to pay more for termination calls than our local competitors would have to pay for calls terminated on our network. In response we

could be forced to raise our retail tariffs. The discussions with the local carriers and the German telecommunications regulator are ongoing.

### *Resale*

As previously reported, on July 18, 2003, the German telecommunications regulator required us to submit a revised telecommunications service offering that would permit telecommunications service resellers to acquire from us line access services (including DSL) unbundled from voice telephony calls. On August 15, 2003, the German telecommunications regulator imposed upon us the formal obligation to submit the resale offering no later than September 21, 2003. Depending on the amount of the discount, this may lead to reduced revenue and margins for the T-Com division. We objected to the German telecommunications regulator's decision and filed a lawsuit with the Cologne Administrative Court on August 20, 2003. Additionally, in September 2003, we filed a motion for a temporary injunction first with the Cologne Administrative Court and then after the court's rejection with the Appellate Administrative Court (OVG) to obtain a suspension of the deadline for the submission of the offering. The German telecommunications regulator agreed that we must not submit the resale offering until the Appellate Court has decided our motion, which will likely be the end of November 2003.

### *Pricing adjustments*

In May 2003, the EU Commission determined that we allegedly abused our dominant position through unfair pricing practices in connection with providing local access to our fixed-line telecommunications network. The EU Commission imposed a fine of EUR 12.6 million and obliged us to end the alleged unfair pricing practices immediately. To alleviate the EU Commission's concerns, we requested the German telecommunications regulator to approve a modification of the price cap regime that would allow us to increase the monthly fee for basic charges for analog access by EUR 1.94 to EUR 15.66 in addition to increases in one-time charges. To relieve our customers, T-Com proposed to offset this move by reducing its standard City rates by up to 50% at their peak, averaging a reduction of 6.5% in total, starting September 1, 2003.

On July 28, 2003, the German telecommunications regulator approved both our applications. Additionally, in July 2003, we filed a lawsuit with the Court of First Instance of the European Communities to obtain reversal of the EU Commission's decision and fine with respect to local access to our fixed-line network.

### *Eastern Europe*

A new telecommunications act in Croatia was passed in July and adopted on August 1, 2003. The new law supports increasing competition in the fixed-line business as the investment obligation in the infrastructure of telecommunication facilities, capacities, networks and systems from the previous law ceased to exist. The overall impact of the law will become apparent only after the new regulations (secondary legislation) of the law will have been passed (expected by February 2004).

## RESULTS OF OPERATIONS

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

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2003	2002	2003	2002	2002
	(millions of €, except per share data)				
<b>Net revenue</b>	14,077	13,423	41,288	39,177	<b>53,689</b>
Cost of sales	<u>(7,828)</u>	<u>(19,683)</u>	<u>(23,138)</u>	<u>(35,733)</u>	<u>(44,477)</u>
<b>Gross profit (loss)</b>	<b>6,249</b>	(6,260)	<b>18,150</b>	3,444	<b>9,212</b>
Selling costs	(3,266)	(3,380)	(9,821)	(9,743)	(13,264)
General and administrative costs	(1,264)	(1,589)	(3,889)	(4,262)	(6,062)
Other operating income	1,045	574	3,674	2,354	3,901
Other operating expenses	<u>(1,284)</u>	<u>(11,036)</u>	<u>(3,597)</u>	<u>(13,901)</u>	<u>(14,915)</u>
<b>Operating results</b>	<b>1,480</b>	(21,691)	<b>4,517</b>	(22,108)	<b>(21,128)</b>
Financial income (expense), net	<u>(789)</u>	<u>(1,630)</u>	<u>(2,734)</u>	<u>(4,560)</u>	<u>(6,022)</u>
of which: net interest (expense)	(888)	(948)	(2,818)	(3031)	(4,048)
<b>Results from ordinary business activities <sup>(1)</sup></b>	691	(23,321)	1,783	(26,668)	(27,150)
Income taxes	<u>(57)</u>	<u>2,757</u>	<u>137</u>	<u>2,369</u>	<u>2,847</u>
<b>Income (loss) after taxes</b>	<b>634</b>	<b>(20,564)</b>	<b>1,920</b>	(24,299)	<b>(24,303)</b>
Income applicable to minority shareholders	<u>(126)</u>	<u>(55)</u>	<u>(303)</u>	<u>(211)</u>	<u>(284)</u>
<b>Net income (loss)</b>	<b>508</b>	<b>(20,619)</b>	<b>1,617</b>	<b>(24,510)</b>	<b>(24,587)</b>
Earnings (loss) per share <sup>(2)</sup> /ADS	<u>0.12</u>	<u>(4.92)</u>	<u>0.39</u>	<u>(5.84)</u>	<u>(5.86)</u>

(3)

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(1)

Different from amounts reported in previous year due to the change to cost-of-sales accounting. For further information, please refer to Reconciliation to new structures.

(2)

Earnings (loss) per share for each period are calculated by dividing net income (loss) by the weighted average number of outstanding shares outstanding for the period.

(3)

The share to ADS ratio is 1:1.

## Revenue

We generated net revenue of EUR 41.3 billion in the first nine months of 2003. This equates to a year-on-year increase of EUR 2.1 billion, or 5.4 percent. Changes in the composition of the consolidated Group resulted in a net increase in net revenue of EUR 144 million. The first-time consolidation of T-Mobile Netherlands accounted for a EUR 0.6 billion increase in Group net revenue. These positive influences were offset in part by a revenue decrease at T-Com

of EUR 0.3 billion as a result of the deconsolidation of the cable businesses, and U.S. dollar and pound sterling currency translation adjustments, which reduced revenue figures by around EUR 1.4 billion.

Continuing the trend from the first half of the year, the T-Mobile and T-Online divisions were the major contributors to revenue growth in the third quarter and the first nine months of 2003. T-Mobile's net revenue growth is mainly attributable to the increase in subscriber numbers and average revenue per user, or ARPU. For more information on ARPU, refer to Segment Analysis T-Mobile ARPU Reconciliation. The first-time consolidation of T-Mobile Netherlands also contributed to the growth of the division. Net revenue at T-Online increased as a result of the continued growth of the customer base and higher levels of usage than in the previous year. Net revenue at T-Systems increased slightly in the third quarter of 2003 as compared with the second quarter of 2003 and the third quarter of 2002. The increase in net revenue was primarily generated from the telecommunication business, while revenue from the information technology services (IT) business grew during each quarter of 2003, but did not reach the levels achieved in 2002. In addition to the effect of the sale of the cable businesses, lower call revenue of introduction of call-by-call and carrier pre-selection in the local network, regulatory and competitive factors, and reduced revenue from business customers a consequence of the weak economy also contributed to the decrease in revenue at T-Com



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in the third quarter of 2003 and the nine months ended September 30, 2003 compared with the second quarter of 2003 and the third quarter of 2002, as well as the nine month period in 2002. This development was offset, in part, by T-Com's improvement of its market position in the core business areas relating to use of T-DSL and access revenue due to price and volume effects.

The following table shows the contributions of our divisions to our total revenues before elimination of inter-segment revenue.

	For the nine months ended September 30,				For the twelve months ended December 31,
	2003	2002	Change	% Change	2002
	millions of € (except where indicated)				
T-Com <sup>(1)</sup>	21,747	22,532	(785)	(3.5)	30,559
T-Systems <sup>(1)</sup>	7,744	7,667	77	1.0	10,489
T-Mobile <sup>(1)</sup>	16,787	14,245	2,542	17.8	19,735
T-Online <sup>(1) (2)</sup>	1,347	1,121	226	20.2	1,584
Group Head-quarters & Shared Services <sup>(1)</sup>	<u>3,220</u>	<u>3,173</u>	<u>47</u>	<u>1.5</u>	<u>4,411</u>
Total revenue	50,845	48,738	2,107	4.3	66,778
Inter-segment revenue	<u>(9,557)</u>	<u>(9,561)</u>	<u>(4)</u>	<u>n.m.</u>	<u>(13,089)</u>
Net revenues	<u>41,288</u>	<u>39,177</u>	<u>2,111</u>	<u>5.4</u>	<u>53,689</u>

n.m. not meaningful

(1)

Total divisional revenues under the new structures effective January 1, 2003. Prior period divisional total revenues have been adjusted to reflect the new structures. See Reconciliation to new structures for further explanation.

(2)

Amounts are presented in accordance with German GAAP, as applied throughout the Group, and differ from those published by T-Online International AG in accordance with IFRS.

The contribution of the divisions to Group revenue (after elimination of inter-segment revenue) is presented below:

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*Net revenue (excluding inter-segment revenue)*

	For the nine months ended September 30, 2003	Proportion of net revenues of the Group (%)	For the nine months ended September 30, 2002	Proportion of net revenues of the Group (%)	Change	% Change	For the twelve months ended December 31, 2002
millions of € (except where indicated)							
T-Com <sup>(1)</sup>	18,716	45.3	19,707	50.3	(991)	(5.0)	26,491
T-Systems <sup>(1)</sup>	5,267	12.8	5,076	13.0	191	3.8	6,895
T-Mobile <sup>(1)</sup>	15,871	38.4	13,150	33.6	2,721	20.7	18,339
T-Online <sup>(1) (2)</sup>	1,209	2.9	987	2.5	222	22.5	1,391
Group Head-quarters & Shared Services <sup>(1)</sup>	<u>225</u>	<u>0.5</u>	<u>257</u>	<u>0.6</u>	<u>(32)</u>	<u>(12.5)</u>	<u>573</u>
Net revenue	<u>41,288</u>	<u>100.0</u>	<u>39,177</u>	<u>100.0</u>	<u>2,111</u>	<u>5.4</u>	<u>53,689</u>

(1)

Net revenue under the new structures. See Reconciliation to new structures for further explanation.

(2)

Amounts are presented in accordance with German GAAP, as applied throughout the Group, and differ from those amounts published by T-Online International AG in accordance with IFRS.

Our largest contributor to net revenue continued to be T-Com, which generated around 45 percent of the Group's net revenue in the first nine months of 2003. The relative significance of the T-Com division for the Group's revenue is, however, declining due to the strong growth of T-Mobile and T-Online, and the revenue decrease at T-Com.

Accounting for over 38 percent of revenue, the T-Mobile division once more considerably improved its revenue position in comparison with the other divisions in the first nine months of the current financial year.

Compared with the same periods in the previous year, the proportion of total revenue generated outside Germany increased in both the third quarter and the first nine months of 2003. Despite the negative foreign currency translation effects from the conversion of other currencies into euros (especially from U.S. dollars and pounds sterling), the percentage of international revenue in the first nine months of 2003 increased to 37.8 percent from 33.6 percent in the nine months half of 2002. T-Mobile made a significant contribution to this positive development. T-Mobile USA was once again one of the main drivers of the Group's revenue growth rate in the third quarter of 2003 as well as in the first nine months of 2003. The first time consolidation of T-Mobile Netherlands also made a contribution to the further expansion of international business.

#### *Net revenue by geographic area*

	For the nine months ended September 30,				For the twelve months ended December 31, 2002
	2003	2002	Change	% Change	
	millions of € (except where indicated)				
Net revenue	41,288	39,177	2,111	5.4	53,689
Domestic	25,689	26,000	(311)	(1.2)	35,288
International	15,599	13,177	2,422	18.4	18,401
of which: EU countries (excluding Germany)	5,886	4,849	1,037	21.4	6,836
of which: Rest of Europe	3,794	3,743	51	1.4	5,067
of which: North America	5,580	4,352	1,228	28.2	6,166
of which: Other	339	233	106	45.5	332

**Operating results**

	For the nine months ended September 30,			
	2003	2002	Change	% Change
	millions of € (except where indicated)			
Total Group	4,517	(22,108)	26,625	n.m.

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n.m. not meaningful

Operating results increased by around EUR **26.6** billion compared to the same period in the previous year as follows:

All Group divisions contributed to the increase in operating results by expanding their **revenue** with the exception of T-Com in the amount of EUR 2.1 billion. Also the **operating costs** (cost of sales, selling costs and general and administrative costs) as well as the other operating expenses have been reduced compared with the first nine months of 2002 by a total of EUR 23.2 billion. This development was essentially a result of nonscheduled depreciation and amortization charges that had been recorded after the strategic review in the third quarter of 2002. In the current reporting period no similar nonscheduled depreciation and amortization charges have been recorded.

The **cost of sales** has been reduced compared to the same period in the previous year by EUR 12.6 billion, in particular as a result of the non-scheduled depreciation on mobile phone licenses in the third quarter of 2002.

Current period **general and administrative costs** were reduced by EUR 0.4 billion. In contrast, **selling costs** were EUR 0.1 billion higher than in the previous comparative period, mainly due to T-Mobile, which had a less than proportional increase in selling costs compared with revenue due to efficiencies in capacity utilization.

The decrease in **other operating expenses** (EUR 10.3 billion) resulted from the high level of nonscheduled amortization of goodwill of T-Mobile USA, T-Mobile Netherlands and SIRIS (9.9 billion in total) in connection with the strategic review in the third quarter of 2002.

At the same time, **other operating income** increased by EUR 1.3 billion, primarily from the sale of non-core businesses in 2003, including the sale of cable businesses, Telecash Kommunikations-Service GmbH, Eutelsat S.A. and the UMC (Ukrainian Mobile Communications) Joint Venture (EUR 0.5 billion in total) in the first quarter, as well as the sale of T-Systems SIRIS S.A.S. and Celcom (Malaysia) Sdn. Bhd. and shares in MTS (EUR 0.4 billion in total) in the second quarter and the sale of the remaining cable business in Baden-Württemberg (EUR 0.1 billion) in the third quarter.

**Financial income (expense), net**

**Financial income (expense), net** consists primarily of net interest expense, and results related to associated companies accounted for using the equity method of accounting.

	For the nine months ended September 30,			
	2003	2002	Change	% Change
	millions of € (except where indicated)			
Total Group	(2,734)	(4,560)	1,826	40.0
of which, net interest expense	(2,818)	(3,031)	213	7.0

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In the first nine months of 2003, net financial expense improved compared with the previous year by EUR 1,826 million to EUR 2,734 million. This improvement in net financial expense is primarily the result of nonscheduled write-downs recorded in 2002 relating to the disposition of our investment in France Telecom in the amount of EUR 253 million, as well as valuation allowances on fixed asset securities and loans to affiliated companies in the aggregate amount of EUR 700 million, including Kabel Deutschland GmbH (EUR 316 million), recorded in the same period. In the first nine months of 2003, the results related to companies accounted for under the equity method and the net interest expense developed positively, primarily due to the deconsolidation of companies accounted for under the equity method in the previous year, and the revaluation of the net carrying value of our investment in comdirect, as well as the recognition of interest income in connection with the termination of certain interest rate derivatives.

## Income Taxes

### Income Taxes

	For the nine months ended September 30,			
	2003	2002	Change	% Change
	millions of € (except where indicated)			
	137	2,369	(2,232)	(94,2)

Total Group

Our domestic combined income tax rate for the first nine months of 2003 was 40.5%, consisting of a corporate income tax of 25%, increased over one year by 1.5% to 26.5% to fund the reparations resulting from the 2002 floods in Eastern Germany, a trade earnings tax (at an average rate) and a solidarity surcharge levied at 5.5% on corporate income tax.

Loss from ordinary business activities of EUR 26,668 million in the first nine months of 2002 improved to a positive figure of EUR 1,783 million in the first nine months of 2003. We also had net operating loss carryforwards affecting corporate income tax and trade tax net operating loss carryforwards, with the result that no taxes were payable in the tax consolidation group. The tax benefit reported relates to corporate income tax benefit of EUR 361 million at T-Mobile International AG & Co. KG in 2002 as a result of the change of the legal form of T-Mobile from a stock corporation to a partnership. This tax benefit was partially offset by tax expense relating to domestic and foreign shareholdings not included in the domestic tax consolidation group.

**Net income (loss)**

Net income (loss)

	For the nine months ended September 30,			
	2003	2002	Change	% Change
	millions of € (except where indicated)			
Total Group	1,617	(24,510)	(26,127)	n.m.

n.m. not meaningful

In the first nine months of 2003, we increased our net income by EUR 26.1 billion to EUR 1.6 billion from a loss of EUR 24.5 billion for the first nine months of 2002. This is primarily a result of favorable tax effects, recorded in the first quarter and an improvement in the results from ordinary business activities as set forth above.

## SEGMENT ANALYSIS

### Reconciliation to new structures

#### *Agency business*

The internal accounting for and recording of transactions involving certain products that are sold and supported by T-Systems, but settled and billed by other divisions in the Group ( agency business ), were simplified. This new arrangement has led to higher net revenue being reported at T-Com in particular, and to a lesser extent at T-Mobile, while the net revenue reported by T-Systems has decreased by a corresponding amount. T-Systems remains the primary contact to the customer, and continues to receive a selling or agency commission for acquisition and support services. These commissions increase the inter-segment revenue of T-Systems. These new structures do not affect consolidated results. The amounts reported for the 2002 financial year were restated to aid comparability.

#### *T-Com*

Since January 1, 2003, DeTeMedien subsidiary has been transferred from T-Online to T-Com, and the current and historical figures reported for T-Com have been increased by the amounts reported for DeTeMedien. The simplified internal accounting for agency business revenue since January 1, 2003 (see above) has also increased the revenue reported for the T-Com division. All amounts reported for T-Com for the 2002 financial year reflect the reclassification of the agency business to enable comparison.

On May 28, 2003, DeTeMedien acquired all shares of t-info GmbH from T-Online for around EUR 86 million. The shares were transferred as of April 1, 2003. t-info offers directory services and special directories on the Internet and mobile terminals, such as PDAs and mobile phones.

#### *T-Mobile*

The new internal accounting procedure introduced for the agency business (see above) increased the net revenue of the T-Mobile division. At the same time, T-Mobile's inter-segment revenue will decrease by the same amount. Accordingly, there will be no effect on total revenue. In the 2002 financial year, a negligible proportion of T-Mobile's net revenue was attributable to the standard products business.

#### *T-Systems*

T-Systems is the Group's primary face to corporate customers, offering standard products in addition to systems solutions. For these standard products, T-Systems provides support to other divisions of our Group in the form of sales and customer care services for the corporate customers, without itself actually being the contracting party. Contracts are settled on behalf of the division providing the product. Under the terms of this agency business, T-Systems receives a selling or agency commission for the services it has provided. In the past, the relevant revenue billed to external customers was recorded by T-Systems. In the 2002 financial year, which has been adjusted to reflect this change, this resulted in an increase in the amounts reported under total revenue and purchased goods and services relating to T-Systems. Commencing January 1, 2003, T-Systems reported the selling commissions as inter-

segment revenue. The simplified internal accounting for the agency business will have no effect on consolidated results.

### *T-Online*

DeTeMedien was transferred to the T-Com division as of January 1, 2003. Additionally, t-info has been transferred to DeTeMedien for around EUR 86 million as of April 1, 2003. The amounts originally reported for T-Online for the 2002 financial year have been restated accordingly to enable comparison. Additionally, since T-Online reports results in accordance with IFRS, there may be differences between the presentation of T-Online International AG and the presentation of the T-Online division in those items where IFRS differs from HGB accounting principles.

### *Transition to the cost-of-sales method*

Until the end of 2002, we classified our consolidated statements of operations using the total-cost method. In this Report, we are publishing our consolidated statements of income using the cost-of-sales method, which is more commonly used internationally. Besides allocating operational expenses to functional areas, this also involves including other taxes in operating results, or results from ordinary business activities. The prior-year results have been restated accordingly to conform to the change to cost-of-sales accounting.

### **Segment information by division for the first nine months of 2003 and 2002**

The following tables give an overall summary of our segments for the nine months of 2003 and 2002, including the reconciliation line, which mainly contains consolidation entries.

For the nine months ended September 30, 2003	Net revenue	Inter-segment revenue	Total revenue	Depreciation and amortization	Net interest income (expense)	Income (loss) related to associated and related companies	Income (loss) before taxes <sup>(2)</sup>
(millions of €)							
T-Com <sup>(1)</sup>	18,716	3,031	21,747	(3,865)	(291)	(26)	3,488
T-Systems <sup>(1)</sup>	5,267	2,477	7,744	(1,120)	(32)	3	(79)
T-Mobile <sup>(1)</sup>	15,871	916	16,787	(3,857)	(817)	36	637
T-Online <sup>(1)</sup>	1,209	138	1,347	(311)	86	91	126
Group Head-quarters & Shared Services <sup>(1)</sup>	225	2,995	3,220	(694)	(1,814)	2	(2,330)



Reconciliation (1)	<u>0</u>	<u>(9,557)</u>	<u>(9,557)</u>	<u>201</u>	<u>50</u>	<u>(22)</u>	<u>(59)</u>
Group	<u>41,288</u>	<u>-</u>	<u>41,288</u>	<u>(9,646)</u>	<u>(2,818)</u>	<u>84</u>	<u>1,783</u>

For the nine months ended September 30, 2002	Net revenue	Inter-segment revenue	Total revenue	Depreciation and amortization	Net interest income (expense)	Income (loss) related to associated and related companies	Income (loss) before taxes <sup>(2)</sup>
(millions of €)							
T-Com <sup>(1)</sup>	19,707	2,825	22,532	(4,081)	(463)	(300)	2,750
T-Systems <sup>(1)</sup>	5,076	2,591	7,667	(2,016)	(58)	(24)	(1,651)
T-Mobile <sup>(1)</sup>	13,150	1,095	14,245	(26,212)	(686)	(422)	(23,528)
T-Online <sup>(1)</sup>	987	134	1,121	(314)	96	(253)	(423)
Group Head-quarters & Shared Services <sup>(1)</sup>	257	2,916	3,173	(947)	(1,897)	(667)	(3,932)
Reconciliation (1)	<u>0</u>	<u>(9,561)</u>	<u>(9,561)</u>	<u>217</u>	<u>(23)</u>	<u>137</u>	<u>116</u>
Group	<u>39,177</u>	<u>-</u>	<u>39,177</u>	<u>(33,353)</u>	<u>(3,031)</u>	<u>(1,529)</u>	<u>(26,668)</u>

(1)

Restated to reflect the 2002 and 2003 reporting structures.

(2)

Income before income taxes.

T-Com is primarily responsible for our fixed-line network business. Internationally, T-Com includes the results of Hrvatske telekomunikacije in Croatia, MATAV in Hungary (including Maktel in Macedonia) and Slovenske Telekomunikacije in Slovakia. In Germany, T-Com's business consists mainly of the provision and maintenance of the network infrastructure and the support of residential customers, small and medium-sized business enterprises and carriers. This range of services is complemented by special additional services, such as public telephones, directory inquiries, call centers, and toll-free and shared-cost numbers.

	As of September 30, 2003	As of December 31, 2002	% Change (2)	As of September 30, 2002	% Change (2)
	millions (1)	millions (1)		millions (1)	
<b>Narrowband lines</b>	<b>55.6</b>	<b>56.2</b>	<b>(1.1)</b>	<b>56.0</b>	<b>(0.7)</b>
Germany (3)	48.8	49.3	(1.0)	49.2	(0.8)
Standard analog lines	27.6	28.6	(3.5)	28.9	(4.5)
ISDN channels	21.2	20.7	2.4	20.0	5.0
Eastern Europe (3)	6.8	6.9	0.0	6.8	n.m.
MATAV (4)	3.5	3.6	(2.8)	3.6	(2.8)
Slovenske Telekomunikacije (ST)	1.4	1.5	(6.7)	1.5	(6.7)
Hrvatske telekomunikacije (HT)	1.8	1.8	0.0	1.8	0.0
<b>Broadband lines</b>					
Germany (T-DSL) (5)	4.0	3.1	22.5	2.7	48.1
Eastern Europe (ADSL)	0.1	0.0	n.m.	0.0	n.m.
<b>Mobile communications subscribers</b>					
Westel	3.6	3.4	5.9	3.2	12.5
HT Mobilne komunikacije	1.4	1.2	16.7	1.2	16.7

n.m. not meaningful

(1)

Rounded figures calculated on the basis of millions. The total was calculated on the basis of precise figures.

(2)

Calculated based on the figures shown.

(3)

Telephone channels, including telephone lines used within the Group.

(4)

Subscriber-line figures include MATAV's subsidiary Maktel in 2003. The figures for the previous year have been adjusted for comparative purposes.

(5)

Contracts sold.

An important trend affecting T-Com's overall business development throughout 2003 continued to be the migration of customers to more advanced lines, and particularly broadband lines. The number of T-DSL lines sold in Germany grew by 300,000, reaching 4.0 million in the third quarter of 2003. Compared with September 30, 2002, this corresponds to an increase of 48 percent. Another promising trend supporting the positive development in the third quarter of 2003 was the sharp increase in the data volume generated with T-DSL lines. The number of ISDN

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channels in Germany also continued to rise. The total number of T-Com fixed-network channels (narrowband) declined slightly in the first nine months of 2003 compared with the prior-year period. The trend of declining analog subscriber lines, which has been evident for several quarters, was mainly responsible for this decrease. T-Com believes that this trend is due to the migration of customers to higher-grade lines (like DSL) and also to more intense competition and the increased usage of mobile communications.

The volume of call minutes in the retail business in Germany continued to decline in the third quarter. The overall volume of the market for local calls continued to decrease. Also, the introduction of call-by-call in the local network in April 2003 resulted in a substantial reduction in T-Com's market share for extended local calls. T-Com lost around 15 percent market share in local calls by the end of the third quarter of 2003. To safeguard its market share, T-Com launched the innovative rate options "Aktiv Plus xxl" and "Call Time 120" on October 1, 2003. Only a few weeks after their introduction, about half a million customers had already signed up for the new rate plans. Compared with its competitors, T-Com has captured a smaller portion of increases in the long-distance and fixed-to-mobile calling markets. These trends are primarily a result of increased competition, which continues to erode our market share, and increased use of mobile communications. Additionally, the vacation period and the record hot summer resulted in a general decline in the volume of call minutes in the fixed network in Germany quarter-on-quarter.

In its successful efforts to develop the broadband market in Germany, the focus for T-Com has been on improving quality, continuing innovation, and expanding the product portfolio, such as W-LAN (wireless local area network), online shopping with T-Pay or security solutions with T-Telesec Personal Security Service. A higher bandwidth for heavy users and professionals (T-DSL 1,500), special offerings for online gamers (FastPath for T-DSL), and double upstream (384 kbits) are also available as part of the T-DSL portfolio and target the individual needs of different customer groups. T-DSL is complemented by the W-LAN technology, which enables wireless surfing on the Internet via special access points. By eliminating the need to install or convert in-house cabling systems, T-Com has, with W-LAN, lowered the barrier that might prevent customers from entering the market. W-LAN lines are in great demand. In the first nine months of 2003, more W-LAN terminals were sold than in the whole of the previous year. Under the name T-DSL Business, T-Com offers its business customers asymmetrical and symmetrical variants for broadband Internet access at all T-DSL locations. Beginning in the fall, T-Com will offer small and medium-sized enterprises a further innovative and flexible solution for voice communication via the local data network (LAN). This future-oriented NetPhone solution is based on the Voice over IP technology.

T-Com raised its monthly charges for analog T-Net lines by EUR 1.94 to EUR 15.66, and for T-Net 100 lines by EUR 1.46 to EUR 18.45 as of September 1, 2003, as part of its price-cap measures. This price increase was T-Com's response to the European Commission's decision that it must narrow the alleged cost/price differential between line rentals charged to end-customers and subscriber lines offered as an upstream product. At the same time, the one-time installation charge was raised to EUR 59.95, and the line transfer charge is now EUR 29.94. The further reduction of the access deficit created leeway for lowering call charges, so that, in return, the prices for the City Standard rate were reduced by an average of 6.5 percent.

T-Com has had its own brand identity since August 1, 2003. We have taken this step to underscore the particular significance of T-Com's fixed-network business.

While the number of fixed-network lines in the Eastern European subsidiaries declined slightly, the number of subscribers registered with the mobile communications companies Westel and HT mobilne komunikacije developed positively despite intense competition. At Slovenské Telekomunikácie (ST), the number of fixed-network subscribers continues to decline due to the substitution of fixed-network services by mobile communications services. To stabilize its market position, Hrvatske telekomunikacije (HT) introduced a new pricing model in August 2003 for the fixed-network and launched an online content platform. HT and ST are taking the first steps towards opening up the broadband market. At MATÁV, the roll-out of the ADSL network is progressing as planned. At September 30, 2003, 73,000 customers in Hungary had an ADSL line compared with 27,000 year-on-year.

	For the three months ended September 30,			For the nine months ended September 30,			For the twelve months ended December 31, 2002 <sup>(2)</sup>
	2003	2002 <sup>(2)</sup>	% Change	2003	2002 <sup>(2)</sup>	% Change	
	millions of € (except where indicated)						
Total revenue <sup>(1)</sup>	7,104	7,490	(5.2)	21,747	22,532	(3.5)	30,559
Domestic	6,119	6,511	(6.0)	18,856	19,671	(4.1)	26,682
Eastern Europe	985	979	0.6	2,891	2,861	1.0	3,877
Results from ordinary business activities	1,211	1,078	12.3	3,488	2,750	26.8	3,604
Financial income (expense), net	(67)	(120)	44.2	(317)	(763)	58.5	(866)
Depreciation and amortization	(1,265)	(1,385)	8.7	(3,865)	(4,081)	5.3	(5,539)
Other taxes	(5)	8	n.m.	(14)	(30)	(53.3)	(42)
Number of employees <sup>(3)</sup>	138,331	152,767	(9.4)	141,260	153,934	(8.0)	153,065

n.m. not meaningful

(1)

Total revenues including revenue between divisions. Including DeTeMedien and agency business. For more information, please refer to Reconciliation to new structures .

(2)

Different from amounts reported in the previous year due to a change to cost-of-sales accounting. For further information, please refer to Reconciliation to new structures.

(3)

Average number of employees during the period.

In the third quarter of 2003, T-Com was again the main contributor to revenue in the Deutsche Telekom Group. Due to the impact of regulation, competition and the weak economy, revenue (not including the revenue of the deconsolidated cable companies) in the first nine months was 1.8 percent lower than that of the corresponding period of 2002. Additionally, total revenue in Germany above all in the local network was affected by such factors as the introduction of call-by-call in April 2003 and carrier preselection in July 2003. The Eastern European subsidiaries increased their revenue as measured in euros by 1.0 percent despite the negative effect of currency translation into euros. The slight decrease in total revenue of 0.7 percent quarter-on-quarter is attributable to the previously mentioned regulatory and competitive circumstances.

Within Germany, revenue developed differently in individual product segments of the T-Com division throughout 2003. Net revenue from domestic subscriber lines continued to increase in the third quarter of 2003 compared with the prior-year quarter. This revenue growth can be ascribed to combined price and volume effects. Positive contributing factors also included the ongoing trend towards more advanced products such as T-ISDN and T-DSL and increased customer usage. Call revenue for the first nine months of the current financial year was lower than in the corresponding prior-year period, due mainly to the rate adjustments necessitated by the price-cap regulation and to the volume decline in extended local and international calls driven by the increased level of competition and regulation.

In the carrier services business, however, revenue from interconnection services for calls and accesses decreased significantly. Call revenue from interconnection services dropped considerably due to continued direct interconnection between the networks of other carriers (elimination of transit services) and a shift in demand towards shorter links due to the expansion of competitors' networks (increased coverage). Online origination services continued to develop satisfactorily especially as a result of the growing broadband market.

Data communications reflected a negative trend in the first three quarters of 2003. The weak economy, which has caused a considerable decline in both the liquidity of small and medium-sized enterprises and their willingness to make capital investments, reduced sales figures in all product areas within the small and medium-sized enterprise market.

Revenue from terminal equipment was below the prior-year figure in the third quarter of 2003 once again as a result of low demand, pricing pressure, and the targeted streamlining of the product portfolio.

The consolidated revenue generated in Eastern Europe in the first nine months of the current year was slightly higher than the corresponding figure for the prior-year period. The trend of strong growth in the mobile communications business accompanied by a decline in traditional fixed-network telephony that had been observed in the preceding quarters remained in effect in the third quarter of 2003. In addition, changes in foreign currency exchange rates had a

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negative impact. The revenue generated by MATAV and HT in the first nine months of 2003 increased year-on-year, whereas revenue at ST decreased. In view of the forthcoming accession of Hungary and the Slovak Republic to the European Union, new legislation is currently being developed in these countries to regulate the telecommunications markets. A new telecommunications act in Croatia was passed in July and adopted on August 1, 2003. The new law supports increasing competition in the fixed-line business as the investment obligation in the infrastructure of telecommunication facilities, capacities, networks and systems from the previous law ceased to exist. The overall impact of the law will become apparent only after the new regulations (secondary legislation) of the law will have been passed (expected by February 2004).

**Results from ordinary business activities** increased in the first nine months of 2003 to EUR 3.5 billion compared to EUR 2.8 billion in the corresponding prior-year period. Despite a decrease in revenue, T-Com improved the results from ordinary business activities by about 27 percent in the first nine months of 2003 compared with the prior-year period. This improvement is primarily attributable to the lower cost of sales and selling costs, as well as the proceeds from the sale of the remaining cable businesses and the significantly improved financial income (expense), net, reduction in property, plant and equipment and intangible costs, optimized deployment of the means of production, demand-oriented investment controlling, and an improvement in the capital structure by reducing liabilities. These cost reductions are a result of the efficiency enhancement measures introduced, such as the cutting of advertising and consulting expenses, the reduction of expenses for travel, catering, and maintenance, as well as improved accounts receivable management. The comparative increase in the results from ordinary business activities in the first nine months of the current year over the corresponding period of the prior year also benefited from the valuation allowances on fixed asset securities and loans to affiliated companies of Kabel Deutschland GmbH amounting to EUR 0.3 billion that were charged against income in the first nine months of 2002 and from recognition of the net proceeds on the sale of the remaining cable businesses amounting to EUR 0.2 billion as income in the current year. These positive results were offset, in part, by substantial charges resulting primarily from the adjustment of the discount rate applied to pension accruals, payments made to Vivento (formerly known as the PSA (Personnel Service Agency)) and the recognition of accruals for employee severance payments. Moreover, the decrease in revenue resulting from intensified competition due to regulatory action and the reduced spending of small and medium-sized enterprises could not be fully offset by cost reductions.

In the first nine months of 2003, **capital expenditures** were further reduced by EUR 1,143 million compared with the prior-year period. Although the basic roll-out of the new SDH transmission path platform and the T-DSL platform necessitated higher capital expenditures last year, the only investments required in the current year were composed largely of customer-driven capital investments. Moreover, expenditures were reduced in the T-DSL area through an increase in the capacity utilization rates for T-IDSN and T-DSL. The demand-oriented expansion of the subscriber-line network was a significant factor driving capital expenditures in 2003. In Eastern Europe, work on the modernization and digitization of the fixed network continued, mobile communications networks were expanded driven by subscriber growth and by innovation and investments were made in new IT systems.

Compared with the first nine months of 2002, T-Com's average **number of employees** declined by 11,547. This development was mainly the result of the WIN 2003 action program to improve the processes and structures of T-Com in Germany. This program streamlined the workforce of T-Com in Germany by 8,761 employees, including the deconsolidation of the cable businesses, compared with the prior year, of whom 7,711 employees (since November 2002) have been transferred to Vivento. Process improvement was also rigorously pursued in the Eastern European subsidiaries and affiliates. The Eastern European subsidiaries and affiliates cut their workforce levels by 2,786 employees. However, under certain circumstances, T-Com may be responsible for some compensation obligations relating to former employees.

### T-Systems

T-Systems provides information technology (IT) and telecommunications services in over 20 countries, but primarily in Germany and Europe. T-Systems provides its customers with a full range of services from planning and implementation to operation including network and systems infrastructure, communications and network services, comprehensive IT services and e-business solutions.

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	As of September 30, 2003 <sup>(1)</sup>	As of September 30, 2002 <sup>(1)</sup>	% Change <sup>(4)</sup>	As of December 31, 2002 <sup>(1)</sup>
<b>Systems integration</b>				
Hours billed (millions)	8.5	8.5	n.m.	11.3
Utilization rate (%) <sup>(2)</sup>	67.3	64.6		65.2
<b>Computing services</b>				
Capacity of processors (MIPS) <sup>(3)</sup>	107,064	91,381	17.2	92,968



Number of servers managed and serviced	28,304	27,858	1.6	27,409
Mainframe utilization (%)	95.0	95.0		95.0
<b>Desktop services</b>				
Number of workstations managed and serviced (millions)	1.3	1.2	6.7	1.2
Proportion of support activities, Germany (%)	63.6	57.6		58.1
Proportion of retail, Germany (%)	36.4	42.4		41.9

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n.m. not meaningful

(1)

Calculated and rounded on the basis of the figures shown.

(2)

Ratio of average number of hours billed to maximum possible hours billed per period.

(3)

Million instructions per second.

(4)

Calculated on the basis of precise figures.

The measures to enhance efficiency instituted by T-Systems at the beginning of the year and the implementation of the strategic Focus & Execution program remained a high priority in the third quarter. In view of the strategic reorientation, it is encouraging to note that additional large orders were successfully acquired in the third quarter, all of which fulfill the criteria of T-Systems' strategic focus, including a long-term alliance with Vorwerk & Co. KG to operate Vorwerk's worldwide computing centers, networks and applications, renewal of a contract with DeutschlandRadio, increased cooperation with DaimlerChrysler regarding worldwide operation of mainframe computers and client servers, and a five-year agreement with WestLB AG to operate its computing centers and printing activities. Nevertheless, the third quarter of 2003 was marked by the continuing economic slump and intense competition. The scale of the operational business activities on the whole remained, as in the previous quarters of the current financial year, at a lower level than in the same period of the previous financial year.

The subdued development of the three areas making up T-Systems' IT unit – Computing Services (CS), Systems Integration (SI) and Desktop Services (DS) – throughout the first three quarters of 2003 is a reflection of the prevailing negative economic conditions and the growing competitive pressure within the industry. However, the share of services in the desktop business in Germany was significantly higher in the third quarter of 2003, both in comparison to the prior-year quarter and the second quarter of 2003. This underscores the T-Systems division's development into a provider of high-quality services and its successful efforts to boost customer retention, which has been made a top priority in the strategic focus program. T-Systems believes that the continuous rise in the capacity of the computing centers in the CS segment illustrates the development of demand for major outsourcing projects at T-Systems. In this regard, T-Systems has initiated one of the most important projects aimed at cutting costs by moving the entire mainframe computing center from Bamberg to Magdeburg, one of the largest projects of its kind in the world. The computing center utilization in the SI business as of September 30, 2003 considerably exceeded the figures for the corresponding period of 2002 and also surpassed the comparable figures for the previous quarter.

In the Telecommunications unit, the gradual trend of improving business that has been evident since the beginning of the year continued in the third quarter of 2003. In the International Carrier Sales and Solutions business, T-Systems' hubbing initiative, which was launched at the beginning of the year, helped improve the preconditions for technical interconnection. This led to an increase in traffic volumes from surplus capacities of other carriers. In both its national and international Network Services activities, the T-Systems division also achieved a leap forward in technology relating to the widespread introduction of MPLS – Multi Protocol Label Switching – which enables T-Systems to deliver a higher level of service quality to its customers. T-Systems believes that the outsourcing contracts received in the second and third quarters of 2003 are also due to this improved quality of performance.

	For the three months ended September 30,			For the nine months ended September 30,			For the twelve months ended December 31,
	2003	2002 <sup>(2)</sup>	% Change	2003	2002 <sup>(2)</sup>	% Change	2002 <sup>(2)</sup>
millions of € (except where indicated)							
Total revenue <sup>(1)</sup>	2,617	2,588	1.1	7,744	7,667	1.0	10,489
Results from ordinary business activities	10	(1,111)	n.m.	(79)	(1,651)	95.2	(1,990)

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Financial income (expense), net	(5)	(47)	89.4	(29)	(82)	64.6	(118)
Depreciation and amortization	(373)	(1,006)	62.9	(1,120)	(2,016)	44.4	(2,616)
Other taxes	(1)	(2)	50.0	(6)	(6)	n.m.	(9)

Number of employees <sup>(3)</sup>	41,706	43,513	(4.2)	42,446	43,473	(2.4)	43,482
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n.m. not meaningful

(1)

Total revenue includes revenue between divisions and agency business. For more information, please refer to Reconciliation to new structures.

(2)

Different from amounts report in previous year due to a change to cost-of-sales accounting. For further information, please refer to Reconciliation to new structures.

(3)

Average number of employees during the period.

The **total revenue** generated by T-Systems during the first nine months of the current financial year increased slightly compared with the first nine months of 2002. This increase is primarily due to the seven percent revenue growth in the Telecommunications unit, whereas overall revenue from the IT unit in the first nine months was down four percent compared with the same period last year. Total revenue for systems integration (SI) for the first nine months declined by five percent year-on-year, while revenue for desktop services (DS) fell nine percent. In contrast, computing services (CS) was able to maintain an almost constant level of revenue compared with the first nine months of 2002. Because of the reorganized agency business structures between T-Systems, T-Com and T-Mobile introduced on January 1, 2003, the prior-period comparative revenue figures reported for T-Systems have been adjusted. The new structure relates to revenue from standard products, which was previously allocated to T-Systems, and is now reported by T-Com and T-Mobile, as appropriate, with T-Systems receiving a commission on products that it sells on behalf of T-Com and T-Mobile.

Although revenues increased marginally, **results from ordinary business activities** in the third quarter of 2003 and for the nine months of 2003 reflect a substantial year-on-year improvement. This is primarily the result of a decline in operational costs, particularly selling costs and other operating expenses. In both the third quarter and the first nine months of the year as a whole, these expenses decreased by double-digits when compared with the respective periods of the previous year. The third quarter of 2003 also saw a reduction in general and administrative costs and in the cost

of sales as compared with the same period in 2002, primarily as a result of cost savings in rental and leasing expenses, maintenance and losses on accounts receivables as well as other expenses.

T-Systems had a total of 41,566 **employees** at the end of September 2003, 1,726 fewer than at the end of 2002. This is mainly due to the transfer of T-Systems Deutsche Telekom Trainings GmbH to Group Headquarters & Shared Services, as well as staff reductions resulting from the sale of Telecash, SIRIS, Multilink and Soleri Iberica. The first-time consolidation of Detecon Consulting Espana resulted in an increase in employees. Personnel reductions in 2003 resulted in a decrease in personnel costs of nearly 10 percent compared to the same period of 2002.

## T-Mobile

T-Mobile International Holding GmbH currently provides mobile communications services through its majority shareholdings in Germany, the United Kingdom, the United States, Austria, the Netherlands and the Czech Republic.

In addition, T-Mobile International holds minority shareholdings in Poland and Russia. Effective September 30, 2002, T-Mobile Netherlands became a wholly-owned subsidiary of T-Mobile International.

	As of September 30, 2003	As of December 31, 2002	% Change (6)	As of September 30, 2002	% Change (6)
	(millions, except percentages)				

### Mobile communications subscribers

Total <sup>(1)</sup>	57.7	53.9	7.1	51.2	12.7
of which: T-Mobile Deutschland	25.6	24.6	4.1	23.8	7.6
of which: T-Mobile USA <sup>(2)</sup>	12.1	9.9	22.2	8.9	36.0
of which: T-Mobile UK <sup>(3)</sup>	12.4	12.4	0.0	11.8	5.1
of which: T-Mobile Austria	2.0	2.0	0.0	2.0	n.m.
of which: T-Mobile CZ (RadioMobil)	3.7	3.5	5.7	3.3	12.1
of which: T-Mobile Netherlands <sup>(4)</sup> (Ben)	1.8	1.4	28.6	1.4	28.6

n.m. not meaningful

(1)

Number of subscribers of the fully consolidated subsidiaries included within our T-Mobile division including subscribers of Virgin Mobile who use our T-Mobile UK network.

(2)

Including T-Mobile USA, Inc. and Powertel, Inc.

(3)

Including subscribers from our 50/50 joint venture with Virgin Mobile. As of September 30, 2003, there were approximately 3.1 million subscribers in the Virgin Mobile joint venture.

(4)

T-Mobile Netherlands was fully consolidated beginning September 30, 2002, presented on a pro forma basis to facilitate comparison.

(5)

Percentages calculated on the basis of figures shown.

The T-Mobile division was once again the most significant driver of the Group's growth in the third quarter of 2003. The division continued to successfully implement its strategy of qualitative growth in important markets, with increases in fixed-term contract subscribers. At September 30, 2003, 49 percent of all customers were fixed-term contract subscribers, compared with 45 percent one year previously. The subscriber base of the mobile communications companies of T-Mobile International Holding GmbH increased further in the third quarter of 2003, both year-on-year and quarter-on-quarter. Compared with the end of 2002, 3.8 million new additions were recorded in the consolidated Group for the first nine months of 2003, including 2.2 million subscribers in the U.S. and 1.6 million in Europe. T-Mobile further extended its subscriber base, especially in the U.S., where the number of subscribers rose by 36 percent year-on-year. Subscriber numbers in Europe increased 7.7 percent year-on-year at September 30, 2003.

#### *ARPU Reconciliation (1)*

Average Revenue per User (ARPU). We use ARPU to measure the average monthly services revenues on a per subscriber basis. We believe that ARPU provides management with useful information concerning the financial performance of our product and service offerings and our ability to attract and retain high-value customers. We calculate ARPU as services revenues generated by subscribers (revenues for originating and terminating voice calls and data revenues), including our subscribers' roaming revenues and monthly subscription fees, divided by our average subscribers for the period. The revenues we use in the calculation of ARPU exclude revenues from equipment sales

and customer activations because they do not represent ongoing subscriber revenue streams and revenues from visitor roaming, virtual network operators and other revenues because they are not generated directly by our subscribers. Non-GAAP financial measures are not prepared in accordance with German GAAP or U.S. GAAP and are not uniformly defined and utilized by all companies in our industry group. Accordingly, such measures may not be comparable with similarly titled measures and disclosures by other companies. Non-GAAP

financial measures should not be viewed in isolation or as an alternative to other figures reported under German GAAP or U.S. GAAP.

For the three months ended September 30, 2003	T-Mobile Deutschland	T-Mobile USA <sup>(2)</sup>	T-Mobile UK	T-Mobile Austria	T-Mobile CZ	T-Mobile Netherlands <sup>(7)</sup>
millions of € (except where indicated)						
<b>Total revenue <sup>(4)</sup></b>	2,208	1,974	1,090	277	195	225
less Terminal equipment	197	262	107	18	7	10
less Other <sup>(5)</sup>	<u>80</u>	<u>136</u>	<u>111</u>	<u>67</u>	<u>14</u>	<u>16</u>
Service revenue relevant to ARPU (CoS)	1,931	1,576	872	192	174	199
Average subscribers (in millions)	25.4	11.8	9.4	2.0	3.6	1.8
<b>ARPU/month (in €)<sup>(6)</sup></b>	<b>25</b>	<b>45</b>	<b>31</b>	<b>32</b>	<b>16</b>	<b>38</b>

For the three months ended September 30, 2002	T-Mobile Deutschland	T-Mobile USA <sup>(2)</sup>	T-Mobile UK	T-Mobile Austria	T-Mobile CZ	T-Mobile Netherlands <sup>(7)</sup>
millions of € (except where indicated)						
<b>Total revenue <sup>(4)</sup></b>	2,069	1,565	1,054	257	186	n.a.
less Terminal equipment	187	231	135	24	6	n.a.

less Other <sup>(5)</sup>	<u>67</u>	<u>112</u>	<u>83</u>	<u>45</u>	<u>15</u>	n.a.
Service revenue relevant to ARPU (CoS)	1,815	1,222	836	188	165	n.a.
Average subscribers (in millions)	23.5	8.4	9.5	2.0	3.2	n.a.
<b>ARPU/month (in €)<sup>(6)</sup></b>	<b>26</b>	<b>48</b>	<b>29</b>	<b>31</b>	<b>17</b>	n.a.

n.a. not applicable

(1)

ARPU is a non-GAAP financial measure because it is calculated using subscriber service revenue. The closest GAAP measure is total revenue. Although management uses ARPU calculated using subscriber service revenue in the operation of our mobile business, for comparative purposes, monthly ARPU for the three months ended September 30, 2003 is calculated using total revenue is as follows: T-Mobile Deutschland: EUR 29; T-Mobile USA: EUR 56; T-Mobile UK: EUR 39; T-Mobile Austria: EUR 46; T-Mobile CZ: EUR 18; and T-Mobile Netherlands: EUR 42.

(2)

Includes T-Mobile USA, Inc. and Powertel, Inc.

(3)

Excluding subscribers from our 50/50 joint venture with Virgin Mobile.

(4)

These amounts relate to the companies' respective single-entity financial statements without reflecting consolidation adjustments or eliminations at the segment level.

(5)

Activation fees, virtual network operator (VNO) revenues, visitor revenues and other operating revenues.

(6)

Differences in the figures may be a result of rounding.

(7)

T-Mobile Netherlands was fully consolidated beginning September 30, 2002.

**T-Mobile Deutschland** reconfirmed its position as one of the leading providers in the German mobile communications market in the third quarter of 2003. More than 60 percent of the 370 thousand net additions were fixed-term contract subscribers. The number of new subscribers is significant in light of the high penetration rate in the German market. At the end of the third quarter of 2003, the fixed-term contract subscriber segment accounted for a

total of 47 percent of the customer base. The monthly churn rate (for a definition of churn rate and the manner in which it is calculated in each geographic market, refer to Item 4. Information on the Company Description of Business Divisions T-Mobile Principal Markets in our 2002 Annual Report on Form 20-F/A) of 1.4 percent was kept constant at the level of the previous quarters. Monthly ARPU in the third quarter of 2003 was EUR 25, slightly lower than in the same period last year, but slightly higher than the figure of EUR 24 in the second quarter of 2003.

**T-Mobile USA** increased its customer base by about 670 thousand new subscribers in the third quarter of 2003. Of the total 12.1 million subscriber base at the end of September 2003, more than 89 percent were fixed-term contract subscribers. Compared with the second quarter of 2003, the churn rate in the third quarter of 2003 rose slightly to 3.3 percent per month. Monthly ARPU remained constant at USD 50 compared with the previous quarter. The strength

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of the euro as compared with the U.S. dollar meant that ARPU expressed in euros increased slightly quarter-on-quarter to EUR 45.

In the third quarter of 2003, the number of subscribers at **T-Mobile UK** decreased by 113 thousand compared with the prior quarter due primarily to the streamlining of its inactive prepay customer base. However, approximately 123 thousand new fixed-term contract subscribers were added during the same period. The percentage of fixed-term contract subscribers increased 20 percent compared with the end of 2002 to 2.5 million subscribers. The monthly churn rate increased to 4.2 percent compared to the previous quarter, also as a result of the streamlining of the inactive customer base. With respect to fixed-term contract subscribers, the churn rate decreased from 2.4 percent in the second quarter to 2.2 percent in the third quarter of 2003. As a result of higher usage of voice services and a greater proportion of fixed-term contract subscribers, monthly ARPU increased to GBP 22 in the third quarter of 2003, up from GBP 21 in the previous quarter. As measured in euros, this corresponded to an increase from EUR 29 to EUR 31.

**T-Mobile Austria** subscriber base remained relatively stable in the third quarter of 2003 at 2 million compared to the second quarter of 2003. Compared with the second quarter of 2003, the percentage of fixed-term contract subscribers improved slightly to 47 percent. The overall monthly churn rate increased slightly to 1.7 percent. Monthly ARPU grew to EUR 32, an increase on the EUR 31 recorded both in the third quarter of 2002 and the second quarter of 2003.

**T-Mobile CZ** reported an expansion in its subscriber base in the third quarter of 2003 and again improved its customer structure. Of the 84 thousand new additions, 48 thousand were fixed-term contract subscribers. Monthly ARPU increased quarter-on-quarter at EUR 16. Due to exchange rate fluctuations, this was lower than the ARPU figure of EUR 17 achieved in the third quarter of 2002. The churn rate fell quarter-on-quarter from 1.1 percent to 0.9 percent.

**T-Mobile Netherlands** added 150 thousand new customers quarter-on-quarter. Monthly ARPU decreased EUR 1 quarter-on-quarter to EUR 38 in the third quarter of 2003. The churn rate fell from 4.2 percent in the second quarter of 2003 to 2.1 percent in the third quarter of 2003.



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	For the three months ended September 30,			For the nine months ended September 30,			For the twelve months ended December 31,
	2003	2002	% Change	2003	2002	% Change	2002
	millions of € (except where indicated)						
Total revenue <sup>(1)</sup>	5,920	5,105	16.0	16,787	14,245	17.8	19,735
T-Mobile Deutschland <sup>(2)</sup>	2,208	2,069	6.7	6,297	5,790	8.8	7,801
T-Mobile USA <sup>(2)</sup> <sup>(3)</sup>	1,974	1,565	26.1	5,423	4,361	24.4	6,138
T-Mobile UK <sup>(2)</sup>	1,090	1,054	3.4	3,186	2,903	9.7	3,997
T-Mobile Austria <sup>(2)</sup>	277	257	7.8	809	754	7.3	1,034
T-Mobile CZ (RadioMobil) <sup>(2)</sup>	195	186	4.8	564	511	10.4	705
T-Mobile Netherlands (Ben) <sup>(2)</sup> <sup>(4)</sup>	225	n.m.	n.m.	626	n.m.	n.m.	162
Results from ordinary business activities <sup>(5)</sup>	239	(21,985)	n.m.	637	(23,528)	n.m.	(23,754)
Financial income (expense), net	(189)	(508)	62.8	(781)	(1,108)	29.5	(1,432)
Depreciation and amortization	(1,298)	(22,753)	94.3	(3,857)	(26,212)	85.3	(27,285)
Other taxes	(22)	(15)	(46.7)	(75)	(58)	(29.3)	(75)
Investments in property, plant and equipment and intangible assets <sup>(6)</sup>	(658)	(753)	12.6	(1,648)	(2,014)	18.2	(3,484)
Number of employees <sup>(7)</sup>	41,708	38,937	7.1	41,440	38,283	8.2	38,943

n.m. not meaningful

The T-Mobile division combines all the activities of T-Mobile International Holding GmbH, including T-Mobile Deutschland GmbH, T-Mobile (UK) Ltd., T-Mobile USA, Inc., Powertel, Inc., T-Mobile Czech Republic a.s., T-Mobile Austria GmbH, T-Mobile Netherlands B.V., as well as minority shareholdings in OJSC Mobile TeleSystems, Russia (MTS) and Polska Telefonia Cyfrowa, Poland (PTC).

(1)

Total revenues include inter-segment revenues.

(2)

These amounts relate to the companies' respective single-entity financial statements without reflecting consolidation adjustments or eliminations at the segment level.

(3)

Includes T-Mobile USA, Inc. and Powertel, Inc.

(4)

2002 figures include three months only as T-Mobile Netherlands was consolidated beginning September 30, 2002.

(5)

Different from amounts reported in the previous year due to a change to cost-of-sales accounting. For further information, please refer to Reconciliation to new structures.

(6)

Excluding goodwill.

(7)

Average number of employees during the period.

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As in the second quarter of 2003, the significant year-on-year improvement in the T-Mobile division's **total revenue** in both the third quarter and the first nine months of 2003 was due to the substantial increase in the number of

subscribers and to higher revenue per customer. In addition, the first-time consolidation of T-Mobile Netherlands has had a positive effect since the fourth quarter of 2002. Excluding revenue from the consolidation of T-Mobile Netherlands, revenue increased by 13 percent in the third quarter of 2003 compared with the same period last year. Revenue growth at T-Mobile Deutschland was driven primarily by an increased customer base, as was the increase in revenue at T-Mobile USA. Measured in local currency, revenue at T-Mobile USA increased by more than 45 percent year-on-year, although currency translation adjustments reduced the level of revenue growth when translated into euros. The improvement in revenue at T-Mobile UK is attributable to both higher monthly ARPU and the enlarged subscriber base. Measured in local currency, revenue increased by approximately 14 percent in the UK compared with the third quarter of 2002. Increased profitable growth with new subscribers was the main revenue driver at T-Mobile Austria, T-Mobile CZ and T-Mobile Netherlands.

The improvement in the **results from ordinary business activities** in the third quarter of 2003, both year-on-year and quarter-on quarter, was due primarily to increased fixed-term contract subscribers, economies of scale and synergy effects, as well as lower amortization of goodwill and licenses as compared to the third quarter of 2002.

With the continued business growth, T-Mobile slightly increased the average **number of employees** in the third quarter compared with the second quarter of 2003 and the third quarter of 2002. However, the average number of employees for the third quarter of 2003 approximates the average number of employees for the first quarter of 2003.

## T-Online

Through T-Online International AG, our T-Online division operates a combined business model comprising Internet access and non-access activities. It is one of the largest Internet access providers in Germany. Through its subsidiaries and associated companies, it is also present in France, Spain, Portugal, Austria and Switzerland.

	As of September 30, 2003	As of September 30, 2002	% Change <sup>(1)</sup>	As of December 31, 2002	% Change <sup>(1)</sup>
	(millions, except percentages)				
T-Online subscribers	12.90	11.85	8.86	12.24	5.4
of which: T-Online (Germany)	10.57	9.68	9.19	9.96	6.1
of which: Rest of Europe	2.33	2.17	7.37	2.28	2.2
DSL subscribers in total	3.43	2.48	38.31	2.80	22.5

(1)

Percentages calculated on the basis of figures shown.

As of September 30, 2003, 12.9 million subscribers had selected T-Online as their Internet access provider. This corresponds to an increase on the previous year of over one million new subscribers. This growth is primarily based on T-Online's extensive, customized range of broadband products. Year-on-year, more than 950,000 new subscribers had selected a T-DSL access by the end of the third quarter. With more than 200,000 new broadband subscribers added in the third quarter of 2003, T-Online exceeded the 170,000 new additions recorded in the second quarter.

Of the 10.57 million subscribers in Germany at September 30, 2003, 3.21 million surf the Internet using a broadband access. This means that, in the third quarter of 2003, 30 percent of the total customer base were broadband subscribers. The high level of demand for the T-DSL flat rate continued in the third quarter: With a T-DSL flat rate subscriber base of approximately 1.9 million, an increase of around 28 percent as compared with September 30, 2002. An increase of 68,000 subscribers in the third quarter of 2003 was recorded for the volume-based T-DSL rates introduced in the fall of last year. By September 30, 2003, a total of 245,000 subscribers had signed up for a volume rate plan. This number represents an increase of 38 percent compared with the second quarter of 2003. In the third quarter of 2003, the narrowband business continued the trend of a slowdown in the strong growth of the last few years. Broadband access was the driving force for growth in the international subsidiaries. At September 30, 2003, there were approximately 220,000 broadband subscribers in the operations outside of Germany compared with approximately 120,000 at the end of the same period last year. The French subsidiary Club Internet and the Spanish subsidiary Ya.com again experienced especially strong growth. Club Internet increased its base of ADSL subscribers by around 80 percent compared with the same period last year. Ya.com's customer base increased by more than 110 percent in the first nine months of 2003 compared with the first nine months of 2002.

Given the growing customer willingness to pay for content and services, T-Online's paid content product offering was further expanded. The total range of products based on broadband technology will become considerably more relevant in the next few years. T-Online has also positioned itself in the access business with its offer of Internet access via wireless local area networks (W-LANs) in specific public places.

For the three months ended September 30,			For the nine months ended September 30,			For the twelve months ended December 31,
2003	2002 <sup>(2)</sup>	% Change	2003	2002 <sup>(2)</sup>	% Change	2002 <sup>(2)</sup>

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millions of € (except where indicated)

Total revenue <sup>(1)</sup>	453	383	18.3	1,347	1,121	20.2	1,584
Germany	411	345	19.1	1,224	1,021	19.9	1,444
Rest of Europe	42	38	10.5	123	100	23.0	140
Results from ordinary business activities	103	(274)	n.m.	126	(423)	n.m.	(471)
Financial income (expense), net	123	(203)	n.m.	177	(157)	n.m.	(137)
Depreciation and amortization	(104)	(106)	1.9	(311)	(314)	1.0	(435)
Other taxes	0	0	n.m.	0	(2)	n.m.	(2)
Number of employees <sup>(4)</sup>	2,646	2,577	2.7	2,644	2,508	(5.4)	2,536

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n.m. not meaningful

Amounts presented in accordance with German GAAP, as applied throughout the Group, which differ from those published in the reports of T-Online International AG in accordance with IFRS.

(1)

Total revenue includes inter-segment revenue.

(2)

Different from amount reported in previous year due to a change to cost-of-sales accounting. For further information, please refer to Reconciliation to new structures.

(3)

Excluding goodwill.

(4)

Average number of employees during the period.

In the third quarter of 2003, the T-Online division again recorded an increase in **total revenue**. The third quarter saw slight growth compared with the total revenue reported in the second quarter of 2003, but substantial growth compared to the third quarter of 2002. This is mainly due to the growing customer base, particularly in the higher-value broadband business which generates more revenue per customer, but also the increasing demand for content and services. Increased utilization of news, e-mail, and chat forums has led to users spending more time online, which contributed to an increase in revenue. This can also be seen in the increase of the average volume of minutes spent on the Internet per subscriber per month from 2,837 minutes in the first nine months of 2003 compared with 2,007 minutes in the first nine months of 2002. This development is particularly encouraging because the geopolitical situation in the first quarter boosted customer demand for information, resulting in greater Internet usage. The continued growth in the number of broadband customers was the most significant factor driving the growth in T-Online's total revenue in the third quarter, compared with both the second quarter and first nine months of the previous year. All amounts and disclosures relating to the operational development of the T-Online division for 2002 are presented without the figures for DeTeMedien, which had been transferred to the T-Com division as of January 1, 2003.

As in the first two quarters of 2003, the substantial quarter-on-quarter and year-on-year increase in **results from ordinary business activities** to EUR 103 million in the third quarter of 2003 is again primarily attributable to the economies of scale achieved through customer growth in high-quality price segments. As well as the positive trend of revenue and gross margin, the cost of sales also increased at a lower rate both compared with the prior-year quarter and the first nine months of 2002. Due to the positive business development of comdirect bank AG, an investee company, which was also reflected in the share price, a partial reversal of prior write-downs of the net carrying amount of EUR 96 million was recorded in the third quarter of 2003, which also contributed to positive results from ordinary business activities.

The average number of employees rose slightly in the third quarter of 2003 as a consequence of T-Online's business expansion. By contrast, the aggregate workforce in the subsidiaries and associated companies decreased as a result of the sale of shares in auto.t-online GmbH & Co. to the co-shareholder Motorpresse Stuttgart in the third quarter, the sale of t-info GmbH to DeTeMedien effective April 1, 2003, and further reorganizations of the international subsidiaries.

### **Group Headquarters & Shared Services**

The internal reorganization of Deutsche Telekom to create a virtual strategic management holding company was completed, both in terms of organization and staffing, in the first half of 2003. As part of the reorganization, those units that had formerly been subsumed under Other have now been renamed Group Headquarters & Shared Services. Managing the Group headquarters in this way, coupled with a substantial streamlining and decentralization of the organization, is intended to further enhance the competitive strength of all units in the Group. According to the division of responsibilities between Group headquarters and the operating divisions, the latter assume full responsibility for managing operational businesses, while Group headquarters is now primarily responsible for

strategic and cross-divisional management functions. All other operating functions not directly related to the core business of the divisions are now assumed by Shared Services, which includes Vivento (formerly referred to as the Personnel Service Agency), Billing Services, the real estate business and DeTeFleetServices GmbH, as well as other shared services, including Group Auditing, Deutsche Telekom Training GmbH, Human Resources Management, Inhouse Consulting Telekom, Leipzig College, Group Security, Financial Statements and Accounting, SolvenTec GmbH, SAF GmbH, and DeTeAssekuranz GmbH.

Vivento, with its nationwide organizational structure, continued to support the workforce reduction we announced in the fourth quarter of 2002. This decision was made against the background of the difficult labor market and the need to be able to compete with other state and privately-run personnel service agencies. Vivento's main aim is to implement our planned comprehensive staff restructuring measures with increased efficiency and social awareness. In addition to the individual placements made to date, in the future, personnel will be placed in major projects and individual staff-intensive operations will be set up. By September 30, 2003, approximately 12,100 employees had been transferred to Vivento, approximately 3,600 of them during the third quarter of 2003. Most employees in Vivento originated from T-Com, and were transferred as part of the division's programs to increase efficiency.

At September 30, 2003, almost 2,000 employees had found new jobs within and outside the Group since the beginning of the year, 1,200 in the third quarter of 2003. In September 2003, approximately 2,700 employees were given the opportunity to enter new working areas in temporary employment within the Group, and a further 600 outside the Group. By developing new and additional expertise, these employees are better qualified for placement in permanent jobs. At the end of the third quarter of 2003, 10,100 employees were in Vivento, of which 9,800 had been transferred from other units and 300 were permanent staff. By the end of 2003, it is expected that the number of additional employees transferred to Vivento will increase by approximately 5,000 to 6,000.

In pursuit of the monetization of assets strategy, additional real estate assets were sold in the third quarter of 2003, generating cash inflows of EUR 0.2 billion. Thus, the total cash inflows from real estate sales in the first nine months of 2003 amounted to approximately EUR 0.6 billion, a large portion of which resulted from sales agreements that were concluded in 2002.

For the three months ended September 30,			For the nine months ended September 30,			For the twelve months ended December 31,
2003	2002 <sup>(2)</sup>	% Change	2003	2002 <sup>(2)</sup>	% Change	2002 <sup>(2)</sup>
millions of € (except where indicated)						

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Total revenue <sup>(1)</sup>	1,056	1,250	(15.5)	3,220	3,173	1.5	4,411
Results from ordinary business activities	(878)	(1,201)	26.9	(2,330)	(3,932)	40.7	(4,690)
Financial income (expense), net	(664)	(860)	22.8	(1,812)	(2,564)	29.3	(3,603)
Depreciation and amortization	(195)	(307)	36.5	(694)	(947)	26.7	(1,298)
Other taxes	(10)	(22)	54.5	(39)	(40)	2.5	(236)
Number of employees <sup>(3)</sup>	26,261	17,554	49.6	23,868	17,724	34.7	17,870

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(1)

Total revenue includes inter-segment revenues.

(2)

Different from amount reported in previous year due to a change to cost-of-sales accounting. For further information, please refer to Reconciliation to new structures.

(3)

Average number of employees during the period.

The **total revenue** from the activities of Group Headquarters & Shared Services in the first nine months of 2003 was strongly influenced by the baseline effects of organizational changes in prior periods. Since the formation of DeTeFleetServices GmbH on July 1, 2002, the services rendered by this cross-divisional vehicle fleet management



entity have been recognized as revenue, and therefore no prior-year figures exist for the revenue generated in this segment in the first six months of 2003. Furthermore, the spin-off of the operational business of T-Mobile Deutschland's antenna support portfolio to DFMG (Deutsche Funkturm GmbH) in the fourth quarter of 2002 also led to a revenue contribution in the first nine months of 2003.

Compared with the first nine months of 2002, the **results from ordinary business activities** improved in the first nine months of 2003. This improvement was due primarily to the non-recurrence of the valuation adjustment and losses on the sale of France Telecom shares and other investments in noncurrent securities totaling EUR 997 million in the first nine months of 2002 which resulted in a decrease in financial expense. Furthermore, gains aggregating approximately EUR 160 million were recognized on the sale of shares of Satelindo and there was a decrease in depreciation and amortization of EUR 253 million due to the reduced real estate portfolio and the non-recurrence of certain one-time effects related to real estate. Additionally, gains were also recognized in the first nine months relating to the sale of shares of Eutelsat S.A. (EUR 65 million), Joint Venture UMC (Ukrainian Mobile Communications) (EUR 54 million) and Celcom (Malaysia) Sdn.Bhd. (EUR 20 million). Transfer payments of EUR 131 million by T-Com for staff transferred to Vivento during the first half of 2003 also contributed to the improved results. A valuation adjustment for pension accruals in the second quarter of 2003 and an accrual of EUR 24 million recognized in the third quarter of 2003 for employee severance payments gave rise to a special charge against earnings in the aggregate amount of EUR 50 million.

As of September 30, 2003, the **number of employees** in Group Headquarters & Shared Services was 23,868. The increase compared with the prior-year period was primarily due to the transfer of employees from other divisions to Vivento.

## **LIQUIDITY AND CAPITAL RESOURCES**

The following table provides information regarding our cash flows.

	For the nine months ended September 30,	
	2003	2002
	(millions of €)	
Net cash provided by operating activities	11,044	10,139

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Net cash used for investing activities	(3,456)	(10,262)
Net cash used for financing activities	(1,942)	(941)
Effect of foreign exchange rate changes on cash and cash equivalents	<u>(20)</u>	<u>(9)</u>
Net increase (decrease) in cash and cash equivalents <sup>(1)</sup>	5,626	(1,073)
Cash and cash equivalents, at beginning of period	<u>1,712</u>	<u>2,738</u>
Cash and cash equivalents, at end of period	<b>7,338</b>	<b>1,665</b>

(1)

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

### **Liquidity**

#### *Net Cash Provided by Operating Activities*

Net cash provided by operating activities in the first nine months of 2003 amounted to EUR 11.0 billion. This represents an increase of EUR 0.9 billion, primarily as a result of EUR 0.7 billion in cash generated from operations and reduced net interest payments of EUR 0.2 billion.

#### *Net Cash Used for Investing Activities*

During the nine-month period ended September 30, 2003, our net cash used for investing activities amounted to EUR 3.5 billion, primarily as a result of cash outflows for investments aggregating EUR 3.9 billion and net cash outflows for short-term investments aggregating EUR 2.9 billion. These amounts were partially offset by cash inflows from dispositions of noncurrent assets aggregating EUR 3.3 billion (primarily relating to the sale of our cable businesses).

The cash outflow in the first nine months of the prior year amounted to EUR 10.3 billion. Additionally, lower cash outflows for investments in property, plant and equipment (EUR 1.7 billion) contributed to the decrease in investing activities, as well as the acquisitions of T-Systems ITS (formerly debis Systemhaus) (EUR 4.7 billion) and T-Mobile Netherlands (EUR 1.7 billion) both in 2002 without comparable acquisitions in 2003.

#### *Net Cash Used for Financing Activities*

Net cash used for financing activities increased by EUR 1.0 billion in the first nine months of 2003 to EUR 1.9 billion compared with the same period in the previous year. Net additions to medium-term and long-term borrowings decreased by EUR 2.0 billion in 2003, primarily due to the issuance of a convertible bond, offset in part by the repurchase of bonds issued by T-Mobile USA. The net change in short-term debt for the first nine months of 2003 increased by EUR 0.6 billion compared to the same period of 2002. The financial year 2002 included the payment of dividends of EUR 1.6 billion for financial year 2001. We did not pay dividends for 2002 or 2003. However, the Board of Management intends to recommend reinstatement of the dividend for the 2004 financial year, payable in 2005.

## Capital Resources

The following table summarizes our indebtedness as of September 30, 2003 and December 31, 2002:

	As of September 30, 2003	As of December 31, 2002	Change	% Change
	(in millions of €)			
Bonds and debentures	55,223	56,752	(1,529)	(2.7)
Liabilities to banks	<u>4,357</u>	<u>6,292</u>	<u>(1,935)</u>	<u>(30.7)</u>
<b>Total Debt</b>	<b>59,580</b>	<b>63,044</b>	<b>(3,464)</b>	<b>(5.5)</b>

The following table summarizes the development of liquid assets:

	As of September 30, 2003	As of December 31, 2002	Change	% Change
	(in millions of €)			
<b>Total Liquid assets</b>	<b>10,688</b>	<b>1,905</b>	<b>8,783</b>	<b>461.0</b>

Our debt position on September 30, 2003, decreased from the 2002 year-end level of EUR 63.0 billion to EUR 59.6 billion due to the repurchase of T-Mobile USA bonds and the redemption of medium term notes and other loans at maturity. The Federal Republic guarantees EUR 14.1 billion of our debt obligations. For 2003, we have set as a key objective the continued reduction of our debt position to support our credit standing, address investor concerns about our debt burden and enhance our long-range flexibility and growth.

In the first three quarters of 2003, we decreased our debt and increased our liquid financial assets through a combination of factors. Among the major contributions were cash generated from operations (EUR 11.0 billion), the sale of the remaining six regional cable companies (EUR 1.8 billion) and several minority shareholdings (EUR 0.9 billion), as well as real estate disposals (EUR 0.6 billion). Our debt position was also affected by changes in balance sheet working capital values, in addition to a positive effect of changes in foreign currency exchange rates (EUR 1.3 billion) principally related to the ongoing weakening of the U.S. Dollar against the Euro.

The reason for our strong position in liquid financial assets is the redemption of a fixed rate bond of EUR 2.6 billion, which matured on October 1, 2003, and several bonds and medium-term-notes amounting to an aggregate of EUR 2.1 billion, which were due in the next two quarters.

In February 2003, we generated proceeds of approximately EUR 2.3 billion from the issuance of mandatory convertible bonds. The bonds are convertible into shares of Deutsche Telekom AG no later than June 1, 2006 at a conversion rate that, depending on share price performance, may vary from 3,417.1769 shares to 4,237.2881 shares for each bond (EUR 50,000 notional amount). The conversion of the bonds will result in an increase in shareholders equity and, upon conversion, dilution to currently outstanding shares. The bonds bear interest at 6.5% per annum.

On June 30, 2003, T-Mobile USA repurchased bonds via a successful tender offer with a face amount of USD 1.1 billion.

On July 15, 2003, our Dutch finance subsidiary, Deutsche Telekom International Finance N.V., issued a series of bonds in the principal amount of USD 2 billion, which were guaranteed by us. The bonds were issued in two tranches: a USD 1.25 billion ten-year tranche and a USD 750 million five-year tranche. The ten-year tranche, which matures on July 22, 2013, has an interest rate of 5.25 percent and the five-year tranche, which matures on July 22, 2008, has an interest rate of 3.875 percent. Proceeds of these bonds were used to refinance debt which was approaching maturity and to strengthen our liquidity position.

On August 19, 2003, we repurchased T-Mobile USA bonds in an amount of USD 36 million.

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We employ a variety of financing sources to fund our operations and liquidity needs. The principal financial instruments we use are bonds, medium term notes and commercial paper issued in various jurisdictions and in various currencies. Further sources of liquidity are committed credit facilities, consisting of bilateral credit agreements and syndicated loans.

#### *Interest Step-Up Provisions and Credit Ratings*

On June 24, 2003 Moody's changed the outlook from stable to positive for our Baa3 senior unsecured debt rating. Standard and Poor's affirmed its BBB+ on our senior unsecured debt rating with a stable outlook on July 10, 2003. In the first nine months of 2003 we issued EUR 2.4 billion medium term notes with a step-up in interest trigger. In the event of a change in the ratings of our senior unsecured debt rating given by Moody's and/or Standard and Poor's that causes both ratings by the two agencies to be below Baa1 by Moody's and BBB+ by Standard and Poor's, the interest rates on these notes will increase by 50 basis points. We estimate that such a step-up would result in an increase in our interest expense of approximately EUR 11.8 million per annum.

#### *Lines of Credit*

On September 30, 2003, we and our subsidiaries had committed credit facilities with banks totaling approximately EUR 17.7 billion, as well as credit facilities on demand of approximately EUR 0.5 billion. The credit facilities include two syndicated loan facilities: one having Deutsche Telekom AG and its Dutch finance subsidiary, Deutsche Telekom International Finance B.V., as borrowers (the DT loan facility), in the aggregate amount of EUR 9.0 billion (Tranche B (EUR 3.0 billion) expired on August 11, 2003), and one having T-Mobile UK as borrower (the T-Mobile UK loan facility) in the aggregate amount of GBP 2.8 billion (EUR 3.9 billion). On September 30, 2003, there were

no outstanding borrowings under the DT loan facility. Under the T-Mobile UK loan facility GBP 1.0 billion (EUR 1.5 billion) was outstanding on September 30, 2003.

Also included in our Group's credit facilities are committed lines of credit through multiple bilateral unsecured credit agreements with various banks which are usually on a revolving basis. On September 30, 2003, we had committed lines of credit through these agreements totaling EUR 4.79 billion. The interest and commitment fees payable on these facilities are based upon the terms of each specific contract. Approximately EUR 0.47 billion in aggregate principal amount was outstanding under these agreements on September 30, 2003.

Our bank loan agreements contain customary provisions relating to defaults and material adverse changes affecting Deutsche Telekom AG and/or the relevant borrower. As a result of these provisions, the non-payment of a significant amount of debt when due or the acceleration of due dates can result in all or part of our bank debt becoming due or make our committed lines of credit unavailable. Our syndicated loan facilities and, on September 30, 2003, EUR 0.9 billion of our bilateral credit agreements each contain a financial covenant that requires us to maintain a ratio of EBITDA to net interest payable, each as defined therein, of 3:1, tested for each twelve month period ending in June and December of each year. On June 30, 2003, we were in full compliance with these covenants. The covenants in our loan agreements also set conditions for permitted security interests, disposals and certain types of additional borrowings and guarantees. We do not expect that these negative covenants will materially affect our debt reduction plans or our ability to raise capital as needed.

## Capital Requirements

Our funding sources during 2003 primarily consist of cash flow from operations, proceeds from the sale of interests in certain subsidiaries and affiliates, proceeds from the sale or other monetization of assets (including real estate) and through external financing in the debt market. We cannot, however, offer assurances that we will be able to meet all our cash flow and deleveraging objectives. For further information concerning risks associated with our liquidity management, see Item 3. Key Information Risk Factors contained in our Annual Report on Form 20-F/A for the year ended December 31, 2002.

## Capital Expenditures and Investments

The following table provides information concerning capital expenditures and investments in subsidiaries, associated companies and related companies as well as proceeds from the sales of non-current assets and investments.

For the nine months ended September 30,			
2003	2002	Change	% Change
(millions of €, except percentages)			

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Capital expenditures	3,651	5,475	(1,824)	(33.3)
Investments	248	6,676	(6,428)	(96.3)
Proceeds from sales of non-current assets and investments	(3,334)	(1,116)	(2,218)	n.m.
Other	<u>2,891</u>	<u>(773)</u>	<u>3,664</u>	<u>n.m.</u>
Net cash used for investing activities	3,456	10,262	(6,806)	(66.3)

n.m. not meaningful

*Capital Expenditures*

The following table provides information about our capital expenditures for the years presented. Other capital expenditures include advanced payments and construction in progress, as well as plant and office equipment.

	For the nine months ended September 30,			
	2003	2002	Change	% Change
	(millions of €, except percentages)			
Intangible assets (excluding goodwill)	402	566	(164)	(29.0)
Fixed networks	858	1,748	(890)	(50.9)
Mobile networks	352	520	(168)	(32.3)
Buildings	66	95	(29)	(30.5)
Other capital expenditures	<u>1,973</u>	<u>2,546</u>	<u>(573)</u>	<u>(22.5)</u>
Total capital expenditures	<b>3,651</b>	<b>5,475</b>	<b>(1,824)</b>	<b>(33.3)</b>

The reduction in total capital expenditures in the first nine months of 2003 compared to the same period of 2002 reflects the further reduction in our capital spending as fixed networks have been completed and there have been reductions made to reduce cash outflows. Capital expenditures for fixed networks relating to transmission and radio equipment (EUR 0.8 billion) and telecommunications lines (EUR 0.2 billion) decreased in the first nine months of 2003. Other capital expenditures included advance payments and construction in progress, which decreased primarily as a result of the reduction in expenditures for fixed networks under construction (EUR 0.4 billion). We expect that capital expenditures for 2003 relating to intangible assets (excluding goodwill) and property, plant and equipment, will not exceed EUR 7 billion.

*Investments*

Investments in subsidiaries, associated companies and other financial assets amounted to EUR 0.2 billion in the first nine months of 2003. The significant decrease is primarily attributable to the cash outflow for the full acquisition of T-System ITS GmbH (EUR 4.7 billion) and T-Mobile Netherlands (EUR 1.7 billion) in the first nine months of 2002.

## Contractual Obligations and Other Commitments

At September 30, 2003, we had contractual cash obligations for accruals totaling EUR 15.3 billion and liabilities totaling EUR 70.1 billion. In addition, we have other financial obligations for payments to special pension funds, purchase commitments, commitments arising from transactions not yet settled and operating leases.

### *Financial Indebtedness*

The following table summarizes financial indebtedness recorded in our balance sheet under liabilities as of September 30, 2003:

	Total	Payments due by period		
		Less than 1 Year	1-5 Years	After 5 Years
		(millions of €)		
Financial indebtedness				
Bonds and debentures	55,223	11,175	26,545	17,503
Liabilities to banks	<u>4,357</u>	<u>672</u>	<u>2,605</u>	<u>1,080</u>
<b>Total Debt</b>	<b>59,580</b>	<b>11,847</b>	<b>29,150</b>	<b>18,583</b>

For more information regarding our indebtedness refer to Liquidity and Capital Resources Capital Resources and note (11) in the condensed consolidated financial statements.

At September 30, 2003, the undiscounted value of capital lease obligations amounted to EUR 933 million (EUR 965 million at December 31, 2002), primarily for office buildings with varying terms of up to 25 years.

### *Other Financial Obligations*

Other financial obligations at September 30, 2003, consisted of the following:

Total	Payments due by period
	After 1 Year

Less than  
1 Year  
(millions of €)

Present value of payments to special pension fund	8,760	831	7,929
Purchase commitments for interest in other companies	588	79	509
Purchase commitments for capital projects in progress, including obligations arising from future expenditures	1,939	1,674	265
Commitments arising from transactions not yet settled	633	547	86
Operating leases	11,027	1,627	9,400
Other financial obligations			
	<u>17</u>	<u>6</u>	<u>11</u>
<b>Total other financial obligations</b>	<b>22,964</b>	<b>4,764</b>	<b>18,200</b>

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The purchase commitments for interest in other companies declined by EUR 0.2 billion, primarily as a result of an adverse determination of the arbitration panel relating to T-Mobile's claim of exercising its right to acquire additional shares in PTC.

Purchase commitments for capital projects in progress including obligations arising from future expenditures increased by EUR 0.7 billion compared with the year ended December 31, 2002 due to the settlement of new contracts. Generally, these obligations increase in the second quarter and decrease at year end because capital projects are approved at the beginning of the year and often start in the second quarter. Most projects are completed at year-end, which results in lower obligations at year-end.

Commitments arising from transactions not yet settled concern pending transactions that are open at the balance sheet date, which decreased by EUR 0.2 billion in 2003 and primarily relate to T-Mobile.

The total future payment obligations under non-cancelable operating leases amounted to EUR 11.0 billion over varying terms of up to 25 years. In 2003, new lease agreements have been consummated, primarily for radio towers and real estate.



Other financial obligations primarily concern contingent contractual obligations.

*Guarantees and commitments*

The following table summarizes liabilities arising from warranty agreements and guarantees as of September 30, 2003:

	Total	Payments due by period	
		Less than 1 Year	After 1 Year
		(millions of €)	
Liabilities arising from warranty agreements	1,219	364	855
Guarantees	<u>55</u>	<u>34</u>	<u>21</u>
<b>Total</b>	<b>1,274</b>	<b>398</b>	<b>876</b>

*Toll collection system*

In September 2002, Deutsche Telekom AG, DaimlerChrysler Services AG, and Compagnie Financière et Industrielle des Autoroutes S.A. (Cofiroute) (individually, the partners and collectively, the consortium) entered into an agreement with the Federal Republic of Germany (Federal Ministry of Transport) relating to the collection of toll charges for the use of German highways by heavy vehicles, and the creation and operation of a toll system for the collection of highway toll charges for heavy vehicles (the operating agreement). The toll collection system is to be created and operated by the joint venture Toll Collect GmbH (Toll Collect). We and DaimlerChrysler Services each hold a 45 percent stake in Toll Collect, with the remaining 10 percent being held by Cofiroute. Toll Collect's total assets, financial liabilities, total liabilities, and shareholders' equity at September 30, 2003 were EUR 0.7 billion, EUR 0.4 billion, EUR 0.5 billion, and EUR 105 million, respectively. Our involvement with Toll Collect includes our equity interest in Toll Collect that is recognized in the consolidated financial statements using the equity method of accounting, and certain financial guarantees.

We believe our maximum exposure to loss as a result of our interest in Toll Collect could extend beyond the carrying amount of our investment because of other risks associated with the financial guarantees issued for Toll Collect.

Pursuant to the provisions of the operating agreement, we, together with our partners, Daimler Chrysler Services and Cofiroute, on a joint and several basis, guaranteed that Toll Collect will duly perform its duties in line with the operating agreement for the period of one year after the agreed start of operations.

In addition, the partners of Toll Collect, on a joint and several basis, undertook to fund Toll Collect in order to maintain a minimum equity ratio for Toll Collect of 20 percent (based on German GAAP) until August 31, 2004, and 15 percent thereafter ( Equity Maintenance Undertaking ) until the operating agreement expires. These funding requirements would be triggered by, among other events, losses incurred by Toll Collect due to penalties for delays in the start of the operation of the toll collection system.

The start of operations initially was scheduled for August 31, 2003, but is delayed. In the event that the toll collection system is not operational by December 1, 2003, the consortium, or Toll Collect (provided it joins as a party to the operating agreement) will become liable for contractual penalties of EUR 250,000 per day until the end of February 2004 and EUR 500,000 per day thereafter. Beside these penalties, further penalties or liability for fault are excluded in the operating agreement.

Further funding requirements could arise during the operational phase, after having obtained the preliminary operating permit, as a result of penalties, payment of compensation for damages, or revenue reductions Toll Collect may be exposed to in the event that certain contractual obligations are violated or the toll collection system does not operate effectively as set forth in the operating agreement. The penalties are limited during the first nine months following the issuance of the preliminary operating permit to an aggregate of EUR 56.25 million, then to EUR 150 million per annum until the issuance of the final operating permit, and thereafter to a EUR 100 million per annum, with these amounts increasing by 3 percent per year of operation.

In case of a culpable violation of contractual duties within the operational phase, the Federal Republic of Germany will not be prevented from claiming without any limitation further damages from Toll Collect. If such penalties, revenue reductions, and other events eventually result in an equity ratio of Toll Collect below the ratio agreed upon in the Equity Maintenance Undertaking, the partners are obligated to fund operations to the extent needed to reach these equity levels.

Specific circumstances may entitle the parties to terminate the agreement. For termination to be effective, notice of termination must generally be given at least two months before the termination takes effect. This period may be used to rectify the reasons for termination. Termination of the agreement may have significant consequences for us as financial guarantor of certain obligations of Toll Collect.

Until funds become available through the operating performance of the toll collection system, Toll Collect has and expects to continue to fund its operating needs through bridge loans from banks. The loans are guaranteed by us on a several and independent basis to the extent of our 45 percent interest in Toll Collect. For these guarantees, we receive market equivalent remuneration from Toll Collect. Our guaranteed portion of such indebtedness amounts to approximately EUR 312 million as of October 31, 2003. Such indebtedness matures on December 30, 2003, at which time Toll Collect must refinance such indebtedness or obtain an extension of its repayment. Toll Collect is currently negotiating with the lending banks to conclude a project financing arrangement that is expected to refinance existing indebtedness and to provide necessary working capital for the foreseeable future. No assurance can be given that such negotiations will be successfully concluded prior to the maturity date of the indebtedness, if at all. In such event, we, and our partners in the consortium, may be required to satisfy our obligations under the financial guarantees.

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## **OTHER INFORMATION**

### **INVESTIGATIONS AND RELATED LEGAL PROCEEDINGS**

We are subject to other ongoing litigation, investigations and proceedings, including those described in our annual report on Form 20-F/A, filed with the U.S. Securities and Exchange Commission on June 27, 2003, and our reports on Form 6-K filed with the U.S. Securities and Exchange Commission on June 26, 2003, July 14, 2003 and August 25, 2003. Additional developments are summarized below.

#### *Investigations*

As previously disclosed, the Bonn public prosecutor is investigating whether we impermissibly bore certain costs associated with the June 2000 global offering of our shares held by KfW. We understand that this investigation has been concluded without action. However, the Bonn public prosecutor is now investigating whether we received or will receive sufficient consideration for or protection against litigation risks to which we became subject through our participation in the preparation and filing of such offering related materials on behalf of KfW.

#### *Legal Proceedings*

On August 15, 2003, the Federal Administrative Court ordered the release of all files of the German telecommunications regulator in connection with the application for the approval of the rates for access to the local loop provided from April 1, 1999 to March 31, 2001 to the Cologne Administrative Court and subsequent inspection of the files to our competitors taking part in the proceedings. In part these files include our business and trade secrets disclosed to the German telecommunications regulator. On October 8, 2003, we filed a complaint and applied for a preliminary injunction with the Federal Constitutional Court to block such release of files.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DEUTSCHE TELEKOM AG

By: /s/ ppa. Rolf Ewenz-Sandten  
Name: Rolf Ewenz-Sandten  
Title: Vice President

Date: November 21, 2003