Deutsche Telekom AG
Bonn, Germany

Supplement No. 3 to the Sales Prospectus dated May 26, 2000

for

200,000,000 registered ordinary shares of Deutsche Telekom AG
with a notional par value of EUR 2.56

as well as for up to

30,000,000 registered ordinary shares of Deutsche Telekom AG
with a notional par value of EUR 2.56
with respect to the Over-allotment Option granted to the underwriters

to be sold by
Kreditanstalt für Wiederaufbau

each with full dividend entitlement for the fiscal year 2000
- German Securities Code (Wertpapier-Kenn-Nummer) 555 750 -
- ISIN Code DE 000 555 750 8 -
- Common Code 10540836 -

Joint Global Coordinators

Deutsche Bank   Dresdner Kleinwort Benson   Goldman, Sachs & Co.

The sales prospectus dated May 26, 2000 will be amended as follows:

1. On page 8 the following new sub-paragraph is included between the sub-paragraph ''Preferential Treatment of Retail Investors Who Participated in the Initial Public Offering of T-Online shares'' and ''Deutsche Telekom Lock-up'':

   ''Employee Offering in Foreign Countries ..... As part of the Global Offering, up to 800,000 shares (in lots ranging from 10 to 80 shares) will be offered on special terms to employees of the Deutsche Telekom group in certain foreign countries.

2. On page 12 the following new subsection will be included before the subsection ''The Global Institutional Offering'':

   ''The Employee Offering in Foreign Countries

   As part of the Global Offering, up to 800,000 shares will be offered to employees of the Deutsche Telekom group in certain foreign countries. These employees may subscribe for fixed lots of 10, 20, 40, 60, or 80 shares and will obtain a guaranteed allocation for the number of shares for which they have subscribed. The employee offering in foreign countries starts after 9 June 2000. Although the relevant employees located in countries in which the European retail offering is being made will be treated as if they had subscribed for shares during the early order period (i.e. they will obtain the early order discount and are entitled to receive bonus shares provided they fulfill the other requirements of the bonus share program). Under the employee offering in certain foreign countries the relevant employees may subscribe for shares until the end of the bookbuilding period for the global institutional offering.''

3. On page 140 in subsection ''Employee Stock Ownership Program'' the following sentence is added at the end:

   ''Within the Global Offering shares will be offered to employees of the Deutsche Telekom group in the certain foreign countries on special terms. See ''The Global Offering—Employee Offering in Foreign Countries''.

Frankfurt, June 2000

Kreditanstalt für Wiederaufbau
Board of Management

Deutsche Telekom AG

Bonn, Germany

Supplement No. 2 to the Sales Prospectus dated May 26, 2000

as well as

supplemented Offer for sale by
Kreditanstalt für Wiederaufbau

of

200,000,000 registered ordinary shares of Deutsche Telekom AG
with a notional par value of EUR 2.56

as well as for up to

30,000,000 registered ordinary shares of Deutsche Telekom AG
with a notional par value of EUR 2.56
with respect to the Over-allotment Option granted to the underwriters

to be sold by
Kreditanstalt für Wiederaufbau

each with full dividend entitlement for the fiscal year 2000
- German Securities Code (Wertpapier-Kenn-Nummer) 555 750 -
- ISIN Code DE 000 555 750 8 -
- Common Code 10540836 -

Joint Global Coordinators

Deutsche Bank | Dresdner Kleinwort Benson | Goldman, Sachs & Co.

With respect to the offer for sale dated 30 May 2000 the following should serve as clarification:

Only those retail investors which fall within the scope of the definition of ''qualified retail investors'' as set out in the offer for sale dated 30 May 2000 (i.e. natural persons (and in case of orders for one single account maximal two natural persons) and certain ''special investment vehicles'') shall be regarded as retail investors under the offer for sale dated 30 May 2000. Persons which do not fall within the scope of this definition will, for purposes of the global offering, qualify as institutional investors. Therefore, in particular, the possible limitation of the offering price at the discounted offering price plus the amount of the discount which applies to retail investors being either no early order retail investors or having not claimed the discounted offering price (plus discount), does not apply to those persons.

All other terms and conditions of their offer remain unchanged. The offer period for retail investors is expected to end on June 15, 2000 (midnight Frankfurt time); the offer period for institutional investors is expected to end on June 16, 2000 (04:00 p.m. Frankfurt time).

The sales prospectus dated May 26, 2000 will be amended as follows:

A. Amendments with respect to the supplement of the offer of sale:

For purposes of clarification which persons will fall within the scope of the definition ''retail investors'', the following paragraph will be added on page 10 of section ''The Global Retail Offering and Retail Incentives—General'' at the end of the first paragraph, which new paragraph shall have the following wording:

''Only those retail investors which fall within the scope of the definition of ''qualified retail investors'' (i.e. natural persons (and in case of orders for one single account maximal two natural persons) and certain ''special investment vehicles'') shall be, for the purpose of this prospectus, regarded as retail investors. Persons, which do not fall within the scope of this definition will, for purposes of the global offering, qualify as institutional investors. Therefore, in particular, the possible limitation of the offer price at the discounted offering price plus the amount of the discount which applies to retail investors being either no early order retail investors or retail investors not having claimed the discounted offering price (plus discount), does not apply to those persons.''

B. Changes related to the new collective bargaining agreement:

On page 139 in the third paragraph of subsection ''Non-Civil Servants'' the first three sentences are substituted by the following:

''Deutsche Telekom and the German Postal Union (*Deutsche Postgewerkschaft*) concluded a new collective bargaining agreement on May 31, 2000 that contemplates the introduction of a performance related compensation system. The agreement, which came into force with retroactive effect as of April 1, 2000 provides for the introduction of this new system in two steps. In the first step, the parties agreed to an increase in base wages by 1% and a performance related increase of 2.15%. In the second step, coming into force as of July 1, 2001, additional performance-related and individually negotiated wage increases will be granted in an aggregate amount of up to 2.3% of total wages and salaries. A linear increase of the remuneration is not contemplated in this step. Other results of the collective bargaining round include a reduction of the weekly working hours to 38 hours per week (as of January 1, 2001) and an agreement by Deutsche Telekom to hire all trainees taking their examination in 2000 into regular employment. On the basis of the previous collective bargaining agreement, which expired on March 31, 2000, the salaries of all employees were increased by 3.1% on April 1, 1999.''

C. Changes related to new developments in regulatory activities and legal disputes:

1. On page 92 in section ''Other Services—T-Online'' the following new text is added in the first paragraph of this page after the third sentence (''... telephone charges, for a monthly fee of DM 5.''):

   ''Please see under ''—Legal Proceedings'' for a description of pending administrative proceedings with respect to the approval of this new tariff.''

2. On page 109 the section ‘‘Legal Proceedings’’ is at the end supplemented by the inclusion of the following text:

‘‘In May 2000 AOL Deutschland and mediaWays have filed with the Administrative Court in Cologne a complaint together with a petition seeking suspensive effect against the regulatory approval of the online component of the tariff ‘‘Optionsangebot XXL’’ (or ‘‘T-ISDN XXL’’). Deutsche Telekom was joined in this proceeding as third party. In April 2000 the scale of charges ‘‘Optionsangebot XXL’’ received the approval of the Regulatory Authority for the test run. In June 2000 the petition of AOL Deutschland was sustained by the Administrative Court in Cologne to the extent that the suspensive effect of the action against the approval of the scale of charges included in ‘‘Optionsangebot XXL’’ is ordered as far it relates to connectivity services free of charge to online services on Sundays and on public holidays. This did not apply to the second component of the approval for the scale of charges ’’Optionstarif XXL‘‘ in respect of the free provision of telephony services via ISDN connections on Sundays and public holidays. On 9 June 2000 the decision of the Administrative Court in Cologne was reversed by the Appelate Administrative Court in Münster. Because Deutsche Telekom has not yet received the statement of reasons for this decision, it cannot assess the consequences for the preliminary injunction proceeding and the regular proceeding. Currently, Deutsche Telekom is free to offer the ‘‘Optionstarif XXL.’’

3. On page 113 in section ‘‘Competition—Mobile Communications’’ the penultimate sentence (‘‘In Germany, twelve bidders are reported ... that are expected to be made available’’) in the third paragraph is to be substituted by the following passage:

‘‘On May 29, 2000 11 of 12 bidders were admitted to the licensing procedure for UMTS-licenses that will commence on July 31, 2000. See ‘‘Regulation—Licensing and Notification Requirements; Allocation of Frequencies.’’

4. On page 116 in subsection ‘‘Licensing and Notification Requirements; Allocation of Frequencies’’ the last sentence of the fifth paragraph on this page (‘‘The Regulatory Authority has announced that ... for UMTS in July 2000’’) is replaced by the following sentence:

‘‘Accordingly alongside with T-Mobil also the three other licensed operators of digital mobile telephony may also participate in the licensing procedure. Including this four companies a total of 12 companies applied to participate in the licensing procedure. By decision of the Regulatory Authority in May 2000 T-Mobil was admitted to the licensing procedure to start on July 31, 2000 with the 10 other bidders. Depending on the demand for the frequency and the behaviour of the bidders four to six licenses may be granted. Whether T-Mobil will obtain a license is uncertain.’’

5. On page 126 in subsection ‘‘Numbering, Number Portability and Carrier Selection’’ the forth paragraph of such subsection, beginning with ‘‘Under the Telecommunications Act, the Regulatory Authority is authorized to ...’’ is supplemented by the following sentence:

‘‘T-Mobil has filed a complaint within the prescribed time limit against the decision of the Regulatory Authority on May 25, 2000 at the Administrative Court Cologne.’’

D. Other changes:

1. On page 26 in subsection ‘‘Other Operating Expenses’’ the word ‘‘million’’ is inserted in the forth line from the top of this paragraph between ‘‘EUR 322’’ and ‘‘and’’.

2. On page 110 in subsection ‘‘Properties’’ the following paragraph is added after the fifth (and last) paragraph of this subsection:

‘‘Recently, allegations have appeared in the German press and elsewhere asserting that the book values recorded by Deutsche Telekom for its real property portfolio have been improperly established and maintained under applicable accounting principles. Deutsche Telekom has investigated these allegations and rejects them as groundless. In each of the past three years, Deutsche Telekom has established a reserve or recognized charges for potential losses associated with the disposition of properties no longer used in its business. These measures are described in ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations—Some Recent Trends and Developments Affecting Deutsche Telekom—Real Estate’’.’’

3. On page 69 in section ‘‘Business—Strategy’’ the following text is inserted into the forth paragraph of this subsection after the first sentence (‘‘Deutsche Telekom plans ... and the United States.’’):

‘‘Deutsche Telekom and its affiliates are actively considering and discussing a number of potential acquisition transactions. These may be made using newly issued shares of Deutsche Telekom or its affiliates, cash or a combination of cash and shares, and may individually or in the aggregate be material to Deutsche Telekom or its affiliates. Discussions with third parties may be commenced or discontinued at any time.’’

Frankfurt, June 2000

Kreditanstalt für Wiederaufbau
Board of Management

Deutsche Telekom AG

200 million Ordinary Shares
in the form of shares or American Depositary Shares

This prospectus relates to shares and ADSs of Deutsche Telekom AG being offered outside the United States, Canada and Japan to institutional investors as part of a global offering consisting of a global retail offering in fifteen European countries, the United States, Canada and Japan and an offering to institutional investors around the world. Kreditanstalt für Wiederaufbau is selling all of the 200 million shares that are being offered in the global offering. Deutsche Telekom will not receive any of the proceeds from the sale of shares or ADSs in the global offering.

The principal market on which the shares are traded is the Frankfurt Stock Exchange, where they trade under the symbol ''DTE'' (German securities code 555 750). The ADSs are listed on the New York Stock Exchange under the symbol ''DT''. On June 16, 2000, the closing price of the shares on the Frankfurt Stock Exchange was €68.08 and of the ADSs on the New York Stock Exchange was US$65.

This Prospectus is intended for use only in connection with offers and sales of these securities outside the United States and Canada and is not to be sent or given to any person within the United States or Canada. These securities are not being registered under the U.S. Securities Act of 1933 for the purpose of sales outside the United States.

The offering price is €66.50 per share and US$64.38 per ADS.

Qualified retail investors in Europe who ordered shares during an early order period will receive a discount from the offering price of €3 per share. Qualified retail investors in the global retail offering will be entitled to receive bonus shares or bonus ADSs under certain circumstances. Other investors will not be eligible to receive bonus shares or bonus ADSs.

The underwriters have the option to purchase up to an additional 30 million shares from Kreditanstalt für Wiederaufbau solely to cover over-allotments.

The underwriters expect to deliver the shares and ADSs to purchasers on or as soon as practicable after June 21, 2000.

Joint Global Coordinators and Joint Bookrunners

Deutsche Bank **Dresdner Kleinwort Benson** **Goldman, Sachs & Co.**

Deutsche Bank **Dresdner Kleinwort Benson** **Goldman Sachs International**

Prospectus dated June 17, 2000.

Joint Global Coordinators and Joint Bookrunners

Deutsche Bank	**Dresdner Kleinwort Benson**	**Goldman, Sachs & Co.**

Deutsche Bank	**Dresdner Kleinwort Benson**	**Goldman Sachs International**
COMMERZBANK **Aktiengesellschaft**	**Credit Suisse First Boston**	**Daiwa SBCM Europe**
DG BANK **Deutsche Genossenschaftsbank AG**	**Merrill Lynch International**	**Morgan Stanley Dean Witter**
ABN AMRO Rothschild	**Baden-Württembergische Bank** **Aktiengesellschaft**	**Banca IMI**
Bankgesellschaft Berlin **Aktiengesellschaft**	**Bayerische Landesbank** **Girozentrale**	**BBVA Interactivos, S.V.B.**
Berenberg Bank	**BNP Paribas**	**CA IB Investmentbank**
Cazenove & Co.	**HSBC**	**HypoVereinsbank**
Lehman Brothers	**National Bank of Greece**	**Nomura International**
Sal. Oppenheim jr. & Cie. **Kommanditgesellschaft auf Aktien**	**Schroder Salomon Smith Barney**	**SG Investment Banking**
TD Securities	**UBS Warburg AG**	**WestLB Panmure**

Financial Advisor to Kreditanstalt für Wiederaufbau

Schroder Salomon Smith Barney

Financial Advisor to Deutsche Telekom

ABN AMRO Rothschild

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About This Prospectus

You should rely only on the information provided in this prospectus. We have not authorized anyone to provide you with different information. This is not an offer to sell or a solicitation of an offer to buy in places where such offers are not permitted by applicable law. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this document.

The distribution of this prospectus and the offering and sale of the shares and ADSs in certain jurisdictions may be restricted by law. You must inform yourself about and observe any restrictions that may apply.

Deutsche Telekom has calculated subscriber and traffic data and percentages appearing in this prospectus using actual amounts derived from Deutsche Telekom's financial statements or its books and records and not the rounded amounts that may otherwise appear in this prospectus.

Forward-Looking Statements

This prospectus contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. Deutsche Telekom cautions you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include, but are not limited to, the following:

- the level of demand for telecommunications services, particularly with regard to access lines, traffic and new higher value-added products;
- competitive forces in liberalized markets, including pricing pressures, technological developments and alternative routing developments, and Deutsche Telekom's ability to retain market share in the face of competition from existing and new market entrants;
- the effects of Deutsche Telekom's tariff reduction initiatives, particularly in its core telephony business, but also with regard to many other areas;
- regulatory developments and changes, including with respect to the levels of tariffs, the terms of interconnection, customer access and international settlement arrangements;
- the outcome of litigation in which Deutsche Telekom is involved;
- the success of new business, operating and financial initiatives, many of which involve start-up costs, and new systems and applications, particularly with regard to Deutsche Telekom's integration of service offerings;
- Deutsche Telekom's ability to secure the licenses it needs to offer new services and the cost of these licenses and related network infrastructure build-outs;
- the progress of Deutsche Telekom's domestic and international investments, joint ventures and alliances;
- the impact of unusual items resulting from ongoing evaluations of Deutsche Telekom's strategies;
- the availability, terms and deployment of capital, particularly in view of Deutsche Telekom's debt refinancing needs, and the impact of regulatory and competitive developments on capital outlays;
- the level of demand in the market for Deutsche Telekom's shares and for shares of its subsidiaries, which can affect their acquisition strategies;
- Deutsche Telekom's ability to achieve cost savings and realize productivity improvements;
- the development of the German real estate market in view of Deutsche Telekom's substantial real estate portfolio, which had a book value of approximately EUR 17.2 billion as of December 31, 1999; and
- general economic conditions, government and regulatory policies, and business conditions in the markets Deutsche Telekom and its affiliates serve.

PROSPECTUS SUMMARY

This summary highlights selected information from this prospectus and may not contain all of the information that is important to you. You should read the entire prospectus carefully.

Deutsche Telekom

Deutsche Telekom is the largest provider of telecommunications services in Germany and one of the world's largest telecommunications companies, measured in terms of 1999 consolidated net revenues. Its consolidated net revenues in 1999 totaled EUR 35.5 billion.

In Germany, Deutsche Telekom is the largest provider of fixed-line voice telephony services to the public, providing over 48 million access lines to subscribers at March 31, 2000. More than 14 million of these lines were ISDN lines, making Deutsche Telekom the world's leading ISDN operator. Deutsche Telekom is Germany's second largest provider of mobile telephone service, with approximately 10.9 million digital mobile telephone subscribers as of March 31, 2000, and Deutsche Telekom has substantial mobile telephony operations and investments in the United Kingdom, Austria and other countries. Deutsche Telekom is the leading data communications provider and one of the leading providers of data communications systems solutions in Germany. Through its rapidly growing T-Online business, Deutsche Telekom owns a substantial majority interest in Europe's largest Internet online service provider and access gateway, with 4.9 million subscribers at March 31, 2000 (not including subscribers of the recently acquired business of Club Internet).

Deutsche Telekom operates Germany's largest broadband cable network, transmitting television and radio programming, directly or indirectly, to an estimated 17.8 million households at March 31, 2000. Deutsche Telekom is in the process of transferring the core of its cable business into nine regional cable companies, with the aim of selling interests in them to third party investors. Agreements to sell majority interests in three of the companies have been concluded. In addition, Deutsche Telekom is among the European leaders in radio and television signal broadcasting. Deutsche Telekom is also Germany's leading provider of interconnection and other carrier services to other telecommunications companies. Moreover, Deutsche Telekom sells telephone equipment, provides directory assistance and publishes telephone directories.

Deutsche Telekom's international portfolio of subsidiaries and investments includes telecommunications companies active in the United Kingdom, France, Austria, Italy, Central and Eastern Europe, the United States and Asia.

Deutsche Telekom's strategic focus is on growth in four key areas: mobile telecommunications, data/IP/systems, consumer Internet services and access. Deutsche Telekom intends to pursue growth in these areas aggressively, primarily through internal growth and acquisitions. In this regard, Deutsche Telekom's primary emphasis is on Europe and the United States, but Deutsche Telekom may pursue opportunities worldwide. Deutsche Telekom is intent on expanding its presence internationally. Deutsche Telekom believes that its advanced network and strategic focus position it well to take advantage of the technological convergence of telecommunications and information services.

Ownership by the Federal Republic and KfW

The Federal Republic of Germany (the ''Federal Republic''), directly owned approximately 43 percent of Deutsche Telekom's shares at March 31, 2000. Kreditanstalt für Wiederaufbau (''KfW''), the seller of the shares offered by this prospectus, owned approximately 22 percent of Deutsche

Telekom's shares at that date. Because KfW is 80 percent owned by the Federal Republic and 20 percent owned by the German Federal states, the Federal Republic and KfW have the ability to exercise majority shareholder control over Deutsche Telekom and will retain that ability even after the offering of these shares. Deutsche Telekom expects that the combined interest of the Federal Republic and KfW in its shares will decline to approximately 57 percent upon completion of this offering (assuming that the underwriters' over-allotment option is fully exercised).

Market Liberalization

The market for Deutsche Telekom's most significant service—domestic and international public fixed-line voice telephony—was opened to full competition on January 1, 1998. For the German telecommunications market, this marked the final step in a gradual liberalization process that formally commenced in 1989. The size and affluence of the German telecommunications market and a decidedly pro-competitive telecommunications regulatory environment have combined to make Germany one of the world's most open and competitive telecommunications markets.

Regulatory authorities regard Deutsche Telekom as having a dominant position in several telecommunications markets. As a result, Deutsche Telekom is subject to a number of special regulatory restrictions intended to preserve and promote competition.

The Global Offering

The Global Offering	This prospectus relates to shares and ADSs of Deutsche Telekom AG being offered as part of a global offering consisting of a public offering to retail investors in fifteen European countries, public offerings to retail investors in the United States, Canada and Japan, and an offering to institutional investors in private placements or public offerings around the world. Kreditanstalt für Wiederaufbau (''KfW'') is selling all of the 200 million shares that are offered in the global offering.
Over-allotment Option	The underwriters have an option to purchase up to an additional 30 million shares from KfW.
Offering Price	EUR 66.50 per share and US$64.38 per ADS.
Discount	Qualified retail investors participating in the European retail offering who ordered shares during an early order period beginning on May 31, 2000 and ending on June 9, 2000 will receive a discount from the offering price of EUR 3 per share. Investors in the United States, Canada and Japan will not be eligible for the discount.
Bonus Share Plan	Qualified retail investors in Europe, the United States, Canada and Japan who purchased shares or ADSs, as applicable, and hold those shares or ADSs continuously through December 31, 2001 generally will be entitled to receive bonus shares or bonus ADSs from KfW at a ratio of one bonus share or bonus ADS for every ten shares or ADSs acquired in the retail offering. To be eligible to receive bonus shares, qualified retail investors in Europe must have placed their orders during the early order period (May 31 through June 9, 2000) with an underwriter or subcontractor of an underwriter participating in the retail offering in Europe. They must then initially deposit any shares purchased in an account with such underwriter or subcontractor. To receive bonus ADSs, qualified retail investors in the United States and Canada must have ordered their ADSs during the retail bookbuilding period (May 31 through June 15, 2000) from an underwriter or selling group member participating in the global retail offering in the United States or Canada. They must then hold any ADSs purchased in an account with such an institution. In Japan, to receive bonus shares, retail investors will have to follow similar procedures.
Preferential Treatment of Retail Investors Who Participated in the Initial Public Offering of T-Online Shares	Qualified retail investors who placed orders in the April 2000 initial public offering of shares in Deutsche Telekom's T-Online subsidiary and were not allocated any shares or were

not allocated the full number of shares they ordered will be eligible to receive preferential treatment in connection with the allocation of Deutsche Telekom's shares in the global retail offering.

Preferential Treatment of Certain Deutsche Telekom Employees . . Qualified retail investors who are employees of Deutsche Telekom group companies may receive preferential treatment in allocation with regard to certain orders and, under certain circumstances, the benefit of an extension of the early order period.

Deutsche Telekom Lock-Up . . . . . . Deutsche Telekom has agreed with the underwriters, subject to certain exceptions, that before December 31, 2000, it will not, directly or indirectly, issue, offer or announce the offering of any of its shares out of authorized capital (*genehmigtes Kapital*) or propose capital increases, except with the prior written consent of the joint global coordinators. Corresponding restrictions apply until September 30, 2000 to the sale of securities that are convertible into or exchangeable for shares of Deutsche Telekom.

Federal Republic and KfW Lock-Up . . . . The Federal Republic and KfW have agreed that they will not sell their Deutsche Telekom shares before December 31, 2000, subject to some exceptions. Corresponding restrictions apply until September 30, 2000 to the sale of securities that are convertible into or exchangeable for shares of Deutsche Telekom.

Listing . . . . Deutsche Telekom's shares are listed on the Frankfurt Stock Exchange and on the other German stock exchanges under the symbol ''DTE'' (German securities code 555 750). Deutsche Telekom's ADSs are listed on the New York Stock Exchange (''NYSE'') under the symbol ''DT''. The shares are also listed on the Tokyo Stock Exchange.

Settlement . . . . Settlement will occur on the second business day following the sale of the shares or ADSs, which is sooner than required under Rule 15c6-1 of the U.S. Securities Exchange Act and thus sooner than would be customary in the United States.

Deutsche Telekom's registered address is Friedrich-Ebert-Allee 140, 53113 Bonn, Germany, its postal address is Postfach 20 00, 53105 Bonn, Germany, and its telephone number is +49-228-181-88880 (Investor Relations).

Summary Consolidated Financial and Statistical Information

	Three months ended March 31, 2000	Three months ended March 31, 1999(2)	Year ended December 31, 1999(2)	Year ended December 31, 1998(1)	Year ended December 31, 1997(1)
	€	€	€	€	€
	(unaudited)				
	(in millions except per share/ADS amounts)				
Consolidated Income Statement Data:					
Amounts in accordance with German GAAP					
Net revenues	9,539	8,263	35,470	35,144	34,505
Total operating costs and expenses	(10,012)	(6,952)	(32,215)	(29,815)	(30,252)
Financial income (expense), net	(761)	(784)	(2,889)	(3,288)	(4,003)
Results from ordinary business activities	2,336(3)	1,183	3,184	5,100	3,679
Extraordinary income (losses)	(47)	—	(240)	—	—
Net income	1,960	535	1,253	2,243	1,689
Earnings per share/ADS	0.65	0.19	0.43	0.82	0.62
Amounts in accordance with U.S. GAAP					
Net income	2,119	410	1,513	2,225	1,256
Earnings per share/ADS	0.70	0.15	0.53	0.81	0.46
Consolidated Cash Flow Data:					
Net cash provided by operating activities	1,028	1,626	9,588	13,491	11,576
Capital expenditures	1,307	833	5,974	4,791	6,791

	At March 31, 2000	At December 31, 1999	At December 31, 1998(1)	At December 31, 1997(1)
	€	€	€	€
	(unaudited)		(in millions)	
Consolidated Balance Sheet Data:				
Amounts in accordance with German GAAP				
Fixed assets	83,336	81,983	66,520	70,055
Total assets	101,477	94,637	79,291	83,247
Debt	45,214	42,337	39,933	44,938
Total liabilities (including accruals and deferred income)	63,768	58,948	54,227	58,631
Shareholders' equity	37,709	35,689	25,064	24,616
Amounts in accordance with U.S. GAAP				
Shareholders' equity	40,158	37,611	26,857	26,137

(1) Amounts have been restated from Deutsche Marks into euros using the official fixed conversion rate established on January 1, 1999, which is EUR 1.00 = DM 1.95583.

(2) Since the beginning of the 1999 financial year, revenues have been reported in line with the changed organizational structure of group business areas of the Deutsche Telekom group. The prior year figures have been restated to reflect the new structure. The difference in the figures compared to those stated in prior years is mainly attributable to the deduction of the revenues from the billing of services of other network operators, amounting to approximately EUR 0.5 billion, which were previously shown under other services.

(3) Includes income from the sale of Deutsche Telekom's interests in Global One in the amount of EUR 2.86 billion.

	Year ended December 31, 1999	Year ended December 31, 1998	Year ended December 31, 1997
Statistical Data:			
Average number (in millions, unless otherwise indicated)			
Standard telephone access lines	35.3	37.0	38.1
ISDN channels(1)	11.7	8.7	6.2
Mobile telephone subscribers	7.2	4.6	3.2
Cable subscribers(2)	17.8	17.5	17.0
T-Online subscribers	3.3	2.3	1.7
Average number of full-time equivalent employees (thousands)	175	186	197
Channels in service per employee	268	246	225

(1) Each basic access line provides two ISDN channels, and each primary access line provides 30 ISDN channels.

(2) Includes households connected through private cable operators. At year-end 1999, 5.4 million households were connected directly to Deutsche Telekom.

THE GLOBAL OFFERING

The shares being offered by this prospectus are part of a global offering of 200 million shares. All the shares in the global offering are being offered by KfW, acting in accordance with the Federal Republic. As part of the global offering, KfW has granted an option to the underwriters to purchase up to an additional 30 million shares to cover over-allotments.

The global offering consists of a global retail offering and a global institutional offering. The global retail offering will be made through public offerings in fifteen European countries, the United States, Canada and Japan. The global institutional offering will be an offering to institutional investors around the world.

The Global Retail Offering and Retail Incentives

General

The global retail offering consists of public offerings to retail investors in fifteen European countries and public offerings to retail investors in the United States, Canada and Japan. In Europe, KfW is offering shares to retail investors in Germany, Austria, the Benelux countries, Denmark, France, Italy, Spain, Finland, Portugal, Norway, Ireland, Switzerland and the United Kingdom.

Investors should bear in mind that only ''qualified retail investors'', as defined below, will be regarded as retail investors or investors in the global retail offering for purposes of the prospectus. Persons who do not fall within the scope of that definition will be regarded as institutional investors for purposes of the global offering.

In Europe, qualified retail investors holding a transaction account with one of the underwriters or one of the banks acting as the underwriters' subcontractors participating in the retail offering in Europe who ordered their shares in an early order period beginning on May 31 and ending on June 9, 2000 will receive shares allocated to them in respect of these orders at the discounted offering price. European retail investors (other than, in certain circumstances, employees of Deutsche Telekom group companies) ordering shares after June 9, 2000, as well as retail investors in the United States, Canada and Japan who order shares or ADSs at any time during the offering period will not be eligible for an early order discount.

As described in greater detail below, qualified retail investors in Europe, the United States, Canada and Japan who satisfy certain requirements will be eligible to receive bonus shares or bonus ADSs provided by KfW.

A ''qualified retail investor'' for purposes of eligibility for the retail early order discount and bonus shares or bonus ADSs, as applicable, is a natural person or, in the United Kingdom, Spain, Italy and the Netherlands only, either a natural person or a ''special investment vehicle'', which is a legal entity established for the express and sole purpose of providing asset management and retirement planning services for an individual natural person. To participate in the bonus share program or to qualify for the early order discount through a special investment vehicle, the relevant individual or his bank will be required to demonstrate to the satisfaction of KfW that the sole purpose of the special investment vehicle is the provision of asset management and retirement planning services for an individual natural person. Natural persons who hold their shares or ADSs through an account having more than two natural persons as accountholders will not be eligible for retail incentives (bonus shares or bonus ADSs and, in Europe, the early order discount). Partnerships, trusts, collective investment schemes and legal persons, other than special investment vehicles in the United Kingdom, Spain, Italy or the Netherlands, also will not be eligible.

Any qualified retail investor in Europe who ordered shares in the early order period and then, following expiration of the early order period, increased the number of shares ordered or increased the price limit of a limit order will not receive a discount on any shares allocated or be eligible for bonus shares.

Retail investors who placed orders in the April 2000 initial public offering of shares in Deutsche Telekom's T-Online subsidiary and were not allocated any shares or were not allocated the full number of shares they ordered will be eligible to receive preferential treatment in connection with allocation of Deutsche Telekom's shares in the global retail offering. The size of the offering has been determined accordingly.

In the global retail offering, up to 800,000 shares will be preferentially allocated under certain circumstances to employees of Deutsche Telekom group companies who are qualified retail investors. Such employees who ordered shares in the European retail offering may benefit from an extension of the early order period, in that they may receive shares allocated to them in respect of orders placed prior to 4 p.m., Central European time, on June 16, 2000 at the discounted offering price and may under certain circumstances also be entitled to bonus shares in respect of such shares. Such employees in the United States, Canada and Japan who ordered shares in the global retail offering may also under certain circumstances be eligible to receive bonus shares in respect of orders placed prior to that time.

Investors other than Japanese investors and employees of Deutsche Telekom group companies in certain countries must order at least 25 shares or ADSs to participate in the global offering. Japanese investors must order at least 50 shares to participate in the global offering. There is no maximum order size. Investors may place more than one order and may do so with one or more institutions.

On June 13, 2000, Kreditanstalt für Wiederaufbau and Deutsche Telekom confirmed the completion of the early order period for European retail investors. In the early order period, which lasted from Wednesday, May 31 to Friday, June 9, orders for more than 315 million shares were received from more than 2.6 million retail investors.

The Bonus Share Plan

Qualified retail investors in Europe, the United States, Canada and Japan who ordered shares or ADSs, as applicable, and hold those shares or ADSs continuously through December 31, 2001 will be entitled to receive bonus shares or bonus ADSs from KfW at a ratio of one bonus share or bonus ADS for every ten shares or ADSs purchased in the retail offering. To be eligible to receive bonus shares, retail investors in Europe must have placed their orders during the early order period (May 31 through June 9, 2000 or, in the case of employees of Deutsche Telekom group companies under certain circumstances, through June 16, 2000) with an underwriter or subcontractor of an underwriter participating in the retail offering in Europe. They must then initially deposit any shares purchased in an account with such underwriter or subcontractor. To receive bonus ADSs, retail investors in the United States and Canada must have ordered their ADSs during the retail bookbuilding period (May 31 through June 15, 2000 or, in the case of employees of Deutsche Telekom group companies under certain circumstances, through 4 p.m. Central European time, on June 16, 2000) from an underwriter or selling group member participating in the global retail offering in the United States or Canada. They must then hold any ADSs purchased in an account with such an institution. In Japan, to receive bonus shares, retail investors will have to follow similar procedures.

A retail investor must meet the following requirements to qualify for bonus shares or bonus ADSs:

- The investor must be a natural person or, in the United Kingdom, Spain, Italy and the Netherlands only, either a natural person or a special investment vehicle.
- The investor must have purchased the shares or ADSs through one of the underwriters participating in the global retail offering, one of the banks acting as subcontractors to the

underwriters, or a selling group member, as applicable, for a transaction account in the name of the qualified retail investor.

- The investor must continuously hold those shares or ADSs until December 31, 2001.

Except as described in the next paragraph, a transfer of ownership of shares or ADSs will result in the loss of the bonus share entitlement with respect to the transferred shares or ADSs.

A qualified retail investor's entitlement to bonus shares or bonus ADSs will be based on the lowest number of shares or ADSs held continuously in his transaction account between the original purchase in the global retail offering and December 31, 2001. Accordingly, the entitlement will be lost or reduced if the disposal of shares or ADSs within the period causes the investor's holding of shares or ADSs in the account to fall below the level of the initial purchase. A qualified retail investor's right to obtain bonus shares or bonus ADSs will not be lost or reduced in the case of the following transfers:

- any transfer of shares or ADSs to another account of the same holder (for example, due to the transfer of the account to another branch or bank);
- any transfer of shares or ADSs due to the consolidation of two accounts by reason of marriage of the holders of two accounts if both accounts contained shares or ADSs qualifying for bonus shares or bonus ADSs;
- any transfer of shares or ADSs that had originally been purchased by a parent or parents in the name of a child and held in the account of the parent or parents, and which are transferred to an account of the child after it has reached the age of majority; or
- any transfer of shares or ADSs in connection with inheritance, provided that the heir must also be a natural person.

In the United States, Canada and Japan, however, any transfer of shares or ADSs to an account with an institution that is not an underwriter or selling group member within that country will result in the loss of the bonus share entitlement with respect to those shares or ADSs.

If any transfer of shares or ADSs takes place to an account with an institution other than through which the shares or ADSs were purchased, it will be the responsibility of the retail investor to arrange for the presentation of a claim for bonus shares or bonus ADSs. The retail investor may have to pay fees or other charges in connection with the delivery of bonus shares or bonus ADSs if he has transferred his shares or ADSs among accounts. In addition, in some cases, administrative difficulties associated with a transfer of this kind may make the effective presentation of a claim for bonus shares or bonus ADSs impracticable.

The allocation of the bonus shares or bonus ADSs will generally be effected through the account holding institution if that institution is an underwriter participating in the global retail offering, one of the banks acting as a subcontractor to the underwriters, or a selling group member, as applicable. Shareholders or holders of ADSs who believe that they are entitled to bonus shares or bonus ADSs but who do not receive bonus shares or bonus ADSs by January 31, 2002 must assert any claim to bonus shares or bonus ADSs to KfW. Any claim to bonus shares or bonus ADSs must be presented in writing exclusively through the account holding institution to the head office of KfW at Palmengartenstraße 5-9, D-60325 Frankfurt a.M., Germany, attention: VS: Bonus Shares DT III, and received by KfW no later than March 31, 2002. The investor must furnish satisfactory evidence of his entitlement to bonus shares or bonus ADSs.

The bonus shares and bonus ADSs will be provided by KfW and not by Deutsche Telekom. It is expected that an independent accounting firm will be appointed to monitor and review the rules and procedures for the bonus share plan. The retail investor or the institution through which he holds or held his shares or ADSs may be required to furnish information to the independent accounting firm as part of the monitoring process to allow KfW and the accounting firm to confirm his entitlement to claim bonus shares or bonus ADSs. If KfW and the accounting firm are satisfied that the retail investor is a qualified retail investor who has continuously held a sufficient number of shares or ADSs for the required period, KfW will arrange for the delivery of bonus shares or bonus ADSs to the retail investor in appropriate amounts. KfW reserves the right not to allocate bonus shares or bonus ADSs to a claimant if KfW or the accounting firm is not satisfied with the evidence presented to demonstrate satisfaction of the bonus share program requirements. In this regard, a claimant may be required to instruct the institutions with which he holds or has held shares or ADSs that are the basis of his claim to disclose his account information concerning the shares or ADSs to KfW or the independent accounting firm.

Bonus shares and bonus ADSs are subject to German taxation, as described below under ''Taxation—German Taxation—Taxation of Bonus Shares''.

The Global Institutional Offering

KfW is offering shares to institutional investors around the world. Shares in the global institutional offering are being offered at the offering price.

Form and Settlement

The shares offered in the global offering will initially be represented by global share certificates with global dividend coupons attached. The global share certificates will be deposited with Clearstream Banking AG, formerly Deutsche Börse Clearing AG, (''Clearstream'') as share depositary. The shares purchased in the global offering may be credited at the option of investors either to the account of a German bank with Clearstream for the account of such investor or to the accounts of participants with Euroclear or Clearstream Banking *société anonyme,* formerly Cedelbank. Institutional investors in the United States and Canada may elect to receive all or a portion of their shares in the form of ADSs. Retail investors in the United States and Canada will be required to receive their shares in the form of ADSs only and will not be able to receive shares in the form of ordinary shares. Shares held by the Depositary referred to under ''Description of American Depositary Receipts'' will be credited to the Clearstream account of the custodian for the Depositary. The ADSs have been accepted for clearance through the facilities of The Depository Trust Company (''DTC'').

Settlement will occur on the second business day following the sale of the shares or ADSs. Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle within three business days (or four in the case of offerings priced after 4:30 p.m.), unless the parties to a trade otherwise expressly agree. Accordingly, purchasers of shares or ADSs in the global offering will be required to settle sooner than would be customary in the United States.

The German Securities Code *(Wertpapier-Kenn-Nummer)* (WKN) for the shares is 555 750. The International Securities Identification Number (ISIN) for the shares is DE 000 555 7508 and the Common Code for the shares is 10540836. The CUSIP number of the ADSs is 251566105.

USE OF PROCEEDS

Deutsche Telekom will not receive any of the proceeds of KfW's sale of the shares and ADSs offered by this prospectus. KfW and the Federal Republic will receive the proceeds of the sale and will divide the proceeds according to agreements between them.

DIVIDEND POLICY

The shares and ADSs offered by this prospectus will have the same dividend rights as the other outstanding shares and all other ADSs, including dividend rights with respect to the full fiscal year 2000.

The following table sets forth the annual dividends paid per share with respect to each of the financial years indicated:

Year Ended December 31,	Dividend Paid per Ordinary Share		
	DM	€	US$(1)
1996	0.60	—	0.35
1997	1.20	—	0.68
1998	1.20	—	0.64
1999	—	0.62	0.58

(1) Dividend amounts have been translated into dollars at the Noon Buying Rate for the relevant dividend payment date, which occurred during the second quarter of the following year.

At their annual general meeting on May 25, 2000, Deutsche Telekom's shareholders approved an aggregate cash dividend of approximately EUR 1.9 billion for financial year 1999. This dividend will exceed Deutsche Telekom's consolidated net income for 1999 by 49.6 percent. The dividend levels of past years may not be indicative of future dividends.

Shareholders determine the declaration, amount and timing of dividends in respect of each fiscal year at their annual general meeting in the following year, upon the joint recommendation of the Board of Management and the Supervisory Board. As long as the Federal Republic and KfW own a majority of Deutsche Telekom's voting share capital, they will have the power to control most decisions taken at shareholders' meetings, including the approval of proposed dividend payments, as described more fully below under the heading ''Relationship with the Federal Republic''. Deutsche Telekom may declare and pay dividends only from unappropriated net income (*Bilanzgewinn*) of Deutsche Telekom AG, as adjusted to reflect losses or gains carried over from prior years as well as transfers to or from retained earnings. Certain reserves (*Rücklagen*) are required by law to be made and deducted in calculating unappropriated net income available for distribution as dividends.

The payment of future dividends depends on Deutsche Telekom's earnings, its financial condition and other factors, including cash requirements, the future prospects of Deutsche Telekom, and tax, regulatory and other legal considerations. Although Deutsche Telekom expects to pay annual dividends on its shares, you should not assume that any dividend will actually be paid or make any assumption about the amount that will be paid in any given year. To the extent necessary to implement Deutsche Telekom's dividend policy, Deutsche Telekom will consider drawing upon its retained earnings. Deutsche Telekom's ability to pay dividends is determined by reference to the unconsolidated financial statements of Deutsche Telekom AG, which are prepared in accordance with German GAAP. In 1999, Deutsche Telekom AG recognized gains from an intra-group sale of its shares in Sprint of approximately EUR 8.2 billion, which contributed significantly to total net income of approximately EUR 9.7 billion on an unconsolidated basis. In the consolidated financial statements, the net effect of this intra-group transfer was zero. Deutsche Telekom's net income on a consolidated basis was EUR 1.3 billion. The portion of the unconsolidated income of Deutsche Telekom AG for 1999 that has not been allocated to dividends has been allocated to retained earnings and may be drawn upon in connection with future dividend payments. Dividends paid will be subject to German withholding tax. For further information on German withholding tax and related United States refund procedures, see ''Taxation''.

EXCHANGE RATE INFORMATION

Effective January 1, 1999, Germany and ten other member states of the European Union adopted the euro as their common currency. With the first quarter of 1999, Deutsche Telekom began publishing its consolidated financial statements in euros and, unless otherwise indicated, all amounts in this document are expressed in euros. Prior to January 1, 1999, Deutsche Telekom prepared its financial statements in Deutsche Marks in accordance with German GAAP. Amounts stated in euros appearing in this document for periods prior to January 1, 1999, have been translated from Deutsche Marks at the official fixed conversion rate of EUR 1.00 = DM 1.95583.

As used in this document:

- ''EUR'', ''euro'' or ''€'' means the single unified currency that was introduced in the Federal Republic and ten other participating member states of the European Union on January 1, 1999;
- ''Deutsche Mark'' or ''DM'', when used with respect to any time or period before January 1, 1999, means the lawful currency of the Federal Republic of Germany (the ''Federal Republic'') and, when used with respect to any time or period after January 1, 1999, means the sub-unit of the euro designated as such under the applicable regulations of the European Community;
- ''U.S. Dollar'', ''Dollar'' or ''US$'' means the lawful currency of the United States of America;
- ''FF'' means the lawful currency of France;
- ''£'' or ''GBP'' means the lawful currency of Great Britain;
- ''GRD'' means the lawful currency of Greece;
- ''HUF'' means the lawful currency of Hungary;
- ''Austrian schillings'' means the lawful currency of Austria;
- ''zloty'' means the lawful currency of Poland;
- ''HRK'' means the lawful currency of Croatia;
- ''rupiah'' or ''Rp'' means the lawful currency of Indonesia; and
- ''ringgit'' means the lawful currency of Malaysia.

For your convenience, this document contains translations of certain amounts denominated in one currency into another currency. You should not assume however, that amounts could have been exchanged at the exchange rate used in these translations. Unless otherwise stated, the currency translations made in this document have been made as follows:

- in the case of statements of revenue and income, at the average rate of exchange for the relevant currencies for the relevant period;
- in the case of statements of balance sheet positions, at the rate of exchange for the relevant currencies for the relevant balance sheet date; and
- in the case of investments, at the rate of exchange for the relevant date of investment;

in each case consistent with the exchange rates used in the preparation of our consolidated financial statements. You may refer to ''Foreign currency translation'' in the consolidated financial statements on page F-13 for information concerning certain exchange rates used in the preparation of our financial statements.

Unless otherwise stated, Dollar amounts have been translated from euros at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the ''Noon Buying Rate'') on March 31, 2000. At that date, the Noon Buying Rate for the euro was EUR 1.0445 per US$1.00, which if expressed in Deutsche Marks would have been equivalent to a rate of DM 2.0429 per US$1.00, translated from euros at the official fixed conversion rate. This rate may differ from the actual rates used in the preparation of Deutsche Telekom's consolidated financial statements as of December 31, 1999 and 1998, and for each of the years in the three year period ended December 31, 1999. Accordingly, Dollar amounts appearing in this prospectus may differ from the actual Dollar amounts originally translated into euros in the preparation of Deutsche Telekom's financial statements.

The following table sets forth, for the periods from January 1, 1999 through December 31, 1999 and from January 1, 2000 through June 16, 2000, the average, high, low and period-end Noon Buying Rates for the euro expressed as Dollars per EUR 1.00. For each year in the period from 1995 through 1998, the average, high, low and period-end Noon Buying Rates for the Deutsche Mark are shown converted into euros at the official fixed conversion rate and expressed as Dollars per EUR 1.00.

Year	Average (1)	High	Low	Period-End
1995	1.3715	1.4418	1.2528	1.3634
1996	1.2978	1.3626	1.2493	1.2711
1997	1.1244	1.2689	1.0398	1.0871
1998	1.1120	1.2178	1.0548	1.1733
1999	1.0588	1.1812	1.0016	1.0070
2000 (through June 16, 2000)	0.9478	1.0335	0.8891	0.9648

(1) The average of the Noon Buying Rates on the last business day of each month during the relevant period.

Commencing January 4, 1999, the shares of Deutsche Telekom have traded on the German stock exchanges in euro. Fluctuations in the exchange rate between the euro and the Dollar will affect the Dollar equivalent of the euro price of the shares on the German stock exchanges and, as a result, are likely to affect the market price of the ADSs on the New York Stock Exchange. Deutsche Telekom will declare any cash dividends in euros, and exchange rate fluctuations will affect the Dollar amounts you receive if you are a holder of ADSs on conversion of cash dividends on the shares represented by your ADSs.

MARKET INFORMATION

General

The principal trading market for Deutsche Telekom's shares is the Frankfurt Stock Exchange. The shares also trade on the other German stock exchanges in Berlin, Bremen, Düsseldorf, Hamburg, Hannover, Munich and Stuttgart and on the Tokyo Stock Exchange. Options on the shares trade on the German options exchange (*Eurex Deutschland*) and other exchanges. Originally, Deutsche Telekom issued all its shares in bearer form. With effect from January 24, 2000, the shares were converted from bearer form to registered form.

American Depositary Shares (''ADSs''), each representing one share, are listed on the NYSE and trade under the symbol DT. The depositary for the ADSs is Citibank N.A. As of December 31, 1999, there were 24,443,834 ADSs outstanding, with 296 holders of record of ADSs with addresses in the United States and 38 holders of record of ADSs with addresses outside the United States. Approximately 8,978 ADSs were held of record by holders with non-U.S. addresses. Since Deutsche Telekom's shares were in bearer form in 1999, Deutsche Telekom does not have precise information regarding the percentage of its shares held by U.S. holders as of December 31, 1999. As of May 20, 2000, however, there were 1,692 holders of record of shares with addresses in the U.S. and Deutsche Telekom estimates that around seven percent of its shares not represented by ADSs (excluding shares held by the Federal Republic and KfW) were held by investors in the United States on that date.

Trading on the New York Stock Exchange

The table below sets forth, for the periods indicated, the high and low closing sales prices for the ADSs on the NYSE:

	Price per ADS	
	High	Low
	US$	
1998		
First Quarter	$22\frac{7}{8}$	$17\frac{1}{16}$
Second Quarter	$28\frac{5}{16}$	$21\frac{1}{2}$
Third Quarter	32	24
Fourth Quarter	$33\frac{1}{2}$	$26\frac{1}{4}$
1999		
First Quarter	$47\frac{1}{8}$	$36\frac{1}{16}$
Second Quarter	$45\frac{7}{8}$	$36\frac{1}{4}$
Third Quarter	$45\frac{7}{16}$	$39\frac{5}{8}$
Fourth Quarter	71	$40\frac{3}{4}$
2000		
First Quarter	$98\frac{5}{8}$	$63\frac{1}{16}$
Second Quarter (through June 16, 2000)	$76\frac{1}{4}$	$49\frac{13}{16}$

On June 16, 2000, the closing sales price per ADS on the NYSE was US$65.

Trading on the Frankfurt Stock Exchange

Deutsche Börse AG operates the Frankfurt Stock Exchange, which is the most significant of the eight German stock exchanges. The Frankfurt Stock Exchange (including transactions through the Xetra system) accounted for approximately 80 percent of the turnover in exchange-traded shares in Germany in 1999. As of December 31, 1999, the shares of 3,265 companies traded on the official, regulated and unregulated markets and the Neuer Markt Segment of the Frankfurt Stock Exchange. Of these, 711 were German companies and 2,554 were foreign companies.

Trading on the floor of the Frankfurt Stock Exchange begins every business day at 9:00 a.m. and ends at 8:00 p.m., Central European Time. Securities listed on the Frankfurt Stock Exchange generally trade in the auction market, but also change hands in interbank dealer markets. Publicly commissioned stock brokers who are members of the Frankfurt Stock Exchange, but who do not as a rule deal with the public, note prices, which are determined by out-cry. The prices of actively traded securities, including the shares of large corporations, are continuously quoted during trading hours. For all securities, a fixed price (*Einheitskurs*) is established at approximately midday on each day the Frankfurt Stock Exchange is open for business.

Deutsche Börse publishes an official daily list of quotations containing the fixed prices (*Einheitskurse*) for all traded securities. The list is available on the Internet at http://www.exchange.de under the heading ''Market Data''.

In November 1997, to improve the market quality of trading, Deutsche Börse replaced the IBIS trading system (*Integriertes Börsenhandels- und Informations-System*) with Xetra (*Exchange Electronic Trading*). The Xetra market model was developed in collaboration with market participants and essentially comprises rules for price determination, prioritization of orders and the provision of information for market participants.

Transactions on the Frankfurt Stock Exchange (including transactions through the Xetra system) settle on the second business day following the trade. Transactions off the Frankfurt Stock Exchange (such as, for example, large trades or transactions in which one of the parties is foreign) generally also settle on the second business day following the trade, although a different period may be agreed to by the parties. Under standard terms and conditions for securities transactions employed by German banks, customers' orders for listed securities must be executed on a stock exchange unless the customer gives specific instructions to the contrary.

The Frankfurt Stock Exchange can suspend a quotation if orderly trading is temporarily endangered or if a suspension is deemed to be necessary to protect the public.

Deutsche Börse AG has announced a plan to combine the Frankfurt Stock Exchange with the London Stock Exchange. Under the plan, according to published reports, the principal trading market for Deutsche Telekom's shares would be in London. Many aspects of the plan remain to be determined.

The Federal Supervisory Authority for Securities Trading (*Bundesaufsichtsamt für den Wertpapierhandel*) monitors trading activities on the German stock exchanges.

From January 4, 1999, all shares on German stock exchanges have traded in euro.

The table below sets forth, for the periods indicated, the high and low closing sales prices for the shares of Deutsche Telekom on the Frankfurt Stock Exchange, as reported by the Frankfurt Stock Exchange Xetra trading system, together with the highs and lows of the DAX (*Deutscher Aktienindex*).

	Price Per Ordinary Share		Price Per Ordinary Share		DAX(1)	
	High	Low	High	Low	High	Low
	euro		DM			
1998						
First Quarter	—	—	41.65	31.19	5,114.13	4,134.64
Second Quarter	—	—	50.14	39.70	5,915.13	5,018.67
Third Quarter	—	—	55.61	44.90	6,171.43	4,433.87
Fourth Quarter	—	—	55.97	43.40	5,121.48	3,896.08
1999						
First Quarter	43.45	31.35	—	—	5,443.62	4,678.72
Second Quarter	44.55	34.23	—	—	5,468.67	4,914.59
Third Quarter	43.15	36.90	—	—	5,652.02	4,978.45
Fourth Quarter	71.50	38.11	—	—	6,958.14	5,124.55
2000						
First Quarter	103.50	61.00	—	—	8,064.97	6,474.92
Second Quarter (through June 16, 2000)	80.40	55.80	—	—	7,555.92	6,834.88

(1) The DAX is a weighted performance index of the shares of thirty large German corporations. The calculation of the DAX did not change upon the introduction of the euro.

On June 16, 2000, the closing sales price per share on the Frankfurt Stock Exchange was EUR 68.06, equivalent to US$65.66 per share, translated at the Noon Buying Rate for June 16, 2000.

RELATIONSHIP WITH THE FEDERAL REPUBLIC

Shareholding

Historically, Deutsche Telekom formed an integral and undifferentiated part of Deutsche Bundespost, a state-owned special asset (*Sondervermögen des Bundes*). In 1989, Deutsche Bundespost was divided into three distinct entities—Deutsche Bundespost TELEKOM, Deutsche Bundespost POSTBANK and Deutsche Bundespost POSTDIENST. Deutsche Bundespost TELEKOM was transformed, with effect from January 1, 1995, into Deutsche Telekom AG, a private law stock corporation, which initially remained wholly owned by the Federal Republic.

The Federal Republic's direct ownership interest in Deutsche Telekom is approximately 43 percent. KfW, a development bank that is 80 percent owned by the Federal Republic and 20 percent owned by the German Federal states, owns approximately 22 percent. The Federal Republic is therefore in indirect control of the shares owned by KfW. KfW acquired its shareholding in Deutsche Telekom from the Federal Republic in several tranches between 1997 and 1999. These acquisitions were made on the basis of agreements pursuant to which KfW acquired shares from the Federal Republic at a discount from the relevant market price. These agreements provide that, in case of a subsequent sale of the shares by KfW, the Federal Republic will receive from KfW the difference between (i) the sales price and (ii) the sum of the purchase price paid, certain costs and a portion of any capital gain realized by KfW on the sale.

As long as the Federal Republic and KfW control the majority of Deutsche Telekom's shares, they will have the power to control most decisions taken at shareholders' meetings, including the appointment of all of the members of the Supervisory Board elected by the shareholders and the approval of proposed dividend payments.

The direct ownership interest of the Federal Republic in Deutsche Telekom was reduced to approximately 43 percent following the second public offering of Deutsche Telekom in June 1999 and the nearly completed distribution of bonus shares relating to the initial public offering of Deutsche Telekom in 1996, while the ownership interest of KfW was reduced to approximately 22 percent following the transfer in December of 1998 of two percent of Deutsche Telekom's then outstanding shares to France Telecom and following Deutsche Telekom's equity offering in June 1999.

The Federal Republic administers its shareholding and exercises its rights as a shareholder of Deutsche Telekom through the Bundesanstalt für Telekommunikation und Post (Federal Agency for Postal Affairs and Telecommunications, or ''Federal Agency''), which is subject to the supervision of the Finance Ministry. Except as described below, in its capacity as shareholder, the Federal Republic may exercise only those rights that it has under the German Stock Corporation Act and Deutsche Telekom's Articles of Association (*Satzung*).

For as long as the Federal Republic holds, directly or indirectly, a majority of Deutsche Telekom's voting share capital, it is entitled, under the Law on Budgetary Principles (*Haushaltsgrundsätzegesetz*), to require Deutsche Telekom to instruct its independent auditors to extend the scope of their audit of Deutsche Telekom and its subsidiaries to cover their management and certain other matters. The Federal Republic is entitled to receive copies of audit reports upon request. In addition, the Federal Audit Office (*Bundesrechnungshof*) reviews the activities of the Federal Republic regarding enterprises in which it holds interests. For as long as the Federal Republic is, directly or indirectly, the majority shareholder of Deutsche Telekom, the Federal Audit Office has the right to investigate questions arising from its review, including by inspecting Deutsche Telekom's operations as well as books and accounts. Similar rights apply with respect to those subsidiaries of Deutsche Telekom that so provide in their articles of incorporation. In reporting to the Federal Republic, Supervisory Board members who are elected on the initiative of the Federal

Republic are not generally subject to the usual secrecy obligations applicable to Supervisory Board members; the Federal Republic must, however, maintain the secrecy of confidential information contained in these reports.

Furthermore, as is generally the case with other German corporations with a controlling shareholder, for as long as the Federal Republic is a shareholder with controlling influence (*beherrschender Einfluß*), Deutsche Telekom's Board of Management is required to produce a report (*Abhängigkeitsbericht*) setting forth the relationships and the transactions entered into between Deutsche Telekom, on the one hand, and the Federal Republic or its affiliated enterprises, on the other hand. This related-party report, which is intended to protect minority shareholders and creditors, must include a declaration by the Board of Management as to the fairness of transactions and dealings with the Federal Republic. Deutsche Telekom's independent auditors are required to confirm the accuracy of this report. The Supervisory Board is then required to review the related-party report and the auditor's findings thereon and to inform the shareholders as to the conclusion of both. In the 1999 related-party report, Deutsche Telekom's Board of Management declared that under the circumstances known to the Board of Management, at the time of performing the business transactions between Deutsche Telekom and the Federal Republic and its affiliated enterprises, including the Federal Agency, Deutsche Telekom received appropriate remuneration for these transactions, and that Deutsche Telekom did not perform or omit any actions on behalf of or on the instructions of the controlling shareholder, in its capacity as such, or any other affiliated companies. Deutsche Telekom's independent auditors have confirmed the accuracy of the 1999 related-party report regarding relationships between Deutsche Telekom and its controlling shareholder.

Pursuant to the Articles of Association of DeTeMobil Deutsche Telekom MobilNet GmbH, Deutsche Telekom's mobile communications subsidiary (''T-Mobil''), the Finance Ministry has the right to nominate one member to the supervisory board of T-Mobil. The Finance Ministry has one representative on each of the supervisory board of Deutsche Telekom Systemlösung GmbH (''DeTeSystem''), Deutsche Telekom's systems solutions subsidiary, and the supervisory board of its subsidiary T-Mobile International AG.

Coordination and Administrative Responsibilities of the Federal Agency

Pursuant to German law, the Federal Agency provides certain services to Deutsche Telekom, Deutsche Postbank and Deutsche Post and has certain rights and responsibilities with respect to the administration of the common affairs of these companies. For example, the Federal Agency is responsible for concluding general collective bargaining agreements (*Manteltarifverträge*) on behalf of these entities with employees relating only to certain non-wage benefits, rules of conduct and other general terms of employment. These agreements only become effective with the consent of the affected entity. The Federal Agency's right to conclude these agreements does not affect Deutsche Telekom's right to negotiate particular terms of employment, including wages, salaries and conditions of employment, independently on its own behalf. The Federal Agency also administers the health insurance fund for civil servants (*Postbeamtenkrankenkasse*) and the pension fund for non-civil servants (VAP), employed by Deutsche Telekom, Deutsche Postbank, Deutsche Post and others. The Federal Agency has certain additional responsibilities and rights with respect to civil servants employed by Deutsche Telekom, Deutsche Post and Deutsche Postbank. The Federal Agency has the right to provide advice concerning the coordination of the activities of Deutsche Telekom, Deutsche Postbank and Deutsche Post, particularly, with respect to their public image, issues that may arise if the business plans of these entities conflict and, upon request, with respect to certain personnel issues.

Services provided by the Federal Agency pursuant to applicable law are rendered on the basis of service agreements between Deutsche Telekom, Deutsche Postbank or Deutsche Post, on the one hand, and the Federal Agency, on the other. Since German law currently requires that each of Deutsche Telekom, Deutsche Postbank and Deutsche Post enter into a service agreement with the

Federal Agency covering the services described above, Deutsche Telekom has not considered entering into arrangements with third parties for the provision of these services. Costs of the Federal Agency incurred in connection with providing these services are financed out of fees agreed upon with Deutsche Telekom, Deutsche Post and Deutsche Postbank. Deutsche Telekom incurred costs of EUR 71 million for these services in 1999 (as compared to EUR 89 million in 1998).

The total costs of the Federal Agency, consisting mainly of personnel costs for its employees (originally, approximately 3,100, but on average around 2,100 in 1999), are allocated pursuant to the cost attribution system of the Federal Agency in accordance with actual expenses. The Federal Agency is statutorily required to observe the principles of economic efficiency and expense minimization. The Federal Agency drafts budgets on an annual basis and prepares an annual report that is audited by its independent auditors. The independent auditors' review includes a review of the orderly management and significant economic relationships of the Federal Agency. The budget and the annual report are submitted for approval to an administrative board (*Verwaltungsrat*), which consists of representatives of the German Government, of Deutsche Post, Deutsche Postbank and Deutsche Telekom and of the employees of each of these entities. After adoption by the administrative board, the budget and the annual report are submitted to the Finance Ministry for approval. The fiscal and budgetary management of the Federal Agency is subject to continuous supervision by the Federal Audit Office pursuant to the German Budget Ordinance (*Bundeshaushaltsordnung*).

Federal Republic as Regulator

The Federal Republic's role as regulator is independent and distinct from its role as shareholder. Until December 31, 1997, this regulatory function was exercised by the Post Ministry. Thereafter, the new Regulatory Authority for Telecommunications and Posts *(Regulierungsbehörde für Telekommunikation und Post)* (the ''Regulatory Authority''), which is under the general supervision of the German Economics Ministry, took over this function. See ''Regulation''.

Federal Republic as Customer

The Federal Republic is Deutsche Telekom's largest customer and purchases services on an arm's-length basis. Deutsche Telekom deals with the various departments and agencies of the German Government as separate customers, and the provision of services to any one department or agency does not constitute a material part of Deutsche Telekom's revenues.

Arrangement with Deutsche Post

Deutsche Telekom announced plans in 1999 to negotiate and enter into a definitive agreement with Deutsche Post AG that will call for Deutsche Telekom to provide, among other things, information technology and corporate network services to Deutsche Post. In return, Deutsche Post will provide distribution and transportation, printing, warehousing and other services. The objective of the arrangement is to allow each company to focus on its core competencies and dispose of peripheral activities. Deutsche Telekom expects that this arrangement will result in a net transfer of around 2,000 Deutsche Telekom employees to Deutsche Post.

Federal Republic Guarantees

Under German law, all liabilities of Deutsche Telekom outstanding as of January 2, 1995, the date of Deutsche Telekom's registration in the Commercial Register (*Handelsregister*), became guaranteed by the Federal Republic. This guarantee replaced the Federal Republic's obligations with respect to Deutsche Telekom's liabilities when it was a state-owned special asset. Liabilities incurred after January 2, 1995 are not guaranteed by the Federal Republic.

Pension Contributions for Civil Servants

Civil servants (*Beamte*) employed by Deutsche Telekom are entitled to pension benefits provided by the Federal Republic. Under German law, Deutsche Telekom is required to make annual contributions to a special pension fund (*Unterstützungskasse*) established to fund these pension obligations. See ''Management and Employees—Employees—Civil Servants'' and ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Total Operating Costs and Expenses—Personnel Costs.''

THE SELLING SHAREHOLDER

KfW is a public law entity established in 1948 by the Administration of the Combined Economic Area, the immediate predecessor of the Federal Republic, to distribute and lend funds of the European Recovery Program (Marshall Plan), among other activities. Today, having expanded and internationalized, KfW conducts its business in four principal areas: domestic investment finance for promotion of the German economy, export and project finance, development aid and advisory and other services. In addition, KfW undertakes certain activities which are of interest to the Federal Republic. These special services include participation in privatization projects of the Federal Republic on a case-by-case basis.

KfW acquired its shares in Deutsche Telekom from the Federal Republic in several tranches between 1997 and 1999.

As of December 31, 1999, KfW's total assets amounted to EUR 196.6 billion. The Federal Republic owns 80 percent of the share capital of KfW and the German Federal states own the remaining 20 percent.

At the date of this prospectus, KfW owned 654,290,599 Deutsche Telekom shares, representing approximately 22 percent of Deutsche Telekom's issued share capital. KfW proposes to sell 200 million shares in the global offering. To the extent the underwriters sell more than 200 million shares, the underwriters have an over-allotment option to purchase up to an additional 30 million shares from KfW. If all 200 million shares being offered in the global offering are sold, and the over-allotment option is exercised in full, KfW will retain 424,290,599 shares, or approximately 14 percent of Deutsche Telekom's issued share capital.

CAPITALIZATION

The following table sets forth the cash and other liquid assets, current debt, long-term debt, shareholders' equity and capitalization of Deutsche Telekom in accordance with German GAAP at March 31, 2000. You should read this table in conjunction with the annual financial statements and the unaudited interim financial statements of Deutsche Telekom, including the notes to those financial statements.

	At March 31, 2000
	EUR
	(in millions) (unaudited)
Liquid assets	**4,434**
Current debt(1)	**18,469**
Long-term debt:	
Bonds and debentures	26,889
Liabilities to banks	5,656
Total long-term debt	**32,545**
Shareholders' equity:	
Capital stock	7,756
Additional paid-in capital	24,121
Retained earnings(2)	1,660
Unappropriated net income(2)	1,266
Net income	1,960
Minority interest	946
Total shareholders' equity	**37,709**
Total capitalization	**70,254**

(1) Includes the current portion of long-term debt.
(2) On May 25, 2000, at their annual general meeting, Deutsche Telekom's shareholders approved an aggregate dividend of EUR 1.9 billion in respect of 1999. Net income for 1999 on a consolidated basis was EUR 1.3 billion. The dividend for 1999 was paid on May 26, 2000.

FIRST QUARTER RESULTS AND OUTLOOK

Overview

Revenues of Deutsche Telekom in the first three months of 2000 were EUR 9.54 billion (including max.mobil., One 2 One and SIRIS), which represents an increase of 15 percent compared with the same period last year. Excluding the effects of these newly consolidated companies, revenue increased by more than 4 percent, as a decline in revenues from network communications was more than offset by an increase in revenues from the growth areas mobile communications, data communications, carrier services and consumer Internet services. Net income increased from EUR 535 million to EUR 1.96 billion, which includes a one-time capital gain from the sale of Deutsche Telekom's shares in Global One to France Telecom of EUR 2.86 billion.

Consolidated statement of income

	Three months ended March 31,		
	2000	1999	2000/1999
	(millions of €)		(% change)
Net revenue	9,539	8,263	15.4
Changes in inventories and other own capitalized costs	232	284	(18.3)
Total operating performance	**9,771**	**8,547**	**14.3**
Other operating income	3,338(1)	372	797.3
Goods and services purchased	(2,588)	(1,370)	88.9
Personnel costs	(2,346)	(2,295)	2.2
Depreciation and amortization	(2,551)	(1,909)	33.6
Other operating expenses	(2,527)	(1,378)	83.4
Financial income (expense), net	(761)	(784)	(2.9)
of which: net interest expense	(713)	(681)	4.7
Results from ordinary business activities	**2,336**	**1,183**	**97.5**
Extraordinary income (losses)	(47)	—	—
Taxes	(265)	(594)	(55.4)
Income after taxes	**2,024**	**589**	**243.6**
(Income) losses applicable to minority shareholders	(64)	(54)	18.5
Net income	**1,960**	**535**	**266.4**
Earnings per share in €	**0.65**	**0.19**	**225.0**

(1) Includes income from the sale of Deutsche Telekom's interest in Global One in the amount of EUR 2.86 billion.

Consolidated balance sheet

	March 31, 2000	Dec. 31, 1999
	(millions of €)	
Assets		
Noncurrent assets	83,336	81,983
Current assets(1)	18,141	12,654
	101,477	94,637
Shareholders' equity and liabilities		
Shareholders' equity	37,709	35,689
Liabilities(2)	63,768	58,948
	101,477	94,637

(1) Including prepaid expenses, deferred charges and deferred taxation.

(2) Including accruals and deferred income.

Consolidated statement of cash flows

	Three Months ended March 31,		
	2000	1999	2000/1999
	(millions of €)		(% change)
Net cash provided by operating activities	**1,028**	**1,626**	**(36.8)**
Net cash used for investing activities	**(536)**	**(877)**	**(38.9)**
Net cash provided by (used for) financing activities	**2,778**	**(933)**	**—**
Effect of foreign exchange rate changes on cash and cash equivalents	1	2	(50.0)
Net increase (decrease) in cash and cash equivalents	**3,271**	**(182)**	**—**

Revenue

	Three Months ended March 31,		
	2000	1999	2000/1999
	(millions of €)		(% change)
Network communications	3,981	4,355	(8.6)
Carrier services	896	568	57.7
Data communications	741	623	18.9
Mobile communications (1)	1,888	849	122.4
Broadcasting and broadband cable	465	472	(1.5)
Terminal equipment	273	309	(11.7)
Value-added services	435	476	(8.6)
International	487	359	35.7
Other services	373	252	48.0
Total	**9,539**	**8,263**	**15.4**

(1) The revenues of One 2 One and max.mobil. are included in mobile communications for the first quarter of 2000.

Net revenue of the Deutsche Telekom group totaled EUR 9.54 billion in the first three months of 2000, which represents an increase of 15.4 percent as compared to the first quarter of 1999. Newly acquired foreign subsidiaries, in particular One 2 One, max.mobil. and SIRIS, made the largest contribution to this increase, EUR 920 million. Excluding the newly consolidated companies, revenue increased by 4.3 percent, which is mainly due to the growth areas mobile communications, data communications and carrier services.

Network communications, still Deutsche Telekom's largest source of revenue, generated revenue of EUR 3.98 billion in the first three months of 2000. The drop in revenue in this area was mainly attributable to price cuts implemented since April 1, 1999, most recently in February 2000 for international calls and at the beginning of March 2000 for domestic long-distance calls. Further growth in the number of ISDN access lines had a positive effect on revenue generated in network communications. With a total of 14.3 million ISDN channels as at March 31, 2000, Deutsche Telekom recorded growth of 7.5 percent in the number of ISDN channels over the first three months of 2000. Overall, however, revenue from network communications in the first three months of 2000 was 8.6 percent lower than in the comparable period in 1999. The decrease in revenue from network communications was more than compensated by increased revenue from mobile communications, data communications and carrier services.

The marked growth in revenue from mobile communications compared with the first three months of 1999 is mainly attributable to the full consolidation of One 2 One and max.mobil., the revenues of which are shown under ''mobile communications'' for the first time in 2000. T-Mobil and the two new subsidiaries benefited from the increase in the number of subscribers in their markets. Revenues from mobile communications totaled EUR 1.89 billion, of which One 2 One and max.mobil. together accounted for EUR 840 million. One 2 One and max.mobil. were not included on a full consolidation basis in the financial statements of Deutsche Telekom at March 31, 1999. Overall, mobile communications accounted for 19.8 percent of Deutsche Telekom's revenue in the first three months of 2000, compared with 10.3 percent in the comparable period in 1999.

Revenue from data communications increased by 18.9 percent compared with the first three months of 1999 to EUR 741 million. This is mainly attributable to the trend towards comprehensive systems solutions. Revenue in the group business area broadcasting and broadband cable decreased slightly by 1.5 percent to EUR 465 million. Revenue from terminal equipment decreased by 11.7 percent compared to the first three months of 1999 to EUR 273 million as a result of streamlining the product portfolio and a decline in revenue from equipment rental. Revenue from the group business area value-added services decreased by 8.6 percent compared with the first three months of 1999 to EUR 435 million. This decline was attributable to a drop in revenue from public telephones and directory inquiries.

Revenue from other services increased by 48.0 percent to EUR 373 million. This is mainly attributable to the 85.5 percent increase in revenue from T-Online to a consolidated revenue of EUR 168 million. The number of T-Online subscribers rose by 64.0 percent to 4.9 million at March 31, 2000 as compared to March 31, 1999.

Revenue from international business increased to EUR 487 million in the first three months of 2000. This is mainly accounted for by first-time full consolidation of companies acquired in 1999 (in particular SIRIS) and the contribution made by the Hungarian telecommunications company MATAV, which increased by 16.2 percent.

Costs

Goods and Services Purchased

	Three months ended March 31,		
	2000	1999	2000/1999
	(millions of €)		(% change)
Goods and services purchased	(2,588)	(1,370)	88.9

The level of goods and services purchased increased by 88.9 percent compared with the first three months of 1999. This increase was due in particular to an increase in mobile handsets purchased for resale and an increase in expense for network access charges relating primarily to national and international network access and mobile roaming. It also reflects the first-time full consolidation of the newly acquired companies.

Personnel Cost

The following table shows personnel costs for the periods indicated.

	Three months ended March 31,		
	2000	1999	2000/1999
	(millions of €)		(% change)
Wages and salaries	1,779	1,625	9.5
Social security contributions and expenses for pension plans and benefits	567	670	(15.4)
Total	**2,346**	**2,295**	2.2

In the first three months of 2000, Deutsche Telekom's personnel costs increased by 2.2 percent compared with the same period last year. This is attributable in part to the increase in the average number of employees by 0.7 percent (excluding trainees and student interns) compared with the first three months of 1999 to 195,841, which in turn is due to the first-time full consolidation of newly acquired companies (a total of 8,480 full-time staff) and offsets reductions elsewhere in the Deutsche Telekom group. A further reason for the increase in personnel costs is a decrease in the ratio of civil servants relative to salaried employees. Together with age-related salary increases, the collectively agreed wage and salary increase from April 1, 1999 and the review of salaries in some areas to bring them in line with market conditions, this resulted in an increase in personnel costs. At the same time, social security contributions and expenses for pension plans and benefits decreased primarily as a result of a change in requirements relating to contributions to civil servant pensions, which had an effect of EUR 135 million. For further information in this regard, see ''Management and Employees—Employees—Civil Servants.''

The following table provides information regarding the average number of employees for the periods indicated.

	Three months ended March 31,		
	2000	1999	2000/1999
			(% change)
Civil servants	69,031	81,537	(15.3)
Salaried employees	85,772	72,676	18.0
Wage earners	41,038	40,342	1.7
Deutsche Telekom group	**195,841**	**194,555**	**0.7**
Trainees/student interns	6,540	6,022	8.6

The following table provides information regarding the number of employees at the dates indicated.

	At March 31, 2000	At December 31, 1999	(% change)	At March 31, 1999
Civil servants	68,380	71,123	(3.9)	80,727
Salaried employees	86,719	83,215	4.2	72,846
Wage earners	40,901	41,450	(1.3)	40,079
Deutsche Telekom group	**196,000**	**195,788**	**0.1**	**193,652**
Trainees/student interns	6,292	7,480	(15.9)	5,941

Depreciation and amortization

	Three months ended March 31,		
	2000	1999	2000/1999
	millions of €		(% change)
Depreciation and amortization	2,551	1,909	33.6

Depreciation and amortization in the first quarter of 2000 was considerably higher than in the first three months of 1999. This is attributable to two factors. First, companies newly acquired in 1999 had an impact of EUR 377 million, which includes both amortization of goodwill amounting to EUR 232 million and scheduled depreciation and amortization. Second, there were unscheduled write-downs amounting to EUR 383 million for long distance cables replaced by fiber-optic technology. These effects were partially offset by the fact that scheduled depreciation and amortization for the companies that were part of the Deutsche Telekom consolidated group at March 31, 1999 were lower in the first quarter of 2000 than in the comparable period in 1999. Overall, depreciation and amortization increased by EUR 642 million compared with the first three months of 1999.

Other Operating Expenses

Other operating expenses increased by EUR 1.15 billion from the first quarter of 1999 to the corresponding period in 2000 due to various factors, principally losses on disposition of noncurrent assets amounting to EUR 433 million, expenses related to newly consolidated companies amounting to EUR 322 million and additions to accruals for litigation and international investments amounting to EUR 180 million.

Changes in net income

Deutsche Telekom's results from ordinary business activities in the first three months of 2000 amounted to EUR 2.34 billion and were thus EUR 1.15 billion higher than in the same period last year. The main reason for this increase was the sale by Deutsche Telekom of its interest in Global One to France Telecom, which generated proceeds of EUR 2.86 billion. The companies fully consolidated for the first time in 1999, in particular One 2 One, max.mobil. and SIRIS, contributed EUR 920 million to the increase in revenue. T-Mobil and the segments carrier services and data communications accounted for further increases in revenue. Goods and services purchased, depreciation and amortization and other operating expenses increased as described above. Financial income (expense) improved as a decrease in losses related to subsidiaries and associated and related companies was partially offset by an increase in net interest expense.

The following table indicates the contributions of changes in various income statement line items to the change in ordinary business activities.

	millions of €
Increase in revenue	1,276
Increase in goods and services purchased	(1,218)
Increase in personnel costs	(51)
Increase in depreciation and amortization	(642)
Changes in financial income (expense)	23
of which: changes in net interest expense	(32)
Changes in other income and expense items(1)	1,765
Total changes to results from ordinary business activities	**1,153**

(1) Includes income from the sale of Deutsche Telekom's interests in Global One in the amount of EUR 2.86 billion.

Net income was affected by extraordinary losses of EUR 47 million that represent share offering costs. Tax expense decreased by a total of EUR 329 million compared to the first three months of 1999, which is primarily attributable to the tax-free profits of the sale of Deutsche Telekom's shares in Global One. Income applicable to minority shareholders increased by EUR 10 million. Thus, net income of the Group amounted to EUR 1.96 billion, EUR 1.43 billion higher than in the same period in 1999.

A number of notable factors influenced Deutsche Telekom's net income in the first quarter of 2000. One important factor of this type was the consolidation of companies acquired in the latter part of 1999, principally One 2 One, max.mobil. and SIRIS. The following table shows the effects of consolidating these newly acquired companies on the consolidated income statement for the three months ended March 31, 2000.

	millions of €
Net revenue	**920**
Changes in inventories and other own capitalized costs	74
Other operating income	9
Goods and services purchased	(510)
Personnel costs	(101)
Depreciation and amortization	(377)
Other operating expenses	(322)
Financial income (expense), net	(65)
Taxes	2
Net income	(370)

As indicated above, notable factors that influenced results in the first quarter of 2000 also include the positive effect of Deutsche Telekom's sale of its interest in Global One (EUR 2.86 billion) and the negative effects of losses on disposition of non-current assets (EUR 433 million), unscheduled depreciation on long-distance cable replaced by fiber-optic technology (EUR 383 million) and additions to accruals for litigation and for international investments (EUR 180 million).

Segment information in accordance with SFAS 131(1)

	Three months ended March 31,											
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
	Net revenue		Revenue between segments		Depreciation and amortization		Net interest expense		Income (loss) related to associated and related companies		Income before taxes	
	(millions of €)											
Network communications	3,981	4,355	166	198	(1,048)	(1,043)	(5)	(323)	0	0	482	892
Carrier services	896	568	236	133	(286)	(120)	(13)	(34)	0	0	(99)	102
Data communications	741	623	160	146	(262)	(194)	(19)	(52)	0	0	(20)	47
Mobile communications	1,888	849	345	221	(453)	(87)	(272)	(37)	0	0	(339)	235
Broadcasting and broadband cable	465	472	14	30	(201)	(219)	(67)	(96)	0	0	19	(75)
Terminal equipment	273	309	51	46	(47)	(38)	(5)	(14)	0	0	12	8
Value-added services	435	476	90	70	(53)	(51)	(3)	(15)	0	0	2	90
International	461	347	0	3	(99)	(62)	(18)	(33)	0	0	30	67
Other segments	373	252	494	378	(98)	(92)	(302)	(80)	13	(105)	2,323(3)	(170)
Reconciliation(2)	26	12	(1, 556)	(1, 225)	(4)	(3)	(9)	3	(61)	2	(121)	(13)
Group	**9,539**	**8,263**	**0**	**0**	**(2,551)**	**(1,909)**	**(713)**	**(681)**	**(48)**	**(103)**	**2,289**	**1,183**

(1) Deutsche Telekom has used the U.S. Statement of Financial Accounting Standards (SFAS) No. 131 for segment reporting beginning with the consolidated financial statements of December 31, 1998.

(2) Predominantly consolidation entries and differences between the composition of the Deutsche Telekom group for management reporting and for financial reporting purposes. The net revenue shown here relates to subsidiaries which are otherwise shown in the consolidated financial statements under international business.

(3) Includes income from the sale of Deutsche Telekom's interests in Global One in the amount of EUR 2.86 billion.

Reconciliation of net income from German GAAP to U.S. GAAP

	Three months ended March 31,		
	2000	1999	2000/1999
	(millions of €)		(% change)
Net income as reported in the consolidated financial statements under German GAAP	**1,960**	**535**	**266.4**
Personnel restructuring accrual	(18)	(27)	—
Other differences	34	87	—
Income taxes	143	(185)	—
Net income in accordance with U.S. GAAP	**2,119**	**410**	**416.8**

As at March 31, 2000 shareholders' equity in accordance with U.S. GAAP amounted to EUR 40.16 billion (Dec. 31, 1999: EUR 37.61 billion).

Investments

	Three months ended March 31,		
	2000	1999	2000/1999
	(millions of €)		(% change)
Intangible assets	962	39	2,366.7
Property, plant and equipment	1,307	795	64.4
Financial assets	1,436	647	121.9
Total	**3,705**	**1,481**	**150.1**

Deutsche Telekom invested EUR 3.71 billion in the first three months of 2000. The first quarter was dominated by the purchase of MediaOne's activities in Poland and Hungary. Investments in financial assets amounted to EUR 1.44 billion, of which EUR 1.33 billion relates to increases in investments in associated companies (in particular the Polish company PTC) and other related companies. Additions to intangible assets in the Deutsche Telekom group amounted to EUR 962 million, of which EUR 883 million is primarily attributable to the goodwill from the acquisition of the remaining shares in Westel 450 and Westel 900 (indirectly via MediaOne). Deutsche Telekom invested EUR 1.31 billion in property, plant and equipment in the first quarter of 2000. This relates mainly to the property, plant and equipment of Deutsche Telekom AG.

Financial liabilities

	At March 31, 2000	At December 31, 1999	(% change)
	(millions of €)		
Debt	45,214	42,337	6.8
Net financial liabilities(1)	39,150	39,395	(0.6)

(1) Financial liabilities after deduction of liquid assets and marketable securities.

Debt increased in the first three months of 2000 by 6.8 percent compared with December 31, 1999. This increase did not, however, affect the level of net financial liabilities, as liquid assets and marketable securities also increased. The increase in debt is mainly attributable to borrowings to finance a capital increase of T-Online and to finance One 2 One. The proceeds from the sale of Deutsche Telekom's interest in Global One had a positive effect on liquid assets. Overall, this resulted in a slight decrease in net financial liabilities.

Cash flows

Net cash provided by operating activities

Net cash provided by operating activities amounted to EUR 1.03 billion in the first three months of 2000. This represents a decrease of EUR 598 million compared with the same period last year. Deutsche Telekom's income after taxes was EUR 1.44 billion higher than in the first three months of 1999, but this is mainly attributable to the proceeds from the sale of Global One, which are shown under net cash used for investing activities. In the first quarter of 2000, the amount of income tax paid was higher than in the corresponding period in 1999, while income tax expense was considerably lower, which had a negative effect on net cash provided by operating activities. The considerably higher level of depreciation and amortization, which did not result in an outflow of cash, had a negative effect on Deutsche Telekom's results. A change in working capital, which resulted in particular from a reduction in trade accounts receivable, had a positive effect on cash flow.

Net cash used for investing activities

Net cash used for investing activities decreased compared with the first three months of 1999 by EUR 341 million to EUR 536 million. This is attributable to the following effects: A considerably higher level of liquid assets was used for investing activities than in the first three months of 1999 (increase of EUR 2.17 billion), mainly for the acquisition of additional shares in Westel 450 and Westel 900 and PTC, amounting to a total of EUR 2.05 billion. This effect was offset by cash inflows of EUR 2.93 billion, predominantly from the sale of Global One.

Net cash provided by (used for) financing activities

Net cash provided by financing activities in the first three months of 2000 was marked by a net cash inflow of EUR 2.78 billion, mainly from short-term borrowings, compared with a EUR 933 million reduction in debt in the first three months of 1999.

Statistical Data

The first three months of 2000 were marked by strong subscriber growth in mobile communications, consumer internet services and ISDN access lines. The number of mobile communications subscribers served by companies that are part of the Deutsche Telekom consolidated group increased by 2.9 million compared with December 31, 1999 to 18.6 million at March 31, 2000. The number of subscribers to Deutsche Telekom's digital mobile telephone service T-D1 alone increased by 1.8 million in that period, which represents growth of almost 20 percent. The proportion of new customers who are pre-pay customers has been growing rapidly, with more than 75 percent of the new T-D1 customers in April 2000 opting for pre-paid services. T-Online also gained 1.1 million new subscribers in the first quarter of 2000 (including customers of Club Internet), which represents an increase of more than 26 percent compared to December 31, 1999. Excluding Club Internet, this increase would have been approximately 19 percent. Approximately 1.0 million new ISDN channels have been activated since the end of 1999. This is an increase of 7.5 percent, of which approximately one third is attributable to residential customers and two thirds to business customers, a sector which now includes small and medium-sized enterprises. With a total of 14.3 million ISDN channels in operation, Deutsche Telekom is well-positioned in comparison with international competitors.

The number of call minutes in Deutsche Telekom's network increased to 53.2 billion in the first quarter of 2000, an increase of 10 percent compared to the first three months of 1999 (48.4 billion). This increase is mainly attributable to considerable growth in T-Online, value-added services and fixed-to-mobile calls.

The following table shows the number of customers in selected services at the dates indicated.

	At March 31, 2000	At December 31, 1999	(% change)	At March 31, 1999
Mobile phone subscribers (in millions, except percentages)	18.6	15.7	18.5	—
of which: T-D1	10.9	9.1	19.8	6.5
of which: One 2 One	5.0	4.2	19.0	2.3(1)
of which: max.mobil.	1.6	1.5	6.7	0.9(1)
of which: Westel(2)	1.1	0.9	22.2	0.7
T-Online customers (in millions, except percentages)	4.9(3)	4.2	18.8	3.0
Telephone lines (including ISDN channels) (in millions, except percentages)	48.2	47.8	0.8	46.9
of which: ISDN channels	14.3	13.3	7.5	10.9
of which: residential customers(4)	6.3	6.0	5.0	4.5
of which: business customers(4)	8.0	7.3	9.6	6.4

(1) Not part of the consolidated Deutsche Telekom group at March 31, 1999. Figure included for comparison only.
(2) Held in part directly and in part indirectly through MATAV.
(3) Not including approximately 0.4 million customers acquired as part of the acquisition of Club Internet.
(4) In 2000, small and medium-sized enterprises were reallocated to the business customer segment.

Outlook

Deutsche Telekom believes that the broad trends that influenced the German telecommunications market in 1998 and 1999 will continue in 2000, with traffic volume in the overall market displaying growth and price levels continuing to decline. The governmentally mandated reduction in interconnection charges that took effect at the beginning of the year 2000, in particular, is expected to contribute to further declines in prices. Deutsche Telekom expects the number of telecommunications service providers in Germany to decline, with some initial consolidation moves already having occurred over the past twelve months. Deutsche Telekom believes that its strengths—such as comprehensive and innovative offerings, system solutions expertise, quality and service—will become increasingly evident as the market consolidates.

Deutsche Telekom is focusing its expansion efforts on the four strategic pillars of its growth strategy: mobile communications, data/IP/systems, consumer Internet services and access. Deutsche Telekom plans to pursue growth aggressively in these areas through acquisitions, internal expansion, strategic engagements and other measures. In this regard, Deutsche Telekom actively pursues opportunities throughout the world, but with an emphasis on Europe and the United States. Deutsche Telekom and its subsidiaries have engaged, and may continue to engage from time to time, in discussions with other parties, and in auction or tender procedures, that may lead to one or more substantial acquisitions or business combinations.

The strategies and expectations referred to in this outlook discussion may be strongly influenced or changed by shifts in market conditions, new initiatives undertaken by Deutsche Telekom and other factors. Please refer to ''Forward-Looking Statements'' for a description of some of the factors relevant to this discussion and other forward-looking statements in this prospectus. Deutsche Telekom cannot guarantee that the strategies and expectations referred to in this discussion will come to fruition.

Revenues

As in 1999, revenues from Deutsche Telekom’s network communications business will be strongly influenced by price reductions during 2000. In February 2000, Deutsche Telekom introduced major price cuts for international calls to over 50 countries and from the fixed network to the T-D1 mobile network. These were followed on March 1, 2000 by reductions in prices for regional and long-distance calls and an extension of the off-peak period. Other price and service campaigns may be launched during the course of the year. The principal aim of these measures is to stabilize Deutsche Telekom’s market share in the domestic network communications market. Deutsche Telekom expects that the anticipated decline in revenues from price reductions in 2000 will be offset to a limited extent by higher revenues from initial connection fees and monthly rental charges, particularly for T-ISDN and T-DSL.

Deutsche Telekom aims to compensate for the expected decrease in revenues from network communications resulting from its price reductions with revenue growth from other areas. Revenue growth in the areas of mobile communications and data communications, and to a lesser extent in the online services area, will be important in accomplishing this aim. The full-year consolidation of One 2 One for the first time in 2000 and the consolidation of debis Systemhaus beginning with the anticipated closing of the debis transaction in the fourth quarter of 2000 are expected to offset partially the effects of decreasing network communications revenues.

The transfer of a major portion of the cable business of Deutsche Telekom AG into a separate subsidiary at the beginning of 1999 and the establishment of nine regional subsidiaries, commencing on July 1, 2000, have laid the foundation for the planned sale of majority interests on a regional basis in the cable business. In the first half of 2000, Deutsche Telekom has reached agreements for the sale of majority interests in the subsidiaries that will operate in the regions of North-Rhine-Westphalia, Hesse and Baden-Württemberg. Deutsche Telekom is proceeding with plans to sell majority stakes in additional regional companies in 2000 and 2001. As a result of these sales, revenues from the affected subsidiaries will no longer be fully consolidated with those of Deutsche Telekom.

In 2000, Deutsche Telekom’s revenues should be favorably affected by its international acquisition program. Having sold Global One to France Telecom, Deutsche Telekom will have the freedom to pursue opportunities that were formerly closed to it under contractual arrangements relating to Global One. Deutsche Telekom is determined to pursue the further internationalization of its business in 2000.

Deutsche Telekom believes that, in the absence of unforeseen developments, its overall revenue in the year 2000 will be higher than in 1999, despite the partial loss of revenue from cable activities that are sold. Deutsche Telekom’s aim is to have reductions in revenue in domestic fixed-line telephony compensated for by increases in revenue from Deutsche Telekom’s mobile communications, data communications and online services businesses, both as a result of the growth of Deutsche Telekom’s existing operations and as a result of acquisitions.

Costs

In view of the expected revenue trends during 2000, Deutsche Telekom will again focus on cost management. Deutsche Telekom expects that its cost of goods and services purchased will increase in 2000, primarily due to an increase in other services purchased. The increase in other services purchased is expected to result principally from costs relating to Deutsche Telekom’s expansion in the national and international mobile telephony businesses. Despite falling settlement rates, international network access charges are increasing, as are domestic network access charges. Deutsche Telekom’s cost of goods and services purchased—for example, from software companies and information technology providers—is expected to increase as increasing emphasis is put on activities outside of the traditional voice telephony business. Deutsche Telekom's objective is to keep the growth in the cost of goods and services purchased below the rate of revenue growth through, for example, improvements in purchasing procedures and an increase in the number of goods and services generated in-house. Deutsche Telekom cannot, however, guarantee that it will meet this objective.

In the year 2000, Deutsche Telekom AG will not continue the substantial workforce reductions of the past few years due to the impact of acquisitions and a significant build-up of sales personnel that is planned for 2000. However, a change in payment requirements relating to civil servant pension fund contributions that is scheduled to take effect in 2000 should enable Deutsche Telekom to maintain personnel costs at the 1999 level within the group of companies that were part of the consolidated Deutsche Telekom group at year-end 1999, excluding the effect of the sale of regional cable companies.

Depreciation and amortization in 2000 are expected to increase due to the goodwill amortization relating to acquisitions made in 1999 or 2000. Distinctly higher overall investment volume in 2000, which will include planned investments in the expansion of international networks and the purchase of a license for Universal Mobile Telecommunications Systems (''UMTS'') services in the United Kingdom and possibly in other countries (such as Germany and Austria), can be expected to contribute to increased depreciation and amortization in the future.

In 2000, other operating expenses are expected to be notably higher than in 1999 as a result of increased advertising costs and commission on sales. This is largely the result of expansion in the existing mobile communications business area and the acquisitions made in this business area in 1999.

Deutsche Telekom experienced a decrease in net interest expense in 1999. This was largely due to the reduction of indebtedness on an average basis from 1998 to 1999. Depending on the means selected to finance recent and further acquisitions, acquisitions of UMTS licenses and investments in networks, net interest expense may rise significantly in the future.

Income from associated and related companies in 2000 is likely to differ substantially from that of the prior year due to the realignment of Deutsche Telekom's investment portfolio. In 2000, the removal of losses from Global One as a result of the sale of Deutsche Telekom's interests in Global One will have a positive effect. If matters progress as Deutsche Telekom anticipates, a further source of income should come from the sale of interests in the regional cable companies. Portfolio realignment (such as from a possible sale of Deutsche Telekom's holdings in Sprint) may result in other one-time gains in future periods.

Deutsche Telekom expects that for the year 2000, as a whole, its results will be positively affected by its portfolio streamlining initiatives (such as the already completed sale of Deutsche Telekom's interest in Global One and agreed sales of interests in two regional cable companies). There will, however, be pressure on operating income from newly consolidated businesses and the amortization of goodwill resulting from Deutsche Telekom's emphasis on growth in its four strategic growth areas. The group's operating margin is also expected to decrease due to, among other things, high customer acquisition costs and upfront expansion expenses in the mobile telecommunications and on-line services businesses.

SELECTED HISTORICAL FINANCIAL AND STATISTICAL DATA

Financial Data

You should read the selected financial data shown below in conjunction with the consolidated financial statements of Deutsche Telekom, including the notes to those financial statements. The selected financial data at December 31, 1999, December 31, 1998, December 31, 1997, December 31, 1996 and December 31, 1995, and for each of the years in the five-year period ended December 31, 1999, have been derived from, and are qualified by reference to, the consolidated financial statements for those years. PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungs-gesellschaft, independent public accountants, have reported on the consolidated financial statements at and for the year ended December 31, 1999, and C&L Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and C&L TREUARBEIT DEUTSCHE REVISION Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, independent public accountants, have reported on the financial statements at and for the years ended December 31, 1998, December 31, 1997, December 31, 1996 and December 31, 1995.

German GAAP differ in certain significant respects from U.S. GAAP. For a discussion of the principal differences between German GAAP and U.S. GAAP as they relate to Deutsche Telekom, see note 36 to the audited consolidated financial statements. In addition, the revaluation of certain property, plant and equipment represents a departure from U.S. GAAP that is not quantified in the reconciliation to U.S. GAAP or reflected in the U.S. GAAP amounts incorporated by reference in this prospectus because, prior to January 1, 1993, Deutsche Telekom's predecessor did not maintain sufficiently detailed historical cost records.

	Year ended December 31,				
	1999(2)	**1998(1)(2)(3)**	**1997(1)(2)**	**1996(1)**	**1995(1)**
			(€ in billions)		
Consolidated Income Statement Data:					
Amounts in accordance with German GAAP					
Net revenue	35.5	35.2	34.5	32.3	33.8 (4)
Changes in inventories and other own capitalized costs	0.9	1.0	1.6	1.7	1.7
Other operating income	1.9	2.1	1.9	2.0 (5)	1.1
Goods and services purchased	(8.4)	(6.3)	(6.2)	(5.2)	(4.9)
Personnel costs	(9.2)	(9.2)	(9.4)	(9.6)	(9.4)
Depreciation and amortization(6)	(8.5)	(9.0)	(9.5)	(9.0)	(7.9)
Other operating expenses	(6.1)	(5.4)	(5.2)	(4.9)	(4.9)
Total operating expenses	(32.2)	(29.9)	(30.3)	(28.7)	(27.1)
Financial income (expense) net	(2.9)	(3.3)	(4.0)	(3.9)	(4.2)
Results from ordinary business activities	3.2	5.1	3.7	3.4	5.3
Extraordinary income (losses)	(0.2)	—	—	(1.3)	(0.7)
Special charge relating to other Post entities	—	—	—	—	—
Taxes; levy to the Federal Republic of Germany(7)	(1.4)	(2.7)	(1.9)	(1.1)	(1.9)
Income after taxes	1.5	2.4	1.8	1.0	2.7
		—	—	—	—
(Income) losses applicable to minority shareholders	(0.3)	(0.2)	(0.1)	(0.1)	—
Net income	1.2	2.2	1.7	0.9	2.7
Amounts in accordance with U.S. GAAP					
Net income	1.5	2.2	1.3	1.3	2.9

	At December 31,				
	1999(2)	1998(1)(2)	1997(1)(2)	1996(1)	1995(1)
	(€ in billions)				
Consolidated Cash Flow Data:					
Net cash provided by operating activities	9.6	13.5	11.6	11.4	12.1
Net cash used for investing activities	(18.7)	(7.5)	(5.4)	(13.0)	(6.8)
Net cash provided by (used for) financing activities	8.0	(6.8)	(7.0)	3.5	(7.8)
Net increase (decrease) in cash equivalents	(1.1)	(0.8)	(0.8)	(1.9)	(2.5)
Capital expenditures	6.0	4.8	6.8	8.6	7.5
Consolidated Balance Sheet Data:					
Amounts in accordance with German GAAP					
Noncurrent assets	82.0	66.5	70.1	73.8	71.2
Current assets, prepaid expenses, deferred charges	12.6	12.8	13.2	15.3	10.7
Total Assets	94.6	79.3	83.2	89.1	81.9
Shareholders' equity	35.7	25.1	24.6	23.8	12.7
Accruals	9.3	8.3	7.7	7.6	6.6
Debt	42.3	39.9	44.9	51.1	56.4
Other liabilities and deferred income	7.3	6.0	6.0	6.6	6.2
Total Shareholders' Equity and Liabilities	94.6	79.3	83.2	89.1	81.9
Amounts in accordance with U.S. GAAP					
Balance sheet total	97.5	81.5	84.9	91.4	84.3
Total long-term liabilities	39.4	39.7	45.3	51.3	56.5
Shareholders' equity	37.6	26.9	26.1	25.9	15.1

(1) Amounts have been restated from Deutsche Marks in euros using the official fixed conversion rate established on January 1, 1999, which is EUR 1.00 = DM 1.95583.

(2) Includes changes in the composition of the group (in particular MATAV since 1997 and DT Mobile Holdings (One 2 One) and max.mobil. in 1999).

(3) Since the beginning of the 1999 financial year, revenues have been reported in line with the changed organizational structure of group business areas of the Deutsche Telekom group. The prior year figures have been restated to reflect the new structure. The difference in the figures compared to those stated in prior years is mainly attributable to the deduction of the revenues from the billing of services of other network operators, amounting to approximately EUR 0.5 billion, which were previously shown under other services.

(4) Including pro-forma value-added tax. Adjusted for VAT, revenue would have been EUR 30.5 billion.

(5) Including one-time value-added tax refund amounting to EUR 338 million.

(6) Including, for periods after 1995, depreciation of value-added tax capitalized prior to January 1, 1996.

(7) In 1995, the levy to the Federal Republic was paid for the last time, with Deutsche Telekom being exempt almost fully from tax. Since January 1, 1996, Deutsche Telekom has been subject to normal corporate taxation.

	Year ended December 31,				
	1999	1998	1997	1996	1995
Ratios					
Employees—balance sheet date (thousands)(1)	172	179	191	201	213
Employees—average for the year (thousands)(2)	175	186	197	208	220
Dividend per share/ADS (€)	0.62	0.61	0.61	0.31	0.31
Earnings per share/ADS in accordance with HGB (€)(3)	0.43	0.82	0.62	0.43	1.33
Earnings per share/ADS in accordance with U.S. GAAP (€)(3)	0.53	0.81	0.46	0.62	1.40
Revenue per employee (thousands of €)	186	185.1	169.2	150.3	153.9
Equity ratio (%)(4)	35.7%	29.5%	27.5%	25.8%	14.7%

(1) Full-time employees, without trainees/students interns and changes in the composition of the group (in particular MATAV since 1997 and DT Mobile Holdings (One 2 One) and max.mobil. in 1999).
(2) Average number of employees for the year without trainees/student interns and without changes in the composition of the group (in particular MATAV since 1997 and DT Mobile Holdings (One 2 One) and max.mobil. in 1999).
(3) Based on dividing net income by the weighted average number of ordinary shares outstanding. The share/ADS ratio is 1:1. In 1996, after giving effect to the 10:1 stock split and the issuance of shares from retained earnings on July 1, 1996.
(4) Without amounts proposed for dividend payment, which are treated as short-term debt.

Statistical Data

	Year ended December 31,				
	1999	1998	1997	1996	1995
Average number (in millions, unless otherwise indicated)					
Standard telephone access lines	35.3	37.0	38.1	39.1	38.7
ISDN channels(1)	11.7	8.7	6.2	3.9	2.2
Total number of channels	47.0	45.7	44.3	43.0	40.9
Public telephones	0.1	0.2	0.2	0.2	0.2
Mobile telephone subscribers	7.2	4.6	3.2	2.4	1.8
Cable subscribers(2)	17.8	17.5	17.0	16.3	15.2
T-Online subscribers	3.3	2.3	1.7	1.2	0.8
Domestic calls (billions)	50.6	52.7	52.7	50.7	52.3(3)
Outgoing international traffic (millions of minutes)(4)	3,864	4,711	4,813	4,761	5,238
Incoming international traffic (millions of minutes)	6,248	6,036	5,618(3)	4,890(3)	4,215
Channels in service per employee	268	246	225	207	186

(1) Each basic access line provides two ISDN channels, each primary access line provides 30 ISDN channels.
(2) Includes households connected through private cable operators. In 1999, 5.1 million households were connected directly to Deutsche Telekom.
(3) Restated.
(4) Estimated.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the annual consolidated financial statements, including the notes to those financial statements. Those financial statements have been prepared in accordance with German GAAP, which differ in certain significant respects from U.S. GAAP. For a discussion of the principal differences between German GAAP and U.S. GAAP as they relate to Deutsche Telekom and a reconciliation of net income and total shareholders' equity to U.S. GAAP, see ''—German GAAP Compared to U.S. GAAP'' and note 36 to the consolidated financial statements.

Effective January 1, 1999, Germany and ten other member states of the European Union adopted the euro as their common currency. Accordingly, amounts in euro appearing in this discussion for periods after December 31, 1998 have been translated from Deutsche Marks at the official fixed conversion rate of EUR 1.00 = DM 1.95583. For consistency of presentation, Deutsche Telekom has translated amounts in Deutsche Marks for prior periods into euros at this rate. The translation of all Deutsche Mark amounts into euros at the official fixed conversion rate does not affect the trends discussed below. However, the amounts appearing below for dates or periods prior to January 1, 1999 will not be comparable to the amounts reported by other companies reporting in euros that were restated from currencies other than the Deutsche Mark.

1999 Performance Summary

In the second year following the full liberalization of the German telecommunications market, Deutsche Telekom's consolidated revenue remained stable while consolidated net income declined significantly. Consolidated revenue increased by 0.9 percent to EUR 35.5 billion in 1999, while consolidated net income decreased by 44.1 percent to EUR 1.3 billion in 1999. The decrease in consolidated net income was largely due to a decrease of approximately 53 percent in income before taxes from the network communications segment and a decrease in income before taxes from the international business segment, the effects of which were partially offset by an increase in income before taxes from the mobile communications segment.

Deutsche Telekom again confronted intense competition in its fixed telephone network communications business area, principally on the basis of price, for regional, long distance and international calls. As a result of tariff reductions and the loss of market share, revenues declined by 18.5 percent in the network communications business area, despite growth in access revenues resulting from a substantial increase in the number of ISDN channels and growth in revenues from calls to mobile networks and other services. However, revenue growth in the areas of data communications and carrier services combined with the positive development in revenue from mobile network communications and international activities, as well as an increasing revenue contribution by T-Online, more than offset the decline in consolidated revenues from telephone network communications. Revenues from international activities increased substantially in 1999, in large part as a result of the first-time consolidation of revenues of businesses outside Germany in which Deutsche Telekom acquired controlling interests in 1999, notably One 2 One in the United Kingdom and max.mobil. in Austria. Consolidated revenues from international activities increased from EUR 1.4 billion in 1998 to EUR 3.0 billion in 1999.

Overall costs of the Deutsche Telekom group, before taking into account the effect of acquisitions in 1999, remained relatively stable from 1998 to 1999. Acquisitions in 1999, however, principally One 2 One and max.mobil., gave rise to a substantial increase in goods and services purchased, which was related to interconnection with other telecommunication carrier networks, and to increased purchases of terminal equipment for resale, which was mainly mobile handsets. Personnel costs remained stable, as the effects of further reductions in the workforce of companies that were part of the Deutsche Telekom group in 1998 were offset by the effects of acquisitions and an increase in personnel cost per employee. Net interest expense decreased as Deutsche Telekom further reduced its indebtedness on an average basis for the year. As of December 31, 1999, however, financial liabilities increased compared to the prior year end due to the assumption of debt primarily related to the acquisition of One 2 One in the second half of 1999. A lengthening of the depreciation periods of outside plant and equipment and the effect of lower levels of capital expenditures in 1997 and 1998 led to reduced depreciation and amortization in 1999, although this effect was partially offset by goodwill amortization arising from the acquisitions made in 1999.

Some Recent Trends and Developments Affecting Deutsche Telekom

Deutsche Telekom's business has been affected in recent years by a number of important trends. Telephony and data traffic in Germany have been positively influenced by societal and macro-economic factors, such as the globalization of trade and the increasing integration of European markets, a trend toward the decentralization of businesses, the growth of the service sector in Germany and the greater mobility of the population. The rapidly expanding market for mobile and Internet communications, steady growth in data transmissions, and the advent of new technologies are reshaping the business of telecommunications.

The telecommunications sector has also undergone a radical regulatory transformation. Following a period of partial and gradual liberalization in the early 1990s, the enactment of the German Telecommunications Act (*Telekommunikationsgesetz*) in 1996 and the ordinances implemented since then have made Germany one of the most open and competitive telecommunications markets in the world. The last of Deutsche Telekom's monopoly services—public fixed network voice telephony—was opened to competition in 1998. At the end of 1999, there were more than 250 business enterprises that had been granted more than 600 licenses for different telecommunications services in Germany.

Under the Telecommunications Act, Deutsche Telekom is viewed by the relevant regulatory authorities as dominant in the market for public fixed network voice telephony services and in certain other markets. Although Deutsche Telekom is actively encouraging regulatory re-evaluation of the markets in which Deutsche Telekom is viewed as dominant, this status may not change in significant markets for some time to come. As a result, unlike the tariffs of its competitors, many of Deutsche Telekom's tariffs are and may remain subject to regulation. During the past two years, a number of regulatory controversies were resolved in ways which did not always satisfy Deutsche Telekom or its competitors, but which did bring in some cases greater certainty to the telecommunications business environment. For a discussion of pending regulatory decisions and related litigation, see ''Regulation'' and ''Business—Legal Proceedings''.

Network Communications. Domestic and international public fixed network voice telephony, which was opened to full competition on January 1, 1998, continued to be Deutsche Telekom's most significant service in 1999 in terms of contribution to consolidated revenues and consolidated profits.

The introduction of full competition in the telephone market necessarily resulted in a loss of market share for Deutsche Telekom. According to official publications of the Regulatory Authority, Deutsche Telekom had an 80 percent share of the overall German telecommunications market at the end of 1999, as measured in terms of minute volume, which reflects a market share of 60 percent in the combined markets for domestic long-distance calls, international long-distance calls and calls to mobile networks. Although the overall fixed-line telephony market in Germany grew in 1999 in terms of minutes, traffic volume on Deutsche Telekom's fixed network that gave rise to revenues shown under ''network communications'' decreased. This resulted primarily from further market share gains by Deutsche Telekom's competitors, particularly in the areas of regional, national and international long-distance calls. The minutes associated with revenues for a significant volume of calls to

T-Online, which were shown under ''network communications'' in 1998 but under ''other services'' in 1999, also contributed to the decline in traffic volume that generated revenues shown under ''network communications.''

Deutsche Telekom's competitors in this area include international telecommunications carriers and start-up domestic companies, as well as industrial conglomerates, utility companies and municipal enterprises that have diversified into telecommunications. In 1999, Deutsche Telekom's competitors continued to place particular emphasis on price competition in the area of long-distance and international calls. On the basis of interconnection rates fixed by the Regulatory Authority, numerous competitors are able to compete with Deutsche Telekom with minimal or modest investments in network infrastructure and with prices that often undercut Deutsche Telekom's pricing. The decision by the Regulatory Authority to further reduce interconnection rates for 2000 and 2001 is expected to lead to further competition in this area. For further information concerning interconnection rates, see ''Regulation—Special Network Access and Interconnection''.

Deutsche Telekom as yet has not lost significant market share in the market for local calls. Deutsche Telekom is required, however, to provide competitors with unbundled access to its subscriber access lines, and the Regulatory Authority has set a monthly tariff for this unbundled access that is substantially lower than Deutsche Telekom had sought in its tariff application. In addition, in 1999, the Regulatory Authority granted licenses to competitors for a technology that permits competitors to establish a direct wireless connection from the telephone network to the telephone end-user. Deutsche Telekom therefore expects that it will face increasing competition on the local network level in the future.

Deutsche Telekom has introduced several tariff reductions during the past three years to address competitive challenges and, in some instances, to meet regulatory requirements imposed by a price cap regime applicable to the tariffs for Deutsche Telekom's public fixed-line voice telephony services. In March 1998, Deutsche Telekom reduced tariffs for national and international long-distance calls, as well as special rebates and optional tariffs. Deutsche Telekom implemented lower tariffs for domestic long distance calls in January 1999 and in April 1999 and introduced new reduced tariffs for international calls to 22 countries, as well as reduced tariffs for optional tariff programs and special tariffs for business customers, in July 1999. Further reductions in fixed-network tariffs and additional special tariffs were introduced on February 1 and March 1, 2000 to meet the ongoing competitive challenge in this business area. Deutsche Telekom is aiming to offset partially the reduction in revenues resulting from these tariff measures with higher access charges, particularly from T-ISDN and T-DSL.

Mobile Communications. As in prior years, the German mobile communications market exhibited strong growth in 1999. New products and tariffs enabled new customer groups to have access to this market. At the end of 1999, there were over 23.2 million mobile phone users registered in Germany, representing an increase of 72 percent over the prior year. As a result of this very strong growth, consolidated revenues of the mobile communications segment increased by 28 percent from 1998. In 1999, new mobile data communications services, such as ''short message services,'' also began to contribute to revenue growth. Despite this growth, however, the mobile penetration rate of 28.3 percent in Germany at year-end 1999 was relatively low in comparison to other Western European countries. Deutsche Telekom therefore believes that the market holds considerable potential for further expansion. Customers benefited in 1999 from intense competition, which resulted in the implementation of new tariff reductions and special offers. Deutsche Telekom has reorganized a substantial portion of its European mobile telecommunications business into a new holding company, T-Mobile International.

During 2000, licenses for so-called ''third generation'' UMTS mobile communications systems are to be auctioned in Germany. Based on recent experience in the United Kingdom, competition for the licenses will likely be intense, with the result that the prices for the new licenses will likely be substantial. Deutsche Telekom's T-Mobil subsidiary intends to pursue a license vigorously. The auction will potentially open the door to new entrants in the German mobil telecommunications market.

Data Communications. The market for data communications has been open to competition for several years and has experienced strong growth during that time, particularly in terms of data traffic volume. This growth in traffic volume is reflected in the fact that revenues of Deutsche Telekom's data communications business area increased by 11.5 percent from 1998 to 1999 despite fierce price competition. Recent developments show a trend toward network services and corporate/managed networks. The majority of revenues from data communications now comes from managed networks, which combine, depending on the customer's needs, all data communications products from basic data transport to higher value-added services such as Internet Protocol (IP) and Asynchronous Transfer Mode (ATM) transport. Deutsche Telekom has increased its sales in the data communications area with its broad portfolio of high quality services and tailored systems solutions which it offers through its technologically advanced network. Deutsche Telekom's goal is to offer customized information and communications solutions to customers in need of integrated services. Deutsche Telekom's recently announced strategic engagement in debis Systemhaus GmbH should strengthen Deutsche Telekom's competitive position in this area.

Online and Internet. The innovative market for online and Internet services experienced another year of strong growth in 1999. T-Online, Deutsche Telekom's online and Internet service, increased its subscriber base by 53.8 percent to 4.2 million customers at year end 1999 and thus remained the largest online service provider in both Germany and Europe. The challenge for T-Online, which has the vast majority of its customers in Germany, will be to maintain its market leadership within Germany in the face of competition from other providers, while at the same time developing non-German language services and building its international franchise. T-Online took an important step in maintaining its market leadership in Germany by announcing agreement upon an online banking strategic relationship and cross-shareholding with comdirect, a subsidiary of Commerzbank, in February 2000. The introduction of T-Online services in Austria in December 1999 in cooperation with max.mobil. and the acquisition of Club Internet, a leading French internet service provider, represent the first steps toward building T-Online's international franchise. Deutsche Telekom and T-Online currently are exploring further opportunities to expand T-Online services outside Germany. To gain greater financial and strategic flexibility, T-Online International AG became a publicly traded, Neuer Markt-listed company in April 2000, raising approximately EUR 3.0 billion in net proceeds from an initial public offering (after giving effect to the exercise of the underwriters' over-allotment option). After giving effect to the initial public offering (including the exercise of the underwriters' over-allotment option) and the issuance by T-Online International of new shares to effect the Club Internet and comdirect transactions, Deutsche Telekom is expected to hold approximately 82.7 percent of the outstanding shares of T-Online International. Like many other consumer Internet companies, T-Online expects to incur substantial losses during the next several years as it expands its operations, including through acquisitions, increased marketing and the introduction of new products and services.

Carrier Services. In the second year after full liberalization of the market for voice telephony, the terms under which Deutsche Telekom offers competitors access to its network generally remain subject to supervision by the Regulatory Authority. In December 1999, however, the Regulatory Authority determined that Deutsche Telekom is no longer dominant in the market for interconnection to foreign countries. For national interconnection services, the Regulatory Authority approved new interconnection tariffs which became effective on January 1, 2000. For further information on regulation of this business area, see ''Business—Carrier Services'' and ''Regulation—Special Network Access and Interconnection—Fixed—Fixed Interconnection.''

Broadcasting and Broadband Cable. Revenues in the area of broadcasting and broadband cable in 1999 were relatively stable as compared to 1998. The tariffs that currently apply to Deutsche Telekom's broadcasting and broadband cable activities were approved by the Regulatory Authority in 1998 with effect as of November 1997.

Throughout 1999, Deutsche Telekom explored opportunities for the sale to third-party investors of equity interests in the regional cable companies it plans to form during 2000 to hold the core of its cable operations and related non-current assets. In February, March and May 2000, Deutsche Telekom reached its first agreements for sales of majority interests in three of these companies. For further information on Deutsche Telekom's sale of interests in its cable operations, see ''Business—Broadcasting and Broadband Cable.''

International Business. Competition in the telecommunications industry increasingly takes place on an international level, as network operators seek economies of scale. International acquisitions significantly expanded the geographic scope of Deutsche Telekom's activities in 1999. In the area of mobile communications, Deutsche Telekom increased its stake in the Austrian mobile communications company max.mobil. to 91 percent of the outstanding shares, acquired all of the outstanding shares of the British mobile carrier One 2 One and made further investments in mobile communications companies in Eastern Europe. Although their subscriber bases are smaller than those of T-Mobil, both max.mobil. and One 2 One have been experiencing even stronger rates of subscriber growth and revenue growth than T-Mobil. For further information on these acquisitions and investments, see ''Business—International.'' Consolidation of the revenues of max.mobil. and One 2 One, which are reflected in revenues of Deutsche Telekom's ''international'' business area, contributed significantly to increased revenues in 1999, while goodwill amortization and other costs relating to these companies contributed substantially to increased costs.

In the fields of data communications and network access, the acquisition of SIRIS, a leading alternative French fixed-network operator, and the acquisition of a significant equity interest in HT—Hrvatske telekomunikacije d.d., the largest telecommunications company in Croatia, contributed to the expansion of Deutsche Telekom's European presence. The dissolution of the former Global One alliance gave Deutsche Telekom a one time gain in the first quarter of 2000 and gives Deutsche Telekom greater strategic latitude in pursuing international growth.

Technology. For the longer term, rapid technological changes in telecommunications and information technology will continue to have a profound effect on the way Deutsche Telekom does business and give rise to new competitive challenges, since the traditional businesses of telecommunications, information technology, media, entertainment and security are increasingly converging. Technological advances have increased the capacity and bandwidth of telecommunications networks and led to the rise of a number of alternatives to fixed network transmission. Multiple forms of mobile communications, wireless transmission and Internet technology and their declining costs are certain to increase the sources of competition faced by Deutsche Telekom's traditional business. They also open new opportunities arising from the convergence of information and communications technologies, where Deutsche Telekom's advanced nationwide networks allow it to offer sophisticated services based on ISDN or ADSL technologies, IP technology or telematics solutions.

Costs. During 1999, Deutsche Telekom continued to pursue the cost reduction goals that it set for itself at the time of its 1996 initial public offering. As a result of the acquisition of One 2 One and of the majority interest in max.mobil. in 1999, however, indebtedness of the Deutsche Telekom group and the number of employees of the group increased, which can be expected to exert an upward influence on interest expense and personnel costs in future years. Deutsche Telekom will, however, continue in 2000 its program to reduce employee headcount and personnel cost in the companies that were part of the Deutsche Telekom group at year-end 1994.

Deutsche Telekom determined several years ago that its number of employees exceeded the number needed to operate in a competitive environment. Accordingly, Deutsche Telekom announced in 1995 its intention to reduce its workforce by a total of 60,000 full-time equivalent employees (excluding employees added through changes in the composition of the consolidated Deutsche Telekom group) by the end of the year 2000 and introduced a workforce reduction program. As of December 31, 1999, the companies that were part of the consolidated Deutsche Telekom group at the beginning of 1995 had 172,233 employees. From the start of this workforce reduction program to December 31, 1999, Deutsche Telekom had reduced the number of employees of those companies by 57,200, with a reduction of 6,900 in 1999. Deutsche Telekom estimates that it will be able to reach its announced goal before the end of the year 2000. The workforce reduction program relied on natural attrition, early retirement and other measures to achieve its objective. Deutsche Telekom has extended through 2004 an agreement with labor unions that Deutsche Telekom will refrain from involuntary layoffs for business reasons.

Personnel costs increased by 0.4 percent in 1999, largely due to the effect of the addition of employees of companies first consolidated in 1999 and due to a slight increase in personnel costs per employee in Germany. For further information on the development of Deutsche Telekom's personnel costs, see ''—Results of Operations—Total Operating Costs and Expenses—Personnel Costs''.

To reduce interest expense and strengthen its capital structure, Deutsche Telekom reduced its outstanding net indebtedness by 34 percent from EUR 64 billion at January 1, 1995 to EUR 42 billion at December 31, 1999 through scheduled and early repayment of indebtedness. Net indebtedness increased by EUR 2 billion in 1999, primarily as a result of acquisitions, and may increase further as Deutsche Telekom pursues its growth strategy. For further information relating to interest expense, see ''—Results of Operations—Financial Income (Expense), Net—Net Interest Expense''.

Depreciation and amortization increased in 1997 and decreased in 1998 and 1999. The increase in 1997 was primarily a consequence of the accelerated digitization of Deutsche Telekom's exchanges in the Federal States comprising the former West Germany and the build-out of Deutsche Telekom's network in eastern Germany, both of which were completed in December 1997. As expected, depreciation started to decline in 1998 as a result of the full depreciation of Deutsche Telekom's analog exchanges and transmission equipment. The decrease in depreciation and amortization in 1999 resulted from a lengthening of the useful lives of outside plant network, the effect of which was partially offset by the amortization of goodwill relating to companies acquired in 1999. Amortization of goodwill for One 2 One will be higher in 2000 than in 1999, as One 2 One was part of the consolidated Deutsche Telekom group only during the fourth quarter of 1999. In addition, acquisitions made during 2000 (such as T-Online's announced acquisitions) will contribute to increased goodwill amortization in 2000. Future acquisitions accounted for using the purchase method of accounting may result in increased goodwill amortization over coming years, which could reduce net earnings or lead to net losses. The costs of acquiring new ''third generation'' mobile telecommunications licenses and related network build-out expense will result in substantial amortization and depreciation expense over the years ahead. For further information relating to depreciation and amortization, see ''—Results of Operations—Total Operating Costs and Expenses—Depreciation and Amortization''.

Other cost items, such as costs of goods and services purchased and other operating expenses, have gained increasing significance in Deutsche Telekom's statement of income. Some of these cost items relate closely to developments in the fully liberalized telecommunications market as Deutsche Telekom increasingly incurs costs for the termination of calls on the networks of other carriers, especially in the growing mobile market.

Real Estate. Due to the consolidation of various operations, the complete digitization of its network and ongoing workforce reductions, a portion of Deutsche Telekom's owned and leased properties will not be required in its core business in the future. Over time, this should allow Deutsche Telekom to reduce its net real estate occupancy costs by reducing the amount of property leased from third parties upon termination of existing leases and relocating operations from high-cost urban centers to outlying areas. Deutsche Telekom expects to consider selling or leasing surplus owned properties, including properties with pre-installed telecommunications systems, on a case-by-case basis.

Deutsche Telekom's real estate was revalued at January 1, 1995 at fair market value as described in the notes to the Consolidated Financial Statements under ''Summary of accounting policies—Accounting and valuation''. In 1997, Deutsche Telekom established a EUR 205 million reserve in respect of potential losses associated with the disposition of properties no longer used in its businesses. A further charge was recognized in 1998 as a result of Deutsche Telekom's ongoing review of properties used in its business. In 1999, the reserve established in 1997 was increased by EUR 21 million. As of December 31, 1999, Deutsche Telekom's real estate had an aggregate book value of EUR 17.2 billion.

In view of the size of Deutsche Telekom's real estate portfolio and its expectation of a decline in its need for some properties over time, the development of the German real estate market, as well as the ongoing evaluation of the need for individual properties for Deutsche Telekom's business, will be among a number of significant factors which may affect the results of Deutsche Telekom in coming years. Upon any sale of real estate, losses or gains will be realized accordingly. For further information relating to Deutsche Telekom's property, see ''Business—Properties.''

Income before Taxes by Business Segment

In 1998, Deutsche Telekom started reporting its business segment revenue, operating income and net asset information on the basis of the segment reporting requirements of Statement of Financial Accounting Standards (SFAS) No. 131. With the availability of 1999 information, a year on year comparison can now be made. Due to changes in Deutsche Telekom's internal organization and the reengineering of its management information and accounting systems, the generation of segment information for periods prior to 1998 would be impracticable.

	Income before Tax Year ended December 31,(1)		
	1999	1998	1999/1998
	(millions of €)		(% change)
Network communications	2,276	4,796	(52.5)
Mobile communications	1,033	560	84.5
Carrier services	440	589	(25.3)
Data communications	104	(61)	270.5
Terminal equipment	19	(114)	116.7
Broadcasting and broadband cable	(86)	(329)	73.9
Value-added services	(152)	(182)	16.5
International	(339)	200	(269.5)
Other segments	(408)	(384)	(6.3)
Adjustment	57	25	128
Deutsche Telekom group	**2,944**	**5,100**	**(42.3)**

(1) The income before tax figures for 1998 differ from the figures presented in Deutsche Telekom's Annual Report on Form 20-F for 1998 in that net interest expense for 1998 has been restated to reflect the 1999 method of reporting. Overall a total of EUR 215 million has been reclassified from net interest expense of ''Other'' into other segments.

The results in network communications were influenced by a decline in market share and by reduced tariffs, both of which contributed to a substantial decline in revenues. Cost reductions attributable to the network communications segment were not sufficient to offset the effect of this decline in revenue on profits in this area.

As in 1998, the improvement in mobile communications was based primarily on strong growth in the mobile subscriber base, which was only partially offset by declining revenues per subscriber and increased marketing expenses and customer acquisition costs.

Income before taxes of the carrier services business area decreased to EUR 440 million in 1999, despite substantially increased revenues in this business area. This development is primarily a result of higher depreciation and other costs relating to increased traffic and increased revenues.

The turnaround in data communications resulted primarily from an increase of EUR 292 million in consolidated revenues of this business area.

The attainment of profitability in the terminal equipment segment resulted from further streamlining of its product portfolio and from other measures taken to enhance efficiency. This segment is characterized by heavy competition and low margins. Deutsche Telekom believes that terminal equipment supply helps bind it to its customers.

The improvement in the loss position of broadcasting and broadband cable was primarily attributable to broadband cable activities and resulted largely from both cost reductions and revenue increases. The increase in revenue resulted from the growth in the number of cable subscribers, improvements in billing procedures and the gradual elimination during 1998 of the effects of prepayments made by customers prior to the introduction of higher cable subscription fees in November 1997. See ''—Net Revenues—Broadcasting and Broadband Cable.''

The reduction in losses in the value added services area is mainly attributable to further adjustments of the number and location of Deutsche Telekom's public telephones.

The international segment consists principally of the Hungarian telecommunications provider MATAV and, for the first time in 1999, the mobile communications companies One 2 One and max.mobil. Losses in the international business area in 1999 were primarily attributable to operating losses of max.mobil. and One 2 One and to increased goodwill amortization and interest expense that resulted from the first time consolidation of these companies. These factors more than offset continued growth in MATAV's profits.

''Other segments'' includes the ''other services'' business area, which consist of multimedia and ancillary activities of Deutsche Telekom. ''Other segments'' also reflects results from associated and related companies. While the data communications and carrier services segments were shown under the category ''other segments'' in 1998, these segments are being presented separately in 1999, and the 1998 figures have been adjusted to accommodate this change. For further information with regard to changes in segment reporting, see Note 39 to the consolidated financial statements.

In 1999, the increase in the loss of other segments resulted from an increase in write downs of financial assets, principally relating to T-Mobil's investment in ICO Global Communications Ltd., and to a small extent from losses of T-Online, the effects of which were partially offset by a decrease in Deutsche Telekom's share of losses from associated and related companies and from increased fees for billing services. The improvement in losses attributable to associated companies reflected continued negative results related to Global One that were partially offset by an improvement in share of losses from Deutsche Telekom's Asian ventures and by Deutsche Telekom's share of profits in the Russian telecommunications company MTS. For further information relating to losses from associated companies, see ''—Results of Operations—Financial Income (Expense), Net—Income (Loss) from Financial Activities''.

Despite the negative effects of price decreases, the network communications segment continued in 1999 to be the principal contributor to Deutsche Telekom's income before taxes, followed by mobile communications and carrier services. The data communications and terminal equipment segments, which had been loss-making in 1998, made a modest contribution to profits in 1999. The broadcasting and broadband cable, value-added services and international activities segments, as well as other segments, which include multimedia activities and results of international associated and related companies, showed negative results in 1999.

Results of Operations

Net Revenues

Network communications services, which are basically domestic and international public fixed-line network voice telephony services, are the largest contributor to Deutsche Telekom's consolidated net revenues. Deutsche Telekom also obtains revenues from interconnection services for domestic and international network operators, domestic and international services in the field of data communications and systems solutions, and mobile communications services. Broadcasting and broadband cable, the supply and sale of terminal equipment, special value-added services, and other ancillary services, including multimedia communications services such as T-Online, round out the range of products and services offered by Deutsche Telekom. Revenues of Deutsche Telekom's non-German subsidiaries (principally MATAV, max.mobil. and One 2 One) are included under the heading ''International'' in the revenue presentation appearing below.

The following table shows Deutsche Telekom's net revenues broken down by major business areas and as a percentage of net revenues for the last three years.

	Year ended December 31,					
	1999		1998		1997	
	(millions of €, except percentages)					
Network communications	16,737	47.2%	20,531	58.4%	21,420	62.1%
Mobile communications	3,919	11.0%	3,061	8.7%	2,573	7.5%
International	2,953	8.3%	1,396	4.0%	1,241	3.6%
Carrier services	2,884	8.1%	1,611	4.6%	1,229	3.5%
Data communications	2,828	8.0%	2,536	7.2%	2,345	6.8%
Broadcasting and broadband cable	1,917	5.4%	1,804	5.1%	1,597	4.6%
Value-added services	1,903	5.4%	2,051	5.9%	2,001	5.8%
Terminal equipment	1,207	3.4%	1,382	3.9%	1,517	4.4%
Other services (including multimedia)	1,122	3.2%	772	2.2%	582	1.7%
Net revenues	**35,470**	**100.0%**	**35,144**	**100.0%**	**34,505**	**100.0%**

The presentation of Deutsche Telekom's revenues generally reflects the organization of Deutsche Telekom's business in 1999. Deutsche Telekom's business was rearranged in some respects during 1999. Data presented for previous years have been restated to reflect the new business structure solely to facilitate year-to-year comparisons. As a consequence of the rearrangements in 1999 and 1998 and a 1997 reorganization, some of the line item information presented in the following discussion is not directly comparable with corresponding line item information contained in financial statements released by Deutsche Telekom before this year.

Major changes in the presentation of revenues for 1999 are described below:

- As of January 1, 1999, the amounts billed for other network operators, and the corresponding amounts paid to those operators, are no longer shown under net revenue and goods and services purchased, but are instead disclosed net.
- As of January 1, 1999, the amounts billed at T-Online for content providers, and corresponding amounts paid through to content providers, are no longer shown under net revenues and goods and services purchased, but are instead disclosed net.
- Amounts relating to Deutsche Telekom's communications network subsidiary DeTeLine-Deutsche Telekom Kommunikationsnetze GmbH that were shown under ''other services'' in 1998 are shown under ''data communications'' in 1999.
- Amounts relating to maintenance services that were shown under ''terminal equipment'' in 1998 are shown under ''other services'' in 1999.

Network Communications. Revenues from network communications consist of revenues from domestic telephone communications and from international telephone communications. Domestic telephone communications revenues include initial connection fees and monthly rental charges as well as call charges. Call charges originate from local, regional and domestic long-distance calls, calls to mobile networks and calls to Internet service providers, other than T-Online. Revenues from calls made to T-Online on or after April 1, 1999 in connection with most tariff packages of T-Online are reflected under ''other services.'' International telephone communications revenues consist of call charges that originate from international long-distance calls. Revenues from network communications are likely to be affected by many influences and trends, as described more fully above under the heading ''—Some Recent Trends and Developments Affecting Deutsche Telekom''.

The following table sets forth the net revenues from telephone network communications services.

	Year ended December 31,(1)			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(Euro in millions)			(% change)	
Initial connection fees, access charges and other network services	6,333	6,136	5,990	3.2	2.4
Call charges					
Local calls	4,058	4,271	4,000	(5.0)	6.8
Domestic long distance calls	2,988	6,372	7,494	(53.1)	(15.0)
International telephone communications	1,405	2,083	2,508	(32.5)	(16.9)
Connection to mobile and others	1,953	1,669	1,428	17.0	16.9
Total network communications	**16,737**	**20,531**	**21,420**	**(18.5)**	**(4.2)**

(1) Prior year figures have been adjusted to reflect a change in management reporting relating to other network services. Revenues of EUR 2 million for 1998 and EUR 21 million for 1997 are now shown under other services.

Initial Connection Fees, Monthly Rental Charges and Other Network Services. Revenues from initial connection fees, monthly rental charges and other network services are primarily a function of the number and mix of standard telephone and ISDN access lines and the corresponding initial connection fees and monthly rental charges.

The average number of access channels (adjusted to reflect ISDN channels) has risen over the last three years as indicated below.

	Year ended December 31,		
	1999	1998	1997
		(millions)	
Average number of access channels	47.0	45.7	44.3

The increase in revenues from initial connection fees, monthly rental charges and other network services in both 1998 and 1999 resulted primarily from growth in the number of access channels. This growth was, however, partially offset by a slight decrease in 1999 in the average monthly access charge per access channel.

Domestic Call Charges. Revenues from call charges are a function of the number of telephone calls, average call duration, the mix of local, regional, and long distance calls as well as the time of the call and the applicable tariffs. In general, domestic telephone traffic is influenced by trends in the German telecommunications market and other market developments as described above under the heading ''—Some Recent Trends and Developments Affecting Deutsche Telekom''.

Deutsche Telekom started its second year of competition with major tariff reductions. Deutsche Telekom introduced significant reductions in prices for domestic calls in 1999 in response to intense competition in these markets. As a result, average charges per minute for domestic fixed-line traffic declined by around 33 percent as compared to the average for 1998. Despite Deutsche Telekom's price reductions, intense competition in the domestic long distance and regional areas, conducted primarily on the basis of price, resulted in a 4.5 percent decrease in minutes from domestic calls. The decrease in volume was particularly pronounced in the area of domestic long-distance calls, where minute volume declined by 15.7 percent. As in 1998, customers were able to select competitor carriers either on a call-by-call basis or through carrier preselection. The combination of the decline in average charges per minute and the decline in minutes from domestic traffic resulted in an overall decline of 26.9 percent in revenue from domestic call charges.

In 1998, revenues from domestic call charges were 4.7 percent lower than in 1997, primarily due to tariff cuts and a decrease in the volume of domestic traffic, both of which resulted from increasing competition. The decrease in volume particularly affected domestic long-distance calls, where minute volume fell by 7.1 percent.

In both 1998 and 1999, increased revenues from calls to mobile networks and from connections to online service providers partially offset decreased revenues from other types of calls.

Deutsche Telekom reduced tariffs for calls from fixed-network lines to T-D1 mobile phones in February 2000 and tariffs for calls in the regional and national zones in March 2000. In addition, the number of regional tariff zones has been reduced and off-peak periods have been lengthened. These measures are likely to result lower revenues per minute from domestic calls in 2000.

International Telephone Communications. Revenues from call charges for international long-distance calls are a function of tariffs and the volume, duration and mix of outgoing international traffic. In general, international telephone traffic is influenced by trends in the telecommunications markets and other market developments as described above under the heading ''—Some Recent Trends and Developments Affecting Deutsche Telekom''.

On June 1, 1999 Deutsche Telekom significantly reduced its tariffs for long distance calls, in particular for calls to many European countries. See ''Business—Network Communications''.

The volume of Deutsche Telekom's international outgoing traffic was 18.0 percent lower in 1999 than in 1998. This decrease was attributable to intense competition in Germany for international telephony traffic, principally on the basis of price. During 1999, competitors made significant gains in market share. The tariff cuts introduced in June 1999, together with the decrease in minutes from international calls during 1999, resulted in a 32.5 percent decrease in revenues from international calls in 1999 as compared to 1998. Revenues from international telephone services were 16.9 percent lower in 1998 than in 1997, primarily due to major tariff cuts implemented in March 1998 and, to a lesser extent, due to a decrease in volume brought about by the introduction of competition at the beginning of 1998.

Deutsche Telekom introduced a further reduction in tariffs for international calls on February 1, 2000, which is likely to result in a further reduction in revenues from international calls for 2000.

Carrier Services. Revenues from licensed service providers and carriers consist of charges paid by domestic and foreign carriers for access to Deutsche Telekom's network to carry calls placed by the customers of such carriers. In addition, domestic interconnection services revenues contain charges paid by other fixed network operators and mobile communications providers for specially tailored leased lines. In 1997 and prior years, revenues from domestic interconnections were generated only by the interconnection of domestic mobile phone networks to the fixed network operated by Deutsche Telekom. In the international area, revenues also include transit traffic carried on Deutsche Telekom's network.

The following table contains information concerning the development of revenues from licensed service providers and carriers.

	Year ended December 31,			Year ended December 31,	
	1999	**1998**	**1997**	**1999/1998**	**1998/1997**
	(millions of €)			**(% change)**	
Domestic interconnection services	2,098	829	310	152.9	167.6
International interconnection services	786	782	919	0.5	(14.9)
Carrier Services	**2,884**	**1,611**	**1,229**	**79.0**	**31.2**

In the fully liberalized German telecommunications market, the number of fixed network competitors that have to connect with Deutsche Telekom's network in order to terminate their customers' calls increased significantly in 1999, which brought considerable growth in traffic volume in the area of domestic interconnection services and corresponding growth in revenue. The continued expansion of the mobile communications market also contributed to the revenue growth in this area. Revenue growth in this area was not, however, sufficient to offset a corresponding decline in network communications revenues.

At the beginning of 2000, Deutsche Telekom implemented the new lower domestic interconnection rates established by the Regulatory Authority at the end of 1999. For further information on the new domestic interconnection rates, see ''Regulation.'' These new lower rates will dampen any further revenue growth that may occur in 2000 due to growth in volume of domestic interconnection traffic carried on Deutsche Telekom's network.

Revenues from international interconnection services remained essentially constant in 1999, as growth in traffic and the effect of exchange rate movements offset a decline in settlement rates.

In 1998, revenues from domestic interconnection services increased considerably due to the large number of competitors that connected with Deutsche Telekom's network for the first time and, to a lesser extent, due to continued growth in fixed-to-mobile interconnection. Revenues from international interconnection services decreased by 14.9 percent in 1998, despite strong growth in traffic, due to a decline in international settlement rates. Exchange rate movements had no significant effect on revenues from international interconnection services in that year.

Data Communications. The main sources of revenue for data communications are charges for managed networks and information technology solutions customized to meet specific customer needs, the installation and monthly rental charges for domestic and international leased lines (including digital and analog leased lines) and charges for data transmission services. The following table shows revenues from data communications for the periods indicated.

	Year ended December 31,(1)			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of €)			(% change)	
Managed Networks/ATM/IP	1,920	1,546	1,062	24.2	45.6
Frame Relay/X.25	108	121	191	(10.7)	(36.6)
Leased lines, others	800	869	1,092	(7.9)	(20.4)
Data communications	**2,828**	**2,536**	**2,345**	**11.5**	**8.1**

(1) Beginning in 1999, revenues of Deutsche Telekom's subsidiary DeTeLine, previously accounted for under ''other services'', are shown under ''data communications''. Prior year figures have been restated in the amount of EUR 29 million for 1998 and EUR 19 million for 1997 to reflect this change.

In 1999, data communications revenues increased by 11.5 percent. This growth primarily reflects strong revenue growth in managed networks that resulted from an increase in the number of managed network customers, which was offset to some extent by a decrease in prices induced by competition. A slight decrease in revenues from X.25 data communications products was largely due to customers' migration to managed networks. ATM-and IP-based services are growing in importance as components of managed networks.

In 1998, data communications revenues increased by 8.1 percent, largely due to increased revenues from managed networks that resulted from increased marketing of these networks. The increase in managed network revenues was, however, partially offset by a decrease in traditional data communications revenues that resulted from competitive pressures on prices and from customer migration to higher value-added communications systems solutions.

Mobile Communications. Deutsche Telekom's mobile communications business area primarily reflects the activities of T-Mobil, Deutsche Telekom's German mobile communications subsidiary. Revenues of Deutsche Telekom's consolidated international mobile communications subsidiaries currently are reflected under the segment ''International''. The mobile communications business area generates revenues from installation charges, monthly access charges and call charges paid by direct subscribers, charges paid by independent service providers, and the sale of terminal equipment for mobile communications. Independent service providers purchase mobile communications services from T-Mobil at a discount, resell those services and bill subscribers directly at rates they set independently. Traffic charges (including those paid by independent service providers) accounted for approximately 69.3 percent of T-D1 revenues, which consist of traffic charges, setup and monthly access charges, but exclude revenues from sales of digital handsets in 1999, as compared to 68.6 percent in 1998. Monthly access charges and initial connection fees together accounted for approximately 30.7 percent of those revenues in 1999 and 31.4 percent in 1998. Tariffs for subscribers serviced directly by T-Mobil are set by T-Mobil, although they would be subject to possibly retroactive regulatory review if T-Mobil were deemed to have a dominant position in a relevant market, as described under the heading ''Regulation —Special Requirements Applicable to Market-Dominant Providers''.

The following table shows information concerning the development of revenues from mobile communications.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of €)			(% change)	
Initial connection fees	36	36	43	0.0	(16.3)
Mobile products	510	320	295	59.4	8.5
Monthly access charges	1,015	822	756	23.5	8.7
Call charges					
T-D1	2,218	1,639	1,173	35.3	39.7
T-C-Tel	73	133	188	(45.1)	(29.3)
Other mobile communications services	67	111	118	(39.6)	(5.9)
Mobile Communications	**3,919**	**3,061**	**2,573**	**28.0**	**18.9**

Revenues from mobile communications increased in 1999 and 1998 as a result of continued growth in the number of T-D1 subscribers. The average number of T-D1 subscribers rose by 63.9 percent in 1999 and 58.4 percent in 1998, in part because of the continuing positive response to the private customer oriented tariff options offered by Deutsche Telekom to attract new customer groups. Revenues from short message services are increasing in importance; in December 1999, these revenues accounted for approximately 4 percent of total mobile communications revenues. Revenue growth did not keep pace with subscriber growth, however, due in part to an increase in the proportion of subscribers that use prepaid tariff packages and due in part to a decline in revenues per minute, both of which contributed to a decrease in revenues per subscriber. Overall T-Mobil revenues were adversely affected by expected declines in the number of subscribers to Deutsche Telekom's analog T-C-Tel mobile service and by special terms offered to T-C-Tel customers to encourage migration to T-D1 service. Revenues from sales of mobile handsets, which are included in other mobile communications services and products, increased by 59.4 percent in 1999 to EUR 510 million and by 8.5 percent in 1998 to EUR 320 million due to the continued strong subscriber growth in the mobile communications market. Mobile handsets generally are subsidized in order to create attractive package offers for new customers.

Broadcasting and Broadband Cable. Revenues from broadband cable are generated principally from installation charges and monthly subscription fees paid by cable television customers directly served by Deutsche Telekom, and transmission charges paid by local cable companies in which Deutsche Telekom holds at least a minority equity stake or by other private cable operators. In addition, revenues are generated from cable transmission fees paid by television and radio stations for transmitting their programs via Deutsche Telekom's cable network. Broadcasting revenues result from fees paid by television and radio stations for the use of transmission capacity. The following table provides information concerning revenues generated by broadcasting and broadband cable.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of € except as noted)			(% change)	
Broadband cable	1,441	1,353	1,178	6.5	14.9
Broadcasting	476	451	419	5.5	7.6
Broadcasting and broadband cable	**1,917**	**1,804**	**1,597**	**6.3**	**13.0**
Average number of cable television subscribers (in thousands of households)(1)	17.8	17.5	17.0	1.7	2.9

(1) Includes households connected through operators of private broadband distribution equipment and master antenna television systems.

In 1999, broadband cable experienced a moderate increase in revenues, due in part to growth in the average number of cable television subscribers and in part to an improvement in billing procedures. This increase in revenues was also due in part to the fact that an increase in monthly subscription rates for cable television as of November 1997 did not immediately result in higher effective rates for all subscribers because a number of subscribers had prepaid for cable television services prior to November 1997. As a result, these customers did not begin paying at the higher rates until the end of the period covered by their prepayments. In 1998, the increase in broadband cable revenues was principally due to the effect of the increase in the monthly subscription fees which came into effect in November 1997 and due to a modest increase in the average number of cable subscribers in 1998.

Deutsche Telekom is currently pursuing the sale of majority interests in nine regional companies within Germany that are to be formed during the year 2000, in which the core of Deutsche Telekom's cable business will be placed. Agreements to sell majority ownership of three of the regional companies have been concluded. As majority interests in these businesses are sold, revenues of these regional companies will cease to be consolidated in the financial statements of the Deutsche Telekom group, and these companies will instead be accounted for at equity.

Terminal Equipment. Revenues from terminal equipment consist of revenues from the sale and rental of terminal equipment for the fixed network. The following table provides information on the development of these revenues over the last three years.

	Year ended December 31,(1)			Year ended December 31,	
	1999	**1998**	**1997**	**1999/1998**	**1998/1997**
	(millions of €)			(% change)	
Sales revenues	458	483	482	(5.2)	0.3
Leasing revenues	749	899	1,035	(16.7)	(13.1)
Terminal equipment	**1,207**	**1,382**	**1,517**	**(12.7)**	**(8.9)**

(1) In 1999, revenues relating to maintenance services are accounted for under ''other services''. To reflect this change, revenues of EUR 120 million for 1998 and EUR 129 million for 1997 have been transferred to ''other services''.

Revenues from terminal equipment declined in 1999 for the third consecutive year. Revenues fell considerably in 1999 as a result of a further reduction in the number of leasing contracts. In the terminal equipment sales business, revenues decreased largely due to decreases in prices for terminal equipment. See ''Business—Supply and Service of Terminal Equipment''.

In 1998, revenues from terminal equipment were also negatively affected by the streamlining of the product portfolio and by a decline in leasing revenues, particularly from analog terminal equipment. These effects were partially offset by an increase in sales revenues, particularly from sales of PBX and terminal equipment for ISDN lines.

Value-Added Services. Revenues from value-added services include revenues from public telephones, toll free lines, information services, telephone directory publishing, and other directory and operator services. The following table sets forth revenues from value-added services for the periods indicated.

	Year ended December 31,			Year ended December 31,	
	1999	**1998**	**1997**	**1999/1998**	**1998/1997**
	(millions of €)			(% change)	
Value-added services	1,903	2,051	2,001	(7.2)	2.5

Decreases in revenues from public telephones and operator services accounted for most of the decline in revenues from value-added services in 1999, although these decreases were partially offset by increased revenues from information services. Revenues from public telephones decreased in 1999 because Deutsche Telekom reduced the number of public telephones as part of a site-optimization program and reduced tariffs for public telephones, largely to adjust for falling tariffs for mobile phone calls, which displace public phones. The average number of public telephones declined from 157,000 in 1998 to 138,000 in 1999. Revenues from operator assisted services, such as directory services, also decreased in 1999 due to increased competition and also due in part to the increased availability of Deutsche Telekom online directories.

In 1998, revenues from value-added services increased as a result of the growth in traffic and revenues from toll-free and information services lines. In addition, revenues from value-added services benefited from price adjustments for operator services that became effective in November 1997. These effects were partially offset, however, by declining revenues from public telephones. The average number of public telephones declined from 163,000 in 1997 to 157,000 in 1998 as part of the site-optimization program.

Other Services. Revenues from other services include revenues generated from multimedia communications, especially T-Online. They also include revenues from support services and ancillary activities performed by Deutsche Telekom. In 1998, revenues resulting from billing on behalf of competitors were recorded under ''other services''. In 1999, these amounts were no longer recorded under this line item, and 1998 figures have been restated to eliminate these amounts. For further information on this topic, see ''—Results of Operations—Net Revenues.''

	Year ended December 31,(1)			Year ended December 31,	
	1999	**1998**	**1997**	**1999/1998**	**1998/1997**
	(millions of €)			(% change)	
Multimedia-platform	412	294	215	40.1	36.7
Multimedia-applications	135	1	2	13,400.0	(50.0)
Other	575	477	365	20.5	30.7
Other services	**1,122**	**772**	**582**	**45.3**	**32.6**

(1) In 1999, revenues of Deutsche Telekom's subsidiary DeTeLine are no longer shown under ''Other services''. These revenues, in the amount of EUR 29 million for 1998 and EUR 19 million for 1997, are now shown under ''data communications''. Revenues relating to maintenance services of EUR 120 million for 1998 and EUR 129 million for 1997 were shown under ''terminal equipment'' in 1998. In 1999, maintenance services are accounted for under ''other services''. As of January 1, 1999, revenues from billing for other network competitors of EUR 0.5 billion are no longer shown gross as revenues from ''other services'' and goods and services purchased. As of January 1, 1999, T-Online does not show under revenues and services purchased amounts billed for content providers (EUR 53 million for 1998 and EUR 34 million for 1997). Prior year figures have been restated to reflect these changes.

In both 1999 and 1998, the revenue increase from other services was principally due to continued revenue growth at T-Online, shown as part of the line item ''multimedia platform'', which increased its contribution to the consolidated revenues of Deutsche Telekom revenues from EUR 189 million in 1997 to EUR 252 million in 1998 and to EUR 412 million in 1999. T-Online revenues for 1998 and 1997 that were reported in prior years were higher than the figures reported for those years in 1999 because amounts billed for content providers are no longer included in T-Online revenues in 1999, and figures reported in prior years have been restated to reflect this change. In both 1999 and 1998, revenues from T-Online services principally benefited from growth in the number of subscribers, although this growth was partially offset by price reductions implemented by T-Online. The increase in other revenues in both years is also partially attributable to increased revenues from billing services for our competitors, which represents the difference between the amounts collected for and the amounts paid over to our competitors in accordance with applicable regulations. A significant increase in revenues from the sale of multimedia applications to business customers also contributed to the increase in other services revenues from 1998 to 1999.

International. Revenues from international business consists of the revenues of Deutsche Telekom's foreign subsidiaries. These principally reflect the revenues of MATAV and, in 1999, the revenues of max.mobil. and One 2 One, which were included for the first time in Deutsche Telekom's group of consolidated companies. max.mobil., which was first consolidated as of January 1, 1999, contributed EUR 811 million to consolidated revenues in 1999, while One 2 One, which was first consolidated on October 1, 1999, contributed EUR 544 million.

MATAV's contribution to Deutsche Telekom's consolidated revenues increased to EUR 1.5 billion in 1999 from EUR 1.4 billion in 1998 and EUR 1.2 billion in 1997. In each year, the increases were primarily due to the increase in access lines and mobile subscribers in Hungary.

Changes in Inventories and Other Own Capitalized Costs

Deutsche Telekom's statement of income is prepared on the total-cost basis typically used in Germany. Costs to be capitalized and expensed in future periods, such as increases or decreases in inventories and interest and other costs capitalized on construction projects, are classified in the statement of income as revenues. A corresponding amount is included in expenses such that the net effect is zero. The following table sets forth information concerning the changes in inventories and other own capitalized costs.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of €)			(% change)	
Increase (decrease) in inventories of finished products and work in process and other own capitalized costs	947	990	1,514	(4.3)	(34.5)

Own capitalized costs, which include mainly planning and construction costs incurred, decreased by approximately EUR 218 million from 1998 to 1999. The effect of this decrease in own capitalized costs was, however, largely offset by an increase in inventory resulting primarily from the change in composition of the group (particularly the acquisition of One 2 One) and increased inventories of Deutsche Telekom's research and development and real estate subsidiaries.

The relatively high level of inventories and own capitalized costs in 1997 as compared to 1998 reflected own capitalized costs relating to construction activity associated with the digitization of Deutsche Telekom's network. The digitization of the network was completed in 1997, and, as a result, own capitalized costs were significantly lower in 1998. This decrease in own capitalized costs was partially offset by an increase in inventories in 1998.

Other Operating Income

Other operating income consists of tax refunds, reversals of allowances and accruals, cost reimbursements, gains from sales of assets and other miscellaneous items. The following table provides information concerning other operating income.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of €)			(% change)	
Other operating income	1,871	2,069	1,915	(9.6)	8.0

Certain VAT refunds obtained pursuant to the Value-Added Tax Act (*Umsatzsteuergesetz*) are included in other operating income. Deutsche Telekom is entitled to recover a portion of the VAT incurred on assets purchased and placed into service before January 1, 1996, the date on which Deutsche Telekom became fully subject to VAT. Accordingly, Deutsche Telekom recognized VAT refunds of EUR 379 million in 1999, EUR 655 million in 1998, EUR 664 million in 1997 and EUR 775 million in 1996. Deutsche Telekom expects to reclaim a total of approximately EUR 2.7 billion over 10 years (from 1996 onwards), including the EUR 2.5 billion reclaimed since 1996. VAT paid on construction in progress and inventory purchased prior to January 1, 1996 was booked as expense in the year paid. Since January 1, 1996, the VAT paid in prior years with respect to those assets has been recognized as operating income at the time those assets were placed into service.

In 1999, other operating income decreased by 9.6 percent, partly due to the decrease in VAT refund recognized in 1999 and partly due to the effect of a one-time disposition of non-current assets in 1998. The overall decline in other operating income was partially offset by income from a national roaming agreement between T-Mobil and VIAG Interkom and by an increase in reversals of allowance and accruals.

In 1998, other operating income increased by 8.0 percent. This increase resulted principally from a one-time disposition of noncurrent assets of EUR 146 million related to the capital restructuring of Deutsche Telekom's satellite investment SES Société Européenne des Satellites S.A. Other operating income also reflected a reduction of reversals of accruals of EUR 87 million as well as an increase in reversals of valuation adjustments of accounts receivable and doubtful accounts.

Total Operating Costs and Expenses

The following table shows Deutsche Telekom's total operating costs and expenses broken down by major components.

	Year ended December 31,			Year ended December 31,	
	1999	**1998**	**1997**	**1999/1998**	**1998/1997**
	(millions of €)			(% change)	
Goods and services purchased(1)	8,404	6,223	6,171	35.0	0.8
Personnel costs	9,210	9,170	9,377	0.4	(2.2)
Depreciation and amortization	8,466	9,037	9,509	(6.3)	(5.0)
Other operating expenses	6,135	5,385	5,195	13.9	3.7
Total operating costs and expenses	**32,215**	**29,815**	**30,252**	**8.0**	**(1.4)**

(1) Figures shown in this line item differ from those reported in prior years, as described below under ''—Goods and Services Purchased''.

Goods and Services Purchased. The following table provides information concerning goods and services purchased.

	Year ended December 31,			Year ended December 31,	
	1999	**1998(1)**	**1997(1)**	**1999/1998**	**1998/1997**
	(millions of €)			**(% change)**	
Goods purchased	2,625	1,571	1,508	67.1	4.1
Services purchased					
Domestic network access charges	1,585	968	801	63.7	20.8
International network access charges	1,626	1,408	1,621	15.5	(13.1)
Total network access charges	3,211	2,376	2,422	35.1	(1.9)
Other services purchased	2,568	2,276	2,241	12.8	1.6
Total	**8,404**	**6,223**	**6,171**	**35.0**	**0.8**

(1) The figures shown in this table differ from those reported in prior years primarily as a result of the following changes in reporting. As of January 1, 1999, amounts billed for other network operators are no longer shown under revenues, and corresponding amounts paid over to other network operators, which amounted to approximately EUR 522 million in 1998, are no longer shown under ''services purchased''. In addition, as of January 1, 1999, revenues do not include amounts billed for content providers by T-Online, and corresponding amounts paid over to content providers, which amounted to approximately EUR 53 million for 1998 and EUR 34 million for 1997, are no longer shown under ''other services purchased''.

The increase in goods purchased of EUR 1.1 billion in 1999 resulted primarily from the consolidation of max.mobil. and One 2 One for the first time in 1999 and from increased purchases of mobile handsets for resale. In 1998, goods purchased increased by EUR 63 million. This increase was largely attributable to increased purchases of mobile handsets for resale.

Domestic network access charges rose in 1999 by 63.7 percent. This increase resulted from the growing number of calls initiated by Deutsche Telekom's fixed network and mobile customers and terminated in the networks of other fixed and mobile network operators in Germany. In 1998, the increase in domestic network access charges resulted mainly from increasing numbers of calls placed from Deutsche Telekom's fixed network to customers of other German mobile communications operators.

International network access charges increased in 1999 by EUR 218 million, primarily due to increased roaming charges for calls made by mobile phone subscribers of T-Mobil, max.mobil. and MATAV to foreign telephone network operators.

International network access charges declined in 1998 by EUR 213 million principally as a result of the continued decline in international settlement rates and from a decrease in Deutsche Telekom's international outgoing traffic. These effects were partially offset by higher expenses for mobile roaming services.

Other services purchased consist of telecommunications hardware and software, building and other maintenance expenses, energy and utility costs and costs for information services provided. In 1999, increased expenses for information services provided accounted for most of the 12.8 percent increase in other services purchased. A corresponding increase in revenues from information services was recorded as revenues of the ''value added services'' business area. Maintenance expenses also increased in 1999 largely due to preparations for year 2000 risks. In 1998, expenses for other services purchased increased by EUR 35 million, also primarily as a result of increased costs for information services provided and increased maintenance expenses relating to the preparations for the year 2000 and the introduction of the euro.

Personnel Costs. The following table provides information concerning Deutsche Telekom's personnel costs and the annual percentage changes in those costs.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(Euro in millions)			(% change)	
Wages and salaries	6,520	6,477	6,624	0.7	(2.2)
Other personnel costs(1)	2,690	2,693	2,753	(0.1)	(2.2)
Total personnel costs	**9,210**	**9,170**	**9,377**	**0.4**	**(2.2)**

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

For several years, Deutsche Telekom has been taking measures to reduce its personnel costs, primarily through the implementation of a workforce reduction program. In 1999, Deutsche Telekom made further progress with its workforce reduction program. For 1999, it employed an average number of 175,160 full-time employees in those companies that were part of the consolidated Deutsche Telekom group at the end of 1994, which was 10,580 fewer than the average number employed by those companies in 1998. Largely as a result of these personnel reductions, the average number of employees in the consolidated Deutsche Telekom group as a whole decreased to 204,360 in 1999 from 209,539 in 1998, despite the effect of the first consolidation of max.mobil. and One 2 One. The consolidation of max.mobil. starting as of January 1, 1999 accounted for an increase of approximately 2,500 in the average number of full-time employees of the consolidated Deutsche Telekom group during 1999, while the consolidation of One 2 One starting in October 1999 accounted for an increase of approximately 1,000. As a result of the consolidation of max.mobil. and One 2 One, the consolidated Deutsche Telekom group as a whole, including companies first consolidated after 1995, had 203,268 employees, including trainees, as of December 31, 1999, an increase of 0.2 percent as compared to year-end 1998.

Personnel costs of Deutsche Telekom increased by 0.4 percent or EUR 40 million in 1999, as the effect of consolidating max.mobil. and One 2 One for the first time in 1999 partially offset the effect of workforce reductions in the companies that were part of the Deutsche Telekom group prior to 1999. The remainder of the increase in personnel costs resulted in part from a 3.0 percent increase in wages and salaries under collective bargaining agreements in Germany, which came into effect on April 1, 1999, and a remuneration adjustment related to salaries in eastern Germany. The growth in personnel costs was also attributable to age-related salary increases and to continued review of salaries in some areas to bring them in line with market conditions. Furthermore, the fixed annual contributions to a special fund for civil servant pensions, which was not linked to the number of employees covered in 1999, did not allow personnel cost to decrease in line with employee reduction.

In 1998, as a result of a reduction in the average number of full-time employees, personnel costs of Deutsche Telekom decreased by 2.2 percent or EUR 207 million. Personnel costs per employee increased, however, by 3.9 percent in 1998. This increase resulted in part from a 1.5 percent increase in wages and salaries under collective bargaining agreements, which came into effect on January 1, 1998, and a remuneration adjustment related to salaries in eastern Germany. The growth in personnel cost per employee was also attributable to the age-related salary increases and the review of salaries in some areas to bring them in line with market conditions. In addition, fixed annual contributions to a special fund for civil servant pensions, as mentioned above, together with a decrease in average number of employees, resulted in a nominal increase in personnel costs per employee in 1998.

Under agreements with the trade unions, differentials between salaries in western Germany and eastern Germany are to be gradually reduced until parity is reached in the year 2000. The cost of eliminating these differentials, which relate to less than 20 percent of Deutsche Telekom's workforce, has been and is expected to be less than EUR 61 million per year through the end of 2000. Wages and salaries for employees in eastern Germany increased on October 1, 1998 to 96 percent of the level paid in western Germany and again on October 1, 1999 to 100 percent of the western German level. The reduction of salary differentials between eastern and western Germany will not have any effect on personnel costs beyond 2000.

Under the law governing the privatization of Deutsche Telekom, Deutsche Telekom is required to make annual contributions to a special pension fund established to fund pension obligations to its civil servant employees. Through the end of 1999, Deutsche Telekom was obligated to make annual contributions of approximately EUR 1.5 billion. Beginning in the year 2000, however, Deutsche Telekom is obligated to make annual contributions equal to 33 percent of the salaries of its then-current civil servant employees (including the imputed salaries of civil servant employees on unpaid leave). For further information in this regard, see ''Management and Employees—Employees—Civil Servants''. Deutsche Telekom therefore expects that its pension costs will start declining beginning in the year 2000.

Several years ago, Deutsche Telekom announced its intention to reduce its workforce by the end of the year 2000 by approximately 60,000 full-time equivalent employees (excluding employees of subsidiaries first consolidated after January 1, 1995) from 1994 year-end levels. The then expected total cost of these staff reduction measures (EUR 1.7 billion) was recognized as an expense in the years ended December 31, 1994, 1995 and 1996. The table below sets forth the development of provisions for these costs for the years ended December 31, 1999 and December 31, 1998.

	Year ended December 31,	
	1999	1998
	(millions of €)	
Accrual/payable, beginning of year	470	774
Payments made	(209)	(304)
Accrual/payable, end of year	261	470

Deutsche Telekom's provisions for restructuring costs cover employees that leave under voluntary separation agreements. Through December 31, 1999, a total of 57,200 full-time equivalent positions (excluding positions at MATAV, max.mobil. and One 2 One) have been eliminated. Of the total planned reduction of 60,000 employees, Deutsche Telekom estimates that approximately 38,300 had left and will leave under voluntary separation agreements and the remainder under early retirement of civil servants and normal attrition.

Depreciation and Amortization. The following table sets forth depreciation and amortization and the percentage changes in this line item.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of €)			(% change)	
Depreciation and amortization	8,466	9,037	9,509	(6.3)	(5.0)

In 1999, depreciation and amortization decreased by EUR 571 million. This decrease is largely due to an extension of the depreciation periods of outside plant network, which resulted from a reevaluation of the physical and economic useful life of the equipment. This extension gave rise to a decrease in depreciation of EUR 0.8 billion from 1998 to 1999. The effect of this extension was partially offset, however, by the consolidation of max.mobil. and One 2 One for the first time in 1999, which resulted in an increase of EUR 0.4 billion in depreciation and amortization, particularly amortization of goodwill. Depreciation and amortization relating to One 2 One will be higher in 2000 than in 1999, as it will be included in the consolidated Deutsche Telekom group for a full year. One 2 One goodwill amortization is denominated in Pound Sterling and therefore will be affected by exchange rate movements. Acquisitions that Deutsche Telekom makes in the course of implementing its internationalization strategy are likely to result in further increases in goodwill amortization in 2000 and future years. For further information in this regard, see ''Business—International.'' In addition, amortization relating to the capitalized cost of acquiring a UMTS license in the United Kingdom in April 2000 is expected to contribute to depreciation and amortization in coming years, and amortization of the capitalized cost of acquiring UMTS licenses in other countries (such as Germany and Austria) may be expected to contribute to depreciation and amortization cost in the future. For further information in this regard, see ''—Liquidity and Capital Resources—Capital Resources.''

An increase in net additions to intangible assets also partially offset the overall decrease in depreciation and amortization in 1999. This increase in net additions to intangible assets was largely attributable to increased capital expenditures for new software and to the fee that the Regulatory Authority required Deutsche Telekom to pay in October 1999 for telephone number blocks allocated to Deutsche Telekom prior to January 1, 1998. Deutsche Telekom has challenged the determination of the Regulatory Authority that this fee is payable. For further information regarding this fee, see ''Regulation'' and ''Business—Legal Proceedings.''

In 1998, depreciation and amortization decreased by EUR 472 million, principally as a result of the completion at the end of 1997 of the shortening of the depreciation periods and corresponding acceleration of the depreciation of Deutsche Telekom's analog exchanges and transmission equipment. This effect was partially offset by increased depreciation and amortization for computer hardware and software.

Other Operating Expenses. Total other operating expenses increased by 13.9 percent in 1999 and by 3.7 percent in 1998. Other operating expenses increased in 1999 as decreases in losses on disposition of noncurrent accounts, in losses on accounts receivable and provision for doubtful accounts and in provisions were not sufficient to offset increases in marketing expenses, commissions and legal and consulting fees and in other expenses.

The following table sets forth other operating expenses broken down by major components and the percentage changes in those components.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of €)			(% change)	
Marketing expenses, advertising gifts, commissions, legal and consulting fees	2,002	1,520	1,297	31.7	17.2
Losses on disposition of noncurrent assets	629	727	614	(13.5)	18.2
Losses on accounts receivable and provision for doubtful accounts	514	656	407	(21.6)	61.2
Provisions	238	298	531	(20.1)	(43.9)
Other expense items	**2,752**	**2,184**	**2,346**	**26.0**	**(6.9)**
Of which:					
Postal charges, postal and banking services and administrative expenses	635	596	633	6.5	(5.8)
Employee-related costs (including travel and temporary employment expenses)	591	562	554	5.2	1.5
Rental and leasing expenses	513	553	536	(7.2)	3.2
Other miscellaneous expenses	1,013	473	623	114.2	(24.1)
Total other operating expenses	**6,135**	**5,385**	**5,195**	**13.9**	**3.7**

In 1999, marketing expenses, advertising gifts, commissions, and legal and consulting fees increased by 31.7 percent, primarily as a result of increased marketing expenses and commissions. Marketing expenses of max.mobil. and One 2 One, which were consolidated for the first time in 1999, accounted for nearly half of this increase. The remainder of this increase is largely attributable to the mobile communications business area, which incurred significantly increased advertising expenses for T-D1 products, increased commissions for customer acquisition and additional expenses to encourage analog mobile phone subscribers to migrate to the digital T-D1 service.

In 1998, marketing expenses, commissions, and legal and consulting fees increased primarily as the result of promotional programs and advertising related to the introduction of Deutsche Telekom's mobile tariff offer TellyLocal and the XtraCard. These increases were in part offset by non-recurrence in 1998 of expenses related to a 1997 incentive program for ISDN.

Because of Deutsche Telekom's large non-current asset base and the rapidly changing technological environment in which it operates, parts of its non-current asset base become obsolete each year in the ordinary course of business. In 1999, losses on the disposition of non-current assets were 13.5 percent lower than in 1998, which resulted from higher scrapping of outside plant and other equipment in 1998, after the completion of the digitization of the network in 1997. In 1998, the scrapping of outside plant resulted in EUR 310 million of losses on disposition of non-current assets.

In 1999, losses on accounts receivable and provisions for doubtful accounts decreased as compared to 1998 primarily due to the absence in 1999 of unusual factors that had contributed to an increase in 1998. In 1998, losses on accounts receivable and provisions for doubtful accounts increased due to valuation adjustments of receivables which had been outstanding for some time and due to the fact that Deutsche Telekom wrote off receivables related to its Asian investments.

Provisions declined again in 1999, as compared to 1998, due to a perceived reduced need for provisions against risks in associated companies. Provisions in 1998 declined significantly, having been unusually high in 1997 due to a one-time effect. Accruals for costs were made in 1997 with respect to the reduction in Deutsche Telekom's space requirements resulting from the digitization of

Deutsche Telekom's network and workforce reductions. These costs related to reconstruction costs necessary to adapt buildings to changes in use and to associated real estate costs.

Other expense items increased by 26.0 percent in 1999. Increases in postal charges, postal and banking services and administrative expenses as well as employee related-cost were due to an increased volume in mailings and in travel and transportation expenses. They were partially offset by decreased rental and leasing expenses. Other expense items declined by 6.9 percent in 1998 as a result of decreases in expenses for postal and banking services and other miscellaneous expenses.

Miscellaneous expenses shown in the table above include foreign currency transaction losses of EUR 275 million for 1999, EUR 105 million for 1998 and EUR 114 million for 1997. See note 7 to the consolidated financial statements. These losses were partially offset by foreign currency transaction gains of EUR 91 million for 1999, EUR 37 million for 1998 and EUR 12 million for 1997 included in ''other operating income''. These gains and losses result principally from exchange rate fluctuations between the dates when payables or receivables are booked in a foreign currency by Deutsche Telekom AG or by one of its subsidiaries and the dates on which corresponding amounts are actually debited or credited to bank accounts of Deutsche Telekom AG or one of its subsidiaries. The principal currencies that give rise to this type of gains and losses in the financial statements of Deutsche Telekom are U.S. Dollars and Hungarian forints. As a result of the acquisition of One 2 One, Pound Sterling may also give rise to this type of gains and losses in future periods. For further information on foreign currency translation, see ''Summary of accounting policies—Foreign currency translation'' in the notes to the consolidated financial statements.

Financial Income (Expense), Net

The following table provides the components of Deutsche Telekom's net financial expense and annual percentage changes.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of €)			(% change)	
Results related to companies accounted for under the equity method	(265)	(382)	(778)	(30.6)	(50.8)
Other investments	(78)	56	31	(239.3)	78.7
Income (loss) from financial activities	(343)	(326)	(747)	(5.2)	(56.2)
Net interest expense	(2,546)	(2,962)	(3,256)	(14.0)	(9.0)
Financial income (expense), net	**(2,889)**	**(3,288)**	**(4,003)**	**(12.1)**	**(17.8)**

Net Interest Expense. Deutsche Telekom's net indebtedness increased during 1999 by EUR 2 billion to EUR 42 billion at year-end 1999 after having decreased by EUR 5 billion during 1998 to EUR 40 billion at year-end 1998. The increase in debt in 1999 is a result of the increase in liabilities to banks, mainly due to the changes in the composition of the Deutsche Telekom group resulting from the acquisition of One 2 One. Adjusted for this change in composition of the group, Deutsche Telekom reduced its debt by EUR 2 billion in 1999. In large part due to the reduction in debt during 1999 and 1998, net interest expense decreased by EUR 416 million in 1999 and by EUR 294 million in 1998. The effective weighted average interest rate applicable to Deutsche Telekom's bonds was 7.5 percent in 1999 and 7.6 percent in both 1998 and 1997. Increased interest revenue also contributed significantly to the decline in net interest expense in 1999 and 1998.

To the extent that Deutsche Telekom finances the purchase price for UMTS licenses or for the acquisition of other companies through the incurrence of indebtedness, this will have an upward influence on net interest expense in future years. For further information in this regard, see ''—Liquidity and Capital Resources—Capital Resources.''

Income (Loss) from Financial Activities. Income (loss) from financial activities includes Deutsche Telekom's share of the income or losses on investments accounted for using the equity method. In addition, it includes the amount of annual amortization of goodwill, the difference between the original purchase price of these investments and Deutsche Telekom's share of the shareholders' equity. Income and loss from other investments consists primarily of dividends received from Deutsche Telekom's investments in various satellite service providers and from Sprint, as well as risk provisions for write-downs of the carrying amounts of other investments.

Deutsche Telekom's share of losses from investments in associated companies decreased by EUR 117 million in 1999. This decrease resulted principally from a reduction of EUR 75 million in goodwill amortization of Satelindo, due to the fact that goodwill of Satelindo was completely written off during 1998, and from a share of EUR 59 million in the profits of the Russian telecommunications company MTS, in which Deutsche Telekom acquired a significant stake in 1999. A decrease of EUR 33 million in goodwill amortization at Technology Resource Industries Bhd. (''TRI''), which was attributable to reduced nonscheduled amortization, and improved financial results at Asiacom also contributed to the decrease in Deutsche Telekom's share of losses from investments in associated companies. These factors were, however, offset to some extent by a decrease in gains from other investments, decreased reversals of accruals for other investment and a decrease in Deutsche Telekom's share of gains in Satelindo. Deutsche Telekom's share of losses from Atlas (through which Deutsche Telekom and France Telecom held their interests in Global One) was EUR 220 million in 1999, relatively unchanged from 1998.

In 1998, Deutsche Telekom's share of losses from investments in companies accounted for using the equity method, including risk provisions for write-downs of equity book values and related goodwill amortization, decreased by EUR 396 million. In 1998, Deutsche Telekom's share of loss related to Atlas (through which Deutsche Telekom and France Telecom held their interests in Global One) amounted to EUR 221 million, EUR 33 million more than in 1997. The combined effect of this increased loss and the absence of further write-downs of Atlas' equity book value increased losses by EUR 23 million. In 1998, Deutsche Telekom's Asian ventures, particularly TRI, Asiacom and Satelindo, generated losses from financial activities of EUR 171 million, a decrease of EUR 295 million from the 1997 level. The 1998 decrease in loss from financial activities includes principally a EUR 44 million decrease in nonscheduled goodwill amortization, a EUR 37 million decline in risk provisions (net) for the write-down of equity book values and a EUR 145 million decrease in proportionate losses. By reducing the equity book value of these ventures to EUR 143 million by year-end 1998, Deutsche Telekom had reduced its risk exposure with respect to its Asian ventures significantly. Outside of Asia, risk provisions of EUR 30 million which Deutsche Telekom made in previous years with respect to its investments in DETECON Deutsche Telepost Consulting GmbH and EUCOM Gesellschaft für Telekommunikations-Mehrwertdienste mbH were reversed in 1998 and no further losses were incurred. The combined positive effect on results related to companies accounted for under the equity method amounted to EUR 71 million.

Taxes

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

	Year ended December 31,		
	1999	**1998**	**1997**
		(millions of €)	
Income taxes	1,380	2,477	1,512
Other taxes	40	177	332
Taxes	**1,420**	**2,654**	**1,844**

Income taxes decreased in 1999 but increased in 1998. In each year, changes in income taxes correlated with changes in income before taxes. Furthermore, income taxes reflect differences in accounting and valuation between the statements for financial reporting purposes and the statements for tax purposes. The decrease in other taxes in 1999 resulted primarily from a refund of wage taxes withheld in a prior period and a reversal of an accrual for value-added tax, which were partially offset by the establishment of an accrual for withholding tax on wages. The decrease in other taxes in 1998 resulted principally from the fact that the trade capital tax was no longer imposed in 1998.

Deutsche Telekom's effective income tax rate (income taxes as a percentage of pre-tax income) was approximately 48 percent in 1999, 50 percent in 1998 and 45 percent in 1997. The statutory income tax rate for Deutsche Telekom was approximately 52 percent in 1999 and 57 percent in 1998 and 1997, including corporate income taxes (assuming that earnings are not distributed), trade income taxes (using a German national average rate) and the solidarity surcharge on corporate income tax *(Solidaritätszuschlag).* The differences between the statutory rate and the effective rate relate primarily to the lower income tax rate of 30 percent on the proposed dividend of EUR 1.9 billion for 1999 and the dividend of EUR 1.7 billion for each of 1998 and 1997, differentials of tax rates on income taxable outside of Germany, temporary differences and losses for which deferred taxes are not recorded under German GAAP, and, in 1997, tax effects resulting from the restructuring of companies.

Liquidity and Capital Resources

The following table provides information concerning Deutsche Telekom's cash flows.

	Year ended December 31,		
	1999	**1998**	**1997**
	(millions of €)		
Net cash provided by operating activities	9,588	13,491	11,576
Net cash used for investing activities	(18,684)	(7,511)	(5,404)
Net cash provided by (used for) financing activities	7,965	(6,797)	(7,035)
Effect of foreign exchange rate changes on cash and cash equivalents	(55)	6	(3)
Net decrease in cash and cash equivalents (1)	(1,186)	(811)	(866)
Cash and cash equivalents, at beginning of year	2,064	2,875	3,741
Cash and cash equivalents, at end of year	878	2,064	2,875

(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. Deutsche Telekom's primary source of liquidity is cash generated from operations. Net cash provided by operating activities decreased by EUR 3.9 billion in 1999 primarily as a result of a decline in net income, which was particularly driven by the decline in revenues from fixed line telephone communications. In addition, net cash from operating activities has been negatively affected by a change in working capital, increased tax payments in excess of taxes recognized in the income statement and expenditures relating to Deutsche Telekom's second public offering of shares in 1999. The change in working capital was particularly influenced by an increase in receivables, which was partially offset by an increase in liabilities.

In 1998, net cash provided by operating activities increased by EUR 1.9 billion as compared to the prior year. The increase was in part attributable to a higher inflow of cash from net revenues. Net cash provided by operating activities was also favorably influenced by the change in the ratio of non-cash expenses for income taxes and income tax payments. With other non-cash items decreasing to a greater extent than net income increased, net cash provided by operating activities benefited from declines in accounts receivable and increases in accounts payable. In addition, reduced cash outflows for interest payments coupled with higher cash inflows from interest earnings contributed to the increase in net cash provided by operating activities.

Net Cash Used For Investing Activities. Cash used for investing activities consists of net changes in temporary cash investments (i.e., securities with a maturity of over three months) and other cash used for investing activities such as capital expenditures, acquisitions and proceeds from sales of assets.

	Year ended December 31,		
	1999	**1998**	**1997**
		(millions of €)	
Net change in short-term investments	2,328	(701)	1,729
Other cash used for investing activities	(21,012)	(6,810)	(7,133)
Net cash used for investing activities	**(18,684)**	**(7,511)**	**(5,404)**

In 1999, a net amount of EUR 2.3 billion of short-term investments was redeemed, resulting in a net cash inflow from short-term investments. In 1998, Deutsche Telekom dedicated a net amount of EUR 0.7 billion of cash to short-term investments.

Other net cash used for investing activities increased by 209 percent from 1998 to 1999. An increase of EUR 13.4 million in investments in subsidiaries, associated companies and related companies, principally due to the acquisition of interests in max.mobil. and One 2 One, together with an increase in capital expenditures from EUR 4.8 billion in 1998 to EUR 6.0 billion in 1999, accounted for a substantial majority of the increase in other net cash used for investing activities in 1999. The increase in capital expenditures resulted primarily from increased expenditures of T-Mobil for mobile network equipment and from the inclusion of capital expenditures of max.mobil. and One 2 One in Deutsche Telekom's consolidated financial statements for the first time in 1999.

Other cash used for investing activities declined from 1997 to 1998, primarily as a result of a decrease in capital expenditures that was due to the completion of the digitization of Deutsche Telekom's network at the end of 1997. In 1997 and 1998, cash was used for investments in noncurrent securities and investments in joint ventures and third party telecommunications companies. For further information in this regard, see ''—Capital Expenditures and Investments.''

Net Cash Provided By (Used For) Financing Activities. Net cash provided by financing activities increased to EUR 8.0 billion in 1999, which represents a cash inflow of EUR 10.6 billion from Deutsche Telekom's 1999 public offering of shares, EUR 1.7 billion used for payment of dividends relating to the 1998 financial year and a net amount of EUR 0.9 billion used for retirement of indebtedness. EUR 0.9 billion of indebtedness was retired prior to maturity in 1999. Although a net cash outflow relating to retirement of indebtedness occurred in 1999, net indebtedness in the balance sheet increased by EUR 2.4 billion during 1999 due to the assumption of indebtedness in connection with acquisitions made in that year, which did not have an impact on cash flows from financing activities.

In 1998, Deutsche Telekom reduced its outstanding debt by EUR 5.0 billion. In addition, Deutsche Telekom paid dividends in an aggregate amount of EUR 1.8 billion in 1998 relating to the 1997 financial year, which for the first time included dividends paid by MATAV.

As in 1998, the change in net cash provided by (used for) financing activities in 1999 includes the effect of the cash inflow of EUR 1.0 billion from bonds issued by Deutsche Telekom from a benchmark bond issue.

Capital Resources

At December 31, 1999, Deutsche Telekom had committed short-term credit facilities of EUR 8.3 billion. The interest rates for these facilities range from 5.5 percent to 6.0 percent or are set at the daily interbank rate plus 0.25 percent. Deutsche Telekom expects to renew these facilities annually. At December 31, 1999, these credit lines had been drawn upon in the amount of EUR 3.5 billion. At December 31, 1999, medium term notes in the amount of EUR 358 million were outstanding, of which EUR 51 million expire in 2000 and the remaining EUR 307 million have maturities ranging from 2001 to 2009. At December 31, 1999, these medium term notes bore interest at an average effective rate 6.5 percent.

As of December 31, 1999, EUR 32.2 billion of Deutsche Telekom's liabilities were guaranteed by the Federal Republic. Indebtedness incurred by Deutsche Telekom since the beginning 1995 is no longer guaranteed by the Federal Republic, as described above under the heading ''Relationship with the Federal Republic—Federal Republic Guarantees''.

Deutsche Telekom believes that its bank facilities, together with its liquid assets, are sufficient to meet its present working capital needs. Deutsche Telekom expects that it will incur additional indebtedness to finance the purchase of UMTS licenses and the expansion of its network of base stations for the purpose of offering UMTS-based services, and Deutsche Telekom may incur additional indebtedness in connection with the implementation of its internationalization strategy. Deutsche Telekom also may incur new debt to refinance existing debt. Financing and refinancing conditions will depend principally upon future market conditions, Deutsche Telekom's rating as a debtor and its future prospects, and Deutsche Telekom can not offer any assurance that financing will be available on favorable terms. See ''Disclosures About Market Risk'' for a presentation of scheduled maturities of Deutsche Telekom's indebtedness as of December 31, 1999. Debt of EUR 8.9 billion (including liabilities to banks) will reach maturity in 2000.

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 sale of non-current assets.

	Year ended December 31,			Year ended December 31,	
	1999	**1998**	**1997**	**1999/1998**	**1998/1997**
	(millions of €)			**(% change)**	
Capital expenditures	5,974	4,791	6,791	24.7	(29.4)
Investments	16,113	2,733	801	489.6	241.1
Proceeds from sale of non-current assets	(1,073)	(715)	(329)	50.1	117.3
Other	(2)	1	(130)	(300.0)	(100.8)
Net cash used for investing activities(1)	**21,012**	**6,810**	**7,133**	**208.5**	**(4.5)**

(1) Excluding net change in short-term investments.

Capital Expenditures

The following table provides information concerning Deutsche Telekom's capital expenditures and percentage changes in them. Other capital expenditures include intangible assets, other equipment, plant and office equipment as well as advance payments and construction in progress.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of €)			(% change)	
Fixed networks	2,576	2,348	4,268	9.7	(45.0)
Mobile networks	547	289	203	88.9	42.4
Buildings	364	223	313	63.2	(28.8)
Other capital expenditures	2,487	1,931	2,007	28.8	(3.8)
Total capital expenditures	**5,974**	**4,791**	**6,791**	**24.7**	**(29.5)**

In 1999, the increase in capital expenditures for fixed networks was due to intensified capital expenditures on switching and transmission equipment. Capital expenditures on mobile networks reflect the increased number of subscribers of T-Mobil, resulting in additions to transmission equipment. The newly acquired companies One 2 One and max.mobil. contributed significantly to capital expenditures on mobile networks. Other capital expenditures increased primarily due to the fee that the Regulatory Authority required Deutsche Telekom to pay in October 1999 for telephone number blocks allocated to Deutsche Telekom prior to January 1, 1998.

In 1998, the decrease in capital expenditures reflects the completion of the digitization of switching and transmission equipment. Capital expenditures on technical assets and equipment for the fixed and mobile networks accounted for approximately 55 percent of total capital expenditures in 1998, with investments in telephone network and switching equipment both accounting for approximately 12 percent. Investments in assets other than technical assets and equipment accounted for the remaining 45 percent. These included capital expenditures for intangible assets of EUR 0.5 billion, which related primarily to software.

In 2000, Deutsche Telekom plans to dedicate EUR 1.5 billion to its fixed telephone network. Within this amount, capital expenditures of EUR 400 million relate to the expansion of the number of ISDN channels in the national network, EUR 500 million is to be devoted to improvements of the international and national network and EUR 500 million is planned for the expansion of its Internet platform. Additionally, in 2000, Deutsche Telekom plans to dedicate capital expenditures of approximately EUR 2.0 billion to the expansion of the capacity of its mobile network (principally the mobile networks of T-Mobil, max.mobil. and One 2 One). In April 2000, Deutsche Telekom's T-Mobile International subsidiary acquired a UMTS license in the United Kingdom for approximately £4.0 billion through its subsidiary One 2 One. Deutsche Telekom is likely to need to make additional expenditures to acquire UMTS licenses in Germany later this year and in Austria and other countries. Deutsche Telekom also expects to make substantial capital expenditures to build out its network of base stations to offer UMTS services. Competition for UMTS licenses has been and is expected to be intense, causing the prices for licenses to escalate.

Investments

Investments in subsidiaries, associated companies and related companies made in 1999 totaled EUR 16.1 billion. Deutsche Telekom's investments in fully consolidated companies (principally One 2 One, max.mobil. and SIRIS) account for EUR 12.6 billion of this total. A further EUR 1.2 billion relate to equity investments in HT—Hrvatske telekomunikacije d.d., Croatia, which accounted for EUR 0.8 billion, and in Sprint and Atlas/Global One, each of which accounted for EUR 0.2 billion. A loan of

EUR 0.2 billion was granted to DETECON, an associated company. Deutsche Telekom invested a further EUR 1.3 billion in other investment securities, of which EUR 1.0 billion was invested in fixed-income securities issues and EUR 0.3 billion in specialized security funds (mainly fixed funds).

Investments in subsidiaries, associated companies and related companies made in 1998 totaled EUR 2.7 billion. Deutsche Telekom AG invested an additional EUR 0.6 billion in fixed-income securities (annuity funds), mixed funds and equity investment funds. A total of EUR 1.9 billion was invested in associated and related companies. Among the equity investments made was the purchase of a 2 percent interest in France Telecom for EUR 1.2 billion. Other companies in which Deutsche Telekom made equity investments were Atlas/Global One with EUR 240 million, the joint venture Wind S.p.A, Italy, with EUR 77 million, the Israeli company VocalTec Communications Ltd. with EUR 46 million, the satellite company SES Société Européenne des Satellites S.A. with EUR 174 million and Sprint with EUR 38 million. Deutsche Telekom also granted a loan of EUR 111 million to DETECON, an associated company.

Expenditures for further selective expansion into international markets are expected to constitute a greater share of total investment activity over the next few years. In line with its strategy for growth, Deutsche Telekom continuously evaluates potential acquisitions and business opportunities and will make investments on a selective basis where they match Deutsche Telekom's strategic plans. Going forward, Deutsche Telekom intends to emphasize acquisitions which allow it to exercise a degree of control over the companies in which it invests, and which are within its four strategic growth areas: mobile telecommunications, data communications, consumer Internet and network access.

Preparation for the euro and the Year 2000

Euro

The euro was introduced in the Federal Republic on January 1, 1999. To meet customer expectations and comply with legal requirements, Deutsche Telekom in 1997 initiated a project aimed at making its processes, support systems and applications compatible with the euro on a timely and efficient basis. The euro project group coordinates and controls the transition process for the Deutsche Telekom group. It supports the different departments in identifying the processes and systems to be modified and in planning appropriate measures. The euro project group also sets the framework within which Deutsche Telekom's subsidiaries proceed with their transition to the euro.

Deutsche Telekom plans to use the euro as its general billing currency and to modify its general terms and conditions for doing business accordingly starting in January 2002. Until then, Deutsche Telekom will issue its invoices denominated in DM or euro with convenience translations into the other currency, depending on the preference of the customer. The implementation of the euro for all of Deutsche Telekom's internal and external accounting systems is scheduled to be completed by 2001.

Deutsche Telekom estimates total expenditures of EUR 140 million for its euro compliance program. Modification costs for system adjustments will be expensed as incurred. In 1999, Deutsche Telekom spent approximately EUR 35 million on its euro compliance activities. For 2000, Deutsche Telekom expects further costs of approximately EUR 40 million.

Year 2000

Deutsche Telekom successfully completed its Year 2000 readiness work and passed through the January 1, 2000 and leap year rollover event without encountering any material outages or business interruptions that affected customers. From the inception of Deutsche Telekom's Year 2000 readiness program in 1997 through December 31, 1999, Deutsche Telekom incurred costs of approximately EUR 134 million of costs associated with the program. Deutsche Telekom expects to spend a further EUR 5 million for completion of the project.

German GAAP Compared to U.S. GAAP

Under U.S. GAAP, Deutsche Telekom's net income was EUR 1.5 billion in 1999, EUR 2.2 billion in 1998 and EUR 1.3 billion in 1997, compared to EUR 1.3 billion in 1999, EUR 2.2 billion in 1998, and EUR 1.7 billion in 1997 under German GAAP. Under U.S. GAAP, shareholders' equity was EUR 37.6 billion at December 31, 1999 and EUR 26.9 billion at December 31, 1998, compared to EUR 35.7 billion at December 31, 1999 and EUR 25.1 billion at December 31, 1998 under German GAAP. Differences result primarily from the different treatment of VAT, capitalization of software costs, the employee share purchase plan, personnel restructuring and other accruals, termination of interest rate swaps and financial instruments, income taxes and share offering costs. See note 36 to the consolidated financial statements. In addition, shareholders' equity also reflects differences in market value adjustments.

New Accounting Pronouncements

New accounting standards affecting Deutsche Telekom's financial statements under U.S. GAAP have been adopted, as described in note 40 to the consolidated financial statements.

Disclosures about Market Risk

Deutsche Telekom is exposed to interest rate, foreign exchange rate and equity price risk associated with underlying assets, liabilities and anticipated transactions. Following evaluation of these positions, Deutsche Telekom selectively enters into derivative financial instruments to manage the related risk exposures. These contracts are entered into with major financial institutions, thereby minimizing the risk of credit loss. The activities of the Deutsche Telekom central treasury are subject to policies approved by senior management. These policies address the use of derivative financial instruments, including the approval of counterparties, setting of limits and investment of excess liquidity. Deutsche Telekom's policy is to hold or issue derivative financial instruments for purposes other than trading.

Deutsche Telekom regards effective market risk systems as an important element of its treasury function and is currently enhancing its systems. The risk analysis, which is based on the market middle price, follows the recommendations of the Basel committee Bank supervisory boards. The central treasury function, operating as a service center, also supplies financial services to Deutsche Telekom group companies appropriate to their requirements and local circumstances.

The following discussion and tables, which constitute ''forward-looking statements'' that involve risk and uncertainties, summarize Deutsche Telekom's market-sensitive financial instruments including fair value, maturity and contract terms. These tables address market risk only and do not present other risks which Deutsche Telekom faces in the normal course of business, including country risk, credit risk and legal risk.

Interest Rate Risk

Deutsche Telekom's major market risk exposure arises from changing interest rates, primarily in the European Union. An increase in interest rates reduces the fair value of Deutsche Telekom' debt portfolio, which is primarily of a fixed interest nature. Deutsche Telekom uses interest rate swaps, forward rate agreements, swaptions and futures contracts to diversify funding, reduce interest rate volatility on certain debt issues and investments, and manage its interest expense by achieving a balanced mixture of floating and fixed rate debt. Under interest rate swaps, Deutsche Telekom agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate amounts calculated by reference to an agreed notional principal amount. Swaptions entitle the purchaser to require the counterparty to enter an interest rate swap at specified terms. Deutsche Telekom restrictively sells swaptions to improve interest income. Interest rate caps require Deutsche Telekom to pay, or entitle Deutsche Telekom to receive, the excess of an agreed upon rate over a reference interest rate. Futures contracts require Deutsche Telekom to pay or to receive losses or gains arising on movements in the quoted contract price during the period before delivery.

The following tables summarize the nominal and fair values, maturity and contract terms of the interest rate sensitive financial instruments that were held by Deutsche Telekom at December 31, 1999.

December 31, 1999

Assets and related derivative instruments subject to interest rate risk

	Maturities							
	2000	2001	2002	2003	2004	Thereafter	TOTAL	FAIR VALUE
	(in millions of €)							
ASSETS								
Other long-term loans								
Fixed rate	102	102	102	133	2	6	447	447
Average interest rate (%)	6.95	6.95	6.95	6.95	6.95	6.95	6.95	
Variable rate	—	180	—	—	—	—	180	180
Average interest rate (%)(1)								
Other investments in non-current securities	1,358	274	291	104	—	—	2,027	2,294
Interest instrument investment portfolio	Note (5)	5.35	5.03	4.50	—	—		
Other investments in marketable securities								
Fixed rate	72	266	257	113	401	616	1,725	1,725
Average interest rate (%)(2)	9.82	6.75	6.53	8.59	5.55	4.15		
Liquid assets								
Fixed rate DM, EUR, EMS	317	—	—	—	—	—	317	317
Average interest rate (%)(2)	3.17	—	—	—	—	—	3.17	
Fixed rate US$	109	—	—	—	—	—	109	109
Average interest rate (%)(2)	5.47	—	—	—	—	—	5.47	
Fixed rate GBP	296	—	—	—	—	—	296	296
Average interest rate (%)(2)	5.30	—	—	—	—	—	5.30	
Variable rate DM, EUR, EMS	3	—	—	—	—	—	3	3
Average interest rate (%)	2.76	—	—	—	—	—	2.76	
Variable rate US$	179	—	—	—	—	—	179	179
Average interest rate (%)	3.74	—	—	—	—	—	3.74	
Variable rate GBP	3	—	—	—	—	—	3	3
Average interest rate (%)	4.15	—	—	—	—	—	4.15	
EUR interest rate swaps								
Receive fixed, pay variable(4)	—	—	500	—	—	—	500	(10)
Average receive rate (%)(3)	—	—	3.79	—	—	—	3.79	
EUR FRAs sold								
Contract amount	1.000	—	—	—	—	—	1.000	(4)
Average rate (%)	3.21	—	—	—	—	—	3.21	
Interest rate futures bought								
505 contracts with EUR 100,000 nominal value	51	—	—	—	—	—	51	0
Future price DM	104.15	—	—	—	—	—	104.15	

(1) The interest rate terms for 6 months LIBOR plus 0.5.
(2) Weighted average rates of the portfolio at the period end.
(3) Weighted average settlement rates applicable to the current settlement period.
(4) Represents notional amounts.
(5) The interest rate terms for these investments (mainly investment funds and mixed funds) are not available.

December 31, 1999

Liabilities and related derivative instruments subject to interest rate risk

	Maturities							
	2000	2001	2002	2003	2004	Thereafter	TOTAL	FAIR VALUE
				(in millions of Euro)				
LIABILITIES								
Bonds and debentures								
Fixed rate	3,984	5,326	7,874	2,557	9,280	2,726	31,747	33,674
Average interest rate (%)(1)	8.87	7.97	7.92	6.25	7.35	5.57	7.54	
Variable rate	950	—	—	39	—	51	1,040	1,038
Average interest rate (%)(1)	5.25	—	—	14.62	—	5.00	5.59	
Liabilities to banks								
Fixed rate	3,559	257	329	475	325	784	5,729	5,729
Average interest rate (%)(1)	3.74	7.98	7.20	6.82	7.53	4.69	4.73	
Variable rate(4)	430	1,602	74	48	20	1,647	3,821	3,821
Average interest rate (%)(1)	4.39	6.50	14.84	14.62	14.71	5.84	6.29	
EUR Forward forward deposit								
Contract amount	600	—	—	—	—	—	600	(1)
Average rate (%)	3.88	—	—	—	—	—	3.88	
EUR interest rate swaps								
Receive variable, pay fixed	—	—	153	153	52	1,534	1,892	(42)
Average pay rate (%)(2)	—	—	5.20	4.82	5.45	5.63	5.52	
Average receive rate (%)(2)	—	—	3.49	2.93	3.11	3.40	3.36	
EUR interest rate swaps								
Receive fixed, pay variable(3)	13	1,227	716	—	—	562	2,518	30
Average pay rate (%)(2)	2.9	3.3	3.07	—	—	3.43	3.26	
Average receive rate (%)(2)	6.3	4.5	4.71	—	—	5.00	4.68	
GBP interest rate swap								
Receive variable, pay fixed	—	—	121	1,008	88	—	1,217	20
Average pay rate (%)(2)	—	—	6.92	6.57	5.18	—	6.53	
Average receive rate (%)(2)	—	—	7.04	7.04	7.04	—		
EUR interest rate caps purchased								
Contract amount	—	—	153	—	—	—	153	4
Average strike rate (%)	—	—	3.83	—	—	—	—	3.83
GBP interest rate caps (collars) purchased								
Contract amount	—	—	202	80	—	—	282	0
Average cap strike rate (%)	—	—	8.5	7.5	—	—	8.2	
US$ interest rate swaps								
Receive variable, pay fixed(3)	—	—	50	50	—	324	424	17
Average pay rate (%)(2)	—	—	6.13	5.83	—	6.15	6.11	
Average receive rate (%)(2)	—	—	6.14	5.58	—	6.05	6.01	
US$ interest rate swaps								
Receive fixed, pay variable(3)	—	—	50	50	—	325	425	(22)
Average pay rate (%)(2)	—	—	6.14	5.58	—	6.05	6.01	
Average receive rate (%)(2)	—	—	5.9	5.8	—	5.92	5.90	
Cross currency interest rate swaps								
Receive fixed GRD, pay variable DM	—	30	18	28	—	—	76	11
Average pay rate (%)(2)	—	3.12	3.12	3.11	—	—	3.12	
Average receive rate (%)(2)	—	9.70	9.03	8.11	—	—	8.96	
Receive fixed USD, pay variable EUR	—	—	—	—	—	49	49	2
Average pay rate (%)(2)	—	—	—	—	—	6.81	6.81	
Average receive rate (%)(2)	—	—	—	—	—	4.65	4.65	

(1) Weighted average rates of the portfolio at the period end.
(2) Weighted average settlement rates applicable to the current settlement period.
(3) Represents notional amounts.
(4) Consists mainly of debt denominated in GBP.

Foreign Exchange Rate Risk

Deutsche Telekom conducts its business primarily in Germany and, therefore, its cash flows have been primarily denominated in euros. Deutsche Telekom is exposed to foreign exchange risk related to foreign currency denominated liabilities, international participations and anticipated foreign exchange payments. These liabilities relate primarily to foreign currency denominated debt of group companies. Anticipated foreign exchange payments, representing a substantial sum, relate primarily to expense payments, principally to international third party telecommunications carriers, and capital expenditures. Based on Deutsche Telekom's estimate of future foreign exchange rates, it enters into foreign currency forward exchange contracts to reduce fluctuations in foreign currency cash flows related to these anticipated payments. There can be no assurance that actual payments will conform to Deutsche Telekom's expectations or to historical payment patterns.

The table below provides information about foreign currency derivative instruments. The on balance sheet foreign currency positions are indicated in the interest rate tables. Deutsche Telekom has entered into derivative instruments in connection with anticipated settlement payments to international third party carriers. In addition, in connection with the purchase and financing of One 2 One, Deutsche Telekom has entered into forward sales of GBP (see below) in order to hedge in part the foreign exchange risk.

December 31, 1999

Derivative instruments subject to foreign exchange risk

	Maturities							
	2000	2001	2002	2003	2004	Thereafter	TOTAL	FAIR VALUE
	(in millions of EURO)							(in millions of EURO)
Foreign currency forward exchange contracts								
Buy US$/sell EUR	5	—	—	—	—	—	5	1
Average contractual exchange rate (EUR/US$)	1.09	—	—	—	—	—	1.09	
Sell US$/buy EUR	1,039	—	—	—	—	—	1,039	(105)
Average contractual exchange rate (EUR/US$)	1.11	—	—	—	—	—	1.11	
Sell GBP/buy EUR	7,066	—	—	—	—	—	7,066	(152)
Average contractual exchange rate (EUR/GBP)	0.64	—	—	—	—	—	0.64	
Sell HUF/buy US$	145	—	—	—	—	—	145	(2)
Average contractual exchange rate (HUF/US$)	1.57	—	—	—	—	—	1.57	
Cross currency interest rate swaps								
Receive fixed GRD, pay variable DM	—	30	18	28	—	—	76	11
Average pay rate (%)(1)	—	3.12	3.12	3.11	—	—	3.12	
Average receive rate (%)(1)	—	9.7	9.03	8.11	—	—	8.96	
Receive fixed USD, pay variable EUR	—	—	—	—	—	49	49	2
Average pay rate (%)(1)	—	—	—	—	—	6.81	6.81	
Average receive rate (%)(1)	—	—	—	—	—	4.65	4.65	

(1) Weighted average settlement rates applicable to the current settlement period.

Equity Price Risk

Deutsche Telekom continuously evaluates investment opportunities with a view to enhancing its return on excess liquidity, while maintaining a diversified portfolio. The table below presents the cost and fair value of those marketable equity securities comprising mixed and equity funds held by Deutsche Telekom at December 31, 1999 which are sensitive to changes in equity prices. The securities are carried at cost.

	December 31, 1999 Assets subject to equity price risk	
	Cost	Fair Value
	(in millions of €)	
Other investments in non-current securities		
Equity investment portfolio	685	888

The fair value of debt and investments which are publicly traded, primarily bonds and debentures, is estimated based on quoted market prices at year end. The book values of commercial paper, liabilities to banks and other liabilities approximate their fair values. The net carrying amounts of liquid assets reflect reasonable estimates of fair value due to the relatively short period to maturity of the instruments. The fair value of off-balance sheet financial instruments generally reflects the estimated amount Deutsche Telekom would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains and losses of open contracts. The estimated fair values of derivatives used to hedge or modify Deutsche Telekom's risk will vary substantially with future changes in interest rates or with fluctuations in foreign exchange rates. These fair values should not be viewed in isolation, but rather in relation to the fair values of the underlying hedged transactions and the overall reduction in Deutsche Telekom's exposure to adverse fluctuations in interest and foreign exchange rates.

Changes in market risk exposure compared to 1998

The reduction of the fixed rate bonds by approximately 12 percent to EUR 31.7 billion accordingly reduces the fair value risk resulting from potential changes in interest rates. Deutsche Telekom's foreign exchange exposure did not materially change compared to 1998. Deutsche Telekom faces an increased equity price risk related to its investment in mixed and equity funds which increased by EUR 147 million in 1999 to EUR 685 million. For a summarized comparison of the nominal amounts, book values and market values of financial instruments and other information relating to those instruments, see note 33 to the consolidated financial statements.

BUSINESS

Introduction

Deutsche Telekom is the largest provider of telecommunications services in Germany and one of the world's largest telecommunications companies measured in terms of 1999 consolidated net revenues. Deutsche Telekom's consolidated net revenues in 1999 totaled EUR 35.5 billion.

Deutsche Telekom focuses on providing innovative and high quality telecommunications services, taking advantage of its large and technologically advanced networks. Deutsche Telekom is giving increasing emphasis to offering its customers communications solutions that take advantage of the increasing convergence of information technology with telecommunications.

Deutsche Telekom is the largest provider of fixed-line voice telephony services to the public in Germany, providing nearly 48 million access lines to subscribers at December 31, 1999. Deutsche Telekom is the world's leading ISDN operator, with 13.3 million ISDN channels in service at December 31, 1999, which was more than the total number of ISDN channels then in service in the United States. Deutsche Telekom has one of the most technologically advanced networks in the world, with 100 percent digital transmission and switching. The full reconstruction of eastern Germany's telecommunications network in the wake of German reunification made eastern Germany the home of one of the world's most modern physical infrastructures for telecommunications services. As a natural consequence of having a highly developed nationwide network, Deutsche Telekom is Germany's leading provider of interconnection and other carrier services to other telecommunications companies.

Deutsche Telekom is Germany's second largest mobile communications provider, with around 9.2 million mobile telephone subscribers as of December 31, 1999. Deutsche Telekom estimates that its German mobile telephony subsidiary had a market share of about 39.0 percent in the German digital mobile telecommunications market as of December 31, 1999, and a 39.4 percent market share in the overall German mobile telecommunications market at that date. The overall German digital mobile telephony market has grown rapidly in recent years; according to Deutsche Telekom's estimates, this market expanded to an estimated 23.2 million subscribers at December 31, 1999 from an estimated 13.5 million subscribers the year before. Nevertheless, Germany has a relatively low mobile telephony penetration rate, as only 28 percent of the population subscribed to a mobile telephony service as of December 31, 1999. By way of comparison, the mobile telephony penetration rate was approximately 66 percent in Finland, 57 percent in Sweden, 53 percent in Italy, 52 percent in Austria, 41 percent in the United Kingdom and 35 percent in France. As a result, Deutsche Telekom believes that the German market still has considerable potential for growth, particularly as the service becomes increasingly affordable to larger groups of potential customers.

Deutsche Telekom is a leading provider of data communications and data communications/systems solutions, such as corporate networks, in Germany. Due to rapidly expanding Internet usage and the increasing use of intranets by multi-location companies, this area is one of the fastest growing areas in the telecommunications field. Deutsche Telekom also intends to significantly expand its activities in the area of information technology/systems solutions. In this regard, Deutsche Telekom announced in March 2000 that it had agreed to acquire from DaimlerChrysler AG an equity interest of 50.1 percent in debis Systemhaus GmbH, subject to regulatory and corporate approvals. debis Systemhaus is one of Europe's largest information technology/systems solutions providers, and Deutsche Telekom's acquisition of a stake in debis Systemhaus should allow Deutsche Telekom to increase significantly its presence in this important market.

Deutsche Telekom operates Germany's largest broadband cable network, transmitting television and radio programming, directly or indirectly, to 17.8 million households at December 31, 1999. As part of its plan to sell majority interests in the business to third party investors, Deutsche Telekom has placed the core of its broadband cable business into a separate subsidiary and plans to further divide the business into nine regional companies as of July 1, 2000. In February, March and May 2000, Deutsche Telekom has reached the first agreements for the sale of a majority interest in three of these regional companies, and negotiations regarding the sale of interests in other regional companies are currently in progress. Deutsche Telekom expects to retain at least a minority equity interest in each of these regional companies with the goal of preserving its access to cable television customers for the purpose of marketing its multimedia services. In terrestrial radio and television signal broadcasting, Deutsche Telekom is also among Europe's leaders.

Deutsche Telekom owns a substantial majority interest in Europe's largest Internet online service provider and access gateway, T-Online International AG, which had 4.2 million subscribers as of December 31, 1999. The number of T-Online subscribers increased by over 50 percent in 1999 as compared to 1998 figures, and by over 40 percent in 1998 as compared to 1997 figures. T-Online has built on its strong position in Germany and has taken steps to establish operations outside Germany, such as the purchase of Club Internet, a leading French online service provider, and the founding of T-Online.at, an Austrian online service provider, in cooperation with max.mobil. Deutsche Telekom's Austrian mobile communications subsidiary. Within Germany, Deutsche Telekom is positioning itself as the leading provider of Internet-based applications and services, focusing on the T-Online and T-Mart brands.

Through its terminal equipment business area, Deutsche Telekom is the only company in the German telecommunications market that sells a comprehensive range of telecommunications products such as telephones, fax machines, private automatic branch exchanges (PABXs) and complete network solutions.

In keeping with its position as Germany's largest telecommunications carrier, Deutsche Telekom is also the leading provider in Germany of directory assistance, toll-free number, call center, public telephone and telephone directory services.

Deutsche Telekom is seeking to expand internationally through acquisitions, investments and joint undertakings in the areas that are the four pillars of its growth strategy: mobile communications, data/IP/systems, consumer Internet services and access. Accordingly, in 1999, Deutsche Telekom:

- Increased its ownership interest in max.mobil., Austria's second largest mobile communications provider, from 25 percent to 91 percent;
- Acquired One 2 One, one of the leading mobile communications service providers in the United Kingdom;
- Acquired the equity interests of MediaOne in several Central European mobile telephony companies;
- Acquired a 35 percent equity interest in Hrvatske Telecomunikacije, the leading full-service telecommunications provider in Croatia; and
- Acquired SIRIS, a significant provider of fixed-line telephony and data communications services in France.

Deutsche Telekom considers the expansion of its international business to be an essential component of its overall business strategy. Deutsche Telekom aims in particular to build on its strengths in Europe and is interested in expanding its reach in the United States. Deutsche Telekom's recent disengagement from the Global One alliance gives Deutsche Telekom the freedom to pursue opportunities that were formerly closed to it under its contractual arrangements.

Historical Background

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

Deutsche Telekom's most significant investment projects during the 1990s were the expansion and modernization of the telecommunications infrastructure in the former East Germany, starting with German reunification in 1990, and the digitization of its entire telecommunications network, starting in the early 1990s. Both of these projects were completed during 1997.

The telecommunications sector in Germany was fully liberalized on January 1, 1998. Deutsche Telekom now faces intense competition and is required to offer competitors access to its fixed-line network at regulated interconnection rates. The operation of networks (including cable networks) for all telecommunications services other than public fixed-line voice telephony had been fully opened to competition on August 1, 1996.

Strategy

Since 1996, Deutsche Telekom has implemented a number of strategic initiatives to strengthen its competitive position. Many of the objectives set by the company at the time of its initial public offering have been accomplished on or ahead of schedule. Deutsche Telekom has streamlined its organization to increase its customer-orientation, reduced staffing levels and improved business processes to increase productivity and reduce the time needed to bring new services to market. In addition, Deutsche Telekom has reduced its indebtedness to improve its capital structure and give itself greater flexibility. In the face of direct competition, it has grown a number of activities outside its classic fixed-line voice telephony service into businesses that rank in size among Europe's market leaders.

Deutsche Telekom's objectives for the coming years are to build on its position as a leading telecommunications provider in Europe and to secure its place among the world's leading telecommunications companies, with the overall aim of generating attractive returns for its shareholders. To accomplish its objectives, Deutsche Telekom is developing its business with a focus on four strategic pillars:

- Mobile telecommunications;
- Data communications/IP/systems;
- Consumer Internet systems; and
- Network access.

Deutsche Telekom plans to pursue growth in these fields aggressively, primarily through internal development and acquisitions, with a particular emphasis on Europe and the United States. Deutsche Telekom and its affiliates are actively considering and discussing a number of potential acquisition transactions. These may be made using newly issued shares of Deutsche Telekom or its affiliates, cash or a combination of cash and shares, and may individually or in the aggregate be material to Deutsche Telekom or its affiliates. Discussions with third parties may be commenced or discontinued at any time.

In mobile telecommunications, Deutsche Telekom's strategic focus is on promoting a continuation of strong subscriber growth rates in its existing operations, expanding its business further internationally and becoming a leading provider of mobile data and m-commerce services. In developing its international mobile business, Deutsche Telekom intends to focus on acquisitions. In addition, it is selectively pursuing, either on its own or with local partners, next generation UMTS licenses across Europe as these become available. Deutsche Telekom is also considering entering markets as a ''virtual network operator'', building on experience gained with Virgin Mobile in the United Kingdom, its joint venture between One 2 One and Virgin. Deutsche Telekom also intends to be on the forefront of growth in mobile data and m-commerce services in Europe. The new London-based joint venture, T-Motion, between T-Mobil and T-Online is a step in this direction.

In data communications/IP/systems, Deutsche Telekom expects to consolidate its position among the largest integrated data communications and systems solutions providers in Europe with its planned acquisition of 50.1 percent of debis Systemhaus. By integrating the services of its already substantial data communications business with those of debis Systemhaus, Deutsche Telekom plans to position itself to benefit from increasing customer demand for complete data communications solutions. In this regard, Deutsche Telekom aims to offer an integrated service portfolio ranging from traditional transport and leased line services to complex information technology services and tailored business-to-business (B2B) commerce, business Internet and ASP solutions. To enhance its ability to service customers on a global scale, Deutsche Telekom will continue to evaluate acquisition opportunities in this area.

In consumer Internet services, Deutsche Telekom's subsidiary, T-Online International, plans to build on its position as the largest Internet service provider in Europe and the second largest in the world, and as the operator of the leading German-language Internet portal. T-Online intends to grow its subscriber base across Europe, both through internal growth and through acquisitions, enhance its portal content and services to increase visitor traffic and take measures to foster greater e-commerce and advertising revenues. With the encouragement of the German government, T-Online is promoting a nationwide ''Germany goes online'' initiative, which is aimed at turning the Internet into a true mass medium in Germany.

Deutsche Telekom's strategic focus in the network access field is to continue to shift the mix of its network communications revenues toward access charges and away from calling charges by migrating an increasing part of its customer base from narrow bandwidth products (which can carry only a modest amount of electronic signals at one time) to broadband access products (which can carry much larger amounts at considerably higher speeds and so can open up new applications for customers). In this regard, Deutsche Telekom intends to apply the experience gained from the successful mass-market roll-out of ISDN to its T-DSL product. Deutsche Telekom also intends to continue creating and actively marketing bundled access products, such as T-ISDN 300, which combines ISDN access with reduced calling charges and discounted monthly subscription fees. The company believes that such packages increase customer loyalty and reduce the likelihood of customers using competitors' call-by-call or preselection services.

In keeping with its focus on its four strategic pillars, Deutsche Telekom has begun reshaping the way it holds its subsidiaries and strategic investments and has taken concrete steps to expand the size and geographic scope of its activities.

- *T-Online International.* Deutsche Telekom's consumer Internet activities have generally been gathered into T-Online International AG, which in April 2000 became listed on the Neuer Markt segment of the Frankfurt Stock Exchange in connection with the floatation of approximately 10 percent of its share capital. Deutsche Telekom believes that T-Online's new status as a listed company should give it additional flexibility in pursuing its strategic objectives, as illustrated by its use of its shares to effect the acquisition of Club Internet, a leading French Internet service provider, and a 25 percent stake in comdirect, a leading German direct securities broker and financial services portal operator.

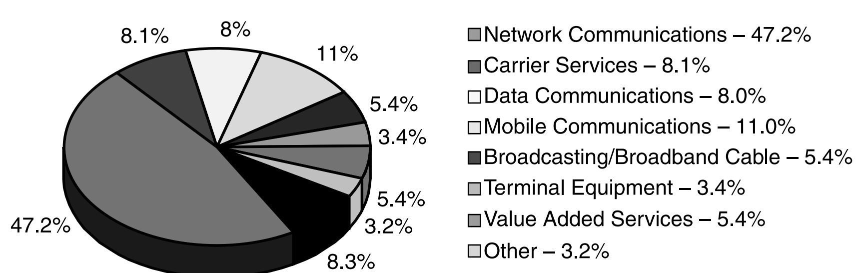
- *T-Mobile International.* Deutsche Telekom has transferred a substantial portion of its European mobile telecommunications business to a new holding company, T-Mobile International. Under current plans, the T-Mobile International group of companies will include T-Mobil (Germany), One 2 One (United Kingdom), max.mobil. (Austria) and Deutsche Telekom's interests in PTC (Poland), Radiomobil (Czech Republic) and MTS (Russia). Additional shareholdings may be added to the group at a later time. Like T-Online, the new company may become listed at some point during 2000, although no decision has been reached in this regard.

Deutsche Telekom is encouraging its management teams to explore actively ways in which the strengths of different business areas can be combined. For example, Deutsche Telekom recently established T-motion, a London-based joint venture owned 60 percent by T-Mobile International and 40 percent by T-Online, to develop mobile commerce services on a pan-European scale. Deutsche Telekom encourages its sales and distribution organizations to make available to their customers the full range of Deutsche Telekom's products and services, drawing on the resources of each business. Cross-marketing and sales, combined with Deutsche Telekom's highly advanced nationwide networks and substantial market presence in the mobile, Internet and data communications/system solutions fields, should position Deutsche Telekom to exploit successfully advances in convergent technologies and changes in customer requirements.

For a more extensive description of Deutsche Telekom's strategies and actions in the international arena, as well as of recent developments in its international business relationships, please refer to ''Business—International''. Deutsche Telekom's strategies with respect to its broadband cable business are discussed under ''Business—Broadcasting and broadband cable''.

Deutsche Telekom's Revenues by Business Area and Geographic Region

Deutsche Telekom's consolidated net revenues are derived principally from telephone network communications services, which consist primarily of domestic and international public fixed network voice telephony services. Deutsche Telekom also obtains revenues from interconnection services for domestic and international network operators, domestic and international services in the field of data communications and systems solutions, and mobile communications services. Broadband cable and broadcasting, the supply and sale of terminal equipment, special value-added services, and other ancillary services, including the online services offered by T-Online and other multimedia services, round out the range of products and services offered by Deutsche Telekom. Revenues from activities outside Germany are generated by Deutsche Telekom's foreign subsidiaries. The following chart shows revenues from each of Deutsche Telekom's business areas for 1999 expressed as a percentage of consolidated net revenues for that year.



Approximately 11 percent of Deutsche Telekom's revenues in 1999 was derived from activities outside Germany. For a breakdown of revenues by geographic region, see note 1 to the consolidated financial statements.

Network Communications

Network communications—in essence, the provision of voice telephony services through the Deutsche Telekom fixed-line network—continues to be the main contributor to Deutsche Telekom's consolidated revenues and profits. In 1999, Deutsche Telekom generated net revenues of EUR 16.7 billion (47.2 percent of Deutsche Telekom's net consolidated revenues) and net income before taxes of EUR 2.3 billion from this area. The network communications business area includes access services and local, national long distance and international calling services as well as connections to mobile and online service providers. Other related services, such as directory assistance, public telephones, the supply of telephones and the handling of inbound international calls, are included in other business areas at Deutsche Telekom.

Access

Deutsche Telekom's access services include providing homes, businesses and agencies in Germany with analog access lines, digital (ISDN) access lines and various supplementary services.

Standard access lines are connected to Deutsche Telekom's network through digital exchanges. Each standard access line provides a single telecommunications channel. Deutsche Telekom offers both basic ISDN access lines with two channels and primary ISDN access lines with thirty channels. ISDN allows a single access line to be used for a number of purposes, including voice, video telephony, data and facsimile transmission. ISDN also provides higher quality connections with faster transmission of signals and increases the capacity of the access network. Deutsche Telekom offers ISDN access lines nationwide and has the largest ISDN network in the world measured in terms of access lines.

As of December 31, 1999, Deutsche Telekom provided over 34.5 million standard analog access lines. In addition to these standard analog access lines, as of December 31, 1999, Deutsche Telekom had installed over five million ISDN access lines, representing a total of 13.3 million channels. Of this number, 7.3 million were connected with business customers and 6.0 million with residential customers. While business customers continue to account for a majority of the ISDN channels in service, ISDN channel growth is strongest among residential customers. In 1999, Deutsche Telekom achieved overall ISDN channel growth of 32 percent, representing 18 percent growth among business customers and 54 percent growth among residential customers.

The following table sets forth, for the periods indicated, more detailed information relating to access channels provided by Deutsche Telekom and penetration rates for standard analog lines and ISDN lines.

	As of December 31,				
	1999	1998	1997	1996	1995
Access Channels(1):					
Total access channels (millions)	47.8	46.5	45.2	44.2	42.0
Of which:					
Standard analog lines (millions)(2)	34.5	36.4	37.8	39.0	39.2
ISDN					
Basic access lines (thousands)(3)	5,442.4	3,996.9	2,831.2	1,918.3	846.4
Primary access lines (thousands)(3)	81.2	70.0	56.0	45.6	35.0
Total ISDN channels (millions)(3)	13.3	10.1	7.3	5.2	2.7
Penetration(1)(4):					
Standard access lines	42.1	44.4	46.1	47.6	47.9
ISDN channels	16.2	12.3	8.9	6.3	3.3
Total penetration rate	58.3	56.7	55.1	53.9	51.3

(1) Based on lines in service, including courtesy lines, service lines and lines for payphones.
(2) Each standard access line provides one access channel.
(3) A basic ISDN line provides two access channels and a primary ISDN line provides 30 access channels.
(4) Number of Deutsche Telekom lines or channels per 100 inhabitants. Figures for 1998 and 1999 calculated on the basis of an estimated population of 82 million. Figures may not add to 100 percent due to rounding.

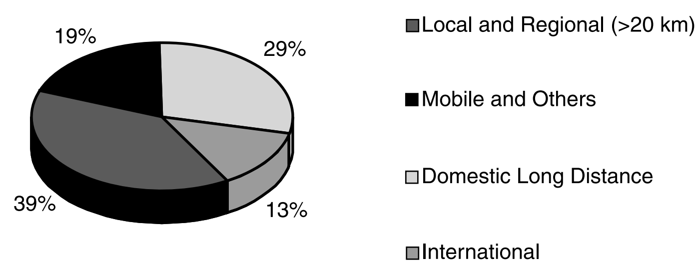
In 1999, Deutsche Telekom implemented special traffic charges for calls initiated from telephones connected to ISDN lines. Since customers with ISDN lines pay a higher monthly access fee and tend to make more and longer telephone calls than customers with analog lines, increasing the ISDN penetration rate among its customers is an important element of Deutsche Telekom's fixed-line strategy. For further information on Deutsche Telekom's tariffs for ISDN access lines, see ''—Network Communications—Tariffs''. While an increase in ISDN lines tends to result in a decline in the number of analog lines, due to a substitution effect, increased ISDN penetration contributes overall to higher fixed-line revenues.

Deutsche Telekom intends to use ISDN access lines as the basis for introducing innovative products. For example, with its T-ISDN mobil service, Deutsche Telekom was one of the first providers worldwide to introduce a ''genuine'' bundled product that integrates ISDN and mobile phone services. With this product, a customer has the same phone number for a fixed-line phone and a mobile phone and can answer calls on either phone, according to the customer's preference.

Because Deutsche Telekom is required to provide its competitors with unbundled access to the telephone lines running into its customers' premises at prices based on the cost of providing such service, Deutsche Telekom has begun to face competition in the access line market and expects such competition to increase over time. Technological innovations that may allow competitors economically to provide telecommunications services to customers without using existing telephone lines (e.g., cable, wireless, satellite or power line access) are expected to have the effect of further stimulating such competition.

Overview of Calling Services

Deutsche Telekom provides comprehensive local, national and international long distance fixed-line calling service to customers throughout Germany. The following chart indicates revenues from local calls, national long-distance calls, international calls and calls to mobile networks and others as a percentage of total calling revenues during 1999.



In 1999, net revenues from fixed-line calling services amounted to EUR 10.4 billion. Residential customers provided 69 percent of call revenue, while 31 percent was generated by business customers. Revenue from calls to mobile numbers rose 23 percent over the previous year's figure, while revenues from calls to online services grew by 51 percent.

Since January 1, 1998, the provision of fixed-line voice telephony services has been open to full competition. Deutsche Telekom does not yet face significant competition in the market for local calls for which an area code is required, although such competition is expected to increase as competitors begin to offer access services in the medium term. In 1999, competition still concentrated on long distance and international calls, both areas in which our competitors have made considerable inroads into the market. According to a report published by the Regulatory Authority, Deutsche Telekom had a market share of approximately 60 percent in the combined domestic long-distance and international calling markets at year-end 1999. Fixed terms for interconnection, which particularly favor competitors that have not invested heavily in infrastructure, enabled competitors to benefit from Deutsche Telekom's infrastructure investments at low prices. In Germany, telephone customers are free to choose providers either through preselection—selecting one long-distance carrier to handle all domestic long distance and international calls on a default selection basis—or through call-by-call selection—selecting a carrier when such a call is made by dialing the carrier's numeric prefix before dialing the telephone number. Deutsche Telekom has countered the challenge posed by its competitors with sharply reduced tariffs and innovative, customer-oriented and reliable products and services.

Domestic Traffic

The following table shows certain statistical data regarding domestic telephone traffic.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
				(% change)	
Minutes from local calls (in millions)	116,453	118,843	110,912	(2.0)	7.2
Minutes from domestic long distance calls (in millions)	38,121	45,260	48,699	(15.8)	(7.1)
Minutes from calls to mobile networks (in millions)	5,290	4,043	2,972	30.8	36.0
Minutes from other services (in millions)	18,819	7,890	4,243	138.5	85.9
of which connections to online services (in millions)(1)	18,630	7,744	4,156	140.6	86.3
Total minutes from domestic calls (in millions)(1)	178,683	176,036	166,826	1.5	5.5

(1) For purposes of consistency with the presentation used in 1998, ''connections to online services'' includes minutes from calls to T-Online. However, revenues from calls made to T-Online on or after April 1, 1999 under many of T-Online's tariff plans are shown not under revenues from ''network communications'' but rather under revenues from ''other services.'' For further information in this regard, see ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Net Revenues—Network Communications''. If the traffic corresponding to these revenues is subtracted from total minutes from domestic calls shown above, total minutes from domestic calls decreased by approximately 4.5 percent from 1998 to 1999.

In 1999, Deutsche Telekom's customers generated 1.5 percent more domestic traffic minutes than in 1998. This growth was attributable largely to a substantial increase in minutes to online services and an increase in fixed-to-mobile traffic. However, the increase in minutes to online services includes calls to T-Online, although revenues from calls made after April 1, 1999 to T-Online under many of T-Online's tariff plans are shown under ''other services.'' Adjusted for calls to T-Online for which the corresponding revenues are shown under ''other services,'' minutes from domestic traffic decreased by approximately 4.5 percent, as the increase in fixed-to-mobile traffic was more than offset by a decline in long-distance minutes, which was due to a decline in market share resulting from competition, and by a decline in local traffic that resulted from the entry of competitors into this market and from competition from mobile networks.

The following table sets forth information relating to the number of domestic calls.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
				(% change)	
Domestic calls (in billions)	50.6	52.7	52.7	(3.9)	0.0

Outbound International Traffic

The following table shows outbound international traffic in millions of minutes broken down by geographic regions in 1999. Total outbound international traffic in millions of minutes was 4,711 in 1998 and 4,813 in 1997.

	December 31, 1999(1)
Western/Central Europe and Mediterranean countries	3,109
USA/Canada	295
Others	456
Total	3,860

(1) Estimated outgoing minutes.

Tariffs

Tariffs charged by Deutsche Telekom for its fixed-line voice telephony services are subject to regulatory approval. Under the regulatory framework that applies to the German telecommunications sector, these tariffs will continue to be subject to regulation for as long as Deutsche Telekom is considered to be a market-dominant provider of these services. In January 1998, tariffs for Deutsche Telekom's public fixed-line voice telephony services became subject to a price-cap regime. See ''Regulation—Special Requirements Applicable to Market-Dominant Providers—Pricing''.

Telephone subscribers are charged an initial connection fee, monthly subscription fee, and traffic charges. Prices are set according to the distance called, the time of day and whether the day is a business day, a weekend or a public holiday. In the residential market, traffic charges are now mostly based on minute prices, except for local calls, where traffic charges are still based on charging units. The duration of a unit varies according to the calling plan being used—for example, Deutsche Telekom's ''Business Call'' tariffs are based on units of one second—and according to the day of the week and the time of day.

Subject to applicable regulatory limits, Deutsche Telekom intends to continue adjusting its tariffs to align its charges more closely with the preferences of its customer groups. For a discussion of regulatory developments and legal controversies affecting tariffs, see ''Regulation—Special Requirements Applicable to Market-Dominant Providers'' and ''Business—Legal Proceedings''.

Access Charges

Revenue from access consists principally of monthly subscription fees charged to customers for providing access lines as well as one-time initial connection fees. The level of monthly subscription fees generally is higher for ISDN access lines than for standard access lines. In 1999, revenue from

ISDN access lines accounted for approximately 26% of total access revenues. Access charges remained constant from 1996 through the first quarter of 2000. On April 1, 2000, Deutsche Telekom reduced standard ISDN monthly subscription fees. Deutsche Telekom's initial connection fees and monthly subscription fees (including value added tax), with effect as of April 1, 2000, are shown in the following table.

Standard connection fee	DM100.86
Standard monthly subscription fee	DM 24.81
ISDN connection fee(1)	DM100.86
Standard ISDN monthly subscription fee	DM 44.89
Komfort ISDN monthly subscription fee(2)	DM 49.90

(1) Deutsche Telekom charges an additional fee of DM 100.86 to customers who choose to have Deutsche Telekom install ISDN on their premises.

(2) Consists of a standard ISDN connection and certain additional value-added features.

Traffic Charges

Following the complete liberalization of Germany's telecommunications market in 1998, there has been intense competition in fixed-line telephony, in particular in the long-distance and international calling markets. Intense price competition continued in 1999, leading to falling margins in this segment of the telecommunications market and to the beginning of consolidation among some of Deutsche Telekom's competitors. In January 1999, Deutsche Telekom reduced the charges for calls in its regional and national calling zones by up to 62 percent. T-ISDN customers particularly benefited from these price reductions. Deutsche Telekom reduced off-peak long distance prices in April 1999 and the standard rate for international calls to many European countries, the USA and Canada in July 1999. In February 2000, Deutsche Telekom reduced rates for calls from its fixed network into its mobile telephone network, and in March 2000, Deutsche Telekom again significantly cut rates for domestic calls, especially for regional and national calls.

To increase customer loyalty in the current competitive environment, Deutsche Telekom introduced a number of new optional rate packages and access bundles in 1999. Some of these packages, such as Deutsche Telekom's AktivPlus, Select 5/30 and Select 5/10 rate packages, are designed to give residential customers alternatives to the standard tariff rates based on individual needs and usage patterns. The T-ISDN 300 package consists of a T-ISDN ''Komfort'' access line combined with reduced calling charges and discounted monthly subscription fees. Other new optional rate packages, such as the BusinessCall 500 and BusinessCall 700 packages, give business customers the benefit of a basic rate along with billing units of one second. With the BusinessCall rate packages, the prices of international calls to many countries within Western Europe and North America were reduced in July 1999 to a standard rate of 40 pfennigs per minute. These prices were then further reduced in February 2000 to a standard rate of 19 pfennigs per minute.

Deutsche Telekom has also introduced bundled rates for T-ISDN and T-Online, which enable T-ISDN customers to have access to the Internet in exchange for usage-related fees of six pfennigs per minute. These fees are divided evenly between online charges and phone charges. No basic access fee is charged as part of this package.

As a result of Deutsche Telekom's tariff initiatives and discount plans, the average cost for calls outside the local zone has declined, as illustrated by the following table.

	Year ended December 31,		
	1999	1998	1999/1998
	DM per minute(1)		(% change)
City/Local	0.07	0.07	—
Domestic long distance	0.15	0.28	(46.4)
International	0.71	0.87	(18.4)
Fixed to mobile	0.65	0.70	(7.1)

(1) Revenue for each type of service divided by corresponding number of minutes.

Local and National Call Charges

The following table shows Deutsche Telekom's local and national long distance call charges per minute, based on a call having a duration of one billing unit, as in effect on March 1, 2000. Because different calling plans have different billing units, the amounts shown in this table do not reflect the price of a one-minute call in all cases. Unless otherwise indicated, billing units have a duration of one minute.

	Peak(1)	Off-Peak(2)	Evening & Night(3)	AktivPlus Peak(7)	AktivPlus Off-Peak(7)
	DM	DM	DM	DM	DM
Analog Local (less than 20 km)	0.12(4)	0.12(5)	0.12(6)	0.06	0.03
Analog Long Distance (more than 20 km)	0.24	0.12	0.06	0.12	0.06
ISDN Local (less than 20 km)	0.12(4)	—	0.12(6)	0.06	0.03
ISDN Long Distance (more than 20 km)	0.18	—	0.06	0.12	0.06

(1) Analog: Weekdays—Local 9:00-18:00; Long distance 7:00-18:00. ISDN: Weekdays—Local 7:00-18:00; Long distance 7:00-18:00.

(2) Analog Weekdays—Local: 5:00-9:00, 18:00-21:00; Long distance: 18:00-21:00.

(3) Analog: Weekdays—Local 21:00-5:00; Long distance: 21:00-7:00. ISDN: Local 18:00-7:00; Long distance 18:00-7:00.

(4) Based on a billing unit of 90 seconds.

(5) Based on a billing unit of 150 seconds.

(6) Based on a billing unit of 240 seconds.

(7) Optional rate package: AktivPlus, with an additional monthly subscription fee of DM 9.90. Peak: 9:00-18:00, Off-peak 18:00-9:00.

International Call Charges

Within each tariff plan, Deutsche Telekom's international traffic charges are based on the same tariff unit used for domestic telephony charges. At present, the international tariffs are specified for every country, with identical tariffs for countries in some regions. Deutsche Telekom's international tariffs are subject to the same regulatory regime as its domestic tariffs. See ''Regulation—Special Requirements Applicable to Market-Dominant Providers—Pricing''.

A key component of Deutsche Telekom's 1999 price campaign was the reduction of calling charges for international calls to many countries in Europe and North America. In June 1999, a standard rate of 48 pfennigs per minute, 24 hours a day, for calls to 22 countries was introduced. Rates were reduced to between 12 and 36 pfennigs per minute for calls to those parts of Germany's neighboring countries that lie closest to the border with Germany. In February 2000, Deutsche Telekom introduced significant rate cuts for international calls to more than 50 countries.

The following table shows the cost of a one-minute call to selected destinations as of February 1, 2000, under some of Deutsche Telekom's major tariff packages.

	Standard Tariff(1)(2)		AktivPlus(1)(2)		BusinessCall(1)(3)	
Foreign Country	Old Price in DM	New Price in DM	Old Price in DM	New Price in DM	Old Price in DM	New Price in DM
Belgium, U.K., Denmark, France, Italy, Netherlands, Spain Switzerland, USA	0.48	0.24	0.39	0.19	0.40	0.19
Turkey	0.84	0.48	—	0.39	0.73	0.39
Greece	0.84	0.48	—	—	0.73	0.39
Poland	0.48	0.48	—	—	0.83	0.39
Russia	1.20/3.12	0.72	—	—	1.04/2.71	0.61
Sweden	0.96	0.24	—	—	0.83	0.19

(1) Minute prices exclude value added tax and are rounded in some cases.
(2) Calculated based on billing units of one minute.
(3) Calculated based on billing units of one second.

Deutsche Telekom's settlement payments to foreign carriers for termination of international calls originated in Deutsche Telekom's networks represent a significant cost of providing international calling services. For further information on settlement payments, see ''—Carrier Services''.

Innovative Service Offerings

Deutsche Telekom offers its customers a variety of products and services in addition to basic voice telephony, such as call waiting, call forwarding, conference calling nationwide, caller identification and callback when a caller receives a busy signal, as well as T-NetBox, Deutsche Telekom's network-based digital answering machine. Part of Deutsche Telekom's competitive strategy is to offer customers a range of innovative and attractive products intended both to secure customer loyalty and to enhance Deutsche Telekom's revenues.

During 1999, Deutsche Telekom stepped up its marketing efforts for virtual private networks solutions for business customers under the brand name T-VPN, an offer which was launched in 1998. The T-VPN package consists of standardized modules that can be combined in different configurations to produce applications that are tailored to the needs of particular customers. One of these modules, under the brand name ''Centrex'', enables Deutsche Telekom to introduce services in its networks that are normally provided only by private automated branch exchanges installed on customer premises. GVPN, the international component of T-VPN, was introduced in May 1999. GVPN offers solutions to the international needs of Deutsche Telekom key accounts, enabling them to carry out all of their international communications with Deutsche Telekom within a closed user group. Deutsche Telekom has been offering GVPN through the Global One network. Transition arrangements relating to Deutsche Telekom's disengagement from Global One are designed to ensure continuity of service for Deutsche Telekom's Global One customers for up to two years.

Carrier Services

Many new providers have entered the German telecommunications market since the full liberalization of the market at the beginning of 1998. Most of these competitors use Deutsche Telekom's network and related services as the basis for providing their own services to their customers. These special services to competitors are provided by the carriers services business area. This business area is also responsible for the company's international inter-carrier business, which includes terminating incoming international calls to its customers. This business area's net revenue in 1999 was EUR 2.9 billion, or 8.1 percent of the consolidated revenues of Deutsche Telekom. This represents an increase of 79 percent over 1998.

Domestic Interconnection and Local Loop Access

The products and services provided by the carrier services business area consist primarily of interconnection services for operators of fixed networks and mobile communications networks, carrier-specific transmission paths and access to the so-called ''unbundled'' subscriber line (or ''unbundled local loop'').

In the national market, the terms on which Deutsche Telekom provides services to competitors are essentially determined by the Regulatory Authority. The interconnection rates charged by Deutsche Telekom during 1999 were set by the Ministry for Posts and Telecommunications, the predecessor to the Regulatory Authority, in September 1997. In December 1999, the Regulatory Authority approved new interconnection rates that will apply through January 31, 2001, which are on average approximately 24 percent lower than the previously applicable interconnection rates. See ''Regulation—Special Network Access and Interconnection—Fixed-Fixed Interconnection.'' The terms for interconnection of Deutsche Telekom's telephone network with networks of other national providers are contained in bilateral contracts. At the end of 1999, Deutsche Telekom had signed 95 such agreements. An additional 50 companies had submitted requests for negotiations at that date. The total number of leased lines provided to carriers at year end, i.e., transmission paths that are made available to competitors in the fixed-line network, rose by 43 percent in 1999 in comparison with the previous year.

The terms of interconnection established by the Regulatory Authority are very important, since they strongly influence the level of competition in the market. Since 1998, Deutsche Telekom has been conducting discussions with the Regulatory Authority in order to achieve a differentiation in interconnection charges between competitors who have made substantial investments in their own networks and those who have only few points of interconnection. See ''Regulation—Special Network Access and Interconnection—Fixed-Fixed Interconnection'' for a discussion of regulatory developments relating to interconnection charges.

The following table shows the interconnection rates that were in effect until the end of 1999.

	Standard (9 a.m. to 9 p.m.)	Off-Peak (9 p.m. to 9 a.m.)
	(Pfennigs per minute)	
Local	1.97	1.24
Less than 50 km	3.36	2.02
Between 50 km and 200 km	4.25	2.35
More than 200 km	5.14	3.16

The following table shows the new rates approved by the Regulatory Authority in December 1999 for the period from January 1, 2000 to January 31, 2001.

	Standard (9 a.m. to 6 p.m.)	Off-Peak (6 p.m. to 9 a.m.)
	(Pfennigs per minute)	
Local	1.71	1.08
Less than 50 km	2.92	1.75
Between 50 km and 200 km	3.69	2.04
More than 200 km	4.47	2.75

These new rates can be expected to offset to some extent the effect on revenues of any future increase in interconnection traffic on Deutsche Telekom's network.

Deutsche Telekom is required to offer competitors so-called ''unbundled'' access to the subscriber line (''bare wire'') so that they have direct access to the customer. In February 1999, the Regulatory Authority set at DM 25.40 the maximum price that Deutsche Telekom was permitted to charge for such access for the period between publication of the decision and March 31, 2001. Both Deutsche Telekom and its competitors have challenged the decision of the Regulatory Authority in court. See ''Regulation—Special Network Access and Interconnection—Local Loop Access'' for a discussion of regulatory developments relating to subscriber access.

International Call Termination

The carrier services business area offers international network operators the opportunity to deliver their voice traffic to parties in Germany via Deutsche Telekom's network. In addition, this business area purchases termination services from foreign carriers for Deutsche Telekom's outbound international traffic, provides interconnection services to domestic competitors for termination of outgoing international calls and provides carriers' carrier transit services for calls that originate outside Germany and are routed through Germany for termination in a third country. At the end of 1999, Deutsche Telekom maintained business relationships with more than 300 foreign telephone companies.

The following table shows the volume of calls originated outside Germany that were terminated in Germany by means of Deutsche Telekom's network in the periods indicated.

	Year ended December 31,		
Call Origin	**1999(1)**	**1998**	**1997**
	(billions of minutes)		
Europe(1)	4.861	4.763	4.609
United States/Canada	0.962	0.912	0.834
Other regions	0.425	0.361	0.175
Total	**6.248**	**6.036**	**5.618**

(1) Includes all European countries, North Africa, Turkey, Israel and Lebanon.

Since Deutsche Telekom is viewed by the Regulatory Authority as a market-dominant provider in many markets, prices charged by Deutsche Telekom for most services provided to service providers and carriers are subject to regulatory approval. The Regulatory Authority has determined, however, that Deutsche Telekom is no longer dominant in the market for interconnection of outgoing calls to foreign countries. For further information on this topic, see ''Regulation—Special Requirements Applicable to Market-Dominant Providers.''

Deutsche Telekom pays for the use of networks of carriers in foreign countries for outgoing international calls and receives payments from other carriers for the use of its network for incoming international calls. Traditionally, these payments have been made pursuant to settlement arrangements under the general auspices of the International Telecommunications Union (''ITU''). Deutsche Telekom has historically been a net debtor under these arrangements (i.e., payments made by Deutsche Telekom for outgoing international traffic have exceeded payments received for incoming international traffic) and, consequently, has benefited from the lowering of settlement rates in recent years. Deutsche Telekom expects further reductions in the settlement rates, particularly between Germany and other members of the European Union (''EU''). Settlement payments are calculated using a currency basket in which U.S. Dollars have the greatest weight and settlement payments themselves are generally denominated in U.S. Dollars. In 1999, Deutsche Telekom's average bilateral settlement rates per minute decreased by 24 percent in comparison with the previous year.

Data Communications and Information and Communications Systems

Deutsche Telekom's data communications and information systems business area involves the use of Deutsche Telekom's network for the transport of large quantities of data and the use of modern data communications technology in the design of information and communications systems solutions for large, complex business customers.

Data transmission services and systems solutions based on those services represent one of the fastest growing areas in the telecommunications industry, and Deutsche Telekom is therefore focusing on this area as one of the four pillars of its growth strategy. As a result of expanding Internet usage and an increase in the number of companies that have multiple offices connected via company intranets, the volume of data traffic in global telecommunications networks is growing rapidly, and Deutsche Telekom expects it to exceed the volume of voice traffic in those networks in the future. Deutsche Telekom is responding to increasing customer requirements in this area by expanding its network platforms for data transmission and by offering a broad portfolio of products and services and customized solutions. The data communications services offered by Deutsche Telekom are increasingly incorporated into integrated services such as corporate networks and business-to-business Internet services.

This business area's net revenue in 1999 was EUR 2.8 billion (or 8.0 percent of the consolidated revenues of Deutsche Telekom), which represents an increase of 11.5 percent over 1998. This increase was achieved despite very strong downward pressures on price in the data communications area.

Data Communications

Among the data communications services that Deutsche Telekom offers are dedicated leased lines and data transmission services ranging from packet switching to state-of-the-art frame relay and Asynchronous Transfer Mode (ATM) communications, as well as Internet applications for business customers.

Leased Lines

Deutsche Telekom is the leading provider of leased lines in Germany. Deutsche Telekom markets fixed data connections under the product name ''LeasedLink''. This product includes standard leased lines, managed leased lines for data communications and international leased lines. Leased lines are used by business customers to assemble their own private networks and by telecommunications service resellers to establish networks to offer telecommunications services. Deutsche Telekom reduced tariffs for its ''LeasedLink'' product in 1999 by up to 29 percent for some types of connections.

The trend among Deutsche Telekom's customers toward the use of digital leased lines, which permit much higher transmission rates than analog connections, continued in 1999. As a result, the LeasedLink area has seen a marked trend toward broadband transmission rates. In 1999, the bandwidth Deutsche Telekom marketed in digital standard leased lines for data communications grew by 2.1 percent.

The following table shows the number of digital standard leased lines provided by Deutsche Telekom at the dates indicated.

Number of Leased Lines	At December 31, 1999	1998	1997
Digital Standard Leased Lines:			
64 Kbits/sec	35,460	34,847	29,958
2 Mbits/sec	8,960	8,665	7,483
More than 2 Mbits/sec	95	96	57
Total	**44,515**	**43,608**	**37,498**

The following table shows the monthly rental charges that applied to Deutsche Telekom's leased lines at the dates indicated. The figures shown in the following table represent averages that have been derived from actual prices that Deutsche Telekom charges its customers, on the basis of methodology developed by the Organization for Economic Cooperation and Development for the purpose of facilitating comparisons between leased line providers in different countries. Accordingly, these figures do not represent the actual prices that Deutsche Telekom charges to its customers.

Tariff rates (in DM/km)	At December 31, 1999	1998	1997
Digital Leased Lines:			
64 Kbit/s	14.82	14.88	16.36
2 Mbit/s	72.57	73.15	81.72
More than 2 Mbit/s	439.22	500.84	636.91

In cooperation with other international carriers, Deutsche Telekom offers international leased lines to its multinational customers, with the convenience of single-end ordering and billing.

Data Transmission

T-InterConnect. Deutsche Telekom offers a high-performance IP-based network platform for Internet and Intranet communications applications under the brand name ''T-InterConnect.'' This platform can be used as the basis for private corporate networks. At December 31, 1999, the platform consisted of 74 national network nodes redundantly connected via 155 Mbit/s links in the core network. T-InterConnect, which can be accessed nationwide at ''City'' (local) rates, features access bandwidth ranging from 64 kbit/s to 34 Mbit/s, and up to 2.4 Gbit/s after March 2000, to support Internet and intranet solutions for the customers of Deutsche Telekom.

In 1999, Deutsche Telekom was one of Germany's largest Internet service providers for business customers. The volume of traffic transported on the T-InterConnect platform almost doubled in 1999 as compared to 1998. Deutsche Telekom reduced its rates for T-InterConnect services by up to 50 percent in 1999.

To achieve better integration with the international Internet network, Deutsche Telekom increased the ''peering capacity'' of its network almost fourfold in 1999 and entered into ''peering'' agreements with major Internet service providers worldwide. ''Peering'' refers to the exchange of information between two separate Internet networks.

FrameLink Plus. Deutsche Telekom's FrameLink Plus service—which is based on frame relay technology—is especially designed to accommodate data communications that include high-volume bursts. FrameLink Plus is suitable both for linking LANs (Local Area Networks) and for building corporate networks. Instead of leasing a high-capacity leased line in order to accommodate occasional or intermittent traffic bursts, customers using FrameLink Plus pay for sufficient capacity to satisfy their day-to-day data requirements and are provided burst capacity up to the access rate to accommodate peaks in their data communications needs. Through FrameLink Plus, Deutsche Telekom offers frame relay service at a variety of access rates, ranging from 64 kbit/sec to 2 Mbit/sec.

In 1999, Deutsche Telekom further simplified FrameLink Plus rates structures for its customers and implemented price reductions of up to 30 percent in response to intense competition in this market. Deutsche Telekom also extended the FrameLink Plus portfolio by introducing a broader range of transmission speeds.

Intranet Solution. Using the T-InterConnect and FrameLink Plus platforms, Deutsche Telekom provides customers with customized intranet solutions, under the general brand name ''Intranet Solution.'' These solutions feature dial-in access through ISDN, through Deutsche Telekom's T-D1 mobile communications network and through the Datex-P service. Starting in 1999, Deutsche Telekom also began offering Intranet Solution on the basis of T-ATM and T-DSL. Intranet solutions based on T-InterConnect were developed for a growing number of customers in 1999, and Deutsche Telekom also began offering ''extranet'' solutions through which business customers are linked to third parties such as dealers or suppliers. Deutsche Telekom also launched its ''Global Intranet'' solutions in 1999, through which Deutsche Telekom's business customers can permit their employees worldwide to access company intranets.

City-Netze. Deutsche Telekom offers customized high-speed network solutions by means of its ''City-Netze'', which are regional networks of fiber optic lines. In 1999, Deutsche Telekom inaugurated an additional two City-Netz networks, thereby increasing the total in operation to 38. Customers normally use City-Netz networks as a basis for comprehensive telecommunications solutions. In many cases, customers use these broadband regional networks as access platforms for services such as T-ATM or T-InterConnect.

T-ATM. Deutsche Telekom's offers high speed Asynchronous Transfer Mode (ATM) data transmission service by means of its T-ATM service, which was accessible nationwide throughout Germany at 50 locations as of December 31, 1999. Since 1998, Deutsche Telekom has offered switched connections via T-ATM. Significant growth in the number of T-ATM connections took place in 1999, while average prices for T-ATM services remained relatively constant. T-ATM is one of the world's most modern telecommunications structures. Deutsche Telekom is one of the market leaders in Germany in the use of ATM technology, which permits voice, text, data and video communications over one line and which supports flexible, cost-effective use of bandwidth resources.

Transition arrangements relating to Deutsche Telekom's disengagement from Global One are designed to permit continuity of service for up to two years for Deutsche Telekom's customers that have been making use of the Global ATM service of Global One. This service provided broadband telecommunications links to 40 countries as of December 31, 1999.

T-DSL. ADSL technology (Asymmetrical Digital Subscriber Line) allows for the transmission of data at very high rates using conventional telephone lines. Deutsche Telekom continued to develop the potential of ADSL-based broadband communications for its customers in 1999 under the general brand name ''T-DSL''. For example, Deutsche Telekom made it possible in 1999 for customers to access its T-InterConnect and T-ATM data communications platforms via T-DSL connections. Due to the relatively low cost of this new access technology, T-DSL enables Deutsche Telekom to bring the benefits of fast Internet communications and innovative multimedia applications to new customer segments, in particular small and medium-sized business customers.

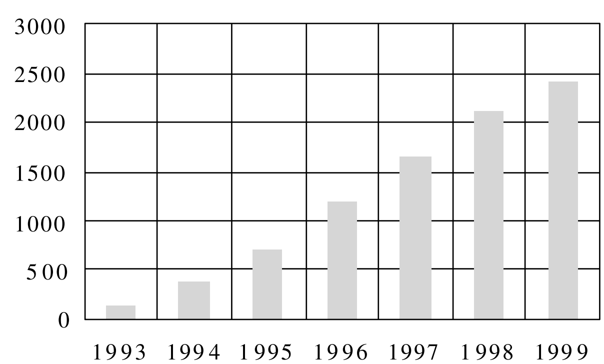
To combine the benefits of rapid data communications and fast Internet access with enhanced voice telecommunications via ISDN, Deutsche Telekom began offering T-DSL in a package with ISDN to its customers in April 1999. Since ADSL technology also permits fast access to the Internet by allowing customers to receive data over ordinary telephone lines at a transfer rate of up to 768 kbit/sec for residential customers and up to 6 Mbit/sec for business customers, Deutsche Telekom introduced a package consisting of T-DSL together with T-Online, Deutsche Telekom's Internet access service, in July 1999.

T-LAN. Through its subsidiary DeTeLine, Deutsche Telekom configures local area networks (LANs) for its customers under the brand name T-LAN. The T-LAN product portfolio was extended in 1999 to include specific solutions for small- and medium-sized business that permit voice transmission over local computer networks.

''X-25''-based Data Transmission Service. Deutsche Telekom continues to offer a packet-switched data transmission service based on the well-established X.25 protocol. Although they are relatively slow, X.25-based packet-switched services permit highly reliable data transmission while offering easy access through a choice of access modes, including dial-up access across various technologies, such as ISDN. Deutsche Telekom's packet-switched services are available for a wide variety of applications, including database applications, electronic funds transfer applications and e-mail. As of the end of 1999, Deutsche Telekom's customers were using some 75,000 X-25-based lines and 61,000 access authorizations, which represented a decrease in X-25-based lines of approximately 19 percent compared to year-end 1998.

Telekom Designed Networks. Telekom Designed Networks (TDN) are a central component of the data communications systems solutions services offered by Deutsche Telekom. With TDNs, Deutsche Telekom offers its large corporate customers communications solutions that are tailored to specific customer requirements. Under TDN contracts, Deutsche Telekom takes charge of the design and installation of the network and provision of comprehensive operational services, including network management and complete ongoing service.

In 1999, the number of large corporate customers with Telekom Designed Networks continued to grow. At the end of 1999, a total of 2,410 TDN contracts had been signed, 302 more than at the end of the previous year. The following chart shows the numbers of TDN contracts that Deutsche Telekom had entered into on the dates indicated.



Deutsche Telekom considers these contracts to be strategically important as a means of creating longer-term relationships with large business customers, since the duration of these contracts is typically between two and five years.

Deutsche Telekom's systems solutions business is conducted through DeTeSystem, a subsidiary of Deutsche Telekom whose purpose is to provide intensive support to large companies and institutions with major telecommunications expenditures. During 1999, to increase its effectiveness in the market for international business customers, Deutsche Telekom combined its entire international systems solutions sales team under DeTeSystem, and DeTeSystem hired a number of new sales experts, thus increasing the number of employees of DeTeSystem by approximately 10 percent.

Deutsche Telekom has been providing international data communications solutions in cooperation with Global One. Transition arrangements relating to Deutsche Telekom's disengagement from Global One are designed to ensure continuity of service for up to two years for Deutsche Telekom's Global One customers. Deutsche Telekom intends, however, to build up its own international network as the basis for providing international systems solutions for its customers.

Information and Communications Systems

Integrated solutions that combine telecommunications and information technology for complex personal computer (PC) and server infrastructures are becoming increasingly important for companies in many industries. In 1999, Deutsche Telekom created a new business area, information and communications systems, which combines its information technology and telecommunications services—in particular those of its subsidiaries Deutsche Telekom Computer Service Management GmbH (DeTeCSM), Deutsche Telekom Innovationsgesellschaft mbH (T-Nova) and Deutsche Telekom Kommunikationsnetze GmbH (DeTeLine)—with services of external suppliers to create customized solutions. The business area formerly designated as ''systems solutions'' has been divided between the data communications area and the newly founded information and communications systems area. Deutsche Telekom aims to become one of Germany's leading information technology suppliers over the next several years. Deutsche Telekom took an important step in this direction in December 1999 with the conclusion of an arrangement with Unisys for the provision of information technology systems.

Mobile Communications

Mobile communications is one of the most rapidly expanding areas of the global telecommunications industry. Deutsche Telekom expects that both mobile voice telephony and to an increasing extent, mobile data communications and multimedia applications will experience significant growth in coming years. As a result, Deutsche Telekom is focusing on the mobile communications area as one of the four pillars of its growth strategy. The first major step in this direction was the bundling of Deutsche Telekom's shareholdings in T-Mobil and several other European mobile telecommunications companies under a newly formed holding company, T-Mobile International AG, which took retroactive effect from January 1, 2000.

For 1999, Deutsche Telekom's mobile communications business area included the activities of T-Mobil, Deutsche Telekom's German mobile communications subsidiary. The activities of non-German mobile phone subsidiaries, including the Austrian company max.mobil. and the British company One2One, are discussed below under ''—International.''

Deutsche Telekom's mobile communications business area generated revenue of EUR 3.9 billion (11.0 percent of the consolidated revenue of Deutsche Telekom) and net income before taxes of EUR 1.0 billion in 1999. Approximately 85.3 percent of the consolidated revenues of this business area in 1999 were derived from mobile telephone service, with the remaining 14.7 percent derived from handset sales and from the sale of paging and other services.

With 9.2 million mobile phone subscribers in its two networks at December 31, 1999, including 9.1 million digital mobile phone subscribers, Deutsche Telekom estimates that it had a market share in the overall German mobile telephony market of approximately 39.4 percent and a market share of approximately 39.0 percent in the German digital mobile telephony market at that date.

Viewed as a separate company, T-Mobil reported revenues of EUR 5.0 billion in 1999. The difference between this figure and revenue reported for the mobile communications business area results from use of the T-Mobil network for termination of calls originating in Deutsche Telekom's fixed network.

Deutsche Telekom is giving consideration to having T-Mobile International AG become a publicly traded subsidiary in the fall or winter of 2000, with Deutsche Telekom retaining a significant controlling shareholding. A decision in this regard has not been reached.

Mobile Telephone and Data Services

T-D1

Deutsche Telekom offers digital mobile telephone services by means of its T-D1 digital network, which is based on the GSM (Global System for Mobile Communications) standard. Approximately 82 percent of revenues from Deutsche Telekom's mobile communications business area were derived from T-D1 in 1999. This figure does not include revenues from sales of handsets.

The importance of digital mobile communications networks in Germany has grown steadily since the T-D1 network went into operation in July 1992. The GSM standard, which Deutsche Telekom played a major role in developing, is now the technical basis for well over 200 digital mobile communications networks around the globe.

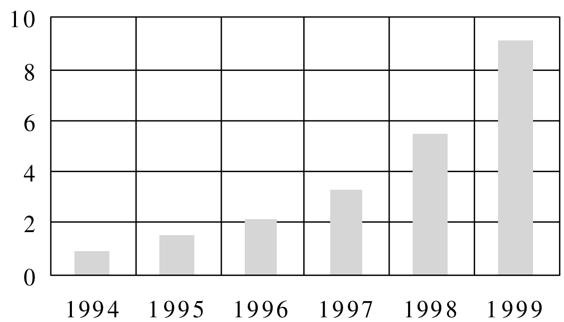
Network quality is one of the key factors affecting T-Mobil's business. To maintain network quality in light of strong growth in numbers of customers, T-Mobil continued to expand its GSM network during 1999. In the course of the year, the number of base stations in the T-D1 network increased from about 13,500 to about 25,000. At year-end 1999, the T-D1 network had 581 base station controllers and 46 switches. The investments made by T-Mobil in connection with network expansion in 1999 amounted to approximately EUR 0.7 billion. T-Mobil plans to continue this expansion in the coming year and has budgeted more than EUR 0.8 billion for investment in the T-D1-network in 2000. The network is expected to feature a total of around 37,000 base stations by the end of 2000.

In October 1999, T-Mobil successfully bid for additional mobile communications frequencies in the 1800 MHz range. The additional frequencies will permit T-Mobil to expand significantly the capacity of the T-D1 network and to offer services, such as data applications, that require higher transmission volumes. These frequencies were made available first in high-density urban areas starting in February 2000.

Prior to 1999, Deutsche Telekom had entered into roaming agreements with 121 operators in 75 countries, which in principle allow T-D1 subscribers to make and receive calls while abroad on the same mobile phone they use in Germany. In 1999, Deutsche Telekom further expanded the global coverage of the T-D1 network by entering into 44 new roaming agreements with GSM operators, with particular emphasis on operators of GSM 1800 networks in Europe and GSM 1900 networks in the United States. In the summer of 1999, T-Mobil began to provide national roaming service for VIAG Interkom subscribers.

Demand for mobile data communications services increased substantially during 1999. During December 1999, for example, the T-D1 network carried approximately 300 million ''short messages''. Since March 1999, T-D1 customers can use their mobile phones to access a number of programs that provide information, such as news, stock quotes, travel information or schedules for entertainment events. Deutsche Telekom expects that demand for mobile data services will grow substantially in the coming years.

Subscribers. At the end of 1999, the T-D1 network had approximately 9.1 million subscribers, or 3.6 million (66 percent) more than it had a year earlier. The number of subscribers had increased to approximately 10.9 million by March 31, 2000. This growth is generally attributable to strong demand for mobile services (particularly pre-paid services), and T-Mobil contributed to this demand with new products and services, a number of pricing campaigns and a customer-oriented pricing structure. The following chart shows the number of T-D1 customers at the end of each year indicated, in millions.



The following table sets forth the average number of subscribers and average monthly revenues per subscriber in the T-D1 network for the periods indicated.

	Year ended December 31,				
	1999	**1998**	**1997**	**1999/ 1998**	**1998/ 1997**
				(% change)	
Average number of subscribers (in thousands) T-D1(1)	6,918	4,217	2,663	64.1	58.4
Average number of subscribers (in thousands) T-D1(2)	7,271	4,375	2,721	66.2	60.1
Average monthly revenue per subscriber (in €) T-D1(3)	39	47	57	(17.0)	(17.5)

(1) Represents an average of monthly averages.
(2) Represents the average of number of subscribers at year-end and the number of subscribers at the beginning of the year.
(3) Represents revenues for the year from monthly rental fees and mobile-originated calls, not including premiums or surcharges paid by T-D1 subscribers to independent service providers, divided by the average of monthly averages of T-D1 subscribers for the year.

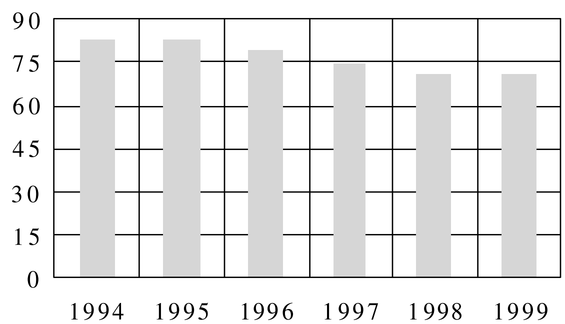
Average monthly revenue per subscriber is expected to continue to decline in 2000 due to continued strong growth in subscriber numbers. Prepay customers, who generate lower average revenues per user, have recently been the major source of growth. The average monthly revenues per subscriber shown in the preceding table have been calculated on the basis of consolidated revenues, which do not include revenues from calls made by Deutsche Telekom subscribers that are terminated in Deutsche Telekom's mobile network. If revenues from these mobile terminated calls and from monthly rentals, roaming and visitors are taken into account, average monthly revenue per subscriber was EUR 51 in 1999, as compared to EUR 60 in 1998.

T-Mobil had a churn rate in 1999 of approximately 13 percent, as compared to 15 percent in 1998. The churn rate for any given period represents the number of T-Mobil customers whose service was discontinued during that period due to a payment default or who voluntarily gave up a mobile telephony service during that period, expressed as a percentage of the average number of customers during that period. Deutsche Telekom estimates that the average churn rate during 1999 for domestic competitors such as D2 was 13 percent and for E-Plus was 18 percent.

The reduction in T-Mobil's churn rate from 1998 to 1999 was expected due to rapid growth in the number of new customers, which was greater than growth in the number of customers whose contracts were expiring. The probability that a customer will voluntarily terminate T-Mobil mobile service is highest at the time when the customer's contract expires. T-Mobil believes that measures taken during 1999, such as the development of systems to identify and contact customers who are likely to give up T-Mobil service when their contracts expire and programs to win back customers who have given up T-Mobil service, also contributed to some extent to the reduction in churn, despite the fact that a number of 24-month contracts signed in 1997 expired in 1999. Due to the highly competitive nature of the mobile communications business, however, churn is likely to rise in future periods.

Deutsche Telekom's churn numbers are influenced by the practice of counting pre-pay customers as continuing customers during the twelve-month period since the last time they used their pre-paid access services.

Traffic. The following table shows average monthly outgoing traffic per T- D1 subscriber for the years indicated, in minutes per customer per month.



T-Mobil entered into an agreement with VIAG Interkom in 1999 which provides for the purchase of a significant number of bulk minutes for national roaming purposes by VIAG Interkom. This agreement, which has been approved by the Regulatory Authority, has led to increased utilization of the T-D1 network, particularly in rural areas. T-Mobil does not expect this agreement to lead to any capacity constraints. T-Mobil aims to use revenues from this arrangement for measures to improve its market position. The contract with VIAG Interkom expires in 2009.

Tariffs. The customers Deutsche Telekom serves directly are billed one-time installation charges, monthly rental charges and call charges for outgoing traffic. Independent service providers purchase mobile telephone services from T-Mobil at a discount, resell those services and bill subscribers directly at rates they set independently. During 1999, traffic charges (including those paid by independent service providers) accounted for approximately 69 percent and monthly rental charges and initial connection fees together accounted for approximately 31 percent of net revenues generated by T-D1 (excluding revenues from sales of digital handsets).

Tariffs for subscribers serviced directly by T-Mobil are set by T-Mobil, although they would be subject to regulatory review if T-Mobil were deemed to have a dominant position in relevant markets. See ''Regulation—Special Requirements Applicable to Market-Dominant Providers''. During 1999, T-Mobil promoted the development of the German GSM market with a series of tariff innovations. In March 1999, T-Mobil became the first network operator in Germany to introduce optional ''City'' rates, which provide discounts on calls within a given local area to customers that select this option, and discounted weekend rates. In 1999, T-Mobil also introduced options relating to the length of the billing unit for some existing tariffs. Many of T-Mobil's tariff initiatives are intended to tailor tariffs to the needs of specific customer groups. Additional tariff initiatives are planned for 2000.

The following table provides information on the basic tariff packages that T-Mobil made available to individual T-D1 customers as of December 31, 1999, giving effect to the tariff initiatives described above. All prices shown below include VAT.

	Calling Plans					
					Prepaid	
	Telly	TellyPlus	ProTel	ProTel DataOnly	Xtra	YoYo
			in DM			
One-time connection fee	49.95	49.95	49.95	49.95	0.00*	0.00*
Monthly rental fee						
for 60/1-second intervals(1)	24.95	—	64.95	—	—	—
for 10-second intervals	29.95	49.95	69.95	23.95	0.00	0.00
Call charges (per minute)(2)						
National—mobile to fixed						
Daytime(3)	1.29	0.79	0.39	0.68	1.69	1.19
Nighttime(4)	0.39	0.39	0.39	0.39	0.69	1.19
National—mobile to mobile(5)						
Daytime(3)	0.68	0.68	0.39	0.68	0.69	1.19
Nighttime(4)	0.39	0.39	0.39	0.39	0.39	1.19
Xtra-Weekend(6)	—	—	—	—	0.39	—
XtraNummer Eins/YoYoLine(7)	—	—	—	—	0.39	0.39
T-D1 Local—mobile to fixed(8)						
Daytime(3)	0.68	0.68	—	—	—	—
Nighttime(4)	0.39	0.39	—	—	—	—
T-D1 City—mobile to fixed(8)	0.29	0.29	0.29	—	—	—
T-D1 Weekend—mobile to fixed(8)	0.29	0.29	0.29	—	—	—

* No additional connection fee after purchase of a prepaid SIM Card.

(1) After the first minute, calls are charged by the second.

(2) ‘‘Telly’’, ‘‘TellyPlus’’, ‘‘ProTel’’ and ‘‘ProTel DataOnly’’ plans include ‘‘10plus’’: after the first minute, and a discount of up to 30 percent is given for national and international mobile to fixed calls and for mobile to mobile calls (T-D1, T-C-Tel).

(3) Monday through Friday 7:00 to 17:00 for the ‘‘Telly’’ plan; Monday through Friday 7:00 to 20:00 for the ‘‘TellyPlus’’, ‘‘ProTel’’, ‘‘ProTel DataOnly’’ , ‘‘Xtra’’ and ‘‘YoYo’’ plans.

(4) All other times Monday through Friday; Saturdays, Sundays and national holidays.

(5) Calls to T-D1 and T-C-Tel only.

(6) Friday 20:00 through Sunday 24:00.

(7) Calls to an individually specified fixed or mobile number.

(8) Customers may use only one of these three optional calling plans at any given time.

A substantial majority of T-D1 customers make use of the ‘‘Telly’’ tariff packages. The use of the prepaid ‘‘Xtra’’ tariffs increased in 1999, with customers using the ‘‘Xtra’’ prepaid cards accounting for 20 percent of T-D1 customers at year-end 1999. T-Mobil also promoted the growth of the prepaid market through a series of tariff initiatives. Deutsche Telekom expects that prepaid service offerings will continue to increase in acceptance in the coming years.

T-C-Tel

Deutsche Telekom’s analog mobile telephone service, T-C-Tel, is the only analog mobile telephone network in Germany. T-C-Tel contributed approximately EUR 139 million to the total revenue of the mobile communications business area in 1999. Deutsche Telekom intends to discontinue T-C-Tel service by December 31, 2000 and therefore no longer actively markets T-C-Tel service. T-Mobil is offering T-C-Tel customers the option of transferring to the T-D1 platform on attractive terms.

Data, Satellite, Navigation and Paging Services

T-Mobil offers specialized mobile data transmission services under the name ''Modacom''. T-Mobil intends to continue to provide these services in unchanged form, while offering possibilities for Modacom customers to migrate to the new General Packet Radio Service platform beginning in the year 2000.

Since 1993, T-Mobil has provided a wide variety of Inmarsat satellite services. These services were transferred to another Deutsche Telekom subsidiary in 1999 as part of a portfolio optimization program for T-Mobil.

In early 1999, T-Mobil began marketing Tegaron Traffic, a navigation service that guides drivers around traffic jams and disruptions. T-Mobil has been working for some time, in cooperation with DaimlerChrysler-Services (Debis), to develop modern traffic telematics technology. T-Mobil has transferred its interest in Tegaron to Deutsche Telekom AG at the end of 1999.

During 1999 and prior years, T-Mobil provided a variety of radio paging services under the names Cityruf, Scall and Skyper. The number of radio customers has steadily declined, however, primarily from the substitution of mobile telephony for paging services. As a result, T-Mobil sold its radio paging business with effect as of December 31, 1999.

New Technologies and New Standards

Deutsche Telekom expects that the current trend toward higher volumes of mobile data traffic as compared to mobile voice traffic will continue in the future and that mobile communications systems in the future will routinely support video transmission. Today's GSM networks offer maximum transmission rates of 9,600 bits per second. In contrast, GPRS (General Packet Radio Service), which T-Mobil intends to introduce in Germany in the summer of 2000, will provide much higher transmission rates necessary for more advanced data transmission. T-Mobil also plans to take a leading role in introduction of UMTS (Universal Mobile Telecommunications System), the next generation mobile communications standard. The Regulatory Authority has announced that it will auction licenses for the provision of UMTS services in Germany in the summer of 2000. There is no guarantee that Deutsche Telekom will obtain a license for UMTS, although Deutsche Telekom intends to pursue one vigorously.

Broadcasting and Broadband Cable

Deutsche Telekom's broadcasting and broadband cable activities include operating Germany's largest cable transmission network, providing services to other cable network operators and program providers and offering broadcasting services to public and private television and radio stations. The broadcasting and broadband cable business area generated revenues of approximately EUR 1.9 billion, or approximately 5.4 percent of the consolidated revenues of Deutsche Telekom, in 1999. These revenues came predominantly from:

- one-time connection fees and monthly charges paid by cable television subscribers served by Deutsche Telekom directly or by private cable operators wholly owned by Deutsche Telekom or in which Deutsche Telekom owns an equity interest;
- fees based on the number of subscribers paid by other private cable operators, including owners of buildings, real estate management companies and local cable companies;

- fees paid by television and radio stations for feeding programming signals into Deutsche Telekom's cable network; and
- broadcasting fees paid by television and radio stations.

Approximately one-fourth of the revenues from this business area come from the provision of broadcasting services.

Broadband Cable

Deutsche Telekom currently owns a substantial majority of the cable network infrastructure in Germany. Deutsche Telekom provides cable transmission services and, since October 1998, also markets digital program packages. Unlike many cable operators in other countries, however, Deutsche Telekom does not produce content for its cable network.

Penetration and Coverage

In areas where Deutsche Telekom owns and operates a cable transmission network, cable subscribers are served either directly by Deutsche Telekom or by a private cable operator which provides the connection from the end of Deutsche Telekom's transmission line into the cable socket on the customer's premises. In some areas where Deutsche Telekom does not own and operate complete cable systems, local cable companies establish and operate systems from signal reception to the customer.

As of December 31, 1999, 17.8 million households, or approximately 46 percent of the total number of German households, received cable television service from Deutsche Telekom's network. At December 31, 1999, Deutsche Telekom's cable network passed 26.2 million households, or approximately 68 percent of the total number of German households. The following table sets forth the total number of households connected to and passed by Deutsche Telekom's cable network.

	At December 31,		
	1999	1998	1997
	(in millions, except percentages)		
Households connected(1)	17.8	17.7	17.3
Households passed	26.2	25.9	25.5
Total households	38.8	38.7	38.7
Penetration(2)	67.9	68.1	67.6
Coverage(3)	67.7	67.0	66.0

(1) Includes households connected through private cable operators.
(2) Households connected expressed as a percentage of households passed.
(3) Households passed expressed as a percentage of total households.

The following table provides information concerning customer relationships of households connected to Deutsche Telekom's broadband cable network as of December 31, 1999.

	Millions of Households	Percentage of Total
Direct relationship with Deutsche Telekom	5.4	30.3
Subscription to local cable company in which Deutsche Telekom owns an equity interest	1.4	7.9
Subscription to other private cable operator, in particular real estate management company, owner of building	5.7	32.0
Subscription to professional cable companies with more than 2,000 subscribers	5.3	29.8

Cable Television Service Offerings

Deutsche Telekom's cable network transmits analog and digital programming. In 1999, Deutsche Telekom placed significant emphasis on digital programming through its MediaVision marketing platform, which offers a broad range of digital TV and radio programs from which each subscriber can assemble a tailored program package.

Deutsche Telekom is also seeking to expand the transmission capacity of the broadband cable network. In a pilot project started in 1998 with nearly 700,000 households, Deutsche Telekom has begun to expand the capacity of the network to 862 megahertz and to implement back channel capability that will allow customers to receive multimedia services as well as an expanded range of digital cable programming.

The Separation of the Cable Business

To begin placing its cable business on a new economic and regulatory footing, Deutsche Telekom transferred the core of its broadband cable business, along with its non-current assets, to a wholly owned subsidiary called Kabel Deutschland GmbH at the turn of the year 1998/1999. Kabel Deutschland GmbH in turn plans to create nine regional subsidiaries to operate the cable business of Deutsche Telekom as of July 1, 2000. Deutsche Telekom carries Kabel Deutschland GmbH on its books at a net value of EUR 3.5 billion at December 31, 1999.

In February 2000, Deutsche Telekom reached an agreement to sell a 55 percent equity interest in the regional cable company for the German state of North Rhine-Westphalia to a consortium of investors led by Callahan Associates LLC, a communications development and operating company based in Denver and London. In March 2000, Deutsche Telekom reached a further agreement for the sale of a 65 percent equity interest in the regional company for the German state of Hesse to London-based Klesch & Company Limited, a European consortium of investors, and in May 2000 Deutsche Telekom agreed to sell a 55 percent equity interest in the regional company for the German state of Baden-Württemberg to Callahan Associates. These sales are scheduled to close on July 1, 2000, in the case of the companies for North-Rhine-Westphalia and Hesse, and January 1, 2001, in the case of the company for Baden-Württemberg. The sales are subject to conditions precedent, including receipt of approvals from supervisory boards and from relevant authorities. Negotiations for the sale of majority interests in other regional companies are currently in progress, and Deutsche Telekom currently aims to sell majority interests in these other companies by the end of 2001. Deutsche Telekom plans to retain a majority interest in the regional cable company for Berlin.

Supply and Service of Terminal Equipment

Through its terminal equipment business area, Deutsche Telekom distributes an extensive range of telecommunications equipment, ranging from individual telephone sets and facsimile machines targeted at private customers to more complex telephone and facsimile terminals, private branch exchanges (PBXs) and complex network systems targeted at business customers. Deutsche Telekom also provides installation and repair services. In 1999, the terminal equipment business area generated revenues of EUR 1.2 billion (3.4 percent of the consolidated revenues of Deutsche Telekom in that year), as compared to EUR 1.4 billion in 1998. Revenues from the sale of mobile handsets are recorded in the mobile telecommunications business area.

The telecommunications equipment sector has been open to full competition since 1990 and is characterized by falling prices, low margins, rapid technological innovation and intense competition. Deutsche Telekom believes, however, that the supply and service of telecommunications equipment is an integral part of being a full service telecommunications provider and contributes to customer loyalty. In September 1999, readers of a well-known magazine in Germany voted Deutsche Telekom the most popular provider of terminal equipment. Financial results in the terminal equipment business area improved significantly in 1999. This was accomplished through the continuation of measures implemented in 1998 and prior years, including internal cost reductions, streamlining of the product portfolio—as Deutsche Telekom discontinued operations in unattractive market segments—and development of new products. Profits before taxes in the terminal equipment group business area in 1999 were EUR 19 million.

In 1999, Deutsche Telekom purchased approximately 87 percent of its terminal equipment, including accessories, from its ten most important national and international suppliers. The total value of all orders was EUR 567 million. Siemens AG, with a share of approximately 48 percent of all orders, is both Deutsche Telekom's most important supplier and its largest competitor in the terminal equipment market.

With most of Deutsche Telekom's terminal equipment, customers have the choice of purchasing or leasing devices. In addition to the existing standard leasing contracts with a fixed three-year or five-year term, Deutsche Telekom introduced a new, more flexible leasing option in 1998. With this option, customers benefit from shorter contract terms and are able to update their telecommunications equipment to keep up with technological progress.

The terminal equipment business area facilitated the development of Deutsche Telekom's leadership position as a provider of ISDN services in Germany. The product lines T-Concept and T-Easy, which were introduced in 1998, were further developed in 1999 through the addition of ISDN-based features. T-Concept PC, which was also introduced in 1999, combines the advantages of a personal computer with the convenience of ISDN-based telephony.

Value Added Services

Through its value added services business area, Deutsche Telekom provides toll-free phone numbers, provides state-of-the-art call centers, produces telephone directories, provides directory assistance and manages Deutsche Telekom's network of public telephones. This business area is also responsible for providing customers with comprehensive solutions to their telecommunications-based dialogue marketing needs. In 1999, this business area generated revenue of EUR 1.9 billion, or 5.4 percent of the consolidated net revenue of Deutsche Telekom.

The following table provides statistical information relating to value-added services.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
				(% change)	
Minutes from public telephones (in millions)(1)	2,084	2,664	4,659	(21.8)	(42.8)
Minutes from toll free numbers and information provider services (in millions)(1)	4,031	1,466	1,267	175	15.7
Minutes from directory inquiries services (in millions)(1)	269	317	511	(15.0)	(38.0)
Total minutes (in millions)(1)	6,384	4,447	6,437	43.6	(30.9)

(1) Estimated.

Deutsche Telekom offers toll-free, shared-cost, and premium rate numbers to its customers. During 1999, the number of calls made to service phone numbers provided by Deutsche Telekom increased by 47.5 percent. Deutsche Telekom believes that this increase was due to price reductions that it introduced during 1999 and to intensified marketing.

Deutsche Telekom is Germany's largest call center operator, with about 9,000 operators at around 100 locations. Call center solutions provide tele-sales and direct marketing services tailored to the needs of particular customers, including billing and collection services. Deutsche Telekom is establishing state-of-the-art call centers at which it can provide comprehensive inbound/outbound, front office/back office and letter-shop services. Deutsche Telekom's call center team is able to handle and evaluate up to 100,000 calls per hour. This is made possible by Deutsche Telekom's experience with call centers, its state-of-the-art ACD (Automatic Call Distribution) technology and its highly sophisticated network.

Deutsche Telekom markets data-based products and solutions to complex communications problems. In addition, Deutsche Telekom provides information services, principally directory information and operator assistance, and provides printed, electronic and online telephone directories through its subsidiary DeTeMedien. Deutsche Telekom's directory assistance service handles up to 1.0 million calls daily, more than any other directory assistance services provider in Germany. Directory assistance has become highly competitive in Germany. In the wake of increasing competition and price adjustments for the service, the number of calls to the service decreased again in 1999, from 406 million in 1998 to around 325 million in 1999. Deutsche Telekom intends to place substantial emphasis on customer service activities for T-Online and T-Mobil and therefore intends to reallocate an increasing number of experienced operators from its directory assistance service to call centers devoted to these subsidiaries.

The publication of telephone directories is another function of the special value-added services business area. Since 1998, Deutsche Telekom's subsidiary DeTeMedien has published a directory on CD-ROM, ''Telephone book for Germany—Map & Route'', with the telephone numbers of more than 33 million telephone subscribers, a digital map of Germany and special routing functions. In the fall of 1999, DeTeMedien released additional CD-ROM based products for the convenience of Deutsche Telekom's customers.

The special value-added services business area is also responsible for marketing telephone cards, which consist of chip based prepaid cards for use in Deutsche Telekom's 100,000 card based pay phones as well as chipless calling cards useable all over the world. To increase the competitiveness of its card services and to improve protections against misuse of telephone cards, Deutsche Telekom formed the subsidiary DeTeCardServices GmbH in 1999.

As of December 31, 1999, Deutsche Telekom operated approximately 133,000 payphones, representing a penetration rate of 1.6 payphones for every 1,000 inhabitants. Approximately 70 percent of these payphones were card operated, and the remainder were coin operated. In 1999, Deutsche Telekom continued its efforts to improve performance in the unprofitable area of payphones and other public communications. Important new initiatives in this regard included pilot programs for the introduction of payphones that can accept both telephone cards and coins and preparations for the introduction of ''multifunction'' terminals, which are to be introduced in 2000. Another important element in Deutsche Telekom's consolidation strategy has been to optimize placement of public telephones, in order to ensure that the public phone system both remains cost-effective and provides nationwide coverage. Deutsche Telekom plans to continue its site-optimization program in 2000.

Other Services

Deutsche Telekom's ''other services'' area primarily consists of multimedia activities and, to a lesser extent, ancillary activities performed by Deutsche Telekom. This business area had revenues of EUR 1.1 billion in 1999, representing 3.2 percent of the consolidated revenue of Deutsche Telekom in 1999. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Net Revenues—Other Services.''

Deutsche Telekom offers nationwide Internet access for residential customers and for small and medium size business customers through its T-Online International AG subsidiary, and also offers multimedia applications and services for business customers under the T-Mart brand name.

T-Online

T-Online had approximately 4.2 million customers at December 31, 1999 and approximately 4.9 million customers at March 31, 2000 (not including customers of Club Internet). The T-Online service, which is operated, developed and marketed by T-Online International AG, is Europe's largest online-service and Internet-service provider based on number of subscribers. Through T-Online, Deutsche Telekom offers cost-effective, high-performance Internet access primarily to consumers. T-Online has generated strong growth in log-ins, which were up 108 percent for the first quarter of 2000 as compared to the first quarter of 1999. Minutes per subscriber per month increased by 58 percent for the first quarter of 2000 as compared to the first quarter of 1999.

T-Online became listed on the Neuer Markt segment of the Frankfurt Stock Exchange in April 2000 through a public offering of newly issued shares representing approximately ten percent of its equity capitalization. As of May 15, 2000, Deutsche Telekom had a controlling ownership interest of approximately 83 percent in T-Online.

In addition to Internet access, T-Online offers customers access to a number of value-added online services. The available applications cover a spectrum that includes database research, information and entertainment, and online banking. Based on internal research, Deutsche Telekom believes that the majority of online bank accounts in Germany is managed through T-Online.

T-Online significantly expanded portal site activities in 1999, making T-Online the gateway to a wide range of information and entertainment services. In May 1999, T-Online launched the Shopping Portal, through which customers have access to electronic commerce. Currently about 200 vendors present products and services from various industries on the Shopping portal. The Fun & Action portal, which was launched on T-Online's homepage in September 1999, is geared primarily toward younger T-Online customers. This portal offers chat rooms, forums, online games and information tailored for specific target groups. Deutsche Telekom believes that these offers make the T-Online home page more attractive to customers and therefore more attractive to advertisers.

Use of T-Online has continued to grow rapidly. In 1999, subscribers connected to the service a total of some 1.5 billion times, or approximately 44 percent more often than in the previous year. In January 1999, the number of subscriber connections in a month exceeded 100 million sessions for the first time. In October 1999, T-Online reduced its *eco* online charge from three to two pfennigs per minute—paying three pfennigs per minute for network access via Deutsche Telekom—and cancelled the six-pfennigs dial-in charge billed previously. Since November 1, 1999, T-Online offers T-Online pro, a cost effective package for frequent users. It includes unlimited standard Internet access with transmission speeds of up to 64 kbit/s within Germany at a monthly subscription fee of currently DM 19.90 and a telephone connection charge of currently 3 pfennigs per minute if accessed via Deutsche Telekom's network. In 1999, T-Online began marketing T-Online speed 50 and T-Online speed 100. Both products use Deutsche Telekom's T-DSL to provide broadband access to the Internet. T-Online speed 50 provides 50 hours of high-speed access to the Internet for a monthly price of DM 99, while T-Online 100 includes 100 hours for a monthly price of DM 149, online charges of three pfennigs per minute for usage in excess of the 50 hours or 100 hours is included in the basic rate. There is no telephone charge.

T-Online intends to introduce new online products during 2000. One planned new product consists of unlimited Internet access, including the telephone connection to the Internet, for a flat rate of less than DM 100 per month without additional online or telephone charges. Subject to regulatory approval, T-Online also intends to introduce ''T-ISDN XXL,'' a new product that would give ISDN customers unlimited telephone connection to the Internet on Sundays, without usage-based telephone charges, for a monthly fee of DM 5. You may refer to ''—Legal Proceedings'' for a description of pending administrative proceedings with respect to the approval of this new tariff. ISDN@ctive, another planned new product, would give ISDN customers unlimited narrow-band access to the Internet for an additional monthly charge of less than DM 10.

T-Online also intends to promote Internet usage in Germany through special promotional offers. Through a special offer that would provide free Internet access for two years to the first 100,000 T-DSL customers that sign up, T-Online intends to begin creating a mass market for broadband Internet access. T-Online also intends to provide free Internet access and related software and customer service to schools in Germany.

To further its market leadership position in Germany, T-Online entered into an online banking cooperation with comdirect bank, the online banking subsidiary of Commerzbank AG, in February 2000. As part of this cooperation, T-Online agreed to take a 25 percent equity interest in comdirect, and Commerzbank will take an equity stake in T-Online of approximately 2.1 percent (after giving effect to the listing of T-Online shares that took place in April 2000 and to the acquisition of Club Internet described below).

In addition, T-Online took a significant step in the development of its international business in February 2000, when it agreed to acquire a 99.9 percent equity interest in Club Internet, the online service business of the French Lagardère group, in exchange for shares of T-Online representing an equity interest of approximately 5.8 percent in T-Online (after giving effect to the listing of T-Online shares that took place in April 2000 and to the acquisition of an interest in comdirect). Club Internet had approximately 350,000 customers at March 31, 2000. The acquisition of Club Internet by T-Online closed in April 2000.

T-Mart

Under the T-Mart brand name, Deutsche Telekom offers a comprehensive range of multimedia applications and services for business customers, including complete service, consultation, implementation, training and operation. Introduction of the general T-Mart brand in spring 1998 marked a realignment of Deutsche Telekom's activities in this field. Applications for electronic business and electronic commerce in the Internet as well as solutions for presenting a company profile and for handling business processed via the Internet and/or extranet are examples of T-Mart business services.

Based on an agreement signed with Commerce One in January 2000, Deutsche Telekom's goal is to set up an open business-to-business marketplace, i.e., a virtual marketplace for companies with a commercial portal which will simplify and accelerate the companies' transactions when trading goods and services electronically.

Network Security

Recognizing that the commercial success of an Internet services provider depends on network security, Deutsche Telekom offers convenient solutions that provide maximum security for payment transactions and sensitive data transmissions in the Internet. In 1999, Deutsche Telekom bundled these solutions under the umbrella of its 100 percent subsidiary TeleCash Kommunikations-Services GmbH. Secure Pay Services, one of the products offered through TeleCash, supports the use of credit cards complying with the SET (Secure Electronic Transaction) standard, an internationally recognized method of handling credit card transactions in the Internet. In addition, Deutsche Telekom was the first German company to issue chip cards for digital signatures which affixes a legally binding signature to electronic data on the computer. With the product ServerPass, a content provider in the Web can be uniquely identified, thus providing online customers assurance that they are connected with the desired vendor.

In order to strengthen Deutsche Telekom's position in network security, Deutsche Telekom purchased a 34 percent stake in secunet Security Networks GmbH, a subsidiary of the TÜV Mitte-Gruppe, in September 1999. Services offered by secunet range from security analysis and consulting on the implementation of products to maintenance and customer care. Deutsche Telekom believes that the investment creates opportunities in the international business area. Deutsche Telekom's stake in secunet was reduced to 25 percent as a result of a public offering of shares by secunet in November 1999.

International

Deutsche Telekom is focusing the further internationalization of its business in its four strategic growth areas:

- mobile communications,
- data/IP/systems,
- consumer Internet services, and
- access services.

From 1993 through December 31,1999, Deutsche Telekom invested a total of EUR 18.9 billion in acquiring equity positions in international investments and joint ventures. Deutsche Telekom continuously evaluates further international investment opportunities in light of strategic objectives, the potential for return on investment and the prospect for playing a controlling role in management. Deutsche Telekom's emphasis is on expansion in Europe, where it is already present in many markets, and on building its presence in the United States. The company may, however, pursue opportunities worldwide. Deutsche Telekom has engaged, and may continue to engage from time to time, in discussions with other parties that may lead to one or more substantial cross-border acquisitions or business combinations.

Deutsche Telekom took important steps in 1999 to implement its internationalization strategy, including several significant acquisitions to expand its European mobile telecommunications presence. These included the acquisition of the British mobile telecommunications service provider One 2 One, the increase of Deutsche Telekom's interest in the Austrian mobile company max.mobil. to 91%, the increase in Deutsche Telekom's stake in the Polish mobile provider Polska Telefonia Cyfrowa to 45%, the acquisition of a 35% equity stake in the principal Croatian telecommunications provider Hrvatske Telecomunicacije, the purchase of full ownership of the French fixed line and data communications provider SIRIS S.A.S. and an agreement to acquire equity interests in certain Central European mobile operators from Media One International. Further steps in the internationalization strategy were taken in February 2000, with the announcement by T-Online International AG of plans to acquire Club Internet, one of the leading Internet service providers and web portals in France, and in March 2000 with Deutsche Telekom's agreement with DaimlerChrysler Systems to enter into a strategic engagement that provides for Deutsche Telekom's acquisition of a 50.1 percent interest in debis Systemhaus, a leading European IT/systems solutions company that has a global data network.

European Mobile Operations

- *One 2 One.* In the fall of 1999, Deutsche Telekom purchased One 2 One, the fourth largest provider of mobile communications services in the United Kingdom, for a purchase price of GBP 6.9 billion (including the assumption of outstanding shareholder loans). One 2

One has been fully consolidated in Deutsche Telekom's consolidated financial statements since October 1, 1999. In connection with the acquisition, Cable & Wireless indemnified Deutsche Telekom for certain liabilities.

At year-end 1999, One 2 One had approximately 4.2 million customers, representing a share of approximately 17 percent of the mobile telecommunications market in the United Kingdom according to Deutsche Telekom estimates. This total represented a year-on-year increase of 2.3 million customers. The number of One 2 One customers further increased to approximately 5 million by March 31, 2000. Customers using prepaid services made up approximately 56 percent of One 2 One's customer base at year-end 1999 (not including customers of One 2 One's Virgin Mobile joint venture). Further customer growth is expected, although it is expected to be partially offset by decreasing average revenue per subscriber. Average monthly revenue per subscriber decreased from 1999 to the first quarter of 2000, while monthly churn remained constant from 1999 through the first quarter of 2000 at 1.0 percent.

One 2 One commenced operations in 1993 with the world's first digital mobile network based on the GSM 1800 MHz standard and currently uses this network to offer its mobile services. In 2000, One 2 One plans to begin offering high speed mobile data services based on GPRS and WAP-based Internet services. In April 2000, following a competitive auction, One 2 One acquired a license to offer UMTS services in the United Kingdom for a license fee of £4.0 billion.

One 2 One's network currently covers approximately 98 percent of the British population (excluding Northern Ireland) and the company has entered into roaming agreements with providers in approximately 79 countries. One 2 One offers a broad range of prepaid and contract mobile services. In November 1999, One 2 One launched a joint venture company with the Virgin group called ''Virgin Mobile'' to further increase its market share. Virgin Mobile has around 200 retail outlets in which One 2 One can market products and services.

- *max.mobil.* Deutsche Telekom, acting through T-Mobil, increased its shareholding in max.mobil. Telekommunikation Service GmbH (''max.mobil.''), the second largest Austrian mobile telecommunications company, from 25 percent to 91 percent in 1999 and acquired full ownership of the company in April 2000. As a result, max.mobil. has been fully consolidated in Deutsche Telekom's consolidated financial statements since January 1, 1999. Through December 31, 1999, Deutsche Telekom has invested a total of 13.8 billion Austrian schillings in the equity shares of max.mobil. In Austria, max.mobil. provides nationwide mobile telephony service through its digital GSM network, which covered approximately 97 percent of the Austrian population at year end 1999. In addition, max.mobil. has entered the fixed-line telephony business and has also entered the online service business through a joint venture with T-Online. max.mobil has also offered virtual private network services to business customers since 1998. At year-end 1999, max.mobil. had approximately 1.5 million GSM customers, representing a share of approximately 38 percent in the Austrian GSM telecommunications market, according to Deutsche Telekom estimates. The number of max.mobil subscribers increased to around 1.6 million by March 31, 2000. Customer growth is expected to slow in 2000 as compared to 1999, due to the relatively high penetration rate in Austria. Average revenue per subscriber decreased from 1999 to the first quarter of 2000. Monthly churn increased from around 1.5 percent for 1999 to 1.9 percent for the first quarter of 2000. In 1999, max.mobil. generated revenues of 11.2 billion Austrian schillings (EUR 811 million), as compared to 4.5 billion Austrian schillings (EUR 329 million) in 1998.

- *Mobile Investments in Eastern Europe.* Deutsche Telekom believes that it is well-positioned in the markets of Eastern Europe and Russia as a result of investments in mobile telecommunications companies there.

  In Poland, Deutsche Telekom's affiliate, Polska Telefonia Cyfrowa, achieved a share of over 44.7 percent of the mobile communications market at year-end 1999, with approximately 1.75 million customers. PTC's revenue grew by 48 percent to EUR 614 million in 1999. Deutsche Telekom has held a 22.50 percent stake in PTC since December 1995 and acquired an additional 22.50 percent stake in March 2000. An arbitral proceeding is currently pending which, if resolved adversely to Deutsche Telekom, could have a material adverse effect on Deutsche Telekom's interest in PTC. For further information on this proceeding, see ''—Legal Proceedings''.

  Deutsche Telekom has an approximate 84.6 percent interest in a company called Cmobil, which in turn owns an approximate 41 percent stake in the Czech mobile communications network operator RADIOMOBIL. Cmobil is in the process of exercising an option which allows it to increase its stake to over 60 percent. This affiliate had revenues of over EUR 297 million in 1999 and increased its customer base to 373,000 by the end of that year.

  Deutsche Telekom also holds an approximate 44 percent direct equity interest in CSJC Mobile TeleSystems gAG (''MTS''), a Russian mobile telephone company. Under a series of agreements with Sistema, the holder of most of the remainder of the shares in MTS, Deutsche Telekom and Sistema have together contributed an approximate 10 percent interest in MTS to a joint venture and agreed to coordinate their votes on important matters with respect to this interest. MTS had approximately 386,000 customers at year-end 1999 and generated EUR 338 million in revenues in 1999.

  Deutsche Telekom owns a 49 percent equity stake in Westel 900, the leading digital cellular phone network operator in Hungary, and a 49 percent equity stake in Westel Radiotelefon, the Hungarian analog cellular phone network operator. The other shareholder in Westel Radiotelefon and Westel 900 is MATAV, in which Deutsche Telekom jointly with Ameritech Corporation owns a 59.5 percent interest. MATAV has an option to acquire Deutsche Telekom's interests in the two Westel companies. MATAV can exercise this option by purchasing the shares owned by Deutsche Telekom in up to three tranches at any time between July 1, 2000 and September 30, 2001. MATAV has publicly indicated that it intends to exercise this option. Prior to the exercise of the call option, MATAV has the right to vote Deutsche Telekom's Westel shares pursuant to a proxy granted by Deutsche Telekom.

In addition, Deutsche Telekom holds smaller investments in several other Eastern European mobile telecommunications companies.

Fixed-line and data communications companies

- *MATAV.* Deutsche Telekom and Ameritech jointly hold a 59.5 percent equity interest in MATAV. This interest is held through MagyarCom Holding GmbH (''MagyarCom''), a holding company in which Deutsche Telekom and Ameritech each directly or indirectly holds 50 percent. In 1999, MATAV had consolidated revenues of HUF 385 billion (EUR 1.5 billion), which represented an increase in EUR revenues of 14.2 percent over 1998.

  In 1999, MATAV continued to expand and modernize Hungary's telecommunications infrastructure. By the end of 1999, 79.0 percent of MATAV's network had been digitized, up from 75.7 percent at the end of 1998. In the area of mobile communications, Westel 900, a fully consolidated subsidiary of MATAV that is owned in part by Deutsche Telekom held an approximate 55 percent share of the GSM market in Hungary, with approximately 842,000 customers at year-end 1999, up from approximately 547,000 at year-end 1998.

Deutsche Telekom and Ameritech initially acquired their interests in MATAV from the Hungarian state. MATAV currently has outstanding 1,037,281,600 common shares and a single Series B share, which is held by the Hungarian Republic through the Hungarian Ministry for Transport, Telecommunications and Water Management.

Ameritech has an option to put to Deutsche Telekom up to 100 percent of the MagyarCom shares owned by Ameritech. Exercise of this option in full would increase Deutsche Telekom's effective interest in MATAV from 29.8 percent to 59.5 percent. The exercise price of the put option is the fair market value of the corresponding MATAV shares plus a US$60 million control premium. Had the option been exercised in full on December 31, 1999, the exercise price would have been approximately EUR 2.3 billion. See note 32 to the consolidated financial statements. Deutsche Telekom and Ameritech manage and operate MagyarCom jointly. In the event of disagreement, Deutsche Telekom has a deciding vote, except with respect to certain fundamental matters. Although MagyarCom has the power to appoint a majority of MATAV's board of directors, the Republic of Hungary retains significant influence over MATAV's activities as the holder of the Series B share, the regulator of the Hungarian telecommunications sector and MATAV's largest customer. The Series B share gives the Hungarian state certain special rights in the election of MATAV's boards and with respect to certain decisions taken at shareholders' meetings. The MagyarCom shares held by Deutsche Telekom and Ameritech and the MATAV shares held by MagyarCom are subject to substantial transfer restrictions.

MATAV's monopoly in the Hungarian market for long-distance and international telecommunications services will expire at the end of 2001. MATAV has expressed a willingness to consider an earlier cessation of its monopoly rights.

- *Hrvatske Telecomunikacije.* In October 1999, Deutsche Telekom acquired a 35 percent equity interest in the state-owned Hrvatske Telecomunikacije, the leading full-service telecommunications service provider in Croatia, for a purchase price of US$850 million. Hrvatske Telecomunikacije operates modern, largely digitized fixed-line and mobile networks and is the leading provider of online and data communications services in Croatia. In 1999, Hrvatske Telecomunikacije had revenues of HRK 5.3 billion or EUR 694 million.
- *SIRIS.* In November 1999, Deutsche Telekom acquired 100 percent ownership of SIRIS S.A.S., a leading provider of fixed-line voice telephony and data communication services in France, for a purchase price of EUR 732 million. Measured in terms of revenues, SIRIS was the second largest provider of fixed-line services to business customers and telecommunications operators in France in 1999. Deutsche Telekom believes that SIRIS, as operator of an optical fiber network linking all major business centers in France, has significant strengths in the voice telephony and data communications markets, particularly among business customers. SIRIS had revenues of approximately EUR 113 million in 1999.
- *Pragonet.* In May 2000, Deutsche Telekom was selected to acquire a 51 percent holding in Pragonet for approximately Czech koruna 911.7 million. Pragonet has an approximately 60 kilometer long glass fiber network underlying the City of Prague.

Asian Investments

Deutsche Telekom owns a 25 percent stake in Satelindo, an Indonesian mobile and international telecommunications operator, which was initially acquired by T-Mobil in 1995 for total consideration of US $676 million. In Malaysia, Deutsche Telekom owns an approximate 21 percent interest in the Malaysian telecommunications provider Technology Resources Industries Bhd. (''TRI''). The total purchase price was approximately 1.5 billion ringgit (EUR 460 million at the date of purchase). In the Philippines, Deutsche Telekom owns a 10 percent interest in Isla Communications Co., Inc. (''Islacom''), a Philippine telecommunications company, and a 40 percent interest in Asiacom Philippines, Inc., the majority shareholder of Islacom, which were acquired for an aggregate purchase price of approximately US$243 million. As a consequence of the Asian economic crisis, Deutsche Telekom has written down the total book value of these investments to EUR 96.5 million.

Joint Holdings with France Telecom

WIND. In November 1997, Deutsche Telekom, France Telecom and Enel formed the consortium ''WIND'' in Italy. WIND obtained a fixed-line telephony license in February 1998 and the third Italian mobile license (dual-band GSM 900/1800) in June 1998. Fixed-line and mobile operations commenced on March 1, 1999. Each of Deutsche Telekom and France Telecom owns 24.5 percent of WIND, with Enel owning the remaining 51 percent. Deutsche Telekom's investment in WIND through December 31, 1999 was approximately EUR 222 million. Deutsche Telekom, France Telecom and Enel have been engaged in litigation concerning their shareholding relationships in WIND since mid-1999. For a description of the litigation, see ''—Legal Proceedings''.

MetroHoldings. Deutsche Telekom and France Telecom, indirectly through DTFT Ltd., each owns a 25 percent interest in MetroHoldings Ltd., a British operator specializing in corporate telecommunications. Deutsche Telekom has agreed to sell its interest to France Telecom.

Multilink. In April 1998, Deutsche Telekom and France Telecom entered into a 50/50 joint venture agreement to offer fixed-line telephony services within Switzerland through Multilink SA. Deutsche Telekom has agreed to acquire Multilink from France Telecom.

Disengagement from France Telecom and Sprint

Through mid-1999, Deutsche Telekom's principal international engagement was an alliance with France Telecom that involved participation, through a 50/50 joint venture, in the Global One joint venture with Sprint, co-investments in several other European joint ventures, and a cooperation program in various areas of research and development. Because of disputes between Deutsche Telekom and France Telecom that in mid-1999 grew out of Deutsche Telekom's formerly proposed business combination with Telecom Italia, and because of MCI WorldCom's planned acquisition of Sprint announced in October 1999, Deutsche Telekom, France Telecom and Sprint have been in the process of disengaging from their alliance relationships. The most significant measures taken in this regard have been:

- The conclusion of a series of agreements in January 2000 among Deutsche Telekom, France Telecom, Sprint and other related parties pursuant to which:
  - Sprint sold to the joint venture between Deutsche Telekom and France Telecom its interest in the Global One alliance for US$1.1 billion and Sprint was repaid by Global One approximately US$276 million in loans owed to Sprint;
  - Sprint agreed to a number of amendments to the agreements governing the investments of Deutsche Telekom and France Telecom in Sprint; and
  - Deutsche Telekom and France Telecom agreed to vote their Sprint shares in favor of MCI WorldCom's planned acquisition of Sprint, subject to certain conditions; and
- The conclusion of a series of agreements in January 2000 among Deutsche Telekom France Telecom and other related parties pursuant to which Deutsche Telekom agreed to sell to France Telecom its interest in their 50/50 joint venture relating to Global One for US$2.8 billion and for the repayment of approximately US$184 million in loans.

In connection with these transactions, Deutsche Telekom publicly disclosed that it does not intend to remain as a long-term shareholder of Sprint or, if the MCI WorldCom acquisition of Sprint is consummated, of MCI WorldCom. Deutsche Telekom expects to dispose of its shares in Sprint (or the shares of MCI WorldCom it would receive in an MCI WorldCom acquisition of Sprint) in an orderly manner in view of market conditions and subject to applicable legal and contractual restrictions. Deutsche Telekom cannot guarantee whether or, in the case of Sprint, at what price or prices, a sale of its interests in Sprint or MCI WorldCom will be consummated.

Deutsche Telekom had been using Global One to offer its customers in the international market —such as companies and operators of other telecommunications networks and services—a range of telecommunications services. In connection with the agreements relating to separate sales by Deutsche Telekom and Sprint of their interests in Global One, Deutsche Telekom has been released from certain non-compete and exclusivity provisions of the Global One alliance, but Deutsche Telekom is prohibited from offering services in competition with certain identified customer contracts of Sprint and France Telecom until one year after the closing of the relevant sale. Transition arrangements agreed upon in connection with the transactions are designed to assure continuity of service for two years to Deutsche Telekom's Global One customers and to prohibit Sprint and France Telecom from offering services in competition with certain identified customer contracts of Deutsche Telekom until one year after the closing of the relevant sale. To offer its customers international communications solutions independent of Global One, Deutsche Telekom plans to expand its international network through internal growth, cooperative arrangements and acquisitions. Disengagement from the Global One alliance gives Deutsche Telekom the freedom to pursue opportunities that were formerly closed to it under its contractual arrangements.

The alliance with France Telecom was supported by a cross-shareholding established in late 1998, in which Deutsche Telekom and France Telecom each purchased 2 percent of the other's issued share capital. Both companies agreed that they would not sell these shares until after December 31, 2001, except under limited circumstances or as otherwise agreed. France Telecom entered into a separate agreement with KfW pursuant to which France Telecom agreed that it would not dispose of the Deutsche Telekom shares it purchased from KfW until after December 31, 1999, and that it would be able to sell those shares between January 1, 2000, and June 30, 2001, only under certain circumstances (depending in part on whether KfW has notified France Telecom at the time of any proposed sale by France Telecom that KfW intends to sell Deutsche Telekom shares).

In May 2000, Deutsche Telekom, France Telecom and KfW entered into a framework agreement concerning the cross-shareholding arrangement between Deutsche Telekom and France Telecom. Under this agreement, the parties are to negotiate and enter into definitive agreements pursuant to which KfW is to acquire the Deutsche Telekom shares held by France Telecom, and France Telecom may elect or be required to acquire the France Telecom shares held by Deutsche Telekom. KfW is to acquire the Deutsche Telekom shares on a date during the period from and including December 15, 2000 through January 31, 2001, as selected by France Telecom. Pursuant to a put/call arrangement, France Telecom may elect to acquire its shares from Deutsche Telekom on a date during the period from mid-January 2002 through the end of January 2003, as selected by France Telecom. If France Telecom does not exercise its call right, Deutsche Telekom may elect to require France Telecom to acquire the France Telecom shares on January 31, 2003. The sale of the France Telecom shares is subject to the completion of the sale of the Deutsche Telekom shares.

The per share price to be paid by France Telecom to Deutsche Telekom is to be determined on the basis of an average of market prices for France Telecom shares over an agreed period before the purchase, less certain deductions. The per share price to be paid by KfW to France Telecom is to be determined on the basis of an average of the market prices for Deutsche Telekom shares over an agreed period before the purchase, subject to certain maximum and minimum limits generally linked to the prices at which shares are sold to institutional and retail investors in this offering.

The implementation of the framework agreement is subject to a number of conditions, including the receipt of French and German governmental consents. The framework agreement and recent agreements relating to the end of joint holdings in MetroHoldings and Multilink are part of a broader effort by Deutsche Telekom to disengage from its arrangements with France Telecom and Sprint.

KfW has advised Deutsche Telekom that it has become a party to this arrangement because, in connection with the 1998 sale by KfW to France Telecom of the Deutsche Telekom shares that are the subject of the cross-holding, France Telecom obtained the right, under certain conditions, to sell its interest in Deutsche Telecom as part of a public offering of Deutsche Telekom shares by KfW. This right was granted in exchange for France Telecom's agreement to certain lock-up provisions. KfW's participation in the framework agreement relieves it of its obligations in this regard.

For a description of litigation relating to the disputes among Deutsche Telekom, France Telecom, Enel and WIND, please refer to ''—Legal Proceedings''.

Network Infrastructure

Deutsche Telekom has invested over EUR 78.7 billion in its telecommunications and cable networks since 1990, including EUR 2 billion in 1999. The total investments made include the installation of a new network in eastern Germany after German reunification in 1990. As a result, Deutsche Telekom's fixed-line network has evolved into one of the most technologically advanced major networks in the world, with fully digital trunk switching and international trunk switching, 100 percent digital local switching and 100 percent digital transmission. Deutsche Telekom has introduced asynchronous transfer mode (ATM) technology and wavelength division multiplexing (WDM) technology on the basis of its advanced network. Compared to 1998, Deutsche Telekom's investments in network infrastructure remained almost at the same level in 1999, as a decrease in investments in the access network and further optimization of network infrastructure procurement resulting mainly from market price movements was compensated by increasing investments in Deutsche Telekom's Internet platform, the roll-out of T-DSL and the extension of the transmission network. In addition, with digitalization, reorganization and increased productivity, the number of employees of Deutsche Telekom engaged in network infrastructure development, maintenance and operation had decreased to less than 50,000 at year end 1999 from over 65,500 at year end 1996.

In the case of Deutsche Telekom's mobile network, unlike its fixed-line network, significant new investments in infrastructure will be needed to improve quality of service while keeping up with demand in a fast growing market. Deutsche Telekom has budgeted total investments of approximately EUR 2.0 billion for improvements to its mobile communications network. In recent years, Deutsche Telekom has increased the number of employees active in mobile network planning, operations and maintenance.

Fixed-Line Telecommunications Network

Domestic Fixed-Line Telecommunications Network. Deutsche Telekom's domestic public switched telephone network and ISDN network consist of approximately 5,200 local networks connected by a long-distance transmission network.

Local Networks. At December 31, 1999, Deutsche Telekom's domestic network consisted of 34.5 million standard telephone lines in service and 13.3 million ISDN voice and data channels and reached virtually all German homes and German businesses.

Deutsche Telekom's domestic network has demonstrated a high degree of reliability, as shown by the following table:

	Year ended December 31,		
	1999	1998	1997
Blocking rate on the public switched telephone network/ISDN(1)	1.4%	1.1%	0.9%

(1) Blocked calls as a percentage of all calls made on the public switched telephone/ISDN network during the periods indicated.

Deutsche Telekom believes that the increase in blocked calls since 1997 has resulted primarily from atypical traffic generated by competitors that do not have their own networks and have relatively few points of interconnection. See ''Regulation—Special Network Access and Interconnection—Fixed-Fixed Interconnection''. The network's reliability is enhanced by efficient customer service. See ''—Sales and Service''.

Transmission Network

As of December 31, 1999, the transmission network linking Deutsche Telekom's local networks consisted of approximately 162,500 kilometers of fiber optic cable.

As of December 31, 1999, more than 70 percent of Deutsche Telekom's national transmission network consisted of Synchronous Digital Hierarchy (SDH) transmission links. SDH, which is a transmission standard for networks that use fiber optics, allows for a simpler and more easily managed network with enhanced reliability. Deutsche Telekom is developing its SDH networks further by installing additional high capacity SDH equipment in combination with WDM systems within its national transmission network.

In 1998, Deutsche Telekom put its High Performance Net, a nationwide, flexible, ultra-high-quality transport network, into operation. The network links Germany's economic centers, such as Berlin, Frankfurt, Munich, Düsseldorf and Hamburg, within optical fiber rings totaling over 20,000 kilometers in length and providing transmission rates of 2.5 Gbit/s.

International Network

Deutsche Telekom's international transmission infrastructure consists of both cable and satellite transmission systems, which link Deutsche Telekom's national network directly to approximately 300 other telecommunications service providers worldwide.

Deutsche Telekom is an investor in around 75 fiber-optic submarine cables worldwide. In addition to investments in a number of smaller cables, Deutsche Telekom has substantial investments in the major submarine cables AC-1, TAT-10, TAT-12/13 and UK-G6 and is the largest investor in the SEA-ME-WE3 cable, one of the longest submarine cables systems in the world, which went into operation in August 1999. Deutsche Telekom expects to invest a total of approximately US$120 million in the planned TAT-14 submarine cable, including amounts already invested. Deutsche Telekom expects that the TAT-14 cable will be operational by the end of 2000 with a total transmission capacity of 1280 Gbit/sec.

In October 1998, Deutsche Telekom launched operations of the Trans-Asia-Europe optical fiber cable system (TAE), the first direct optical fiber link between Frankfurt/Main and Shanghai. With 13 countries connected and a total length of 22,000 kilometers, TAE is one of the world's longest terrestrial cable systems.

Deutsche Telekom plans to serve its international customers by seamlessly linking its transport network for international traffic in Germany and its 38 national City-networks with a worldwide platform owned by Deutsche Telekom. The European cities of Paris, London, Amsterdam and Brussels were already connected to Deutsche Telekom's high-performance network in 1999, and Geneva, Milan and Zurich should follow. Deutsche Telekom plans to link with this network some 40 points of presence, in 16 countries, by late 2000, and to expand to further cities in 2001. ATM, IP and voice technology will be made available at all of these locations. Deutsche Telekom plans eventually to link in a single network over 93 points of presence in around 40 countries.

In May 2000, Deutsche Telekom concluded an agreement with Infonet Services Corporation which enables Deutsche Telekom to integrate Infonet's portfolio of global voice and data communications services with Deutsche Telekom's customized telecommunications solutions.

Data Networks

Leased Line and Data Transmission Networks

Deutsche Telekom operates leased line networks on a managed and unmanaged basis. Deutsche Telekom also operates a number of switched digital networks used principally for the provision of packet switched, frame relay and ATM data transmission services. In addition, Deutsche Telekom operates an Internet platform.

Deutsche Telekom operates a number of platforms in connection with the provision of leased line services. Deutsche Telekom's data networks support a variety of transmission technologies. Deutsche Telekom's Datex-P data transmission service, which is based on the X.25 protocol, provides transmission rates of up to 1.5 Mbits/sec, while the FrameLink Plus service, which is based on frame relay technology, provides transmission rates of up to 2 Mbits/sec (high capacity). Deutsche Telekom's T-ATM network, which is based on Asynchronous Transfer Mode technology, permits transmission of data at rates of up to 155 Mbits/sec. See ''—Data Communications and Information and Communications Systems''.

Internet Network

The extremely rapid growth of Internet communications has created enormous challenges for the international telecommunications industry. In 1999, Deutsche Telekom continued to expand its telecommunications networks for transport of national and international Internet traffic. From the end of 1998 to the end of 1999, Deutsche Telekom increased the number of dial-in ports in its national platform by a total of 100 percent. The transmission rate in the core network was increased in 1999 from 155 Mbit/s to 622 Mbit/s, which is equivalent to about 40,000 ''DIN-A4'' (i.e., letter size) pages of text per second. As a result, Deutsche Telekom's IP backbone is already one of the world's most powerful Internet platforms.

Deutsche Telekom also made preparations in 1999 for a further increase of transmission capacity in core areas to as much as 2.5 Gbit/s. As in the case of the expansion of core network capacity in 1999, this expansion will involve use of state-of-the-art wave division multiplexing technology. Wave division multiplexing systems permit the multiplication of the potential transmission capacity in optical fiber. In early 2000, Deutsche Telekom began to build up a completely new optical transport network across Germany which can be adjusted to the forecasted high capacity needs as required.

In 1999, Deutsche Telekom expanded its transmission capacity up to 1.05 Gbit/s to the United States, which plays a particularly important role in Internet communications. Deutsche Telekom accomplished this result using its own capacities in submarine cable systems. In 2000, Deutsche Telekom plans to add more than 3.5 Gbit/s of transmission capacity to the United States.

ADSL

In 1999, Deutsche Telekom continued the ambitious ADSL technology (Asymmetrical Digital Subscriber Line) expansion program initiated in 1998. ADSL permits transmission of data through the copper wire pairs that link customers to Deutsche Telekom's networks at faster rates than were previously possible: up to 6 Mbit/s from the network to the customer and up to 768 kbit/s from the customer to the network. ADSL thus makes fast Internet access possible.

Deutsche Telekom made ADSL technology under the brand name ''T-DSL'' available to its customers for the first time in 1999 and plans to expand the number of local networks where T-DSL is available to more than 200 during 2000. At present, Deutsche Telekom only markets T-DSL together with T-ISDN. Deutsche Telekom currently plans to have introduced T-DSL throughout most of Germany by the end of 2003.

Mobile Telecommunications Network

Deutsche Telekom operates two national mobile telephony networks. At December 31, 1999, Deutsche Telekom's digital mobile network, T-D1, consisted of around 25,000 base stations, 581 base station controllers and 46 switches and was capable of reaching an area comprising 96 percent of Germany and 99 percent of the population of Germany. The T-D1 network operates in the frequency band ranging from 890 to 915 MHz and from 935 to 960 MHz (and, since February 2000, in the frequency band surrounding 1,800 MHz). Deutsche Telekom's analog mobile network, T-C-Tel, consisted of 2,120 base stations and 32 switches. Deutsche Telekom has decided to take its analog mobile network out of service at the end of 2000.

In 1999, Deutsche Telekom acquired control of max.mobil and One 2 One, each of which has a substantial mobile communications network. At December 31, 1999, One 2 One's network consisted of 3,168 base stations, 120 base station controllers and 27 switches, had geographic coverage of around 72 percent and had population coverage of around 98 percent within the United Kingdom. max.mobil's network consisted of 2,633 base stations, 145 base station controllers and 13 switches at December 31, 1999 and had geographic coverage of 56 percent and population coverage of around 96 percent in Austria at that date. One 2 One's network operates in the frequency band surrounding 1,800 MHz, while max.mobil's network operates in the 900 MHz and 1,800 MHz frequency bands.

Due to the increasing popularity of digital mobile communications in Germany, Deutsche Telekom expects to spend approximately EUR 2.0 billion on the expansion and improvement of its (particularly the mobile telecommunications networks of T-Mobil, max.mobil. and One 2 One) digital mobile network during 2000.

Deutsche Telekom has conducted significant research and development efforts relating to UMTS (Universal Mobile Telecommunications System) technology and expects to be in a position technologically to offer mobile telephony based on UMTS as these services become generally available on a commercial basis. Deutsche Telekom will need to acquire licenses to use the frequencies available for UMTS services in Germany, as One 2 One has done in the United Kingdom.

Cable Network

Deutsche Telekom's cable network is a dedicated coaxial cable based broadband network currently used solely for the transmission of television and radio signals. Deutsche Telekom estimates that an investment of approximately EUR 2 billion would be required to upgrade the network from 450 megahertz to 862 megahertz and to make the cable network bi-directional from the head end, where program signals are fed into the cable network, to the customer connection point for 70 percent of its customers, i.e., capable of being used to transmit more TV channels, transmit telephone calls and provide multimedia services and fast Internet traffic to those customers. Deutsche Telekom also believes that an additional amount of approximately EUR 1.5 billion would be required to upgrade the network from the customer connection point to the cable socket on the customers' premises. The cable network is made up of 1,100 local networks. Signals are fed into the network from satellite, terrestrial radio stations and, to a very limited extent, trunk lines to content providers.

Broadcast Network

Deutsche Telekom operates a terrestrial broadcasting network with over 7,000 radio and television transmitters in over 3,000 locations. Deutsche Telekom does not provide content for its broadcast networks.

Information Technology

Deutsche Telekom's subsidiaries DeTeCSM and T-Nova work closely together to promote the continuous development of Deutsche Telekom's information technology (IT) systems and applications. Deutsche Telekom increasingly provides comprehensive telematics solutions to its customers on the basis of its IT competencies.

Deutsche Telekom Computer Service Management GmbH (''DeTeCSM''), a wholly-owned subsidiary of Deutsche Telekom, has responsibility for operating and expanding Deutsche Telekom's IT infrastructure and applications. DeTeCSM offers a wide range of IT services, including operation of computer centers, client-server and workstation systems and desktop, call center, web and office communication services. Deutsche Telekom consolidated its IT area in 1998 by combining its existing information technology subsidiary Deutsche Telekom Computer Service Magdeburg GmbH with its five other service and computer centers and with other information technology structures within the Deutsche Telekom group to form DeTeCSM. Deutsche Telekom continued this consolidation process in 1999 by bundling the remainder of its IT organization into DeTeCSM. DeTeCSM is responsible for supporting T-Online and T-Mart systems engineering and, since September 1999, for performing important tasks in the IT area for T-Mobil.

T-Nova Deutsche Telekom Innovationsgesellschaft mbH (''T-Nova'') commenced business operations as a service provider within the Deutsche Telekom group on July 1, 1999. T-Nova is responsible for developing products, services and networks, as well as IT systems, for the support of business processes within the Deutsche Telekom group.

Deutsche Telekom intends to intensify the use of the expertise of DeTeCSM and T-Nova in order to strengthen Deutsche Telekom's position in the growing IT market and to assist in the development of Deutsche Telekom into a full-service telematics service provider.

Sales and Service

During 1999, Deutsche Telekom introduced further measures to attract and retain customers and continued its program to focus on the customer. All of these activities are aimed at optimizing customer service and fostering long-term customer loyalty in a highly competitive market.

Since 1998, the residential customer and business customer branch offices in each geographic region have been bundled under a common management for that region. Deutsche Telekom believes that this arrangement of its branch offices improves customer service and overall operations and enhances mobility in the market.

Deutsche Telekom has hired and maintains close contact with a number of special sales experts to ensure that its sales staff is always able to give its customers top-quality, state-of-the-art advice, even regarding very complex telecommunications requirements—including, for example, highly sophisticated products in the areas of mobile communications, data communications and multimedia. In 1999, Deutsche Telekom created special sales departments, each with its own specific expertise, that will support Deutsche Telekom's sales staff as necessary in difficult sales-related tasks.

Sales Channels

A key element in the optimization of Deutsche Telekom's sales organization in 1999 was the new focus on the international sales force. Deutsche Telekom has combined all of it's sales support for international projects under its subsidiary DeTeSystem, thereby further improving the processes involved in international bidding and operations.

Deutsche Telekom operated 563 ''T-Punkt'' shops throughout Germany at end of 1999. These are one of Deutsche Telekom's most important sales channels for serving its residential customers and more and more small business customers. At every T-Punkt, customers can choose from Deutsche Telekom's extensive range of products, including the type of telephone connection and tariff category, telephones, fax machines and T-Mobil's mobile communications products. During 1999, Deutsche Telekom began implementing a site-optimization program for its T-Punkt shops to improve their cost-effectiveness and increasingly focused the activities of the T-Punkt shops in the strategically key areas of T-ISDN, T-D1 and T-Online. Deutsche Telekom also made preparations for the introduction of T-Punkt Business shops, which are oriented in particular toward mid-sized business customers. The first T-Punkt Business shop opened in January 2000.

Deutsche Telekom also has a broad range of sales partners under contract with a total of some 10,000 sales outlets at the end of 1999. These sales partners sell products and services of Deutsche Telekom, in addition to their own lines of products and services.

In 1999, Deutsche Telekom expanded upon the ''customer segment management'' department that was formed in 1998, through which Deutsche Telekom seeks to build stronger connections between customers and individual areas of Deutsche Telekom's business. This measure is intended to ensure product development that is focused on the needs of particular customers and classes of customers, particularly in the areas of multimedia, mobile communications and data communications.

Telemarketing is one of Deutsche Telekom's main sales channels. Using Deutsche Telekom's telemarketing hotline, customers can obtain information and order nearly all of Deutsche Telekom's products and services 24 hours a day, seven days a week.

Mail-order business has become an important part of Deutsche Telekom's sales operations. Customers can order by phone, through T-Online, by fax or by mail from Deutsche Telekom's semiannually published catalogue, which provides comprehensive information regarding new products and services. Deutsche Telekom intensified its on-line marketing efforts in particular during 1999.

Deutsche Telekom has increased sales activities in the Internet to a considerable degree. Deutsche Telekom's homepage provides customers with information about company products and services 24 hours a day. Customers may order articles directly from the online catalogue. Special online promotions as well as constant updates on the offers on the start pages round off Internet sales activities. Since October 1999, T-Versand has operated an Internet Call Center, which supports online sales.

T-Service

''T-Service'', with its staff of over 32,000 persons, is responsible for assembly, service and repair of the lines and terminal equipment of Deutsche Telekom's customers. As a result of continuous improvements in employee training and in IT systems, Deutsche Telekom is now able to resolve one out of every three service problems without having to dispatch field-office personnel. Since the beginning of 1997, Deutsche Telekom has cut the average time for resolving service problems nearly in half—from about 20 hours to 11 hours. Moreover, in 1999, Deutsche Telekom succeeded in installing new telephone lines when promised in over 99 percent of all cases.

Since mid-1999, Deutsche Telekom processes orders automatically, which results in greater efficiency. In addition, alternative service methods such as remote configuration and remote maintenance were enhanced in 1999.

According to surveys conducted by Deutsche Telekom, business customers' satisfaction with Deutsche Telekom's delivery times for high-speed products and services and with the quality of Deutsche Telekom's efforts to resolve service problems has improved considerably.

Telekom Direkt—Integrated Complaint Management

The ongoing combination of Deutsche Telekom's organizational units for residential customers and business customers makes it possible for Deutsche Telekom to conduct its ''Telekom Direkt'' complaints management service more efficiently, by allowing Deutsche Telekom to handle customer complaints in an integrated manner. Telekom Direkt analyzes complaints from sales, service and customer-billing areas in order to identify and eliminate problems as quickly as possible. The complaints management units have been serving customers since the end of 1996.

TelekomForum e.V.

Deutsche Telekom continued and sought to intensify its dialogue with its business customers in 1999. One of Deutsche Telekom's most effective resources in this regard is the TelekomForum, a business-customer advisory board founded in 1996. Currently, its members include about 300 of the largest German companies. In the TelekomForum working groups, customers and product managers develop ideas for the improvement of Deutsche Telekom's portfolio of products and services. In this way, some of Deutsche Telekom's customers have direct input into the development and innovation processes at Deutsche Telekom.

Telecommunications Solutions Tailored to Particular Customer Groups

In 1999, as in prior years, Deutsche Telekom's sales marketing organization devised new combinations of products and services aimed at particular customer groups. These solutions consist of complete systems and packages, rather than single products. Deutsche Telekom also continued the ''Partnership Management'' program that was introduced in 1998, through which it provides information and support services for management consultants, engineering offices, telecommunications and IT consultants and systems houses. Deutsche Telekom also offers telecommunication consulting services to business customers. For each customer using these services, Deutsche Telekom seeks to develop and implement a telecommunications solution that is specially tailored to the customer's corporate goals.

Telekom Seminars

Since 1993, Deutsche Telekom has been offering its business customers seminars designed to help them get the most out of state-of-the-art telecommunications products. The number of participants in these seminars in 1999 was 345, unchanged from 1998, while the number of these seminars increased nearly 20 percent from 1998 to 1999.

Research and Development

Deutsche Telekom views research and development as an important tool for competing effectively and has committed significant resources to research and development activities. At December 31, 1999, Deutsche Telekom had approximately 4,400 employees (excluding employees at MATAV, One 2 One and max.mobil.) dedicated to research and development activities. Deutsche Telekom's expenditures on research and development amounted to approximately EUR 0.7 billion in 1999 (excluding MATAV, One 2 One and max.mobil.), as compared to approximately EUR 665 million in 1998 and EUR 614 million in 1997. Approximately 40 percent of Deutsche Telekom's research and development expenditures in 1999 were devoted to software development. Deutsche Telekom has a variety of patents and licenses. No single patent or license is material to its business.

Research and development activities focus on the relevant growth areas for Deutsche Telekom. For online services, Deutsche Telekom develops specific portals for customer groups and is represented in key international consortia which are expected to have an influence on the future form of the Internet. In the networks area, Deutsche Telekom offers improved access to information and services through new technologies, such as T-DSL, for example. Deutsche Telekom's research and development activities also support the development of comprehensive telematics solutions by integrating the results of different projects. In the area of mobile communications, Deutsche Telekom has been active in development of the standards for new, future-oriented broadband mobile systems (UMTS). Deutsche Telekom has been a key member of consortia that have developed technologies and applications that serve as standards, including GSM, ISDN, and ATM. Deutsche Telekom's focus on the market is reflected not only in product development but also in mid- to long-term projects such as the optimization of user-friendly speech applications and increasing the carrying capacity of existing network infrastructures.

T-Nova Deutsche Telekom Innovationsgesellschaft mbH launched its activities in July 1999. Deutsche Telekom transferred its technology center, five software development centers and the operations of its development unit T-Berkom to T-Nova and handed the direction of its subsidiary Multimedia Software GmbH Dresden to T-Nova. T-Nova offers group-wide innovations and solutions from a single source—from research and development relating to products, services, networks and software to the support of market introduction as well as operations. Especially important is the integrative development of related information systems that operate and support the group's activities.

Through its corporate venture capital subsidiary T-Telematik Venture Holding GmbH (''T-Venture''), Deutsche Telekom provides capital for seed, early stage and first expansion investments both directly and through venture capital funds, to promising companies involved in the fields of information and communications technologies, including software technology. In April 1999, Deutsche Telekom increased the financing of T-Venture by EUR 102 million to a total of EUR 153 million. In this regard Deutsche Telekom has stepped up its commitment within the venture capital market. In 1999, T-Venture invested approximately EUR 72 million in a number of existing shareholdings and in 22 new shareholdings. In October 1999, T-Venture expanded its venture capital activities in the information technology area in the United States with the formation of T-Venture of America, Inc.

Deutsche Telekom's ventures in Southeast Asia and other foreign regions may expose its intellectual property to less protection than that afforded by Germany and the United States.

Recent Developments: debis Transaction

On March 27, 2000, Deutsche Telekom and DaimlerChrysler Services AG announced an agreement to form a strategic joint venture in the systems solutions field through the proposed acquisition by Deutsche Telekom of a 50.1% interest in debis Systemhaus GmbH by means of a capital increase. Under the arrangements, Deutsche Telekom is to invest approximately EUR 5.3 billion in debis Systemhaus for the new shares, and is to assume day-to-day management control over debis Systemhaus. Deutsche Telekom has agreed that there will be a minimum annual dividend rising to up to EUR 70 million paid on the DaimlerChrysler Services AG interest in debis Systemhaus in respect each financial year through 2004. The transaction is subject to a number of conditions, including approval by DaimlerChrysler Services AG's supervisory board and requisite antitrust clearances. Accordingly, Deutsche Telekom cannot guarantee that it will be consummated.

debis Systemhaus is one of Europe's largest systems solutions companies. It produces software for corporate communications systems and develops the infrastructure needed for communications among computers. The strategic engagement is expected to strengthen Deutsche Telekom's systems solutions business—which is one of the four pillars of its growth strategy—and provide Deutsche Telekom with access to debis Systemhaus' global data network. According to public statements made by DaimlerChrysler, for 1999, debis Systemhaus had revenues of approximately EUR 2.9 billion.

The agreements relating to the joint venture confer on Deutsche Telekom the right to acquire from DaimlerChrysler Services AG, and on DaimlerChrysler Services AG the right to sell to Deutsche Telekom, the entire 49.9% interest of DaimlerChrysler Services AG in debis Systemhaus. The right in favor of Deutsche Telekom is exercisable from January 1, 2002, through January 1, 2005, with the commencement of the exercise period subject to a delay of up to two years at the option of DaimlerChrysler Services AG. The right in favor of DaimlerChrysler Services AG is exercisable from the joint venture closing through January 1, 2005. The price for the purchase for the 49.9 percent interest would be between approximately EUR 5.4 billion and EUR 5.7 billion, depending on when the option is exercised. The exercise of either option would give Deutsche Telekom full ownership of debis Systemhaus at the option exercise price, including full ownership of the then value in debis Systemhaus derived from Deutsche Telekom's initial approximate EUR 5.3 billion investment.

Legal Proceedings

Deutsche Telekom and its subsidiaries are involved in a number of legal proceedings in the ordinary course of their business. In addition, proceedings involving alleged abuse of a market-dominating position by Deutsche Telekom and alleged antitrust violations are pending before competition and regulatory authorities.

On May 17, 1999, France Telecom commenced three arbitration proceedings with the International Court of Arbitration of the International Chamber of Commerce alleging that, by negotiating and entering into the combination agreement with Telecom Italia, Deutsche Telekom breached the cooperation agreement and the two cross-shareholding agreements between Deutsche Telekom and France Telecom. France Telecom is seeking to terminate these agreements and to recover damages from Deutsche Telekom, based on France Telecom's 1996 withdrawal from the German market and on missed opportunity costs, including the savings that allegedly would have resulted from the cooperation between Deutsche Telekom and France Telecom. In documents filed in the arbitration proceedings, France Telecom estimates that these damages amount to between EUR 3.5 billion and EUR 19 billion. Deutsche Telekom has denied the claims of France Telecom and filed substantial counterclaims for damages that currently are not fully specified but that are estimated by Deutsche Telekom at not less than EUR 6 billion. Deutsche Telekom does not expect a resolution to these proceedings before the end of 2000.

In addition, Enel S.p.A, France Telecom and Wind Telecommunicazioni S.p.A commenced arbitration proceedings during 1999 under the Rules of Arbitration of the International Chamber of Commerce based upon Deutsche Telekom's merger discussions with Telecom Italia. Enel is seeking damages in an amount not fully specified but estimated by Enel to be at least EUR 900 million, while Wind is seeking damages in an amount not fully specified but estimated by Wind at approximately EUR 265 million. Enel is also seeking a determination that it is entitled to exercise a call option on the shares in Wind that are held by DT-FT Italian Holding GmbH, a 50/50 joint venture of Deutsche Telekom and France Telekom, at a price equal to 90 percent of their fair market value. Deutsche Telekom has denied these claims and has filed substantial counterclaims against France Telecom, Enel and Wind. Deutsche Telekom anticipates that these arbitral proceedings will last for approximately two years.

Compagnie Générale des Communications S.A., a wholly-owned subsidiary of France Telecom, has filed a complaint against Deutsche Telekom with the District Court (*Landgericht*) in Bonn, seeking to require Deutsche Telekom to sell its interest in DT-FT Italian Holding GmbH for a price equal to the fair value of the shares. Deutsche Telekom currently expects that a decision in this matter will not be reached for four to five years.

On October 21, 1999, T-Mobil commenced arbitration proceedings in Vienna, Austria, against Elektrim S.A. and certain small shareholders of PTC. T-Mobil's claim alleges that these companies wrongfully failed to recognize Deutsche Telekom's rights of first refusal over approximately three percent of PTC, and that this failure was a material breach of the PTC shareholders' agreement. These companies have denied T-Mobil's claim, and Elektrim has filed a counterclaim against T-Mobil alleging that T-Mobil materially breached the shareholders' agreement by, among other things, attempting to purchase PTC shares from several small shareholders and obstructing Elektrim's purchase of PTC shares. T-Mobil has denied the allegations made in the counterclaim. A finding by the arbitration panel that a party has materially breached the PTC shareholder agreement would give the non-defaulting party the right to acquire the defaulting party's PTC shares at book value, which would be substantially below their current fair market value. Deutsche Telekom estimates that these proceedings will last for around 12 to 18 months.

The Regulatory Authority issued an order in December 1999 that establishes the rates that will apply to voice telephony interconnection services provided by Deutsche Telekom between January 1, 2000 and January 31, 2001. For further information on this decision, see ''Regulation—Special Network Access and Interconnection—Fixed-Fixed Interconnection.'' Because the decision of the Regulatory Authority in this matter was based on an international benchmark rather than on the cost information submitted by Deutsche Telekom, Deutsche Telekom filed a complaint against this order with the Cologne Administrative Court (*Verwaltungsgericht Köln*) in January 2000.

In two decisions published in September and November 1999, the Regulatory Authority took the position that regulatory approval is required for Deutsche Telekom's offers of services to service providers that purchase services for purposes of resale. This position relates to offers of both local calls and domestic and international long-distance calls. According to these decisions, these offers to resellers are seen as voice telephony services and Deutsche Telekom is seen as dominant in the market for those services. Deutsche Telekom has filed an application for an injunction against the implementation of this decision with the Cologne Administrative Court. Deutsche Telekom takes the view that its resale offers of domestic long distance and international calls are not subject to price regulation because it lacks a market-dominant position. After the Cologne Administrative Court rejected the applications for an injunction, Deutsche Telekom applied for permission to appeal. This application has not yet been decided.

In response to complaints from prospective voice telephony competitors of Deutsche Telekom, in July 1997, the Post Ministry required Deutsche Telekom to allow the complainants unbundled access to end customer lines (the ''local loop'') within Deutsche Telekom's network for purposes of connecting their own customers. See ''Regulation—Special Network Access and Interconnection—Local Loop Access''. A motion for a temporary injunction against this order was rejected by the Cologne Administrative Court. In a hearing before the Appellate Administrative Court in Münster (*Oberverwaltungsgericht Münster*) in September 1997, an agreement was reached substantially on the basis of the Post Ministry's requirements, pursuant to which Deutsche Telekom now offers unbundled access to competitors. This agreement remains subject to the outcome of the litigation. Two administrative courts have dismissed Deutsche Telekom's challenge to this order, and Deutsche Telekom has appealed the issue to the Federal Administrative Court (*Bundesverwaltungsgericht*) in Berlin.

The Regulatory Authority issued an order on March 9, 1998, rejecting in part an application by Deutsche Telekom for the approval of charges for access to the local loop. The Regulatory Authority rejected Deutsche Telekom's cost calculations based on a purported lack of transparency in the calculations and the evaluation of the cost factors and prescribed lower charges (DM 20.65 plus VAT) than those Deutsche Telekom had sought. See ''Regulation—Special Network Access and Interconnection—Local Loop Access''. Deutsche Telekom filed a legal challenge to this order with the Cologne Administrative Court. The Regulatory Authority recently reset the charge for the monthly rate at DM 25.40 plus VAT. Deutsche Telekom and certain competitors filed complaints against this order with the Cologne Administrative Court in March 1999. A decision by that court that is adverse to Deutsche Telekom would be likely to have the effect of increasing competition in the local access market. Deutsche Telekom also has appealed to the administrative courts decisions of the Regulatory Authority regarding the technical point in Deutsche Telekom's network at which competitors must be allowed access to the local loop.

During 1998, Deutsche Telekom conducted discussions with the Regulatory Authority about the terms of interconnection agreements with carrier network operators that provide national services with only minimal investments in infrastructure. These carriers were, in Deutsche Telekom's view, generating atypical traffic that led to inefficient use of Deutsche Telekom's fixed network. As a result of these discussions, starting in May 1999, the Regulatory Authority issued a series of decisions that permitted Deutsche Telekom to require these carriers to build up new points of interconnection if the volume of traffic they generated at any single point of interconnection exceeded a threshold specified by the Regulatory Authority. Deutsche Telekom subsequently implemented this requirement in all interconnection contracts. One carrier, however, filed a suit against this decision of the Regulatory Authority and filed a motion for a temporary injunction, claiming that the decision of the Regulatory Authority would violate the European Open Network Directive. While the court of first instance granted the motion for a preliminary injunction, the court of appeals reversed and approved the concept represented in the decisions of the Regulatory Authority. In April 2000, the competitor withdrew its complaint in the main proceeding.

Deutsche Telekom is now permitted to require special carriers to build up new points of interconnection if their traffic at one point of interconnection exceeds a certain threshold. See ''—European Union.''

In connection with a retrospective review of broadband cable tariffs, the Cologne Administrative Court issued a decision on March 18, 1999 in which it ruled that any corporate and business secrets relevant for a decision taken in a decision panel proceeding under the Telecommunications Act must be disclosed by Deutsche Telekom to the other parties involved in the proceeding. Deutsche Telekom filed a successful appeal against this decision. On May 12, 1999, the Münster Higher Administrative Court (*Oberverwaltungsgericht Münster*) ruled that Deutsche Telekom has a legitimate interest in protecting its corporate and business secrets, such that the Regulatory Authority may require disclosure of these secrets only when necessary to protect a special public interest. Further proceedings with similar factual bases are still pending.

The Regulatory Authority issued an order on October 27, 1999 requiring Deutsche Telekom to pay fees of approximately DM 386 million for the use of telephone numbers that were assigned to Deutsche Telekom prior to the liberalization of the market for public fixed-network voice telephony services on January 1, 1998. The order is based on the Telecommunications Numbers Fees Ordinance. The amount that Deutsche Telekom was required to pay was calculated on an estimate by the Regulatory Authority that is subject to revision when Deutsche Telekom supplies the Regulatory Authority with required information regarding the telephone numbers assigned to Deutsche Telekom prior to January 1, 1998. Deutsche Telekom has paid the required fee but filed a complaint against the order of the Regulatory Authority with the Cologne Administrative Court in November 1999.

On March 17, 1999, Mannesmann Arcor filed a complaint with the European Commission against the Federal Republic of Germany and against Deutsche Telekom. The complaint primarily relates to Deutsche Telekom's prices for unbundled access to the local loop, which were set by the Regulatory Authority in early 1999. According to Mannesmann Arcor, Deutsche Telekom's low retail prices for local calls and for subscriber lines combined with its high prices for interconnection and for unbundled access to the local loop do not allow competitors to provide customer services economically. With regard to the Federal Republic of Germany, Mannesmann Arcor alleges that the German Economics Ministry exerted undue influence over the decision of the Regulatory Authority regarding local loop access. Furthermore, in Mannesmann Arcor's view, legal protection offered to applicants by German administrative courts, in the form of interim relief, for instance, would not be efficient. Other competitors have jointly filed two further complaints to the European Commission containing similar reproaches. In addition, Telepassport and Viatel have filed complaints alleging that Deutsche Telekom has abused a dominant position by charging long distance off-peak prices that are lower than applicable interconnection tariffs. Deutsche Telekom believes that the complaints are without merit and has submitted replies to the European Commission. T-Online announced a plan to introduce new Internet charges as of April 1, 1999. AOL Bertelsmann filed a complaint concerning the new charges with the European Commission on February 15, 1999. The complaint alleges the abuse by Deutsche Telekom of its dominant position (in particular, the bundling of Deutsche Telekom's local telephone charges with T-Online's Internet access charges and the use by T-Online of Deutsche Telekom's billing systems). AOL Bertelsmann has also filed a complaint with the German Regulatory Authority based on essentially the same allegations. On April 16, 1999, the Regulatory Authority opened a proceeding to regulate the prices for Internet access via online service. In its decision of June 16, 1999 the Regulatory Authority held that the charges for Internet access via online service did not constitute an abuse of Deutsche Telekom's alleged dominant position on the telephony market, but that Deutsche Telekom could no longer offer a special volume discount for the telephone connection capacity. The decision was based on a benchmark study, not on cost calculations by Deutsche Telekom. Several competitors of Deutsche Telekom filed complaints against this order with the Cologne Administrative Court. The Cologne Administrative Court issued two interim injunctions in which the Court expressed the view that fees charged by Deutsche Telekom for the use of its Internet platform are subject to price regulation under the Telecommunications Act and obligated the Regulatory Authority to reopen the proceedings in respect to prices for Internet access via online service and to base its decision on Deutsche Telekom's cost calculations. Deutsche Telekom, the Regulatory Authority and two competitors (media ways GmbH and Interactive Networks GmbH) have appealed this decision. A decision by the Appelate Administrative Court in Münster on the admissibility of the appeals against the interim injunctions is pending. Deutsche Telekom cannot predict the outcome of this proceeding. Deutsche Telekom and, indirectly, T-Online would be affected if the Regulatory Authority were to re-open price regulation proceedings and demand that Deutsche Telekom change amounts charged to T-Online and its competitors, possibly with retroactive effect.

In the first quarter of 2000, AOL Bertelsmann also brought three preliminary injunction proceedings against T-Online and Deutsche Telekom before the Hamburg District Court (*Landgericht Hamburg*) claiming that T-Online had engaged in anti-competitive practices.

In the first proceeding, AOL Bertelsmann requested that the court prohibit T-Online from offering solely ''bundled'' products (i.e., products that offer a single rate that includes telephone access rates and Internet access rates). Although the Hamburg District Court ruled in favor of AOL Bertelsmann, the Hamburg Court of Appeals (*Oberlandesgericht Hamburg*) reversed the decision on appeal by T-Online. This decision is not subject to appeal and concludes the preliminary injunction proceedings.

In the second proceeding, AOL Bertelsmann argued that T-Online and Deutsche Telekom engaged in an anticompetitive practice by offering bundled products that included telephone connection rates that were lower than those available to AOL Bertelsmann's customers at that time. The Hamburg District Court dismissed AOL Bertelsmanns' claim in this regard, and this decision was upheld on appeal.

In the third proceeding, AOL Bertelsmann again argued that T-Online engaged in an anti-competitive practice by bundling its ''By-Call'' Internet access charge with Deutsche Telekom's ISDN telephone access. The Hamburg District Court decided this claim in favor of AOL Bertelsmann, and T-Online appealed this decision. The appellate court reversed the lower court judgment. T-Online now also offers ''By-Call'' access together with analog telephone lines.

On March 15, 2000, AOL Bertelsmann filed a complaint against T-Online with the German Federal Antitrust Authority (*Bundeskartellamt*) claiming that T-Online would engage in an anti-competitive practice by combining its ''T-Online by call'' tariff option with Deutsche Telekom ISDN access. In a letter dated March 27, 2000, the Federal Antitrust Authority requested T-Online to provide clarification concerning these allegations. Due to the fact that this proceeding is at an incipient stage, the outcome can not be predicted.

On May 5, 1999, Mannesmann Mobilfunk filed a complaint with the European Commission alleging abuse by Deutsche Telekom of a dominant position on the fixed telephony retail market and on the market for termination services. According to the complaint, the alleged abuse consists of Deutsche Telekom's refusal to provide network services necessary for the implementation of Personal Communications Services similar to Deutsche Telekom's PCS. In addition, the price charged for this service is alleged to be abusive. Deutsche Telekom believes that the complaint is without merit and has submitted a reply to the European Commission.

In May 2000, AOL Deutschland and mediaWays filed with the Administrative Court in Cologne a complaint and a petition seeking suspension of a regulatory approval given with respect to the online component of the tariff ''Optionsangebot XXL'' (or ''T-ISDN XXL''). For further information regarding this product, you may refer to ''—Other Services—T-Online''. Deutsche Telekom was joined in this proceeding as third party. In April 2000, the Regulatory Authority had given approval to the scale of charges associated with ''Optionsangebot XXL'' for a trial run. In June 2000, the Cologne Administrative Court suspended the regulatory approval of that component of the product ''Optionsangebot XXL'' that consists of free online access on Sundays and on public holidays. The court did not, however, suspend regulatory approval of that component of the product ''Optionstarif XXL'' that consists of free ISDN connections on Sundays and public holidays. In June 2000, Deutsche Telekom appealed the decision of the Cologne Administrative Court to the Appelate Administrative Court in Münster. On June 9, 2000, the Appellate Administrative Court reversed the decision of the Cologne Administrative Court. Because Deutsche Telekom has not yet received a statement of the reasons for this decision, Deutsche Telekom is not able to evaluate the consequences of this decision for the preliminary injunction proceeding or the regular proceeding.

In early 1999, the U.S.-based operator Carrier 1 lodged a formal complaint with the U.S. Trade Representative against the Federal Republic alleging, among other things, that the Regulatory Authority failed to create a regulatory framework that guarantees competitors interconnection without unreasonable technical conditions on a timely basis and at cost-oriented prices. The complaint further alleges anti-competitive practices on the part of Deutsche Telekom (for example, delay in negotiating and implementing interconnection agreements). Deutsche Telekom believes the Carrier 1 complaint should be rejected on the merits. Two industry groups have also complained to U.S. authorities about interconnection in Germany. See ''Regulation—International Obligations''.

In September 1998, Deutsche Post AG commenced an arbitration proceeding seeking contributions from Deutsche Telekom relating to the cost of employee housing for former Deutsche Bundespost employees, including a number of Deutsche Telekom employees. In 1995, responsibility for the housing of former employees of Deutsche Bundespost was assigned to Deutsche Post AG. The parties have different views as to the amount Deutsche Telekom is obliged to pay as cost reimbursement for the use of such employee housing for its employees. Deutsche Post AG currently is seeking payment in the amount of EUR 45.3 million from Deutsche Telekom, although Deutsche Telekom expects that Deutsche Post AG may claim further amounts in the event that its initial claim is successful. As of December 31, 1999, Deutsche Telekom reserved EUR 45.8 million in connection with this arbitration proceeding. To date, only an initial hearing has taken place. The outcome of the arbitration proceeding is uncertain.

German tax authorities have denied Deutsche Telekom's request for permission to recognize goodwill in its opening balance sheet of January 1, 1995 in the amount of EUR 13.1 billion and to depreciate that goodwill for tax purposes. In February 1999, Deutsche Telekom filed a complaint against this decision of the German tax authorities with the fiscal court of Cologne (*Finanzgericht Köln*). A judgment of this court of first instance is expected in 2000-2001. A decision adverse to Deutsche Telekom would not have an adverse impact on the financial position of Deutsche Telekom, since Deutsche Telekom has chosen not to recognize or depreciate this goodwill for tax purposes until it receives approval from the tax authorities or the courts. A decision favorable to Deutsche Telekom, however, would result in tax refunds for Deutsche Telekom.

In October 1996, British Telecommunications plc (''BT'') and VIAG Interkom GmbH & Co. KG (''VIAG'') filed a complaint with the District Court in Düsseldorf (*Landgericht Düsseldorf)* seeking a permanent injunction and damages on the basis that Deutsche Telekom and Atlas Germany had commenced offering and selling Global One telecommunications services before a condition to the entry into effect of the competition law exemptions granted to Atlas and Global One by the European Commission had been fully satisfied (specifically, the condition that two or more licenses for the build-out, ownership and/or control of alternative transmission lines for liberalized telecommunications services be in effect in each of Germany and France). The complaint also sought certain information from Deutsche Telekom. Although the request for a permanent injunction was settled in 1997, the parties appealed decisions of the lower courts regarding the claim for damages to the Federal Supreme Court in 1998. In August 1999, however, the plaintiffs withdrew their complaint.

In April 1998, a German consumer association filed a complaint with the District Court in Cologne (*Landgericht Köln*) challenging a clause used by Deutsche Telekom in its General Terms and Conditions for TV-cable service. Deutsche Telekom based its November 1997 price increase on the challenged clause. The case was dismissed by the court by judgement dated October 27, 1999.

Properties

As of December 31, 1999, Deutsche Telekom's property, plant and equipment had a total book value of EUR 59.0 billion. See note 13 to the consolidated financial statements.

Approximately 95 percent of the real estate portfolio of the Deutsche Telekom group relates to Deutsche Telekom AG. The real estate portfolio of Deutsche Telekom AG consists on an unconsolidated basis of about 12,000 properties with an aggregate book value at December 31, 1999 of EUR 16.3 billion. The total area of these properties amounts to approximately 64.1 million square meters, of which approximately 54.7 million square meters are developed and approximately 9.4 million square meters are undeveloped. Substantially all of these properties are used for telecommunications installations, research centers, service outlets, computer centers and offices. In 1995, Deutsche Telekom AG formed DeTe Immobilien (Deutsche Telekom Immobilien und Service GmbH) to manage its real estate portfolio professionally.

Due to the consolidation of various operations, the conversion to digital exchanges completed in December 1997 and ongoing staff reductions, Deutsche Telekom AG anticipates that a portion of its owned and leased properties will not be required in its core business in the future. Starting in 1997, Deutsche Telekom AG began identifying surplus properties and began to sell or rent these properties. For a further discussion of Deutsche Telekom's real estate portfolio, see ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Some Recent Trends and Developments Affecting Deutsche Telekom—Real Estate''.

The headquarters of Deutsche Telekom are located in a leased building in Bonn. Deutsche Telekom also leases a number of other buildings.

In addition to its real estate portfolio, Deutsche Telekom owns numerous telecommunications installations throughout Germany, including exchanges of various sizes, transmission equipment, computer installations, cable networks, base stations for cellular networks and equipment for television and radio broadcasting. The aggregate book value of Deutsche Telekom's technical equipment and machinery at December 31, 1999 was EUR 38.2 billion.

Recently, allegations have appeared in the German press and elsewhere asserting that the book values recorded by Deutsche Telekom for its real property portfolio have been improperly established and maintained under applicable accounting principles. Deutsche Telekom has investigated these allegations and rejects them as groundless. In each of the past three years, Deutsche Telekom has established a reserve or recognized charges for potential losses associated with the disposition of properties no longer used in this business. These measures are described in ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Some Recent Trends and Developments Affecting Deutsche Telekom—Real Estate''.

COMPETITION

The service which contributes a majority of Deutsche Telekom's consolidated revenues—domestic and international public fixed-line voice telephony—was opened to full competition on January 1, 1998. This market opening was the final step in a multi-step liberalization process that formally commenced in 1989. The size and affluence of the German telecommunications market and a decidedly pro-competitive telecommunications regulatory environment have combined to make Germany one of the world's most open and competitive telecommunications markets.

Network Communications

Until January 1, 1998, Deutsche Telekom had a legal monopoly on the provision of domestic and international public fixed-line voice telephony service in Germany. Even before 1998, however, Deutsche Telekom faced a limited measure of indirect competition in its domestic fixed-line voice telephony business from providers of voice services through corporate networks and closed-user groups, resellers and mobile service providers. In its international public fixed-line voice telephony business, Deutsche Telekom faced a significant amount of indirect competition from calling cards and call back services, particularly with respect to traffic to the United States and Canada. Deutsche Telekom also faced competition in this area from private networks connected through leased lines to public telephone networks outside Germany.

An important feature of the German telecommunications regulatory structure is that it essentially allows for an unlimited number of market entrants. During 1998 and 1999, many competitors crowded into Germany's fully liberalized fixed-line market. By the end of 1999, the Regulatory Authority had issued over 250 regional and nationwide licenses for voice telephony service. The licensees include providers of subscriber lines and local services (subscriber network operators) and providers of long-distance and international services (long-distance carriers). Competition in the markets for calls to mobile networks and regional calls is also intensifying.

The focus of competition in the fixed-line market has been on long-distance and international calls. In this battle, which has been waged almost exclusively on the basis of price, Deutsche Telekom's competitors have been able to gain significant market share.

Telephone customers are free to choose service providers. They can do so either through call-by-call selection, which means selecting a carrier every time they make a long distance or international call, by dialing the carrier's prefix before the telephone number, or through preselection, which means selecting one long-distance carrier to handle all their long distance and international calls. Fixed terms for interconnection, which particularly favor competitors that have not invested in infrastructure, have enabled providers to profit from Deutsche Telekom's investments, at low prices, and to use them in designing their own products and services. In December 1999, the Regulatory Authority mandated reductions of up to 24 percent in interconnection rates, which are to be effective until January 31, 2001. As a result, Deutsche Telekom expects further price competition in the long-distance and international markets.

Among the international carriers holding a license for voice telephony services in Germany are MCI WorldCom and ACC. Some larger international carriers such as British Telecom have entered into joint ventures with German companies. Among the larger domestic competitors are Mannesmann Arcor and VIAG Interkom. Mannesmann Arcor is a consortium led by Mannesmann, which owns the Mannesmann Mobilfunk (D2) mobile telephony provider and has been acquired by Vodafone Airtouch. Mannesmann Arcor is investing in creating direct fixed-line access to customers and has its own backbone network (the former network of the German railway) and international holdings. In 1999, Mannesmann Arcor acquired the fixed-line network business of o.tel.o., which resulted in a considerable increase in the fixed-line network capacity and customer-base of Mannesman Arcor.

VIAG Interkom is a joint venture among VIAG, British Telecom and Telenor. It offers fixed-network services to business and residential customers. Through its E2 business area, which commenced operations at the end of 1998, it participates in the mobile telephony market.

The consolidation of telecommunications carriers, such as the proposed acquisition of Sprint Corporation by MCI WorldCom and the acquisition of Mannesmann by Vodafone Airtouch, and the creation of new alliances, such as the new joint venture between AT&T and British Telecom and the investment by France Telecom in Mobilcom, will likely have a noticeable effect on the competitive environment. Some aggressive smaller carriers, such as Mobilcom and TelDaFax, have succeeded in capturing market share in Germany disproportionate to the relative sizes of their balance sheets. Some smaller German carriers, such as NetCologne, focused on building urban or regional networks from which to offer both local and long distance services. At present, local network operators, including NetCologne, compete against Deutsche Telekom in more than two dozen major cities in Germany. Deutsche Telekom expects the voice telephony market in Germany to undergo consolidation in the medium term, but also expects that in the short term there will continue to be new entrants in the market.

Although Deutsche Telekom did not face significant competition in the access and local calling markets in 1999, competition in those markets is expected to increase. Various competitors have announced plans for offering local call service using unbundled local loop access, wireless local loop access and access via powerlines. The Regulatory Authority auctioned licenses for wireless local loop services in the summer of 1999. In addition, regulatory inquiries regarding the possibility of requiring further unbundling of local loop access to the local loop are in progress at the European Union level. For further information on these developments, see ''Regulation—Special Network Access and Interconnection—Local Loop Access''. As a result of these developments, Deutsche Telekom expects that substantial competition in the local loop will develop.

Deutsche Telekom's decision to divide its broadband cable business into nine regional companies and to seek investors to assume majority control and operating control over those companies may in time lead to additional competition from parties seeking to provide telecommunications services, including access services, and multimedia services through a broadband cable network. See ''Business—Broadband Cable and Broadcasting''.

Deutsche Telekom believes that its technologically advanced network, broad and sophisticated product and service line, nationwide reach and commitment to customer service, taken together with its new tariff structures, position it well to compete effectively in the fixed-line telecommunications market. Competition is expected to continue to be intense, however.

Data Communications and Information and Communications Systems

The field of data communications and information and communications systems has been open to competition in Germany since the beginning of 1990. Competition in the business, based on price, quality and service, is rigorous and pricing pressures are intense. Among Deutsche Telekom's major competitors in the data telecommunications business are Mannesman Arcor, WorldCom, Colt and VIAG Interkom. Businesses that have built local networks, such as NetCologne, are also increasingly competitive in data communications. In systems solutions, competitors of Deutsche Telekom include EDS, IBM and debis. Deutsche Telekom has entered into an agreement to acquire a majority interest in debis Systemhaus.

Mobile Communications

There are four mobile network operators in Germany. The two largest, T-Mobil (T-D1/T-C-Tel) and Mannesmann Mobilfunk (D2) have been locked in a battle for market leadership over the past several years, with D2 currently having a modest edge. Between them, T-Mobil and Mannesmann Mobilfunk command approximately 79.9 percent of the digital mobile telecommunications market in Germany, based on management estimates, with T-Mobil having an estimated share of 39 percent of this market as of December 31, 1999. E-Plus, the third mobile network operator, entered the market using the GSM 1800 standard in 1994, two years after T-D1 and D2 commenced operations, and held an estimated 16.3 percent of the market at year-end 1999. E2, the fourth network operator, commenced operations in late 1998 using the GSM 1800 standard and currently has an estimated market share of 3.9 percent.

In the retail market, in addition to competition from other network operators, T-Mobil faces significant competition from resellers. Competition in the German retail market for mobile telecommunications services has generally been conducted on the basis of price, subscription options offered, offers of subsidized handsets, coverage and the quality of service. This competition has been intense. In the wholesale market, T-Mobil competes with other network operators to retain mobile traffic on its network.

T-Mobil signed a contract with VIAG Interkom in 1999 that allows calls from VIAG Interkom's E2 mobile service to be seamlessly transferred to the T-D1 mobile network. The contract has been approved by the Regulatory Authority.

Licenses for UMTS, the next generation of mobile telecommunication, are to be auctioned in Germany during the summer of 2000. Deutsche Telekom expects that mobile networks will carry an increasing share of data communications and intends to participate in these auctions when the proposed terms of the licenses are publicly announced. Deutsche Telekom's ability to keep up with developments in the European mobile telephony business may depend substantially on acquiring licenses for UMTS in Germany and other European countries. There is no guarantee that Deutsche Telekom and its subsidiaries will be awarded UMTS licenses, although they intend to pursue them in Germany and other selected markets vigorously. On May 29, 2000, eleven of twelve bidders were admitted to the licensing procedure for UMTS licenses that will commence on July 31, 2000. You may refer to ''Regulation—Licensing and Notification Requirements; Allocation of Frequencies'' for further information in this regard. Deutsche Telekom believes that the decisions by Germany, the United Kingdom and Austria to auction UMTS licenses, as contrasted with the decisions to conduct non-public tender procedures in Spain and other countries, have created an uneven competitive playing field within the European Union.

Broadband Cable/Broadcasting

Although Deutsche Telekom operates by far the largest cable network in Germany, it is subject to competition from a number of smaller cable companies and, more significantly, from the use of private satellite dishes. Increasing competition from digital terrestrial telecommunications systems will also be possible. Under the Telecommunications Act, since 1996, competitors of Deutsche Telekom have been permitted to operate cable transmission lines in Germany. Deutsche Telekom has transferred the bulk of its cable business to a separate subsidiary and made plans to further divide the business into nine regional companies by July 1, 2000, concluded agreements for the sale of majority interests in three of these companies, and is negotiating with investors for the sale of interests in other regional companies, as described above under the heading ''Business—Broadcasting and Broadband Cable.'' Deutsche Telekom intends to retain at least a minority interest in those regional companies for which investors are obtained.

Terminal Equipment

The telecommunications equipment sector in Germany has been open to full competition since 1990 and is characterized by falling prices, low margins, rapid technological innovation and intense competition. Deutsche Telekom does not manufacture telecommunications equipment, but rather resells and leases equipment manufactured by other companies under the Deutsche Telekom brand name. As a result, Deutsche Telekom often competes in the market against the products of its equipment suppliers.

Special Value-Added Services

Deutsche Telekom encounters competition from a variety of sources in the area of special value added services. There is significant substitution effect in the public telephone market as mobile telephony becomes more popular. Further, Deutsche Telekom faces competition from new coin and card-operated public phones supplied by other operators. In the area of toll-free and other service numbers, competitors such as Mannesmann Arcor and Talkline have been gaining market share. Directory assistance service has become very competitive, with Telegate, Talkline, Mannesmann Arcor, o.tel.o and DTV pursuing business, and Deutsche Telekom has lost market share as a result of this competition.

T-Online

T-Online encounters competition from numerous market entrants, including units of its largest German voice telephony competitors and the world's largest online services provider, AOL/Compuserve. Competition is conducted primarily on the basis of quality (content), service and price. For information on a recent judicial proceeding relating to the prices charged by T-Online, see ''Business—Legal Proceedings''. T-Online has begun to extend its reach internationally, where it will face a broad group of competitors.

International Activities

Deutsche Telekom and its subsidiaries and affiliates compete with major international telecommunications companies and numerous local competitors in markets outside Germany.

With its sale of its interest in Global One, Deutsche Telekom plans to build up its own international services to meet the needs of multinational corporations using cross-border telecommunications services. This plan may be pursued through direct investment, acquisitions or cooperative arrangements with other carriers. For a transitional period, Deutsche Telekom may continue to offer Global One services. Competition for the business of multinationals is intense, with resultant pressures on pricing.

In the United Kingdom, Deutsche Telekom's One2One subsidiary is the fourth largest mobile telephony service provider and encounters strong competition. Similarly, in Austria, where max.mobil. is the second largest mobile service provider, competition is rigorous. The ability of Deutsche Telekom's mobile subsidiaries to compete in some European countries may depend on the acquisition of UMTS licenses.

In Hungary, MATAV faces competition in a number of its business activities, including its mobile operations. In its largest activity, fixed-line voice telephony services, MATAV has a monopoly on long-distance and international calls until December 2001. MATAV has, however, publicly indicated that it would be prepared to relinquish its monopoly rights ahead of schedule if the new Hungarian regulatory framework is ready.

REGULATION

Liberalization

The legal framework for the regulation of the telecommunications sector in Germany was completely transformed through the German Telecommunications Act, which came into force on August 1, 1996. The Telecommunications Act required the complete liberalization of the German telecommunications market upon full entry of the Telecommunications Act into force on January 1, 1998, as mandated by the directives of the European Commission. It represented the final step in the liberalization effort that began in 1989.

The Regulatory Framework

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

In general, the regulatory approach under the Telecommunications Act does not differentiate between lines of business. It subjects the operation of conventional fixed-network transmission lines, broadband cable transmission lines, mobile telephone links and satellite links and all telecommunications services for the public to essentially the same regulatory regime.

Regulatory Supervision

Since January 1, 1998, regulatory functions under the Telecommunications Act have been carried out by the Regulatory Authority, a new supervisory body established within the Federal Economics Ministry *(Bundesministerium für Wirtschaft und Technologie)* (the ‘‘Economics Ministry’’). The Regulatory Authority has various powers under the Telecommunications Act, including the authority to grant and revoke licenses, control network access and interconnection, and approve or review the tariffs and tariff-related general business terms and conditions of market-dominant providers. It also has the authority to assign and supervise frequencies and impose universal service obligations. Three-member decision panels (*Beschlusskammern*) consisting of a chairman and two other members formed within the Regulatory Authority are responsible for making decisions regarding the grant of licenses in cases involving scarce frequencies, arrangements for special network access, the interconnection of public telecommunications networks, tariffs and tariff-related terms and conditions, and the imposition of universal service obligations.

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

Licensing and Notification Requirements; Allocation of Frequencies

The Telecommunications Act establishes licensing requirements for the following activities:

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

- the operation of transmission lines for satellite services for the public (Class 2 licenses),
- the operation of transmission lines for public telecommunications services (Class 3 licenses), and
- the provision of voice telephony services to the public on the basis of self-operated telecommunication networks (Class 4 licenses).

Generally, except in the case of scarce telecommunications frequencies, the number of licenses is not limited, and each applicant satisfying basic qualification requirements is entitled to receive a license. In applying for a license, an applicant is required to specify the geographic scope and the type of activity subject to license. Conditions and obligations may at any time be attached to a license to promote the achievement of the objectives of the Telecommunications Act. At the end of 1999, 365 Class 3 licenses for the operation of transmission lines and 262 Class 4 licenses for the provision of voice telephony services had been granted, with a substantial number of applications for additional licenses under review.

A number of telecommunications services, such as text and data transmission services over leased lines, voice services for corporate networks and closed user groups, and the simple resale of voice telephony services, are not subject to licensing requirements. However, any person providing telecommunication services has to notify the Regulatory Authority of its operations. At the end of 1999, around 1,700 providers of telecommunications services not subject to licensing requirements were registered with the Regulatory Authority. The operation of a broadband cable transmission network requires a license under the Telecommunications Act. The provision of programming content that is transmitted by means of the broadband cable network, on the other hand, does not require a license under the Telecommunications Act but is regulated under the radio and television laws of the various German Federal States. As a carrier of third party content, however, Deutsche Telekom has not applied for approval under state laws to provide programming content.

By law, frequencies are to be allocated upon request on a non-discriminatory basis according to objective and verifiable criteria. The Regulatory Authority is required to prepare a frequency usage plan to form the basis for frequency allocation. If, on the basis of this plan, frequencies are not available in sufficient quantity for licensing, the number of licenses within certain areas may be restricted, in which case the Regulatory Authority will award licenses by auction or competitive bidding. If multiple applications are submitted for the allocation of a particular frequency, the Regulatory Authority may require that frequency allocation also be determined by auction or competitive bidding. The Regulatory Authority may exclude a company from taking part in auctions or competitive bids for licenses or frequencies if the success of that company in an auction or bid would endanger competition based on principles of equal opportunity, as was the case with respect to Deutsche Telekom and its competitors in connection with the auction for the fourth German digital mobile communications license. The Regulatory Authority may also deny approval of an application to transfer a license on the same basis, regardless of whether scarce frequencies are involved. The Telecommunications Act provides, however, that the justifiable interests of a company in the application of new technologies must be considered when making decisions concerning whether to exclude that company from an auction or competitive bidding process or to deny approval of a proposed transfer.

During 1998 and 1999, the Regulatory Authority allocated ''wireless local loop'' frequencies to a total of 18 operators. Deutsche Telekom expects that the allocation of wireless local loop licenses will result in a rapid increase in competition in the local loop. For further information on competition in the local loop, see ''Competition—Network Communications''.

On February 18, 2000, the Regulatory Authority published licensing requirements and auction rules for UMTS (Universal Mobile Telecommunications Services), the next generation of mobile telecommunication technology. A total of 12 companies applied to participate in the licensing procedure. By decision of the Regulatory Authority in May 2000, T-Mobil was admitted to the licensing procedure to start on July 31, 2000 along with the three other licensed operators of digital mobile telephone networks and seven other bidders. Depending on the demand for the frequencies and on the behavior of the bidders, four to six licenses may be granted. Whether T-Mobil will obtain a license is uncertain.

Licenses and frequency allocations under the Telecommunications Act are subject to fees that are provided for in the Licensing Fees Ordinance *(Telekommunikations-Lizenzgebührenverordnung)* and the Frequency Fees Ordinance *(Frequenzgebührenverordnung)*. In addition, under the Frequency Usage Fees Ordinance *(Frequenznutzungsbeitragsverordnung)*, parties to whom frequencies have been assigned are required to make annual contributions to cover the costs incurred by the Regulatory Authority in planning and administering efficient and interference-free frequency usage.

In applying for a license under the Telecommunications Act, the applicant generally has considerable flexibility in choosing the scope and geographical range of the products and services it wishes to offer. This flexibility is limited, however, to the extent that the applicant is required to provide universal services, as described below under the heading ''—Universal Services''. In addition, this flexibility may be limited in the case of mobile communications licenses or other licenses involving scarce frequencies. Even if a licensee is granted a license covering all of Germany, it generally may choose to provide only those service and geographic combinations that offer the best business opportunities. Thus, competitors of Deutsche Telekom not subject to universal service requirements are free to pursue opportunities in attractive markets, such as high density urban areas, to the exclusion of less attractive markets. This feature of the Telecommunications Act has resulted in substantially increased competition in lucrative markets within Germany. Local network operators now compete with Deutsche Telekom in various major cities in Germany.

Special Requirements Applicable to Market-Dominant Providers

General

A basic principle of the regulatory structure established by the Telecommunications Act is the distinction drawn between market-dominant providers and other companies operating in a market. Market-dominant providers and their affiliates are subject to special rules and obligations, including most importantly:

- the prior approval or retrospective review of tariffs and related business terms and conditions by the Regulatory Authority, insofar as such tariffs relate to a market in which the provider is dominant. See ''—Pricing''.
- the obligation to offer competitors, on the basis of unbundling, special network access (including interconnection) as well as access to essential services and facilities used by it internally on a non-discriminatory basis. See ''—Special Network Access and Interconnection''.
- potentially, the obligation to provide universal services in a market. See ''—Universal Services''.
- the possible inclusion of restrictive conditions in licenses, such as, in the case of scarce frequencies, a condition not to combine with another provider in the same market or the rejection of bids for licenses and frequencies in case of scarce frequency capacity to the extent that equal competition on the relevant market is endangered.

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

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

Deutsche Telekom believes that for some time to come the Regulatory Authority is likely to view Deutsche Telekom as holding a dominant position in the German market for public voice telephony services in the fixed network and in other markets, including most of those in which it had monopoly rights in the past. As a result, Deutsche Telekom expects that the provisions of the Telecommunications Act relating to the regulation of market-dominant providers will be applied to Deutsche Telekom's activities in those markets. Considering that in many markets competitors of Deutsche Telekom are unlikely to reach dominant positions in the near future, Deutsche Telekom expects that for some period of time it will have to compete in significant markets with providers not subject to the requirements applicable to market-dominant providers. These competitors may therefore have more flexibility than Deutsche Telekom in terms of the selection of services offered and customers served, pricing and the grant of access to their networks. The definition of a market in which dominance exists requires a number of judgments, and is subject to change as competitive conditions further develop. As competition unfolds and the basis for regulatory determinations that are unfavorable to Deutsche Telekom diminishes, Deutsche Telekom intends to actively pursue a dialogue with the Regulatory Authority relating to the reevaluation of markets in which Deutsche Telekom is regarded as dominant. Deutsche Telekom takes the view that intensive competition already exists in important markets, particularly in the markets for domestic long-distance and international calls. In addition, Deutsche Telekom believes that the academic literature reflects increasing acceptance of the view that calling services for end-customers are contestable and that sector-specific regulation is no longer justified in markets for these products, although this view is not presently shared by governmental authorities.

Every two years, both the Regulatory Authority and the Monopoly Commission (*Monopolkommission*)—an independent body that regularly issues reports on competitive conditions in Germany—are required to report to the German federal legislature whether equal and effective competition has been achieved in the relevant telecommunications markets, such that, in their view, special regulatory measures regarding market-dominant enterprises, particularly with regard to tariffs, are no longer necessary. In the first of these reports, which were submitted to the German legislature on December 3, 1999, both the Regulatory Authority and the Monopoly Commission generally concluded that effective competition in the telecommunications sector does not yet exist and that promotion of competition through regulatory intervention continues to be necessary. In its report, however, the Monopoly Commission noted that ''in comparison to developments in the area of local networks, the markets for long-distance and international calls are characterized by a significantly greater intensity of competition.'' The German government is expected to comment on the report of the Monopoly Commission in the summer of 2000. In April 2000, against the backdrop of the reports of the Regulatory Authority and the Monopoly Commission, the Economics Ministry published an outline of short- and medium-term telecommunications policy for comment. This outline departs in some respects from the report of the Monopoly Commission. For example, the Economics Ministry's report indicates that the Economics Ministry believes that there is functioning competition in some markets. The Economics Ministry is examining whether and to what extent over-regulation exists.

The Economics Ministry indicates that it foresees a decrease in regulation in important areas, although a reorganization of the regulatory framework is contemplated only in the medium term. This outline of the Economics Ministry is to serve as the basis for the official position of the Federal Government with regard to the reports of the Regulatory Authority and the Monopoly Commission, which is expected in the summer of 2000.

On December 13, 1999, the Regulatory Authority announced that Deutsche Telekom would no longer be regarded as a dominant provider in the market for the interconnection of outgoing calls to foreign countries. Going forward, therefore, Deutsche Telekom's activities in this market will not be subject to the special regulations applicable to market dominant providers. In particular, the prices charged by Deutsche Telekom for this service are no longer subject to prior regulatory approval or retrospective review.

In an official publication of March 8, 2000, the Regulatory Authority determined that no mobile network operator in Germany had a market-dominant position in the area of interconnection of calls to mobile networks under any reasonable market division. T-Mobil therefore is not subject in this market to regulations applicable to market-dominant providers.

Pricing

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

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

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

Under the price-cap approach, the Regulatory Authority establishes baskets of services and limits tariffs for the blend of services within those baskets through the use of a formula. The formula has the effect of requiring the affected company to reduce, or limiting the extent to which it can increase, the aggregate tariffs for services within a basket. Under the Telecommunications Act and the Tariff Regulation Ordinance, tariffs for voice telephony services and tariffs for transmission lines generally may not be combined in a single basket. Services may be combined within a basket only if the degree of competition with respect to those services does not substantially vary. Although the

Tariff Regulation Ordinance generally provides that priority is to be given to the price-cap approach, tariffs for special network access services (including interconnection) generally were not subject to price-cap regulation through December 31, 1999, but were instead dealt with under the cost-based approach. Since January 1, 2000, tariffs for special network access services generally are to be dealt with under the price-cap approach, although the Regulatory Authority has discretion to deal with these tariffs under the cost-based approach. If these tariffs are dealt with under the price cap approach, however, they may not be combined in a basket with services other than network access services. Recently, the Regulatory Authority has also taken into account the effect on competition of prices being reviewed under the price-cap approach. This may restrict Deutsche Telekom's ability to lower its prices.

The Regulatory Authority establishes an initial price benchmark for a basket by ascertaining the tariff level for the services in the basket. The price-cap formula imposed with respect to the basket allows for price increases or requires price decreases from the initial benchmark level based on the general inflation rate, reduced by an amount which reflects expected productivity improvements. Under the Tariff Regulation Ordinance, the Regulatory Authority is required to consider a variety of factors when establishing the price-cap formula, including the relationship of the initial tariff levels to the costs of efficient service provision and the productivity improvements being achieved by other enterprises in similar markets. When making a determination of price-cap benchmarks, the Regulatory Authority may require a company to submit detailed cost information. Under the Telecommunications Act, a market-dominant company must submit certain individual tariffs for approval, and must submit in connection therewith certain information. If a tariff proposal is below the limit allowed by the price-cap formula and all required documents have been submitted, the Regulatory Authority may be expected, under ordinary circumstances, to approve the proposal within two weeks of submission.

The price-cap approach to tariff regulation has been applied, most notably, to voice telephony services. Currently, the regulations provide for two baskets of services, one for residential and one for business customers, each subject to the same price-cap formula. Each of the baskets currently includes, among other services, subscriber access and local, long distance and international calling services. In the first price-cap period, which ran from January 1, 1998 to December 31, 1999, the price-cap formula called for tariff reductions of 4.3 percent compared to the level of Deutsche Telekom's rates as in effect at the end of 1997. These required tariff reductions reflected required productivity improvements of 6 percent less an inflation rate of 1.7 percent, which was the rate of consumer price inflation in Germany in June 1997. As of December 31, 1999, Deutsche Telekom's tariffs in respect of the voice telephony services included in the relevant baskets were substantially below the levels required under the price-cap. The composition of the service baskets remains unchanged for the new price-cap period (January 1, 2000 to December 31, 2001). The price-cap formula calls for further tariff reductions of 5.6 percent in the first quarter of 2000 compared to the level of Deutsche Telekom's rates as in effect at December 31, 1999, reflecting required productivity improvements of 6 percent less an inflation rate of 0.4 percent, which was the rate of consumer price inflation in Germany in June 1999. Deutsche Telekom has fulfilled this requirement through reductions in domestic long-distance and international tariffs that took effect in February and March 2000.

In August 1998, the Regulatory Authority approved a price-cap regulation procedure that allowed new optional tariffs to be approved under the price-cap approach. Optional tariffs enable customers to meet their specific communications needs at lower rates than under the standard tariff, while also enabling Deutsche Telekom to be more competitive in responding to the requirements of special groups of customers. Approval under the price-cap approach-rather than under the lengthier individual approval procedures that characterize the cost-based approach-permitted more rapid introduction of the new rates on the market. In 1998, Deutsche Telekom obtained approval for optional tariffs for both private and business customers. On December 23, 1999, however, the Regulatory Authority decided that in the future it will in general review cost documentation in connection with requests for approval of new optional tariffs, which formerly had not been included in the price cap baskets. This decision is expected to result in a longer approval process for optional tariffs.

Tariffs requiring prior approval which are not dealt with under a price cap are based on the calculation of the costs of efficient provision of the relevant service. The costs of efficient service provision are based on the long-run incremental costs of providing a particular service, with an additional amount in respect of overhead costs (including an appropriate return on capital employed), to the extent such costs are necessary for the provision of the service. The applicant is required to submit extensive documentation as to its costs and the methods and parameters on which its determination of costs is based in respect of the service in question. The documentation is to reflect costs both directly and indirectly attributable to the service in question. The applicant must explain the basis on which costs are attributed to the service, and the attribution must comply with relevant EU directives. Under the Telecommunications Act, applications for cost-based approvals must be approved or rejected within a maximum of 10 weeks of submission.

Under the cost-based approach, costs and expenses not based on the costs of efficient service provision may not be taken into consideration unless they were incurred as a result of a legal requirement or there is some other objective justification for their inclusion. While the Regulatory Authority calculates the cost of efficient service provision on the basis of data derived from Deutsche Telekom's cost accounting system, Deutsche Telekom believes that the Regulatory Authority subtracts all cost elements which it deems to be attributable to inefficiencies in Deutsche Telekom's existing cost structure. Due to its history as an integral and undifferentiated part of the Deutsche Bundespost operating as a state monopoly, Deutsche Telekom incurs costs which it believes would not be incurred by efficient private sector enterprises. As a result, Deutsche Telekom believes that, in calculating the costs of efficient service provision, the Regulatory Authority should take these costs into account. Discussions continue concerning the appropriate methodology to be used in the calculation of the long run incremental cost of the services subject to cost-based pricing.

As part of the Regulatory Authority's evolving approach to cost-based pricing, it commissioned an independent scientific institute to develop an analytical cost model which was intended to serve as a basis for future regulatory decisions concerning, among other things, network access rates and interconnection rates. In February 1999, this scientific institute published a model to be used for calculation of the long-run additional infrastructure costs of the local access network. Deutsche Telekom has criticized this model, which it believes systematically underestimates costs. The Regulatory Authority used the analytical cost model for the first time in connection with its review of access pricing in the local loop. For further information on local loop access, see ''—Special Network Access and Interconnection—Local Loop Access''. A preliminary version of another analytical cost model, which was developed to calculate the costs of interconnection services, was published in April 1999. Because this model had not been fully developed, however, it could not be used for calculating the new interconnection rates that took effect on January 1, 2000. Deutsche Telekom has also criticized this model, which it believes does not take significant features of the existing network into account. According to public statements made by the Regulatory Authority, this model will be used for the first time calculating element-based interconnection rates, which Deutsche Telekom expects will be implemented in February 1, 2001. For further information on element-based interconnection rates and on interconnection generally, see ''—Special Network Access and Interconnection—Fixed-Fixed Interconnection'' and ''—The European Union''.

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

All tariffs of market-dominant providers in markets in which such dominance occurs are subject to ex-post regulatory examination, even if the tariffs were initially subject to prior approval. The Regulatory Authority must initiate examination proceedings if it becomes aware of facts indicating that such tariffs contain discounts or discriminatory features that are not objectively justified and may ultimately object to such tariffs and declare them to be invalid. In addition, with tariffs not subject to prior approval, the Regulatory Authority may initiate examination proceedings if it becomes aware of facts indicating that such tariffs contain surcharges, discounts or discriminatory features, as described above. The Regulatory Authority may object to such tariffs and declare them invalid. For example, the Regulatory Authority has initiated retrospective reviews of increases in broadband cable tariffs.

In connection with a retrospective review of broadband cable tariffs, the Cologne Administrative Court (*Verwaltungsgericht Köln*) issued a decision on March 18, 1999 in which it ruled that any corporate and business secrets relevant for a decision taken in a decision panel proceeding under the Telecommunications Act must be disclosed by Deutsche Telekom to the other parties involved in the proceeding. Deutsche Telekom filed a successful appeal against this decision. On May 12, 1999, the Münster Higher Administrative Court (*Oberverwaltungsgericht Münster*) ruled that Deutsche Telekom has a legitimate interest in protecting its corporate and business secrets, such that the Regulatory Authority may require disclosure of these secrets only when necessary to protect a special public interest.

In two decisions published in September and November 1999, the Regulatory Authority took the position that regulatory approval is required for Deutsche Telekom's offers of services to service providers that purchase services for purposes of resale. This position relates to offers of both local calls and domestic and international long-distance calls. According to these decisions, these offers to resellers are seen as voice telephony services and Deutsche Telekom is seen as dominant in the market for those services. Deutsche Telekom has applied for a preliminary injunction against the implementation of these decisions and has appealed these decisions to the administrative court. For further information on these legal actions, see ''Legal Proceedings''. The Regulatory Authority has stated that the terms of these offers to resellers are subject to regulatory approval and has indicated that Deutsche Telekom has an underlying obligation to offer services to resellers. Deutsche Telekom believes that the Regulatory Authority is likely to take the view that the terms of offers of local access services to resellers are also subject to regulatory approval.

Special Network Access and Interconnection

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

General Principles and Practice

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

Provisions Applicable to Market-Dominant Providers

A network operator that offers telecommunications services to the public and is a market-dominant provider in a particular market must allow every user access to its network or parts thereof.

Such access may be granted via connections provided for all users (general network access) or via special connections (special network access), which includes the interconnection of networks. Limitations on access may be based only on the ''essential requirements'' set forth in the Open Network Provision Directive of the EU, which include preservation of the security of network operations, the maintenance of network integrity, the interoperability of services and the protection of data.

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

A market-dominant provider is required to unbundle its services for special network access, and must therefore offer its internally used essential services, including transmission, switching and operational interfaces, in such a way that other users need not purchase services they do not want. The market-dominant provider is not, however, required to unbundle its services to the extent that it can demonstrate that the requirement is not objectively justified in the particular circumstances. In addition, a market-dominant provider is obligated to allow other network operators to use transmission, switching and operational interfaces to its network on its premises on the same conditions it applies to itself (''physical collocation''). However, if the market-dominant provider demonstrates that physical collocation is not objectively justified, it must instead offer network access by ''virtual collocation'', i.e., on terms equivalent to physical collocation in terms of economic, technical and operational conditions.

A market-dominant provider must adhere to the harmonized technical standards for interfaces and service features made binding by the EU with regard to open network provision.

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

The Regulatory Authority publishes in its official journal the time and place at which such agreements may be inspected. The Regulatory Authority also publishes the terms and conditions of such agreements in its official journal if they can be expected to be included in a number of special network access agreements. Such terms and conditions then constitute a ''basic offer'' which must be included in the general business terms and conditions of a market-dominant provider.

Fixed-Fixed Interconnection

As of December 31, 1999, Deutsche Telekom had concluded almost 100 interconnection agreements with competitors offering long distance and international calling services over the fixed-line network. The current level of interconnection pricing was approved by the Regulatory Authority on December 23, 1999. The rate structure established on December 23, 1999 is based on the distance which traffic travels between the point of interconnection with Deutsche Telekom's network and the point of termination. The average interconnection rate has been reduced by approximately 24 percent compared with the average interconnection rate in effect from January 1, 1998 to December 31, 1999. The new interconnection rates are effective until January 31, 2001.

Deutsche Telekom had requested that the Regulatory Authority take the so-called access deficit into account in its decision of December 23, 1999. To ensure universal access, access fees in Germany have traditionally been set at a level which in Deutsche Telekom's view does not cover the full cost to Deutsche Telekom of providing access service. The shortfall in access revenue, which is called the ''access deficit'', has instead been offset through higher calling charges. Deutsche

Telekom believes that competitors are given an unfair advantage if interconnection prices do not include a charge based on the portion of the cost of providing access service that is not recouped through telephone access fees.

In its decision of December 23, 1999, however, the Regulatory Authority stated that Deutsche Telekom had not adequately documented the costs associated with the ''access deficit'' and declined to take any portion of the access deficit into account in its calculation of the costs of providing interconnection service. The Regulatory Authority instead based this calculation on an international benchmark. As a result, Deutsche Telekom takes the view that the interconnection rates established by the Regulatory Authority do not cover Deutsche Telekom's costs for providing interconnection. Because of the fundamental significance of the interconnection decision of the Regulatory Authority, Deutsche Telekom has appealed this decision to the administrative court. There can be no assurance as to the outcome of this proceeding.

As a result of the large number of interconnection applications that Deutsche Telekom receives, it is not always technically feasible for Deutsche Telekom to make an interconnection point available to each applicant immediately after an agreement is reached with that applicant. On December 22, 1999 the Regulatory Authority published an approved proceeding under which Deutsche Telekom is entitled to give certain companies priority with regard to the time period needed to supply an interconnection point and is no longer required to give priority according to the date on which the relevant application was submitted. This approved proceeding is applicable until June 1, 2000. In March 2000, the Regulatory Authority announced that it will examine Deutsche Telekom's process for the provision of interconnection points. Some companies that already have functioning points of interconnection with Deutsche Telekom's network have attempted to sublet their interconnection points in part to third parties who have applied for interconnection but not yet been connected to Deutsche Telekom's network. Deutsche Telekom filed a complaint with the Regulatory Authority against sub-leasing of interconnection points, and in series of decisions starting in December 1999 the Regulatory Authority determined that Deutsche Telekom may refuse to permit sub-leasing of interconnection points. Several competitors have appealed this decision of the Regulatory Authority to the administrative courts. For further information on these appeals, see ''Business—Legal Proceedings''.

Deutsche Telekom is planning to change the structure of interconnection tariffs with effect as of February 1, 2001 to adapt them to demand and to international standards. In place of the current structure of interconnection tariffs, in which the cost of interconnection for any given call depends largely on the distance travelled by the call on Deutsche Telekom's network, Deutsche Telekom intends to introduce a network element-based tariff structure, in which the cost of interconnection for any given call would be determined by reference to the number of network elements that are used in transmitting the call. Different forms of the proposed new tariff structure are currently under discussion. Deutsche Telekom's position on this issue has been published by the Regulatory Authority for public comments. Deutsche Telekom currently expects that the Regulatory Authority will reach a decision on the proposed new tariff structure in the second half of 2000.

During 1998, Deutsche Telekom conducted discussions with the Regulatory Authority about the terms of interconnection agreements with carrier network operators who provide national services with only minimal investments in infrastructure. These carriers were, in Deutsche Telekom's view, generating atypical traffic that led to inefficient use of Deutsche Telekom's fixed network. Starting in May 1999, the Regulatory Authority issued a series of decisions that permitted Deutsche Telekom to require these carriers to build up new points of interconnection if the volume of traffic they generated at any single point of interconnection within one of Germany's 23 pre-defined fixed-network regions (*Grundeinzugsbereiche*) exceeded a threshold specified by the Regulatory Authority. This requirement is sometimes referred to as the ''migration obligation.'' Deutsche Telekom subsequently implemented this requirement in all interconnection contracts. One carrier, however, filed a motion for temporary injunction against this decision of the Regulatory Authority, and in November 1999 the

Cologne Administrative Court ruled that this decision of the Regulatory Authority was inconsistent with the EC Open Network Provision Directive. Both Deutsche Telekom and the Regulatory Authority have appealed this decision to the Appellate Administrative Court, which in February 2000 overruled the decision of the Cologne Administrative Court. This decision is final. Deutsche Telekom is now permitted to require special carriers to build up new points of interconnection if their traffic at one point of interconnection exceeds a certain threshold. See ''—European Union.''

In an official publication issued in March 1999, the Regulatory Authority confirmed certain principles that are to govern competitors' entitlement to interconnection with Deutsche Telekom's network. Under these principles, a telecommunications company is required to have at least one switch and at least three transmission paths to attain ''network operator'' status and qualify for the interconnection rates established by the Regulatory Authority's interconnection decisions. The European Commission has criticized this requirement. Deutsche Telekom is also entitled in principle to demand surcharges from carriers that generate atypical traffic flows if those traffic flows result in additional network costs for Deutsche Telekom. Nevertheless, the Regulatory Authority denied, on the basis of insufficient cost data, approval in May 1999 for a set of surcharges of this type that had been submitted by Deutsche Telekom for regulatory approval in March 1999.

Mobile-Fixed Interconnection

In April 1998, the Regulatory Authority opened an inquiry into mobile-fixed interconnection rates in order to determine whether the rates are based on the costs of efficient service provision. In the meantime, Deutsche Telekom agreed with mobile carriers on a plan for gradually reducing mobile-fixed interconnection rates to the level of fixed-fixed interconnection rates, with parity to be achieved by July 1, 1999. Implementing this agreement, Deutsche Telekom reduced mobile-fixed interconnection rates effective January 1, 1999. Although Deutsche Telekom takes the position that it is not a market-dominant provider in the national market for termination of traffic from mobile networks, Deutsche Telekom agreed as a precaution to submit the new tariffs for approval in an application to the Regulatory Authority. In a decision of March 29, 1999, the Regulatory Authority approved the reduction in mobile-fixed interconnection rates until June 30, 1999, and obligated Deutsche Telekom to then further reduce these rates to the level of fixed-fixed interconnection rates. Deutsche Telekom's mobile-fixed interconnection rates match the reduced fixed-fixed interconnection rates in effect starting January 1, 2000. Like the fixed-fixed interconnection rates, these mobile-fixed interconnection rates will be valid until the end of January 2001. For a discussion of developments at the EU-level, see ''—Competition Law''.

Fixed-Mobile Interconnection

In December 1999, Deutsche Telekom reached an agreement with T-Mobil to reduce T-Mobil's fixed-mobile interconnection rates as of February 1, 2000. As a result, Deutsche Telekom pays lower interconnection fees to terminate calls in the digital mobile network of T-Mobil since February 1, 2000. In February and March 2000, Deutsche Telekom also reached agreements with VIAG Interkom, E-Plus and Mannesmann Mobilfunk regarding the reduction of fixed-mobile interconnection rates. As a result, the rates paid by Deutsche Telekom end customers for termination of calls in the mobile network of T-Mobil and Mannesmann Mobilfunk have already been reduced. Deutsche Telekom plans to similarly reduce rates for termination of calls in the networks of the other mobile network operators and has started appropriate procedures for regulatory approval of those reduced rates.

Local Loop Access

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

In December 1997, Deutsche Telekom began concluding agreements with a number of competitors regarding unbundled access to the local loop. In connection with these agreements, Deutsche Telekom submitted agreed tariffs for the provision of unbundled access to the local loop to the Regulatory Authority for approval. This application was rejected in March 1998, and a temporary monthly rate of DM 20.65 (EUR 10.56) for access to the two-wire copper line, the product variety most important to the competitors of Deutsche Telekom, was imposed. In its decision, the Regulatory Authority took issue with elements of Deutsche Telekom's cost statements, finding that its calculated cost of capital was too high, the useful life of depreciated assets too short, and that inadequate evidence had been submitted concerning an operating cost surcharge and overhead rates.

Deutsche Telekom did not believe that the imposed tariff covered its relevant costs, and a period of intensive judicial and regulatory proceedings began. Deutsche Telekom, therefore, filed a suit challenging the decision of the Regulatory Authority with the appropriate administrative court, and simultaneously pursued further negotiations with the Regulatory Authority. Two further tariff applications were submitted in 1998, both of which were withdrawn in agreement with the Regulatory Authority in order to permit more time for the evaluation of cost data and underlying economic concepts. Deutsche Telekom then made a new tariff filing with the Regulatory Authority in January 1999, in which it applied for approval of a monthly tariff of DM 37.30 (EUR 19.07) for access to a two-wire copper line. In part on the basis of the analytical cost model described in ''—Pricing'' above, the Regulatory Authority gave approval to a price of DM 25.40 (EUR 12.99) effective February 8, 1999, and thereby raised the provisional monthly tariff set at DM 20.65 (EUR 10.56) for two-wire copper in March 1998. In addition, the Regulatory Authority approved one-time installation fees ranging from DM 191.64 (EUR 97.98) to DM 337.13 (EUR 172.37) and a fee for terminating a lease of two-wire copper line of DM 107.70 (EUR 55.07), each of which was lower than the fees requested in Deutsche Telekom's application. These new fees, including the monthly tariff, are to apply until March 31, 2001. While the Regulatory Authority again took issue with aspects of Deutsche Telekom's cost calculation, the decision appears to recognize some historical costs. Both Deutsche Telekom and its competitors have challenged aspects of this latest decision in court. For further information about this legal challenge, see ''Business—Legal Proceedings''. The outcome of this legal challenge is uncertain.

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

On April 26, 2000, the European Commission published a recommendation relating to unbundled local loop access. For further information on this matter, see ‘‘—The European Union’’.

Internet Access

In January 1999, T-Online introduced a change in the pricing of its Internet access products, combining the telephone ‘‘dial-in’’ connection to the Internet with the Internet platform services into one product. In connection with this bundled product, Deutsche Telekom offered telephone connection capacity to T-Online on a wholesale basis. In April 1999, several competitors of T-Online lodged a complaint with the Regulatory Authority alleging that, in introducing this bundled product, Deutsche Telekom and T-Online had abused their market dominant position. In June 1999, the Regulatory Authority ruled that Deutsche Telekom could no longer offer to T-Online a special volume discount for the telephone connection capacity but otherwise rejected the complaints. Several competitors have also instituted proceedings against Deutsche Telekom before the European Commission in connection with bundled Internet access products. For further information on these proceedings, see ‘‘Business—Legal Proceedings’’. Several competitors of Deutsche Telekom have filed administrative lawsuits seeking to compel the Regulatory Authority to reopen its proceedings relating to the prices that Deutsche Telekom charges for access to its Internet platform.

For further information regarding the status of these administrative and legal proceedings, see ‘‘Business—Legal Proceedings’’.

Numbering, Number Portability and Carrier Selection

Under the Telecommunications Act, the Regulatory Authority is assigned responsibility for developing and administering a national telephone numbering system. Upon application, each telecommunications network operator and service provider is to receive assigned ranges of telephone numbers for use by its customers. The ranges assigned are within existing area codes. Applicants are assessed fees in accordance with the Telecommunications Numbers Fees Ordinance (*Telekommunikationsnummerngebührenverordnung*), which was promulgated in August 1999, but with retroactive effect to August 1, 1996. In modifying the structure and configuration of telephone number ranges subject to assignment, the Regulatory Authority is required to consider the interests of the parties concerned, focusing in particular on conversion costs that would be incurred by licensees, other telecommunications services providers, and customers.

In connection with the fees to be paid by operators for the assignment of number ranges, the Regulatory Authority issued a decision in October 1999 that requires Deutsche Telekom to pay a fee for numbers (other than service numbers) that Deutsche Telekom had used and allocated to customers before the liberalization of the German telecommunication market. The amount of these fees imposes a considerable financial burden on Deutsche Telekom. Deutsche Telekom believes that the imposition of these fees is not authorized under existing law and therefore has appealed this decision of the Regulatory Authority to the administrative courts. For further information on this appeal, see ‘‘Business—Legal Proceedings’’.

Since January 1, 1998, Deutsche Telekom and other telecommunications network operators have been required to allow their customers to pre-select the network operator that is to transmit their calls. In addition, customers are able to override their pre-selected carrier each time they place a call by entering another operator’s numeric prefix before dialing the telephone number they wish to call. Also, since January 1, 1998, Deutsche Telekom and other telecommunications network operators have generally been required to provide number portability. This permits customers to keep their assigned telephone numbers when they choose to change their network operator as long as they do not also change the physical location from which they access the network. Number portability and the provisions on carrier selection allow customers to switch easily among competing carriers.

Under the Telecommunications Act, the Regulatory Authority is authorized to suspend the obligation to provide number portability as long as and in so far as the absence of number portability does not significantly impair competition in individual markets or adversely affect consumers. The Regulatory Authority may also suspend this obligation as long as and in so far as this is justified on technical grounds. The Regulatory Authority decided in April 2000 that the suspension of number portability would be extended, for the last time, until the end of January 2002. Mobile network operators are required to deliver a quarterly report to the Regulatory Authority regarding their progress in implementing the technical measures necessary to permit number portability. T-Mobil filed a complaint against this decision of the Regulatory Authority with the Administrative Court in Cologne in May 2000.

With regard to the obligation to provide carrier selection, the Regulatory Authority takes the view that T-Mobil is not obligated to provide carrier selection for calls within the T-D1 network. In principle, however, this obligation does apply to calls made from the T-D1 network to other networks. The manner in which this obligation is to be implemented remains open.

In January 1998, Deutsche Telekom filed an application with the Regulatory Authority for the approval of a one-time charge of DM 49 (EUR 25.05) for number portability. In addition, Deutsche Telekom filed applications for approval of charges for carrier pre-selection of DM 49 (EUR 25.05) for 1998, DM 35 (EUR 17.90) for 1999 and DM 20 (EUR 10.23) for 2000. With regard to pre-selection charges, the Regulatory Authority decided in June 1998 that Deutsche Telekom will be allowed to charge DM 27 (EUR 13.80) in 1998, DM 20 (EUR 10.23) in 1999 and DM 10 (EUR 5.11) in 2000. The application for approval of a charge for number portability was rejected on April 7, 1998, on the grounds that portability does not involve the rendering of any service to the customer, and that furthermore the law does not allow such a charge to be levied. Deutsche Telekom has appealed this decision. A subsequent application for approval of a one-time charge for number portability was also rejected by the Regulatory Authority. Deutsche Telekom has filed a suit challenging this decision.

Universal Services

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

The Universal Service Ordinance defines ''universal services'' to include public fixed-network voice telephony with certain ISDN features, directory services, telephone books, public pay phones and certain categories of transmission lines. These services must be universally available to all customers at an affordable price. According to the Universal Service Ordinance, the price for public voice telephony is considered affordable if it does not exceed the average price in real terms on December 31, 1997 of voice telephony service for private households located outside cities with more than 100,000 inhabitants. This provision is intended to ensure that prices in less populated areas will not exceed specified thresholds, even if market participants concentrate on densely populated regions. Prices for directory services, telephone books, public pay phones and the specified transmission lines are considered affordable if they are based on the costs of efficient service provision.

Under the Telecommunications Act, if a universal service in a particular product and geographic market is not being appropriately and adequately provided, or where there is reason to believe that such provision will not be accomplished, each licensee with a share of at least 4 percent of the product market for such service or a dominant position in the relevant product and geographic market can be required to contribute through payments to the cost of providing such universal service.

In any such case, as an initial step, the Regulatory Authority will issue a public call requesting the voluntary provision of the particular universal service. If within one month after such call, no provider has offered to provide such service without special compensation, the Regulatory Authority may oblige any licensee that is a market-dominant provider in the relevant product and geographic markets to provide such service. If a provider that has been assigned such an obligation furnishes evidence that the provider will be entitled to claim compensation under the Telecommunications Act for providing such service, the Regulatory Authority may, in lieu of requiring the obligated provider or providers to provide the universal service, solicit bids for the provision of the universal service, with a view to assigning the obligation to the bidder requiring the least compensation.

A provider required by the Regulatory Authority to provide a universal service is entitled to receive compensation under the Telecommunications Act if the provider proves that the long-term additional costs of providing the universal service efficiently in the relevant geographic market, including adequate interest on capital employed, exceed the revenues therefrom, calculated on the basis of affordable prices. Where compensation is granted for the provision of the universal service, each licensee with a share of at least 4 percent of the product market must contribute to such compensation by means of a universal service levy. Details concerning the way in which this compensatory system will function remain to be determined.

Under the Universal Service Ordinance, which entered into effect at the beginning of 1998, market dominant providers in the relevant markets may be required to provide universal services. Deutsche Telekom provides customers voice telephony and other universal services within the framework of the law and Deutsche Telekom’s General Terms and Conditions. Deutsche Telekom currently provides the universal services specified by the Universal Service Ordinance without compensation. If Deutsche Telekom decides to stop providing any of the services referred to in the Universal Service Ordinance, it must give at least one year’s advance notice. Deutsche Telekom expects that in a competitive market these services will be available universally due to sufficient offerings by all market participants. Deutsche Telekom expects that it will, for some time to come, be the only provider considered suitable to be subjected to the obligation to offer universal services. Accordingly, it may prove difficult for Deutsche Telekom to cease providing universal services in some markets, although Deutsche Telekom may be able to claim special compensation.

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

Every licensee that offers voice telephony services to the public is required to provide its subscriber data to other operators of directory services and publishers of telephone books, for the specific purposes of such services. A fee may be charged for the provision of such data based on the costs of efficient service provision. Subscriber data must be provided to other third parties against payment of an appropriate fee. Deutsche Telekom complies with this obligation and provides its subscriber data, taking data-protection requirements into account, to other operators of directory services and publishers of telephone books. In 1998, the rates charged by Deutsche Telekom for such provision were reviewed by the Federal Cartel Office, after competitors claimed that the prices were abusively high. By decision of January 13, 1999, the Federal Cartel Office suspended these proceedings. As part of its abusive-practices investigation, the Federal Cartel Office determined Deutsche Telekom’s costs for efficient provision of subscriber data and concluded that these costs must be shared by all users of the data on a use-dependent basis. Deutsche Telekom has undertaken to charge cost-based prices for provision of subscriber data to operators entitled thereto on the basis of this determination of the Federal Cartel Office.

Customer Protection Ordinance

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

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

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

In October 1999, Deutsche Telekom announced that, starting on April 1, 2000, it would no longer collect receivables for competitors and generally would not provide services to competitors other than services that are mandatory under the Customer Protection Ordinance. In Deutsche Telekom's view, these mandatory services include billing for competitors and forwarding to competitors any payments made by customers to Deutsche Telekom for calls made via those competitors, but not collection of bills on behalf of competitors. In response to a complaint submitted by a competitor, however, the Regulatory Authority instituted proceedings against Deutsche Telekom in October 1999 alleging that the implementation of Deutsche Telekom's plans to discontinue collecting receivables for competitors would constitute an abusive practice. In February 2000, the Regulatory Authority ruled that Deutsche Telekom would be required to continue to collect receivables for competitors until December 31, 2000 on the same terms and conditions as had previously prevailed. For the period thereafter, new conditions may be agreed upon. The Regulatory Authority also ruled that, not later than June 30, 2000 Deutsche Telekom would be obligated to submit for regulatory approval proposed terms and conditions for the provision of these services after December 31, 2001. Deutsche Telekom has appealed these rulings of the Regulatory Authority to the administrative courts. According to these rulings, however, Deutsche Telekom will no longer be obligated to manage customer complaints, send late payment warnings or enforce late payments on behalf of competitors after January 1, 2001.

Use of Public Rights of Way

Under the pre-Telecommunications Act laws, Deutsche Telekom was entitled to utilize the Federal Republic's rights of way over public property free of charge. Pursuant to the Telecommunications Act, the Federal Republic's right to use such rights of way free of charge has been transferred to licensed operators of transmission lines for public telecommunications services.

Deutsche Telekom's right to utilize such rights of way has been carried over under its license. The Telecommunications Act requires that operators of transmission lines obtain the consent of the authority responsible for the maintenance of the relevant public ways before laying new transmission lines or modifying existing transmission lines. Deutsche Telekom has agreed on a cost-saving and delay-avoiding procedure with the federal association of municipal authorities to simplify the process of obtaining the required consent.

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

The European Union

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

The European Commission used its powers under Article 86(3) of the Treaty of Rome to open telecommunications markets in the Member States by issuing directives providing for liberalization, i.e., abolishing monopoly rights of the state-owned telecommunications operators. One of the most important of these directives was the full competition directive issued in March 1996, under which public voice telephony services were liberalized in the majority of the Member States, including Germany, with effect from January 1, 1998. On June 23, 1999 the European Commission adopted a directive (the ''Cable Directive'') amending Directive 90/388/EEC (the ''Services Directive'') which deals with the regulation of broadband cable networks. The amendment to the Services Directive requires that the telecommunications activities and broadband cable activities of market-dominant operators be structurally separated, i.e. dominant operators are required at least to set up a separate subsidiary for their broadband cable networks (See ''—Competition—Broadband Cable/Broadcasting''). The amendment provides for a review after the required structural separation has been accomplished, in any event not later than December 31, 2002. The amendment further provides for a procedure whereby national regulatory authorities may request that the European Commission perform such a review. This review could lead to additional measures by the European Commission, including imposition of divestiture obligations, if it finds that European competition rules are infringed.

The EU has also adopted a number of directives and recommendations regarding open and efficient access to and use of public telecommunications networks and public telecommunications services. These directives and recommendations deal with what are referred to as the ONP (Open Network Provision) requirements, which are intended to harmonize technical interfaces, usage conditions and tariff principles throughout the EU and to ensure objectivity, transparency and non-discrimination in access to and use of public telecommunications networks and public telecommunications services. In January 1999, the European Parliament and Council published a decision on the harmonized introduction of UMTS, the third generation of mobile systems, throughout the European Community. This decision contains provisions for roaming, licensing and frequencies and sets January 1, 2002 as the target date for effective provision of UMTS networks and services. At the end of 1999, the European Commission published a review of European Union telecommunications regulations titled ''Towards a New Framework for Electronic Communications

Infrastructure and Associated Services.'' This review outlines a proposal for a new regulatory framework that would take into account the development of competition in the European telecommunications sector. In the first quarter of 2000 the European Commission evaluated comments on this proposal submitted by market participants and published their comments in April 2000.

Furthermore, at the end of April 2000, the European Commission published five working papers as the basis for future directives. These working papers seem to Deutsche Telekom to contemplate an expansion of regulation to certain areas and an increase in the power of the European Commission in certain areas.

On April 26, 2000, the European Commission published a recommendation relating to unbundled local loop access. This document describes three complementary options for granting access to the local loop: unbundled access to the copper paired wire, unbundled access to the high frequency spectrum and high speed bit stream access. Deutsche Telekom believes that if these proposals were enacted in their current form, they would lead to duplicative regulation to the disadvantage of those European Union member states, such as Germany, whose domestic laws already mandate unbundled access to the local loop.

The European Union has also alleged that the Federal Republic has not fully implemented a European Union directive requiring that any telecommunications company that has a market share of over 25 percent in a relevant market be considered as having significant market power in that market.

In April and in July 1999, the European Commission, in a first step toward the introduction of a breach of treaty proceeding against the Federal Republic, alleged that the Federal Republic had not sufficiently implemented some aspects of the voice telephony directive and the interconnection directive. In particular, the Commission alleged that the Federal Republic had not sufficiently ensured the use of appropriate cost calculation systems by market-dominant providers.

In further official exchanges, the Commission alleged that the requirements for network operator status, the so-called ''migration obligation'' and certain aspects of the interconnection regime in Germany do not comply with the interconnection directive. Furthermore, the Commission criticized the level of licensing fees.

In April 2000, the European Commission alleged in an official notice to the Federal Republic that the Federal Republic had not fully implemented the European Union full competition-directive or the directive regarding open network provision. This notice, which represents a first step toward an official breach of treaty proceeding, alleges that existing tariff approval procedures do not sufficiently ensure cost-based tariffs. In particular, the notice alleges that access fees charged to end customers are not high enough to cover costs and therefore need to be balanced by higher calling charges. The Federal Republic is to submit a response to this notice within two months. To the extent that the Commission finds a violation against European Union law, there is a possibility that the access fee charged to end customers would have to be raised or that fees charged to competitors for local loop access would have to be reduced.

Further directives, recommendations, communications and measures of the EU to harmonize the telecommunications sector in European Union member states are to be expected.

International Obligations

Over 70 member countries of the World Trade Organization (''WTO'') representing over 90 percent of the world's basic telecommunications revenues, including European Union member states and the United States, have entered into the Basic Telecommunications Agreement (''BTA'') to provide market access to some or all of their basic telecommunications services. This agreement took effect on February 5, 1998. The BTA is part of the General Agreement on Trade in Services, which is administered by the WTO. Under the BTA, signatories have made commitments to provide ''market access'', under which they are to refrain from imposing certain quotas or other quantitative restrictions in specified telecommunications services sectors, and to provide ''national treatment'', under which they are to avoid treating foreign telecommunications service suppliers differently than national service suppliers. In addition, a number of signatories have agreed to the pro-competitive principles set forth in a reference paper relating to anti-competitive behavior, interconnection, universal service, transparency of licensing criteria, independence of the regulator and scarce resources. In complaints filed by one U.S. carrier in February 1999 and by two industry groups January 2000, the U.S. Trade Representative has been asked to determine whether certain aspects of the telecommunications regulatory framework in Germany comply with Germany's obligations under the BTA. The U.S. Trade Representative has announced that, until June 15, 2000, it will further review aspects of the interconnection regime, licensing fees and transparency of cost data in connection with price regulation.

Competition Law

Deutsche Telekom is subject to German competition law, the competition rules of the EU and the competition laws of the various jurisdictions in which it conducts its business.

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

Mergers, including the creation of joint ventures, must be notified to the Federal Cartel Office before they can be executed if the concerned undertakings' turnover reaches a certain threshold but remains below the threshold above which proposed mergers must be notified to the European Commission. The Federal Cartel Office will prohibit mergers if they create or strengthen a market-dominant position. The German cartel authorities are empowered to enforce these laws and may impose sanctions if their orders are contravened. Before taking action against abuses of a market-dominant position in the telecommunication sector, the Federal Cartel Office must consult with the Regulatory Authority. Market participants damaged by abusive practices on the part of a market-dominant provider may sue for compensation under the Telecommunications Act as well as under the German Act Against Restraints on Competition.

The EU competition rules have the force of law in the Member States and are therefore applicable to Deutsche Telekom's operations in the telecommunications market. The main principles of the EU competition rules are stipulated in Articles 81 and 82 of the Treaty of Rome (which were Articles 85 and 86 of that treaty prior to March 7, 1999) and in the European Merger Control Regulation.

Article 81 I of the Treaty of Rome prohibits concerted practices or other agreements between competitors which may affect trade between Member States and which restricts, or is intended to restrict, competition within the EU. Article 82 prohibits any abuse of a market-dominant position within a substantial part of the EU that may affect trade between Member States. These rules are enforced by the European Commission in cooperation with the national competition authorities (i.e., in Germany, the Federal Cartel Office). The Federal Cartel Office may also directly enforce the competition rules of the Treaty of Rome. In addition, the national courts have jurisdiction over alleged violations of EU competition law.

In early 1999, a complaint was filed with the EU Commission alleging that Deutsche Telekom would abuse its market-dominant position in telephone network communication by combining charges for Internet access and local calls in a single low-cost package. See ''Legal Proceedings''.

In 1999 and prior years, Deutsche Telekom received numerous requests for information from the European Commission. Through inquiries of this kind, the European Commission monitors the development of competition in the telecommunication markets in all Member States of the European Union. For example, the European Commission is investigating the level of mobile communications prices in all Member States and in this context is inquiring into whether the interconnection rates between fixed and mobile communication networks and the amounts Deutsche Telekom retains on calls to mobile networks are too high. The Commission has announced that it will stay its proceedings while the national regulatory authorities pursue their own investigations. See ''—Special Network Access and Interconnection—Mobile-Fixed Interconnection''. Further investigations and other measures of the European Commission aimed at promoting competition in the European telecommunications sector may be expected. Deutsche Telekom and other telecommunications providers currently are subject to sector-specific inquiries in the fields of leased lines and roaming.

The parties to a cooperation agreement may voluntarily ask the European Commission for a clearance that their cooperation does not violate the prohibition on collusive practices established by the Treaty of Rome. Furthermore, the European Commission may grant an exemption to the prohibition if the parties show that the benefits of the cooperation for the consumer or for research and development outweigh the supposed distortion of competition.

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

Other Regulatory Regimes

Deutsche Telekom also is subject to the regulatory regimes of other countries where it or its subsidiaries or affiliates are active. In some of these countries, the general legal framework and the regulatory framework relating to telecommunications are less well developed than in Western Europe, leading to legal and regulatory uncertainty that could have an impact on the operations of the Deutsche Telekom group in those countries.

MANAGEMENT AND EMPLOYEES

Management

General

As required by the German Stock Corporation Act, Deutsche Telekom has a two-tier board system consisting of a Board of Management and a Supervisory Board. The Board of Management is responsible for managing Deutsche Telekom and representing Deutsche Telekom in its dealings with third parties, while the Supervisory Board appoints and removes the members of the Board of Management and oversees the management of Deutsche Telekom. Since 1998, the Supervisory Board is required by law to review not only the annual financial statements of Deutsche Telekom AG but also the consolidated financial statements. The official auditor is engaged by the Supervisory Board.

Under the German Stock Corporation Act, the Supervisory Board is not permitted to make management decisions. Pursuant to the Articles of Association of Deutsche Telekom and the By-laws *(Geschäftsordnung)* of the Board of Management, the Board of Management must obtain the consent of the Supervisory Board for certain actions, including acquisitions or dispositions of real property having a value of more than EUR 25 million, acquisitions or dispositions of equity investments, the appointment of members of the Supervisory Board or other bodies having supervisory functions of direct or indirect subsidiaries with a share capital of more than EUR 2.5 million or an annual turnover of more than EUR 25 million, and actions concerning the corporate structure or the strategy of Deutsche Telekom. In addition, under the German Stock Corporation Act, the Supervisory Board is authorized to subject other actions of the Board of Management to its consent.

The Board of Management is required to ensure that adequate risk management and internal monitoring systems exist in the company. The Board of Management has to submit regular reports on the operations and fundamental planning of Deutsche Telekom to the Supervisory Board. The Supervisory Board is also entitled to request special reports at any time. The German Stock Corporation Act prohibits simultaneous membership on the board of management and the supervisory board of a company.

Both the members of the Board of Management and the members of the Supervisory Board owe a duty of loyalty and care to Deutsche Telekom. In carrying out their duties, members of both the Board of Management and the Supervisory Board must exercise the standard of care of a prudent and diligent businessman. The interests of Deutsche Telekom are deemed to include the interests of the shareholders, the interests of the work force and, to some extent, the common interest, and both the Board of Management and the Supervisory Board must take all these interests into account when taking actions or decisions. Although there is no explicit obligation to act solely in the interests of shareholders, the Board of Management is required to respect their rights to equal treatment and equal information.

Under German law, shareholders, like other persons, are prohibited from using their influence on Deutsche Telekom to cause a member of the Board of Management or the Supervisory Board to act in a way that is harmful to Deutsche Telekom. A controlling enterprise may not cause Deutsche Telekom to take measures that are unfavorable to Deutsche Telekom unless any resulting disadvantage is compensated. An individual shareholder or any other person exerting influence on Deutsche Telekom to cause a member of the Board of Management or of the Supervisory Board or holders of special proxies *(Prokuristen or Handlungsbevollmächtigte)* to act in a way that is unfavorable to Deutsche Telekom or its shareholders is liable for damages to Deutsche Telekom and its shareholders. Board members who have neglected their duties in taking the actions are likewise jointly and severally liable for damages.

As a general rule under German law, a shareholder has no direct recourse against the members of the Board of Management or the Supervisory Board in the event that they are believed to have breached a duty to Deutsche Telekom. Only Deutsche Telekom has the right to claim damages from the members of the two Boards. Deutsche Telekom may only waive such damages or settle such claims if at least three years have passed and if the shareholders so approve at a shareholders' meeting with a simple majority of the votes, provided that the opposing shareholders do not hold, in the aggregate, one tenth or more of the nominal share capital of Deutsche Telekom and do not formally express their opposition at the shareholders' meeting by having their opposition noted in the minutes of the meeting maintained by a German notary (*Notar*).

Board of Management

Pursuant to Deutsche Telekom' Articles of Association, the Supervisory Board determines the size of the Board of Management, subject to the requirement that the Board of Management must have at least two members. The Supervisory Board may appoint a Chairman of the Board of Management as well as a Deputy Chairman.

The members of the Board of Management are appointed by the Supervisory Board for a term of up to five years. They may be re-appointed or have their term extended for one or more terms of up to five years. Under certain circumstances, such as a material breach of duty or a bona fide vote of no confidence by the shareholders, a member of the Board of Management may be removed by the Supervisory Board prior to the expiration of such term. A member of the Board of Management may not deal with, or vote on, matters relating to proposals, arrangements or contracts between himself and Deutsche Telekom.

The Board of Management takes action by simple majority unless otherwise provided by law. In the event of a deadlock, the Board of Management member in whose area of responsibility the resolution falls has a deciding vote.

The current members of the Board of Management, their ages and responsibilities, dates of appointment and experience are set forth below. The members of the Board of Management may be reached at Deutsche Telekom's registered address.

Dr. Ron Sommer (50 years) was appointed Chairman of the Board of Management in May 1995. As such, he is responsible for Group Strategy, Communication, Auditing and Organization, Government Relations, Competition Policy, Regulatory Affairs and Top Management. He received a doctorate in mathematics and began his career with the Nixdorf group, first in New York and then in Paderborn and Paris. In 1980, he became Managing Director of Sony Deutschland and in 1986 become Chairman of the Board of Management of Sony Deutschland. In 1990, Dr. Sommer became President and Chief Operating Officer of Sony USA, and in 1993, he took over the management of Sony Europe in the same capacity.

Josef Brauner (49 years) became head of the Sales and Customer Care Division in October 1998. He had joined Deutsche Telekom in June 1997 as head of the Main Department for Sales. He started his sales career with Avery as the U.S. company's branch manager for Germany, Austria and Switzerland. Mr. Brauner next joined Sony Deutschland, where he was appointed head of sales in the investment goods division and afterwards became head of that division. In 1988, Mr. Brauner became a member of the Board of Management of Sony Deutschland, and in 1993 was appointed chairman of that board.

Detlev Buchal (55 years) was appointed head of the Product Marketing Division in October 1998, having previously acted as head of the Sales and Distribution Division (Business and Residential Customers). After holding various management positions in the banking industry, he joined the Board of Management of the GZS Gesellschaft für Zahlungssysteme mbH of the German Eurocard- und eurocheque-Zentrale. In 1992, he became chairman of that Board, primarily responsible for strategic planning, marketing and sales. Since February 1996, he has been a member of Deutsche Telekom's Board of Management.

Dr. Karl-Gerhard Eick (46 years) was appointed head of the Finance and Controlling Divison in January 2000. After studying business administration and earning a doctorate, Dr. Eick worked in various positions for BMW AG between 1982 and 1988. From 1989 to 1991 he acted as Head of Controlling at WMF AG in Geislingen. In 1991, he became Head of the Controlling, Planning and IT Division for the Carl Zeiss Group. From 1993 to 1999, he held top management positions with the Haniel Group, where he was responsible for the Controlling, Business Administration and IT Division of the strategic management holding company of Franz Haniel & Cie GmbH. Since January 2000 he has been a Member of Deutsche Telekom's Board of Management.

Jeffrey A. Hedberg (38 years) has been head of the International Division since January 1999. A U.S. citizen, Mr. Hedberg joined the TVM/Matuschka group in Munich, where he was primarily involved in analyzing venture capital projects for companies with international operations. Later, he worked in the international division of US West, the U.S. carrier, and then as an associate for Coopers & Lybrand, where he provided support for the international projects of globally active telecommunications groups. In 1994, Mr. Hedberg joined Swisscom, where he was last in charge of the Swiss company's international investments as Executive Vice President and member of the company's senior management.

Dr. Hagen Hultzsch (59 years) was appointed head of the Technology and Services Division in July 1993. Dr. Hultzsch received a doctorate in physics and was Assistant Professor in Mainz before in 1977 becoming head of the Computer Center of the Gesellschaft für Schwerionen Forschung (GSI, Center for Heavy Ion Research) in Darmstadt. In 1985, he became Director of the Technical Services Group Germany at Electronic Data Systems. In 1988, Dr. Hultzsch joined Volkswagen AG as the Corporate Executive Director responsible for Organization and Information Systems. From July 1993 until 1994, he was a member of the Board of Management of Deutsche Bundespost TELEKOM, and since January 1995, he has been a member of Deutsche Telekom's Board of Management.

Dr. Heinz Klinkhammer (53 years) was appointed head of the Personnel and Legal Affairs Division in 1996. Dr. Klinkhammer received a doctorate in law and began his career at the Institute for German and European Labor, Social and Business Law before becoming a Labor Court judge. From 1979 to 1990, he worked at the Ministry of Labor, Health and Social Affairs of the state of North-Rhine/Westphalia. In 1991, he became Labor Director at Hüttenwerke Krupp Mannesmann GmbH and, in 1992, Board Member of Mannesmannröhren-Werke AG. He has been a member of Deutsche Telekom's Board of Management since April 1996.

Gerd Tenzer (56 years) was appointed head of the Networks Division in January 1990 and is now also responsible for Purchasing, Environmental Protection, Carrier Services and Broadcasting and Broadband Cable. From 1990 to 1994, he was a member of the Board of Management of Deutsche Bundespost TELEKOM, and has been a member of Deutsche Telekom's Board of Management since January 1995. As a communications engineer, he worked in the telecommunications research department at AEG-Telefunken from 1968 to 1970. In 1970, he joined what was then the Deutsche Bundespost. In 1975, Mr. Tenzer moved to the Federal Ministry of Posts and Telecommunications, where he became head of the Telecommunications Policy Section in 1980.

Dr. Joachim Kröske, Chief Financial Officer and Chief Accounting Officer, resigned from the Board of Management of Deutsche Telekom AG. His position was filled by Dr. Karl-Gerhard Eick with effect from January 1, 2000.

The members of Deutsche Telekom's Board of Management owned a total of approximately 4,200 Deutsche Telekom shares as of March 31, 2000.

Supervisory Board

In accordance with the German Stock Corporation Act, the Supervisory Board of Deutsche Telekom consists of twenty members, ten of whom represent the shareholders and ten of whom represent the employees. Members of the Supervisory Board may be elected for a term of up to five years. The Supervisory Board members representing the shareholders are elected at the General Meeting of the shareholders. Most of the current Supervisory Board members representing employees were elected on October 2, 1997 by the employees in accordance with the provisions of the Co-Determination Act of 1976 *(Mitbestimmungsgesetz).* In this election procedure, employees elect ten representatives made up of workers, regular employees, senior management employees and three union representatives. Under the law that governed the conversion of Deutsche Telekom to a stock corporation, civil servants, who are not covered by the Co-Determination Act, are included in these groups according to their occupations for purposes of these elections.

A member of the Supervisory Board elected by the shareholders may be removed by the shareholders by a majority of the votes cast at a general meeting of shareholders. A member of the Supervisory Board elected by the employees may be removed by a majority of at least three quarters of the votes cast by the relevant class of employees.

If a member of the Supervisory Board resigns ahead of time, it is possible under the Act for a new member to be appointed, in urgent cases, by court.

The Supervisory Board elects a Chairman and a Deputy Chairman from among its members; in the event that a majority of two thirds of the members of the Supervisory Board is not achieved, the shareholder representatives elect the Chairman and the employee representatives elect the Deputy Chairman.

The Supervisory Board must meet at least four times per calendar year. To achieve a quorum, at least ten of the members of the Supervisory Board must be present or cast their votes in writing. Except in situations in which a different majority is required by law, the Supervisory Board takes decisions by simple majority of the votes cast. If, in the event of a deadlock, a second vote again results in a tie, the Chairman of the Supervisory Board can cast a deciding vote.

The Supervisory Board has formed several committees including a mediation committee, a personnel committee, a committee for extraordinary matters and a presiding committee. All committees have an equal number of shareholder representatives and employee representatives. The Chairman of the Supervisory Board is the chairman of the mediation committee and the presiding committee where he has the deciding vote in case of a tie. In the other committees, the chairman does not have the deciding vote in case of a tie. The chairman of the personnel committee is a representative of the employees.

The first election of shareholder representatives to the Supervisory Board took place at the shareholders' meeting in July 1996. Since then, further elections have taken place to fill vacancies of the Supervisory Board. The terms of office of the shareholder representatives will expire at the end of the shareholders' meeting at which the shareholders discharge the Supervisory Board members in respect of the financial year 2000, which is expected to occur in 2001. The terms of office of the employee representatives on the Supervisory Board expire in 2002 upon the election of new employee representatives in accordance with the Co-Determination Act.

Veronika Altmeyer resigned from the Supervisory Board as of March 28, 1999. Her position was filled by Rüdiger Schulze on the basis of a court order with effect as of March 29, 1999. He was elected as Vice Chairman of the Supervisory Board with effect from April 13, 1999.

At the annual shareholders' meeting of Deutsche Telekom held on May 27, 1999, Rainer Funke, Prof. Dr. Peter Glotz, Dr.-Ing. Paul Krüger and Dr. Claus Noé resigned from their Supervisory Board positions and were replaced by Hans W. Reich, Bernhard Walter, Dr. Hans-Dietrich Winkhaus and Prof. Dr. Heribert Zitzelsberger.

Maud Pagel resigned from the Supervisory Board as of May 31, 1999. Her position was filled by Waltraud Litzenberger with effect from June 1, 1999.

Reinhard Ahrensmeier resigned from the Supervisory Board as of February 29, 2000. His position was filled by Rainer Koch in April 2000 on the basis of a court order.

Michel Bon resigned from the Supervisory Board as of March 31, 2000. Dr. Hubertus von Grünberg was elected as Mr. Bon's successor at the annual shareholder's meeting held on May 25, 2000.

Franz-Josef Klare resigned from the Supervisory Board as of April 15, 2000. His position was filled by Michael Sommer in April 2000 on the basis of a court order.

Prof. Dr. Herbert Sihler declared that he will leave his position as Chairman of the Supervisory Board with effect as of the end of the annual shareholder's meeting held on May 25, 2000. Dr. Hans-Dietrich Winkhaus was elected as the new Chairman of the Supervisory Board at a meeting of the Supervisory Board on May 24, 2000.

The members of the Supervisory Board owned a total of approximately 2,700 Deutsche Telekom shares as of March 31, 2000.

The current members of Deutsche Telekom's Supervisory Board, the years of their appointment and their principal occupations are as follows:

Name	Member since	Principal Occupation
Dr. Hans-Dietrich Winkhaus . . .	1999	Chairman, Chairman of the Management Board of Henkel KGaA
Rüdiger Schulze	1999	Vice-Chairman, Member of the Central Executive Committee of the German Postal Union
Gert Becker	1995	Former Chairman of the Board of Management of Degussa AG
Josef Falbisoner	1997	Chairman of Deutsche Postgewerkschaft trade union, Bavarian District
Dr. Hubertus von Grünberg . . .	2000	Chairman of the Supervisory Board of Continental AG
Dr. sc. techn. Dieter Hundt	1995	Managing Shareholder of Allgaier Werke GmbH & Co. KG; President of the National Union of German Employers Associations
Rainer Koch	2000	Chairman of the Works Council of DeTeImmobilien
Dr. h.c. André Leysen	1995	Chairman of the Supervisory Board of GEVAERT N.V.
Waltraud Litzenberger	1999	Chairwoman of the Works Council of NL Bad Kreuznach
Michael Löffler	1995	Chairman of the Works Council at Leipzig Branch Office 1, Deutsche Telekom AG
Hans-W. Reich	1999	Speaker of the Managing Board, Kreditanstalt für Wiederaufbau
Rainer Röll	1998	Vice-Chairman of the Central Works Council at Deutsche Telekom AG
Wolfgang Schmitt	1997	Head of Freiburg i.B. Regional Directorate, Deutsche Telekom AG
Prof. Dr. Helmut Sihler	1996	Chairman, Member of the Shareholders' Committee of Henkel KGaA
Michael Sommer	2000	Vice-Chairman of the Deutsche Post Gewerkschaft
Ursula Steinke	1995	Chairwoman of the Works Council at DeTeCSM Northern District Service and Computer Center
Prof. Dr. h.c. Dieter Stolte	1995	Director general of the Zweites Deutsches Fernsehen (ZDF) broadcasting organization
Bernhard Walter	1999	Former Chairman of the Management Board of Dresdner Bank
Wilhelm Wegner	1996	Chairman of the Central Works Council at Deutsche Telekom AG
Prof. Dr. Heribert Zitzelsberger	1999	State Secretary in BMF, the Federal Finance Ministry *(Bundesministerium der Finanzen)*

Compensation of Directors and Officers

In addition to reimbursement of actual out-of-pocket expenses, members of the Supervisory Board receive a fee of EUR 200 per meeting in respect of imputed out-of-pocket expenses and an annual payment. An amendment to the Articles of Association that fixes the annual compensation at EUR 50,000 for the Chairman, EUR 37,500 for the Deputy Chairman and EUR 25,000 for each remaining member of the Supervisory Board was resolved at the shareholders' meeting on May 25, 2000. The value-added tax payable on this compensation will be borne by Deutsche Telekom. In 1999, remuneration was paid to members of the Supervisory Board of Deutsche Telekom AG for 1998 in the amount of EUR 246,442.68 inclusive of meeting expenses of EUR 18,406.51.

The remuneration of the Board of Management of Deutsche Telekom in respect of financial year 1999 amounted to EUR 7,557,167.33. A portion of the total compensation of the Board of Management is paid pursuant to a bonus arrangement consisting of a guaranteed portion and a variable portion. The variable portion is dependent upon a number of criteria, including the attainment of certain financial performance objectives and the achievement of certain individual performance objectives. For the year ended December 31, 1999, 39.2 percent of the total remuneration was paid pursuant to this bonus arrangement. In addition, a proposal to establish a stock option program for the members of the Board of Management and key employees was approved at the shareholders' meeting on May 25, 2000. For further information on this program, see ''Description of Shares— Conditional Capital.''

Pension accruals totaling EUR 10,967,012 have been established in the books of Deutsche Telekom AG for the members of the Board of Management as of December 31, 1999. Obligations for such persons for which no reserve has been established amounted to EUR 2,847,686.66 as of December 31, 1999. Payments to former members of the Board of Management of Deutsche Telekom AG or their surviving family members amounted to EUR 482,505.69 in 1999.

Employees

Civil Servants

As of December 31, 1999, approximately 41.3 percent of the employees of Deutsche Telekom (excluding subsidiaries whose activities were not part of the consolidated Deutsche Telekom group at January 1, 1995) were civil servants. No employees hired after January 1, 1995 have been granted civil servant status. Pursuant to the laws that applied to the conversion of Deutsche Telekom to a stock corporation, Deutsche Telekom's civil servant employees retained their civil servant status when that conversion occurred. As such, the terms and conditions of their employment and the benefits owed to them continue to be governed by German regulations regarding civil servants. In particular, civil servant salaries are set by statute and not by Deutsche Telekom or by collective bargaining agreements. In addition, civil servants are tenured employees and may not be unilaterally terminated except in extraordinary, statutorily defined circumstances. Civil servants are not permitted to participate in work-related actions such as strikes, but are permitted to join labor unions. Although Deutsche Telekom is authorized pursuant to the law governing the conversion of Deutsche Telekom into a stock corporation to exercise generally the rights and duties of the Federal Republic as the employer of civil servants, the Federal Agency has a right of consultation in the implementation of certain aspects of the terms under which Deutsche Telekom employs civil servants.

Civil servants employed by Deutsche Telekom are entitled to pension benefits provided by the German Government pursuant to the German Civil Servant Pension Act (*Beamtenversorgungsgesetz*). Pursuant to the law governing the conversion of Deutsche Telekom into a stock corporation, Deutsche Telekom is required to make annual contributions to a special pension fund established to fund such pension obligations. From 1995 through 1999, Deutsche

Telekom was obligated to make annual contributions of EUR 1.5 billion to this fund. Beginning in 2000, Deutsche Telekom is obligated to make annual contributions equal to 33 percent of the gross salaries of its then-current civil servant employees (including the imputed salaries of civil servant employees on unpaid leave), which are expected to be significantly lower than the annual contribution that was required from 1995 through 1999. Any shortfalls in the funding of the civil servant pension obligations must be borne by the Federal Republic.

Non-Civil Servants

As of December 31, 1999, approximately 58.7 percent of Deutsche Telekom's employees (excluding subsidiaries whose activities were not part of the consolidated Deutsche Telekom group at January 1, 1995) were non-civil servants. In addition to being covered by collective bargaining agreements, the non-civil servant employees are in general covered by the German Termination Protection Act *(Kündigungsschutzgesetz)*, which imposes various restrictions on the involuntary termination of employment.

The vast majority of Deutsche Telekom's non-civil servant employees are organized in unions, principally the German Postal Workers' Union (*Deutsche Postgewerkschaft*). The terms and conditions of employment and salary increases for these non-civil servant employees are negotiated between Deutsche Telekom and the unions. Pursuant to the law governing the conversion of Deutsche Telekom into a stock corporation, the Federal Agency is responsible for concluding collective bargaining agreements relating to certain statutorily defined non-wage benefits, rules of conduct and other general terms of employment. Such agreements only become effective with the consent of Deutsche Telekom. See ''Relationship with the Federal Republic—Coordination and Administrative Responsibilities of the Federal Agency''. Collective bargaining agreements between Deutsche Telekom and unions relating to remuneration typically have a term of one year.

Deutsche Telekom and the German Postal Union (*Deutsche Postgewerkschaft)* concluded a new collective bargaining agreement on May 31, 2000 that contemplates the introduction of a performance related compensation system. The agreement, which came into force with retroactive effect as of April 1, 2000, provides for the introduction of this new system in two steps. In the first step, the parties agreed to an increase in base wages by one percent and a performance-related increase of 2.15 percent. In the second step, which will come into force as of July 1, 2001, additional performance-related and individually negotiated wage increases will be granted in an aggregate amount of up to 2.3 percent of total wages and salaries. An automatic, across-the-board wage increase is not contemplated in this second step. Other results of the collective bargaining round include a shortening of the work week to 38 hours per week, which will take effect as of January 1, 2001, and an agreement by Deutsche Telekom to hire all trainees taking their examination in 2000 into regular employment. On the basis of the previous collective bargaining agreement, which expired on March 31, 2000, the salaries of all employees were increased by 3.1 percent on April 1, 1999. For the period from January 1, 1999 to March 31, 1999, the non-civil servants received a one-time payment of EUR 153. The collective bargaining agreement for 1998 had a term of one year, running from January 1, 1998 until December 31, 1998. This agreement provided for a raise of 1.5 percent for salaries of non-civil servants. For further information on the effects of these collective bargaining agreements on Deutsche Telekom's personnel expenses, see ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Total Operating Costs and Expenses—Personnel Costs''.

Employee Relations

Works councils *(Betriebsräte),* whose members are elected by the employees, represent the interests of the employees vis-á-vis the employer in accordance with the Works Council Act of 1972 *(Betriebsverfassungsgesetz).* Works councils are established locally, as well as at the level of

Deutsche Telekom AG and at the group level. Works councils must be notified in advance of, and have the right to comment on, proposed employee terminations, relocations and other matters, and have codetermination rights in respect of certain social matters, including work schedules and rules of conduct.

Deutsche Telekom believes that its relations with the works council and the unions are good. Constructive relations with its employees and their representatives are of central importance to Deutsche Telekom.

Workforce Reduction Program

The workforce reduction program begun by Deutsche Telekom in 1995 was continued in 1999. In comparison with the workforce level at the end of 1998, the number of employees of Deutsche Telekom—excluding subsidiaries whose activities were not part of the consolidated Deutsche Telekom group at January 1, 1995—had decreased by some 6,900 by December 31, 1999. The workforce reductions, which are necessary to maintain the company's competitiveness, are taking place by means of normal attrition, severance packages, tide-over allowances, part-time work for older employees, financing assistance for civil servants giving up their status and leaving the company, and early retirement programs. A group-wide redeployment strategy is helping to ensure that the personnel requirements of all regions and specialization areas can be met. Pursuant to an agreement signed with the trade unions in January 2000, there will be no dismissals due to rationalization before the end of the year 2004.

Deutsche Telekom's medium-term goal of reducing its workforce (excluding the workforce of subsidiaries first consolidated after January 1, 1995) to about 170,000 by the end of the year 2000 without involuntary layoffs—a reduction of 60,000 from the 1994 level—will be fulfilled on schedule. Deutsche Telekom expects that, before the effects of acquisitions that may be made in coming years, workforce levels will continue to decline in the coming years. Additional workforce reduction initiatives could result in restructuring charges or expenses.

Workforce productivity measured in terms of revenue per employees, improved in 1999. The workforce reductions have cut Deutsche Telekom's personnel costs. In 1999, these costs amounted to EUR 9.2 billion, which represented an increase of 0.4 percent compared to 1998. Revenue per employee—based on the 1995 composition of the consolidated group—increased by 2.2 percent to EUR 186,156 per employee in 1999.

Employee Stock Ownership Program

At around the same time as the global offering is taking place, Deutsche Telekom is conducting an employee stock ownership program whereby employees of Deutsche Telekom in certain jurisdictions are eligible to receive shares of Deutsche Telekom at a discount of DM 30 per share for up to ten shares.

DESCRIPTION OF SHARES

Set forth below is a summary of certain information relating to Deutsche Telekom's share capital and of certain provisions of Deutsche Telekom's Articles of Association and German law. This summary is not complete and is qualified by reference to Deutsche Telekom's Articles of Association and German law as in effect at the date of this prospectus.

Share Capital

Deutsche Telekom's share capital amounts to EUR 7,755,786,327.04 divided into 3,029,604,034 shares. The individual shares do not have a par value as such, but they do have a notional par value that can be determined by dividing the share capital amount by the number of shares.

The capital stock of Deutsche Telekom consists of ordinary shares with no par value. Prior to January 24, 2000, these shares were issued only in bearer form. At their annual meeting held on May 27, 1999, the shareholders of Deutsche Telekom approved the conversion of all the shares of Deutsche Telekom from bearer form to registered form. This resolution was filed for registration with the commercial register, and all ordinary shares of Deutsche Telekom were issued in registered form upon registration of the resolution in January 2000.

Authorized Capital

At their annual meeting on May 25, 2000, the shareholders of Deutsche Telekom approved an amendment to Deutsche Telekom's Articles of Association that authorizes the Board of Management, with approval of the Supervisory Board, to increase Deutsche Telekom's share capital by up to a nominal amount of EUR 3,865,093,163.52 by issuing up to 1,509,802,107 new shares for noncash consideration through May 25, 2005. Under another amendment approved at the annual shareholders' meeting, the Board of Management with approval of the Supervisory Board is authorized to increase Deutsche Telekom's share capital by up to a nominal amount of EUR 12,800,000 by issuing up to 5,000,000 new shares for cash or noncash consideration for offerings to management and key employees under a stock option plan through May 25, 2005. Pre-emptive rights are excluded under these amendments. These amendments will take effect upon entry in the Commercial Register (*Handelsregister*), which is expected to occur in June 2000.

Conditional Capital

At the shareholders' meeting scheduled for May 25, 2000, an amendment to the Articles of Association was approved that conditionally increases Deutsche Telekom's registered share capital by up to a nominal amount of EUR 64.0 million by issuance of up to 25.0 million new shares. This conditional share capital may only be used if and to the extent that option rights granted pursuant to Deutsche Telekom's stock option plan described below are exercised and new shares are delivered upon such exercise. Option rights that have not been or may not be exercised prior the expiration of the exercise period will expire. The shares issued from the conditional share capital generally will be entitled to any dividends paid in respect of the year in which they are issued. Shares that are issued after the end of any fiscal year, but before the ordinary general shareholders' meeting at which the activities of the Management Board for that year are approved, will be entitled to any dividends paid in respect of that year.

The amendment authorizes Deutsche Telekom's Supervisory Board to grant stock options to the members of its Management Board and authorizes the Management Board to grant stock options to all other eligible participants.

The amendment authorizes Deutsche Telekom's Supervisory Board to determine the detailed terms for the issuance of shares from the conditional share capital and for the grant of options as well as the other terms of the stock option plan if the Management Board is the beneficiary of the stock option plan. In all other cases, the Management Board is authorized to make these determinations.

The principal terms of the stock option plan are:

- *Eligible Participants.* The conditional share capital may only be used to grant stock options to members of Deutsche Telekom's Management Board, senior management at the levels below the Management Board and certain managers of Deutsche Telekom's domestic or foreign group companies. Of the total number of options available under the stock option plan, 20 percent may be granted to members of Deutsche Telekom's Management Board, 65 percent may be granted to management at levels below the Management Board and 15 percent may be granted to managers of Deutsche Telekom's domestic and foreign group companies.

- *Lock-up Period, Exercise Period.* Options may not be exercised before the expiration of two years after they have been granted. They may be exercised for a period of three years following the lock-up period (exercise period).

- *Strike Price.* Each option entitles the holder to purchase one share at the strike price. The strike price of the options will be equal to the average of the closing prices quoted in the Xetra system of the Frankfurt Stock Exchange on the 30 trading days prior to the day on which the options are granted.

- *Performance Requirements.* The options may be exercised on any stock exchange trading day in Frankfurt am Main during the exercise period if both of the following performance requirements have been met;

  - *Absolute Performance.* The average share price during any 30 day period following the two year lock-up period must exceed the strike price of the options by at least 20 percent.

  - *Relative Performance.* In addition, exercise of the options is linked to the performance of the shares relative to the performance of the Dow Jones Euro Stoxx 50 index. The options may only be exercised if, during any 30 day period following expiration of the two year lock-up period, the performance of the shares, adjusted for dividends, preemptive rights and other special rights (total shareholder return), exceeds the performance of the Euro Stoxx 50 index.

Under the amendment, stock options may be granted in annual tranches. Stock options are to be granted within the eight week period following the ordinary general shareholders' meeting in each year. The last tranche of options may be granted in 2004. The terms and conditions of the stock options may provide Deutsche Telekom with the right to make a cash payment instead of issuing new shares upon exercise.

The terms and conditions of the options may also provide that the Management Board (and with respect to members of the Management Board, the Supervisory Board) shall be authorized to determine that in lieu of one share against payment of the strike price, a smaller number of shares may be issued upon exercise of an option against payment of the minimum issue price. If that determination is made, then each option will not entitle the holder to purchase one share at the strike price set at the time of issuance of the option, but only a certain number of options will entitle the holder to purchase one share at the minimum issue price. The number of options necessary to purchase one share shall be determined as follows:

$$A=\frac{K-M}{K-X}$$

Where:

A: means the number of options necessary to purchase one share;
X: means the strike price;
K: means market price of a share at the time when the option is exercised; and
M: means the minimum issue price, currently EUR 2.56.

These amendments will take effect upon entry in the Commercial Register (*Handelsregister*), which is expected to occur in June 2000.

Repurchase of Shares

Under the German Stock Corporation Act, Deutsche Telekom may not purchase its own shares, subject to certain limited exceptions.

The general shareholders' meeting on May 25, 2000 approved a resolution that authorizes Deutsche Telekom pursuant to Section 71(1) no. 8 of the German Stock Corporation Act to purchase its own shares in an amount representing up to ten percent of its registered share capital of EUR 7.76 billion through November 15, 2001. The purchase price for the shares (excluding purchasing costs) must not exceed or fall below the market price by more than five percent, in the case of a purchase on the stock exchange, or twenty percent, in the case of an offer to purchase made to all shareholders. The relevant market price for this purpose would be opening auction price in the XETRA system of the Frankfurt Stock Exchange on day of the purchase, in the case of a purchase on the stock exchange, or the closing price in the XETRA system on the day prior to the publication of the offer, in the case of an offer to purchase made to all shareholders.

Pursuant to the resolution, Deutsche Telekom's Board of Management is authorized, with the approval of the Supervisory Board, to:

(1) list the acquired shares on foreign stock exchanges on which they are not listed;

(2) offer the acquired shares to third parties in the context of mergers with and acquisitions of other companies and acquisition of interests in other companies; and

(3) to cancel the acquired shares without further shareholder approval. This cancellation option can be exercised in whole or in part.

Shareholders' preemptive rights are excluded for the purposes listed in clauses (1) and (2) above. The price for any sale on a stock exchange or use in a merger or acquisition transaction would not be permitted to fall more than five percent below opening auction price of Deutsche Telekom's shares in the XETRA system of the Frankfurt Stock Exchange on the day of the sale on the stock exchange or the definitive agreement with a third party, as applicable.

Preemptive Rights

Under the German Stock Corporation Act, every shareholder generally has preemptive rights with respect to an issuance of new shares (including securities convertible into shares, securities with warrants to purchase shares, profit-sharing certificates and securities with a profit participation). Preemptive rights are freely transferable and may be traded on the German stock exchanges for a limited number of days prior to the final date for the exercise of the rights. Shareholders may exclude preemptive rights through a resolution passed by a majority of votes cast at a shareholders' meeting where at least three-quarters of the share capital is represented. See ''—Share Capital—Authorized Capital'' for a description of resolutions approved at the shareholders meeting on May 25, 2000 that exclude preemptive rights. In addition, an exclusion of preemptive rights requires a report by the Board of Management, which must justify the exclusion by establishing that Deutsche Telekom's interest in the exclusion outweighs the shareholders' interest in exercising their preemptive rights. Preemptive rights related to the issuance of new shares may be excluded without justification if

- Deutsche Telekom increases share capital for cash contributions;
- the amount of the increase does not exceed 10 percent of the issued share capital; and
- the shares are sold at a price not substantially lower than the current quoted share price.

Voting Rights and Shareholders' Meetings

Each share entitles its holder to one vote at Deutsche Telekom's general meeting of the shareholders. Shareholders may pass resolutions at a general meeting by a majority of the votes cast, unless a higher vote is required by law or by Deutsche Telekom's Articles of Association. Neither the German Stock Corporation Act nor the Articles of Association provide for minimum quorum requirements for shareholders meetings. The German Stock Corporation Act and the Articles of Association require that significant resolutions be passed by a majority of the votes cast and with at least three-quarters of the share capital represented at a meeting.

These significant resolutions include:

- capital increases with an exclusion of preemptive rights;
- capital decreases;
- the creation of authorized capital *(genehmigtes Kapital)* or conditional capital *(bedingtes Kapital);*
- dissolution of Deutsche Telekom;
- merger of Deutsche Telekom into or consolidation of Deutsche Telekom with another stock corporation;
- split-or spin-off; transfer of all Deutsche Telekom's assets;
- conclusion of intercompany agreements *(Unternehmensverträge),* including, in particular, direct control and profit and loss pooling agreements; and
- a change in Deutsche Telekom's corporate form.

A general meeting of the shareholders of Deutsche Telekom may be called by the Board of Management, the Supervisory Board or by shareholders holding in the aggregate at least 5 percent of Deutsche Telekom's issued share capital. The annual general meeting must take place within the first eight months of the fiscal year and is called by the Board of Management upon the receipt of the Supervisory Board's report on the annual financial statements. Under the Articles of Association, the right to participate in and to vote at a shareholders' meeting will only be given to those shareholders who have timely registered for the shareholders' meeting in writing or by fax with the Board of Management at the seat of the company and who are included in the share register when their registration for the shareholders' meeting is received. There must be at least two days between receipt of the registration and the date of the shareholders' meeting. Deutsche Telekom must publish notice of shareholders' meetings in the Federal Gazette (*Bundesanzeiger*) at least one month prior to the date by which shareholders have to register for the shareholders' meeting. The day of publication and the last date by which shareholders have to register for the shareholders' meeting are not counted for this purpose. In addition, Deutsche Telekom must publish a notice in a national authorized stock exchange journal.

Holders of shares (but not holders of ADSs) are required to provide to Deutsche Telekom their names, addresses and occupations (or, in the case of business entities, their names, business addresses and registered seats) as well as the number of shares held, so that they can be entered into the share register maintained by Deutsche Telekom. ADEUS Aktienregister- Service- GmbH (a joint venture of Dresdner Bank AG, Allianz AG, Münchner Rückversicherungs- Gesellschaft AG in München and CSC Ploenzke AG) is the transfer agent and registrar of the registered shares in Germany. Those shareholders who have given timely notice to Deutsche Telekom in writing or by fax and who are registered in the share register at the time of this notice may participate in and vote in the general shareholders' meeting. This notice must be given early enough so that there are at least two days between the day when the notice is given and the day of the general shareholders' meeting. Following receipt of a notice of this type, Deutsche Telekom will not enter a transfer of the related shares in the share register until after the conclusion of the general shareholders' meeting.

Dividends and Claims upon Liquidation

Deutsche Telekom may pay dividends immediately following the resolution by the general meeting of shareholders on the distribution of profits. Shareholders participate in profit distributions in proportion to the nominal value of their shares.

Under German law, Deutsche Telekom may declare and pay dividends only from balance sheet profits as shown in the annual financial statements. In determining the distributable balance sheet profits, the Board of Management and the Supervisory Board may allocate to profit reserves *(andere Gewinnrücklagen),* either in whole or in part, the annual surplus *(Jahresüberschuß)* that remains after allocation to statutory reserves and losses carried forward. Under the Articles of Association, transferring more than one-half of the annual surplus is not permissible if, following the transfer, the accumulated reserves out of surplus would exceed one-half of Deutsche Telekom's share capital. The shareholders, in determining the distribution of profits, may allocate additional amounts to profit reserves and may carry forward profits in part or in full.

Dividends approved at a shareholders' meeting are payable on the first stock exchange trading day after that meeting (unless otherwise decided at the shareholders' meeting). Details regarding paying agents are published in the Federal Gazette. Shareholders holding shares through Clearstream Banking AG will receive dividends by credit to their respective accounts.

In accordance with the German Stock Corporation Act, upon a liquidation of Deutsche Telekom, shareholders will receive, in proportion to their holdings of shares, any liquidation proceeds remaining after paying off all Deutsche Telekom's liabilities.

Notification Requirements

Under the German Securities Trading Act *(Wertpapierhandelsgesetz),* anyone whose direct or indirect voting interest reaches, exceeds or, after reaching, falls below 5 percent, 10 percent, 25 percent, 50 percent or 75 percent of the voting rights in Deutsche Telekom must, within no more than seven calendar days, inform Deutsche Telekom and the Federal Supervisory Authority for Securities Trading *(Bundesaufsichtsamt für den Wertpapierhandel)* in writing (1) that he has reached, exceeded or fallen below one of these thresholds and (2) of the extent of his voting rights. Failure to notify Deutsche Telekom or the Federal Supervisory Authority will, for so long as such failure continues, disqualify the shareholder from exercising the rights attached to his shares (including voting rights and the right to receive dividends). In addition, a penalty may be imposed as provided for by law.

German Foreign Exchange Controls

At present, the Federal Republic does not restrict the movement of capital between Germany and other countries except investments in Iraq and Serbia and with institutions of the Taliban party in Afghanistan. This is to comply with the applicable resolutions adopted by the United Nations and the EU.

For statistical purposes, with certain exceptions, every corporation or individual residing in Germany is obligated to report any payment received from or made to a non-resident corporation or individual to the German Central Bank (*Deutsche Bundesbank*) if the payment exceeds DM 5,000 or EUR 2,500 (or the equivalent in a foreign currency). Additionally, corporations and individuals residing in Germany must report to the German Central Bank any claims of a resident corporation or individual against or liabilities payable to a non-resident corporation or individual exceeding an aggregate of DM 3 million or EUR 1.5 million (or the equivalent in a foreign currency) at the end of any calendar month.

Neither German law nor the Memorandum and Articles of Association (*Satzung*) of Deutsche Telekom restricts the right of non-resident or foreign owners of the shares to hold or vote the shares.

DESCRIPTION OF AMERICAN DEPOSITARY RECEIPTS

Citibank, N.A. will act as the depositary bank for the American Depositary Shares. Citibank's depositary offices are located at 111 Wall Street, New York, New York 10043. American Depositary Shares are frequently referred to as ''ADSs'' and represent ownership interests in securities that are on deposit with the depositary bank. ADSs are normally represented by certificates that are commonly known as ''American Depositary Receipts'' or ''ADRs.'' The depositary bank typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is Citibank AG, located at Neue Mainzer Strasse 75, Frankfurt am Main, Germany.

Deutsche Telekom has appointed Citibank as depositary bank pursuant to a deposit agreement. The depositary bank will make available for inspection by holders at its office and at the office of Citibank AG copies of documents, reports and communications in respect of the ADSs, including the deposit agreement and Deutsche Telekom's Articles of Association. A copy of the deposit agreement is also on file with the Securities and Exchange Commission under cover of a Registration Statement on Form F-6. You may obtain a copy of the deposit agreement from the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please refer to Registration Number 333-05724 when retrieving a copy of the deposit agreement.

Deutsche Telekom is providing you with a summary description of the ADSs and your rights as an owner of ADSs. Please remember that summaries by their nature lack the precision of the information summarized and that your rights and obligations as an owner of ADSs will be determined by the deposit agreement and not by this summary. Deutsche Telekom urges you to review the deposit agreement in its entirety as well as the form of ADR attached to the deposit agreement.

Each ADS represents one share or the right to receive one share on deposit with the custodian bank. An ADS will also represent any other property received by the depositary bank or the custodian on behalf of the owner of the ADS but that has not been distributed to the owners of ADSs because of legal restrictions or practical considerations.

If you become an owner of ADSs, you will become a party to the deposit agreement and therefore will be bound to its terms and to the terms of the ADR that represents your ADSs. The deposit agreement and the ADR specify Deutsche Telekom's rights and obligations as well as your rights and obligations as owner of ADSs and those of the depositary bank. As an ADS holder you appoint the depositary bank to act on your behalf in certain circumstances. The deposit agreement and the ADRs are governed by New York law. However, Deutsche Telekom's obligations to the holders of shares will continue to be governed by the laws of Germany, which may be different from the laws in the United States.

As an owner of ADSs, you may hold your ADSs either by means of an ADR registered in your name or through a brokerage or safekeeping account. If you decide to hold your ADSs through your brokerage or safekeeping account, you must rely on the procedures of your broker or bank to assert your rights as an ADS owner. Please consult with your broker or bank to determine what those procedures are. This summary description assumes you have opted to own the ADSs directly by means of an ADR registered in your name and, as such, it will refer to you as the ''holder.'' When this summary refers to ''you,'' it is on the assumption that the reader owns new ADSs and will own ADSs at the relevant time.

Dividends and Distributions

As a holder, you generally have the right to receive the distributions Deutsche Telekom makes on the securities deposited with the custodian bank. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive the distributions under the terms of the deposit agreement in proportion to the number of ADSs held as of a specified record date.

Distributions of Cash

Whenever Deutsche Telekom makes a cash distribution for the securities on deposit with the custodian, it will notify the depositary bank. Subject to any restrictions imposed by German laws or regulations, upon receipt of this notice the depositary bank will arrange for the funds to be converted into U.S. Dollars and for the distribution of the U.S. Dollars to the holders.

The conversion into U.S. Dollars will take place only if practicable and if the U.S. Dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. The depositary will apply the same method for distributing the proceeds of the sale of any property, including costs estimated with conversions of foreign currency into U.S. Dollars (such as undistributed rights) held by the custodian in respect of securities on deposit.

Distributions of Shares

Whenever Deutsche Telekom makes a free distribution of shares for the securities on deposit with the custodian, it will notify the depositary bank. Upon receipt of the notice, the depositary bank will either distribute to holders new ADSs representing the shares deposited or, with the written consent of Deutsche Telekom, modify the ratio of ADS to shares, in which case each ADS you hold will represent rights and interests in the additional shares so deposited. Only whole new ADSs will be distributed. Fractional entitlements will be sold and the proceeds of the sale will be distributed as in the case of a cash distribution.

The distribution of new ADSs or the modification of the ADS-to-share ratio upon a distribution of shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. To pay the taxes or governmental charges, the depositary bank may sell all or a portion of the new shares so distributed.

No distribution of new ADSs will be made if it would violate a law (e.g., the U.S. securities laws) or if it is not operationally practicable. On a distribution of new ADSs, the depositary bank may reasonably request an opinion of counsel regarding the need for registration of the distribution under the United States Securities laws. Any such request may delay distribution to you of new ADSs. If the depositary bank does not distribute new ADSs as described above, it may sell the shares received and distribute the proceeds of the sale as in the case of a distribution of cash.

Distributions of Rights

Whenever Deutsche Telekom intends to distribute rights to purchase additional shares, it may give prior notice to the depositary bank and may assist the depositary bank in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional ADSs to holders.

The depositary bank will establish procedures to distribute rights to purchase additional ADSs to holders and to enable holders to exercise their rights if it is lawful and reasonably practicable to make the rights available to holders of ADSs, and if Deutsche Telekom provides all of the documentation contemplated in the deposit agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new ADSs upon the exercise of your rights. The depositary bank is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new shares directly rather than new ADSs.

The depositary bank will not distribute the rights to you if:

- Deutsche Telekom does not request that the rights be distributed to you or if it asks that the rights not be distributed to you; or
- Deutsche Telekom fails to deliver satisfactory documents to the depositary bank; or
- it is not reasonably practicable to distribute the rights.

The depositary bank will sell the rights that are not exercised or not distributed if the sale is lawful and reasonably practicable. The proceeds of the sale will be distributed to holders as in the case of a cash distribution. If the depositary bank is unable to sell the rights, it will allow the rights to lapse.

Elective Distributions

Whenever Deutsche Telekom intends to distribute a dividend payable at the election of shareholders either in cash or in additional shares, it will give prior notice thereof to the depositary bank and will indicate whether it wishes the elective distribution to be made available to you. In such case, Deutsche Telekom will assist the depositary bank in determining whether the distribution is lawful and reasonably practical.

The depositary bank will make the election available to you only if it is reasonably practical and if Deutsche Telekom has provided all of the documentation contemplated in the deposit agreement. In such case, the depositary bank will establish procedures to enable you to elect to receive either cash or additional ADSs, in each case as described in the deposit agreement.

If the election is not made available to you, you will receive either cash or additional ADSs, depending on what a shareholder in Germany would receive for failing to make an election, as more fully described in the deposit agreement.

Other Distributions

Whenever Deutsche Telekom intends to distribute property other than cash, shares or rights to purchase additional shares, it will notify the depositary bank in advance and will indicate whether it wishes the distribution to be made to you. If so, Deutsche Telekom will assist the depositary bank in determining whether the distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute the property to you, and if Deutsche Telekom provides all of the documentation contemplated in the deposit agreement, the depositary bank will distribute the property to the holders in a manner it deems practicable.

The depositary bank will make the distribution net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay the taxes and governmental charges, the depositary bank may sell all or a portion of the property received.

The depositary bank will not distribute the property to you and will sell the property if:

- Deutsche Telekom does not request that the property be distributed to you or if it asks that the property not be distributed to you; or
- Deutsche Telekom fails to deliver satisfactory documents to the depositary bank; or
- The depositary bank determines that all or a portion of the distribution to you is not reasonably practicable.

The depositary bank will distribute the proceeds of the sale to holders as in the case of a cash distribution.

Changes Affecting Shares

The shares held on deposit for your ADSs may change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or classification of the shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your ADSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the shares held on deposit. The depositary bank may in such circumstances deliver new ADSs to you or call for the exchange of your existing ADSs for new ADSs and will do so upon request of Deutsche Telekom to the extent legally permitted. If the depositary bank may not lawfully distribute the property to you, the depositary bank may sell the property and distribute the net proceeds to you as in the case of a cash distribution.

Issuance of ADSs upon Deposit of Shares

The depositary bank may create ADSs on your behalf if you deposit shares with the custodian. The depositary bank will deliver these ADSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the shares to the custodian. Your ability to deposit shares could be limited by German legal considerations at the time of deposit.

The depositary bank may delay the issuance of ADSs until the depositary bank or the custodian receives confirmation that all required approvals have been given and that the shares have been duly transferred to the custodian. The depositary bank will only issue ADSs in whole numbers.

When you deposit shares, you will be responsible for transferring good and valid title to the depositary bank. You will thus be deemed to represent and warrant the following:

- The shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.
- All preemptive (and similar) rights, if any, with respect to the shares have been validly waived or exercised.
- You are authorized to deposit the shares.
- The shares presented for deposit are free and clear of any encumbrance, security interest, or other adverse claim, and are not, and the ADSs issuable upon the deposit are not subject to any other restriction on sale, transfer or deposit under the laws of the United States, the Federal Republic of Germany, or under a shareholders' agreement, or the Articles of Association, or any applicable regulations of any securities exchange.

If any of the representations or warranties are incorrect in any way, Deutsche Telekom and the depositary bank may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

Withdrawal of Shares upon Cancellation of ADSs

As a holder, you will be entitled to present your ADSs to the depositary bank for cancellation and then receive the underlying shares at the custodian's offices. To withdraw the shares represented by your ADSs, you will be required to pay to the depositary the fees for cancellation of ADSs and any charges and taxes payable upon the transfer of the shares being withdrawn. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the ADSs will not have any rights under the deposit agreement.

If you hold an ADR registered in your name, the depositary bank may ask you to provide proof of identity and genuineness of any signature and certain other documents as the depositary bank may deem appropriate before it will cancel your ADSs. The depositary bank may delay the withdrawal of the shares represented by your ADSs until it receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the depositary bank will only accept ADSs for cancellation that represent a whole number of securities on deposit.

You will have the right to withdraw the securities represented by your ADSs at any time except in the following cases:

- Temporary delays caused by closing transfer books of the depositary or Deutsche Telekom in connection with voting at a shareholders' meeting or the payment of dividends.
- Obligations to pay fees, taxes and similar charges.
- Restrictions imposed because of laws or regulations applicable to ADSs or the withdrawal of securities on deposit.

The deposit agreement may not be modified to impair your right to withdraw the securities represented by your ADSs except to comply with mandatory provisions of law.

Voting Rights

As a holder, you generally have the right under the deposit agreement to instruct the depositary bank to exercise the voting rights for the shares represented by your ADSs. At Deutsche Telekom's request, the depositary bank will mail to you any notice of shareholders' meeting received from Deutsche Telekom together with information explaining how to instruct the depositary bank to exercise the voting rights of the securities represented by ADSs. If the depositary bank timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities represented by the holder's ADSs in accordance with the voting instructions.

Please note that the ability of the depositary bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit (including Deutsche Telekom's Articles of Association). Deutsche Telekom cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary bank in a timely manner. Securities for which no voting instructions have been received will not be voted.

Fees and Charges

As an ADS holder, you will be required to pay the following service fees to the depositary bank:

Service	Fees
Issuance of ADSs	Up to 5¢ per ADS issued
Cancellation of ADSs	Up to 5¢ per ADS canceled
Exercise of rights to purchase additional ADSs	Up to 5¢ per ADS issued

As an ADS holder you will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges such as:

- Fees for the transfer and registration of shares that the registrar and transfer agent charge for the transfer and registration of shares in Germany (i.e., upon deposit and withdrawal of shares).
- Expenses incurred for converting foreign currency into U.S. Dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities (i.e., when shares are deposited or withdrawn from deposit).

Deutsche Telekom has agreed to pay certain other charges and expenses of the depositary bank. Note that the fees and charges you may be required to pay may vary over time and may be changed by Deutsche Telekom and by the depositary bank. You will receive prior notice of any changes.

Amendments and Termination

Deutsche Telekom may agree with the depositary bank to modify the deposit agreement at any time without your consent. Any modification that would prejudice any of the substantial rights of holders under the deposit agreement (except in very limited circumstances enumerated in the deposit agreement) will not become effective until 60 days after notice has been given to the holders. Among the modifications that Deutsche Telekom will not consider to be materially prejudicial to your substantial rights are:

- any modifications or supplements that are reasonably necessary for the ADSs to be registered under the Securities Act or to be eligible for book-entry settlement, in each case without imposing or increasing the fees and charges you are required to pay, and
- any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the deposit agreement if you continue to hold your ADSs after the modifications to the deposit agreement become effective. The deposit agreement cannot be amended to prevent you from withdrawing the shares represented by your ADSs (except as permitted by law).

Deutsche Telekom has the right to direct the depositary bank to terminate the deposit agreement. Similarly, the depositary bank may in certain circumstances on its own initiative terminate the deposit agreement. In either case, the depositary bank must give notice to the holders at least 30 days before termination.

Upon termination, the following will occur under the deposit agreement:

- For a period of one year after termination, you will be able to request the cancellation of your ADSs and the withdrawal of the shares represented by your ADSs and the delivery of all other property held by the depositary bank in respect of those shares on the same terms as prior to the termination. During this one year period the depositary bank will continue to collect all distributions received on the shares on deposit (i.e., dividends) but will not distribute the property to you until you request the cancellation of your ADSs.
- After the expiration of the one year period, the depositary bank may sell the securities held on deposit. The depositary bank will hold the proceeds from the sale and any other funds then held for the holders of ADSs in a non-interest bearing account. At that point, the depositary bank will have no further obligations to holders other than to account for the funds then held for the holders of ADSs still outstanding.

Books of Depositary

The depositary bank will maintain ADS holder records at its depositary office. You may inspect the records at the office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depositary bank will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of ADRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The deposit agreement limits Deutsche Telekom's obligations and the depositary bank's obligations to you. Please note the following:

- Deutsche Telekom and the depositary bank are obligated only to take the actions specifically stated in the depositary agreement without negligence or bad faith.
- The depositary bank disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the deposit agreement.
- Deutsche Telekom and the depositary bank will not be obligated to perform any act that is inconsistent with the terms of the deposit agreement.
- Deutsche Telekom and the depositary bank disclaim any liability if they are prevented or forbidden from acting on account of any law or regulation, any provision of its Articles of Association, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond their control.
- Deutsche Telekom and the depositary bank disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for the deposit agreement or in Deutsche Telekom's Articles of Association or in any provisions of securities on deposit.
- Deutsche Telekom and the depositary bank further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting shares for deposit, any holder of ADSs or authorized representative thereof, or any other person believed by either Deutsche Telekom or the depositary bank in good faith to be competent to give the advice or information.
- Deutsche Telekom and the depositary bank also disclaim any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADSs, unless indemnity satisfactory to it against expense and liability is furnished.
- Deutsche Telekom and the depositary bank may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.

Pre-Release Transactions

The depositary bank may, in certain circumstances, issue ADSs before receiving a deposit of shares or release shares before receiving ADSs. These transactions are commonly referred to as ''pre-release transactions.'' The deposit agreement limits the aggregate size of pre-release transactions and imposes a number of conditions on the transactions (such as the need to receive collateral, the type of collateral required and the representations required from brokers). The depositary bank may retain the compensation received from the pre-release transactions. Full collateralization is a precondition to the pre-release of ADSs or underlying shares.

Taxes

You will be responsible for the taxes and other governmental charges payable on the ADRs, the ADSs evidenced by the ADRs and the securities represented by the ADSs. Deutsche Telekom, the depositary bank and the custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The depositary bank may refuse to issue ADSs, to deliver transfer, split and combine ADRs or to release securities on deposit until all taxes and charges are paid by the applicable holder. The depositary bank and the custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the depositary bank and to the custodian proof of taxpayer status and residence and the other information as the depositary bank and the custodian may require to fulfill legal obligations. You are required to indemnify Deutsche Telekom, the depositary bank and the custodian for any claims with respect to taxes based on any tax benefit obtained for you.

Foreign Currency Conversion

The depositary bank will arrange for the conversion into U.S. Dollars of all foreign currency received if the conversion is practical, and it will distribute the U.S. Dollars in accordance with the terms of the deposit agreement. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practical or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depositary bank may take the following actions in its discretion:

- Convert the foreign currency to the extent practical and lawful and distribute the U.S. Dollars to the holders for whom the conversion and distribution is lawful and practical.
- Distribute the foreign currency to holders for whom the distribution is lawful and practical.
- Hold the foreign currency (without liability for interest) for the applicable holders.

TAXATION

German Taxation

The following is a brief summary of material German tax consequences for beneficial owners of shares or ADSs that are not German residents for German income tax purposes and do not hold shares or ADSs as part of a permanent establishment or a fixed base in Germany (''Non-German Holders''). This summary is based upon German law and typical tax and other treaties between Germany and other countries in effect as of the date hereof and is subject to changes in German law or such treaties. The following is not meant to be a comprehensive discussion of all of the German tax consequences that may be relevant for Non-German Holders. Prospective purchasers should consult their tax advisers regarding the German tax consequences of the purchase, ownership and disposition of shares and the procedures for the refund of German taxes withheld from dividends.

Dividends

In general, German corporations are subject to corporate income tax at a rate of 40 percent on non-distributed profits (45 percent before January 1, 1999) and of 30 percent on distributed profits. Since January 1, 1998, the corporate income tax liability has been subject to a 5.5 percent solidarity surcharge *(Solidaritätszuschlag).* This currently results in an effective aggregate corporate income tax charge of 31.94 percent on distributed profits. German resident taxpayers (including foreign investors that hold shares or ADSs as part of a permanent establishment or a fixed base in Germany) are entitled to a refundable tax credit in the amount of three-sevenths of the gross amount (before dividend withholding tax) of profits distributed, which credit also reduces the basis for the 5.5 percent surcharge on the German taxpayer's income tax liability. That credit or refund is not available to Non-German Holders.

In addition, a 25 percent withholding tax (plus a 1.375 percent surcharge) is imposed on gross dividend distributions by a German corporation. With respect to a Non-German Holder, this rate may be reduced by a tax treaty applicable to such Non-German Holder. Under most tax treaties the withholding tax rate is reduced to 15 percent. The reduction is granted by way of a refund of the difference between the amount withheld at the statutory rate of 25 percent plus the surcharge and the applicable treaty rate upon application to the German tax authorities (Bundesamt für Finanzen, Friedhofstrasse 1, 53221 Bonn, Germany). For Non-German Holders of ADSs entitled to the benefits of the income tax treaty between the United States and Germany (the ''Treaty''), a special refund procedure may apply, as described below under the heading ''—United States Taxation—Refund Procedures''.

Under the Treaty, provided the corporate tax imputation system continues to apply to individuals under German law, qualifying U.S. shareholders are entitled to an additional reduction in German tax equal to 5 percent of the gross amount of the dividend, which is refundable together with the general treaty refund discussed in the preceding paragraph. Special U.S. tax rules applicable to this additional refund are discussed below under ''—United States Taxation—Shares and ADSs—Dividends''.

On February 15, 2000 the parliamentary groups supporting the German federal government submitted to the Bundestag a draft tax reform bill pursuant to which the corporate tax imputation system would be repealed and the withholding tax and corporate income tax rates would be reduced from the year 2001/2002. Corporate profits would be subject to tax separately at corporate and shareholder levels. The corporate income tax rate would be 25% (plus solidarity surcharge of 1.375%) on distributed and retained earnings. Dividends received by Non-German Holders would be subject to withholding tax at a rate of 20% (plus a solidarity surcharge of currently 1.1%). The withholding tax rate for Non-German Holders may be lower under the provisions of an applicable double tax treaty. It is not clear whether this tax reform proposal will be adopted in Germany. The proposal may undergo substantial revision in the legislative process.

Capital Gains

Under German tax law, gain that Non-German Holders derive from the sale or other disposition of shares or ADSs is not subject to tax in Germany, provided the Non-German Holder has not held, directly or indirectly, 10 percent or more of the shares at any time during the 5-year period immediately preceding the disposition. This participation threshold would be reduced to 1 percent pursuant to the draft tax reform bill mentioned above. Most tax treaties concluded by Germany with other countries (including the Treaty) provide that Non-German Holders resident in the respective treaty state are not subject to German income tax on such capital gains.

Inheritance and Gift Tax

Under German law, German gift or inheritance tax will be imposed on transfers of shares or ADSs by gift or at death of a Non-German Holder only if (1) the donor or transferor, or the heir, donee or other beneficiary, was domiciled in Germany at the time of the transfer or, with respect to German citizens who are not domiciled in Germany, if such donor, transferor or beneficiary has not been continuously outside of Germany for a period of more than 5 years or had a residence in Germany during such absence, or (2) the shares or ADSs subject to such transfer consist or form part of a portfolio of 10 percent or more of such shares or ADSs held directly or indirectly by the donor or transferor himself or together with one or more related persons. The few German estate tax treaties currently in force (e.g., the treaty with the United States) usually provide that German gift or inheritance tax may only be imposed if condition (1) above is met.

Other Taxes

No German transfer, stamp or other similar taxes apply to the purchase, sale or other disposition of shares or ADSs by Non-German Holders.

Taxation of Bonus Shares

No explicit statutory provision exists with respect to the tax treatment of bonus shares received or ADSs representing such bonus shares. Within the German tax administration, there had been a controversy in the past as to whether bonus shares constitute a tax-free rebate on the acquisition cost of the shares for which they are provided or whether they constitute taxable income. In a notice dated December 10, 1999, the Ministry of Finance stated that the bonus shares granted in 1999 for shares subscribed in Deutsche Telekom's initial public offering of 1996, while constituting taxable dividend income according to German tax law, will not be taxed for reasons of legal protection of bona fide transactions. Bonus shares to be granted in 2000 in connection with the second public offering of Deutsche Telekom in 1999 will constitute taxable dividend income for the shareholders. No withholding tax is to be retained, but the banks that hold the shares in custody must advise their clients upon the issuance of the bonus shares that the receipt of such shares is taxable. Accordingly, Non-German Holders should expect that bonus shares and ADSs representing such bonus shares allocated in respect of this global offering will likewise constitute taxable dividend income and that they will be obligated to declare this income to the German tax authorities.

In the case of a sale or other disposition of the bonus shares or ADSs representing such bonus shares, by a Non-German Holder, the rules described above under the heading ''—Capital Gains'' will apply. According to the German tax administration, the basis for determining taxable gain in connection with any disposition of bonus shares or ADSs representing such bonus shares will be equal to their market value at the time of allocation.

United States Taxation

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of shares or ADSs by a holder that is a resident of the

United States for purposes of the income tax convention between the United States and Germany (the ''Treaty'') and is fully eligible for benefits under the Treaty (a ''U.S. holder''). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, and does not discuss tax considerations that arise from rules of general application or that are generally assumed to be known by investors. In particular, the summary does not deal with U.S. holders that purchase shares or ADSs in the secondary market or holders that do not hold shares or ADSs as capital assets. The summary does not address the tax treatment of holders that are subject to special rules, such as banks, insurance companies, dealers in securities or currencies, persons that elect mark-to-market treatment, persons holding shares or ADSs as a position in a synthetic security, straddle or conversion transaction, persons that own, directly or indirectly, 10 percent or more of Deutsche Telekom's voting stock and holders whose ''functional currency'' is not the U.S. dollar. The summary is based on laws, treaties and regulatory interpretations in effect on the date hereof, all of which are subject to change.

Holders should consult their own advisers regarding the tax consequences of the acquisition, ownership and disposition of shares or ADSs in light of their particular circumstances, including the effect of any state, local, or other national laws.

The beneficial owner of a share or ADS generally will be entitled to Treaty benefits, and therefore will be a U.S. holder, if it is (1) an individual resident of the United States, a U.S. corporation, or a partnership, estate or trust to the extent its income is subject to taxation in the United States in its hands or in the hands of its partners or beneficiaries; (2) not also a resident of Germany for German tax purposes; and (3) not subject to an anti-treaty shopping article that applies in limited circumstances. The Treaty benefits discussed below generally are not available to U.S. taxpayers that hold shares or ADSs in connection with the conduct of business through a permanent establishment, or the performance of personal services through a fixed base, in Germany. This summary does not discuss the treatment of such holders.

In general, for U.S. federal income tax purposes and for purposes of the Treaty, beneficial owners of ADSs will be treated as the beneficial owners of the shares represented by those ADSs.

Bonus Share Program

A U.S. holder will not be required to include any amount in income for U.S. tax purposes as a result of the receipt of bonus shares under the bonus share program. Upon receipt of a bonus share, the holder's basis in the corresponding shares purchased in this offering should be reallocated on a pro rata basis among the purchased shares and the bonus share.

As indicated above, the distribution of bonus shares to a U.S. holder will be considered a taxable dividend for German tax purposes but will not be subject to taxation in the United States. A U.S. holder's basis in the shares will include the amount of any German taxes imposed on the distribution. In the event that bonus shares are sold to raise funds to pay the German taxes, a U.S. holder will realize capital gain or loss equal to the difference between the basis in the bonus shares and the amount realized. For purposes of the U.S. foreign tax credit limitation, it is possible that any such German taxes may be allocated to ''general limitation'' income. In that event, a U.S. holder that does not receive sufficient foreign-source general limitation income from other sources may not be able to derive effective foreign tax credit benefits in respect of those German taxes.

Shares and ADSs

Dividends

Under current law, dividends paid by German corporations generally are subject to German withholding tax at an aggregate rate of 26.375 percent (consisting of a 25 percent withholding tax and a 1.375 percent surcharge). The Treaty benefits available to U.S. holders, under current law, are discussed in the following paragraph. The proposed changes in German tax law provided as part of the pending tax reform bill would affect both the rate of German withholding tax and the amount of benefits available to U.S. holders under the Treaty. The implications of the proposed changes are discussed in the second succeeding paragraph.

U.S. holders are entitled to claim a refund of a portion of these withholding taxes, and will be treated as receiving additional dividend income from Deutsche Telekom, under the mechanism described below. Under the Treaty, a U.S. holder will be entitled to receive a payment from the German tax authorities equal to 16.375 percent of the declared dividend. The Treaty provides that a portion of this payment (*i.e.*, 11.375 percent of the declared dividend) will be treated for U.S. tax purposes as a reduction in German withholding tax to the generally applicable Treaty rate of 15 percent, and the remainder of the payment (*i.e.*, 5 percent of the declared dividend) will be treated as the net amount of an additional dividend of 5.88 percent of the declared dividend that has been subject to a 15 percent German withholding tax. Accordingly, if Deutsche Telekom declares a dividend of 100, a U.S. holder initially will receive 73.625 (100 minus the 26.375 percent withholding tax). The U.S. holder then can claim a refund from the German authorities of 16.375 and thereby will receive total cash payment of 90 (*i.e.*, 90 percent of the declared dividend). For U.S. tax purposes, the holder will be deemed to have received total dividends of 105.88, consisting of the declared dividend of 100, plus the deemed additional dividend of 5.88 that is associated with the Treaty refund.

If the German draft tax reform bill is enacted in its current form, dividends paid by German corporations will be subject to German withholding tax at an aggregate rate of 21.1 percent (20 percent withholding tax and a 1.1 percent surcharge). The changes in the German tax treatment of dividend income received by German domestic investors would also affect the amount of the benefits available under the Treaty, which are determined by reference to the treatment of German domestic investors. If the draft tax reform bill is enacted in its current form, a U.S. holder would not be deemed to receive the additional dividend of 5.88 described in the previous paragraph. Accordingly, for a declared dividend of 100, a U.S. holder would initially receive 78.9 and could claim a refund from the German tax authorities of 6.1 and therefore receive a total cash payment of 85. For U.S. tax purposes, a U.S. holder will be deemed to have received total dividends of 100.

The gross amount of dividends received by a U.S. holder (including the additional dividend associated with the Treaty refund and amounts withheld in respect of German withholding tax) generally will be subject to U.S. federal income taxation as foreign source dividend income, and will not be eligible for the dividends received deduction generally allowed to U.S. corporations. German withholding tax at the 15 percent rate provided under the Treaty will be treated as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, is eligible for credit against a U.S. holder's U.S. federal income tax liability or, at the holder's election, may be deducted in computing taxable income. Thus, for a declared dividend of 100, under current German law, a U.S. holder would be deemed to have paid German taxes of 15.88; if the German draft tax reform bill is enacted in its current form, a U.S. holder would be deemed to have paid German taxes of 15. For foreign tax credit purposes, dividends paid by Deutsche Telekom will be foreign source ''passive income'' or, in the case of certain U.S. holders, ''financial services income''. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. holder's expected economic profit, after non-U.S. taxes, is insubstantial. U.S. holders should consult their own advisers concerning the implications of these rules in light of their particular circumstances.

Dividends paid in non-U.S. currency will be included in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt by the holder or, in the case of ADSs, by the Depositary, regardless of whether the payment is in fact converted into U.S. dollars. If dividends paid in foreign currency are converted into U.S. dollars on the date of receipt, holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. holder may be required to recognize domestic-source foreign currency gain or loss on the receipt of a refund in respect of German withholding tax (but not with respect to the portion of the Treaty refund that is treated as an additional dividend) to the extent the U.S. dollar value of the refund differs from the U.S. dollar equivalent of that amount on the date of receipt of the underlying dividend.

Refund Procedures

Unless a U.S. holder makes a claim for a Treaty refund pursuant to one of the collective refund procedures described below, claims for refunds must be made on an individual basis by each U.S. holder on a special German form, which must be filed with the German tax authorities: Bundesamt für Finanzen, Friedhofstrasse 1, 53221 Bonn, Germany. Copies of the required form may be obtained from the German tax authorities at the same address or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, N.W., Washington, D.C. 20007-1998. As part of the individual refund claim, a U.S. holder must submit to the German tax authorities the original bank voucher (or certified copy thereof) issued by the paying entity documenting the tax withheld, and an official certification on IRS Form 6166 of its last filed United States federal income tax return. IRS Form 6166 may be obtained by filing a request with the Internal Revenue Service Center in Philadelphia, Pennsylvania, Foreign Certificate Request, P.O. Box 16347, Philadelphia, PA 19114-0447. Requests for certification must include the holder’s name, Social Security number or Employer Identification number, tax return form number, and tax period for which the certification is requested. Requests for certification can include a request to the Internal Revenue Service to send the certification directly to the German tax authorities. If no such request is made, the Internal Revenue Service will send a certificate on IRS Form 6166 to the U.S. holder, which then must submit the certification with its claim for refund.

Pursuant to administrative procedures introduced on a trial basis, a simplified refund procedure is available to certain U.S. holders of ADSs that are held through brokers participating in DTC. Under these procedures, DTC will prepare and file a combined claim for refund on behalf of those holders with the Bundesamt für Finanzen. The Bundesamt für Finanzen will issue refunds to DTC which will issue corresponding refund checks to the participating brokers. Under audit procedures that apply for up to 4 years, the Bundesamt für Finanzen may require brokers to provide evidence regarding the entitlement of their clients to Treaty benefits. In the event of such an audit, brokers must submit to the Bundesamt für Finanzen a list containing names and addresses of the relevant holders of ADSs, and the official certifications on IRS Form 6166 of the last filed United States federal income tax return of such holders. Brokers participating in DTC may require, prior to any audit, that holders provide documentation evidencing their eligibility for Treaty benefits.

Claims for Treaty refunds by U.S. holders of ADSs who do not participate in the DTC procedures discussed above may be submitted to the German tax authorities by the Depositary on behalf of those U.S. holders. Claims must be filed within four years of the end of the calendar year in which the dividend was received. Holders who are entitled to refunds in excess of DM 300 for the calendar year normally must file their refund claim on an individual basis; however, the Depositary may be in a position to make a refund claim on behalf of such holders. Details of the refund procedures for holders of ADSs can be obtained from the Depositary.

Refunds under the Treaty are not available in respect of shares or ADSs held in connection with a permanent establishment or fixed base in Germany.

Capital Gains

Under the Treaty, a U.S. holder will not be subject to German capital gains tax in respect of a sale or other disposition of shares or ADSs unless the shares or ADSs were held in connection with a permanent establishment or fixed base in Germany.

Gain or loss realized by a U.S. holder on the sale or other disposition of shares or ADSs will be capital gain or loss, and will be long-term gain or loss if the shares or ADSs were held for more than one year. The net amount of long-term capital gain realized by an individual holder generally is subject to taxation at a maximum rate of 20 percent. A U.S. holder's ability to offset capital losses against ordinary income is subject to limitations. Deposits and withdrawals of shares in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

Inheritance and Gift Tax

Under the current estate, inheritance and gift tax treaty between the United States and Germany (the ''Estate Tax Treaty''), a transfer of shares or ADSs by gift or by reason of the death of a U.S. holder generally will not be subject to German gift or inheritance tax unless the donor or transferor, or the heir, donee or other beneficiary, is domiciled in Germany for purposes of the Estate Tax Treaty at the time gift was made, or at the time of the donor's or transferors's death, or the shares or ADSs were held in connection with a permanent establishment or fixed base in Germany.

The Estate Tax Treaty provides a credit against United States federal estate and gift tax liability for the amount of inheritance and gift tax paid in Germany, subject to certain limitations, in a case where shares or ADSs are subject to German inheritance or gift tax and United States federal estate or gift tax.

Non-U.S. Holders

A beneficial owner of shares or ADSs that is, with respect to the United States, a foreign corporation or a non-resident alien individual generally will not be subject to U.S. federal income or withholding tax on

- dividends received on shares or ADSs, unless such income is effectively connected with the conduct by the beneficial owner of a trade or business in the United States;
- gain realized on the sale of shares or ADSs, unless (i) such gain is effectively connected with the conduct by the beneficial owner of a trade or business in the United States or (ii) in the case of gain realized by an individual beneficial owner, the beneficial owner is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met; and
- the receipt of bonus shares under the bonus share program.

A beneficial owner of shares or ADSs who is not a citizen or resident of the United States

- at the time of his or her death will not have the shares or ADSs included in the person's gross estate for U.S. federal estate tax purposes; and
- at the time the shares or ADSs are transferred by gift will not be subject to U.S. federal gift tax with respect to the transfer.

Information Reporting and Backup Withholding

Dividends on shares or ADSs, and payments of the proceeds of a sale of shares or ADSs paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a 31 percent rate unless the holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries.

UNDERWRITING

KfW, the Federal Republic (represented by the Federal Agency), Deutsche Telekom and the underwriters named below have entered into an underwriting agreement with respect to the shares and ADSs being offered in the global offering.

The global offering consists of a global retail offering and a global institutional offering. There will be a single global underwriting syndicate, with certain underwriters participating in both the global retail and institutional offerings and certain underwriters participating only in the global retail offering or the global institutional offering. In the global retail offering, underwriters will offer shares to retail investors who are natural persons in fifteen European countries, the United States, Canada and Japan. In the United Kingdom, Spain, Italy and the Netherlands only, the underwriters will also offer shares to ''special investment vehicles'' in the retail offering. In the global institutional offering, underwriters will offer shares to institutional investors around the world. Each underwriter may offer and sell shares anywhere in the world where it is legally permitted to do so. Sales of shares in the United States will be effected through a U.S. institutional selling group and a U.S. retail selling group. There are no minimum or maximum limits on how many shares may be offered or sold in any particular country or region.

Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table.

Underwriters	Number of Shares
Deutsche Bank Aktiengesellschaft	29,566,666
Dresdner Bank Aktiengesellschaft	29,566,667
Goldman Sachs International	29,566,667
COMMERZBANK Aktiengesellschaft	10,000,000
DG BANK Deutsche Genossenschaftsbank AG	10,000,000
Daiwa Securities SB Capital Markets Europe Limited	6,000,000
Merrill Lynch International	6,000,000
Morgan Stanley & Co. International Limited	6,000,000
Bayerische Hypo- und Vereinsbank Aktiengesellschaft	5,500,000
BBV Interactivos, S.A., S.V.B	5,000,000
Westdeutsche Landesbank Girozentrale	5,000,000
Banca d'Intermediazione Mobiliare IMI S.p.A.	4,000,000
Bayerische Landesbank Girozentrale	4,000,000
Landesbank Baden-Württemberg	4,000,000
Salomon Brothers International Limited	4,000,000
ABN AMRO Rothschild	3,600,000
HSBC Investment Bank plc	3,600,000
Credit Suisse First Boston (Europe) Limited	3,200,000
Landesbank Hessen-Thüringen	3,000,000
Nomura International plc	2,400,000
Banca di Roma S.p.A.	2,000,000
CABOTO SIM S.p.A.	1,600,000
CA IB Investmentbank Aktiengesellschaft	1,600,000
BNP Paribas	1,600,000
Baden-Württembergische Bank Aktiengesellschaft	1,200,000
Bankgesellschaft Berlin Aktiengesellschaft	1,200,000

Underwriters	Number of Shares
Norddeutsche Landesbank Girozentrale	1,200,000
A.G. Edwards & Sons, Inc.	1,000,000
Banca Commerciale Italiana S.p.A.	1,000,000
Santander Central Hispano Investment S.A.	1,000,000
Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien	1,000,000
UniCredito Banca Mobiliare Societá per Azioni	1,000,000
Lehman Brothers International (Europe)	800,000
Société Générale	800,000
Toronto Dominion Bank	800,000
UBS AG acting through its financial services group UBS Warburg	800,000
BCPA-Banco de Investimento S.A.	500,000
ConSors Discount-Broker Aktiengesellschaft	500,000
Entrium Direct Bankers AG	500,000
E*OFFERING Corp.	500,000
M.M. Warburg & CO Kommanditgesellschaft auf Aktien	500,000
NCB Stockbrokers Limited	500,000
Banque Générale du Luxembourg S.A.	400,000
Cazenove & Co.	400,000
Den Danske Bank Aktieselskab	400,000
Den Norske Bank ASA., DnB Markets	400,000
ING Bank, N.V.	400,000
Joh. Berenberg, Gossler & Co.	400,000
KBC Securities Stockbrokers	400,000
MNB Maizels Oy	400,000
National Bank of Greece S.A.	400,000
Raiffeisen Zentralbank Österreich Aktiengesellschaft	400,000
Zürcher Kantonalbank	400,000

If the underwriters sell more shares than the total number set forth in the above table, the underwriters have an option to buy up to an additional 30 million shares from KfW to cover such sales (over-allotment option). They may exercise that option until July 19, 2000. If any shares are purchased pursuant to that option, the underwriters will severally purchase shares in approximately the same proportion purchased as set forth in the above table. The purchase price of the option shares will be the weighted average of the offering prices of the shares (including shares sold at the discounted offering price and shares sold in the form of ADSs) sold in the global offering.

The following table shows the underwriting discounts and commissions, both on a per share or per ADS basis and in the aggregate, to be paid to the underwriters by KfW. Such amounts are shown assuming both no exercise and full exercise of the underwriters' overallotment option to purchase up to 30 million additional shares. In addition, the amounts shown assume all shares are sold to retail investors in respect of which sales the selling concession being paid per share or ADS is higher than in the case of shares sold to institutional investors. The selling concession payable in respect of shares sold to retail investors is variable and will be performance-related. For purposes of this table, it is assumed that all banks entitled to selling concessions will receive such concessions at the high point of the range payable in respect of shares or ADSs sold. All U.S. retail selling group members will receive the same selling concession per ADS sold to retail investors in the United States. All U.S. institutional selling group members will also receive the same selling concession per share or ADS, as the case may be, sold to institutional investors in the United States.

Paid by KfW	No Exercise	Full Exercise
Per Share	€1.064	€1.029
Per ADS	$1.030	$0.996
Total	€212,800,000	€236,670,000

KfW may also pay a supplemental, performance-related selling concession of up to 0.1 percent of the offering price per share or ADS. If any such concession is paid to any member of a U.S. selling group, it will be paid equally to all members of that U.S. selling group.

No discounts are to be paid to or received by any dealer in connection with the sale of the shares or ADSs.

The underwriters may choose to take some or all of their shares, including any additional shares purchased to cover over-allotment sales, in the global offering in the form of ADSs. The members of the U.S. retail selling group are: Deutsche Bank Securities Inc., Dresdner Kleinwort Benson North America LLC, Goldman, Sachs & Co., A.G. Edwards & Sons, Inc., Morgan Stanley & Co. Incorporated, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Salomon Smith Barney Inc., TD Securities (USA) Inc. and E*OFFERING Corp. The members of the U.S. institutional selling group are: Deutsche Bank Securities Inc., Dresdner Kleinwort Benson North America LLC, Goldman, Sachs & Co., Commerzbank Capital Markets Corporation, Credit Suisse First Boston Corporation, Daiwa Securities America Inc., DG Financial Markets Limited Liability Company, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, ABN AMRO Incorporated, BBV Securities Inc., Cazenove Inc., HSBC Securities (USA), Inc., Lehman Brothers Inc., Nomura Securities International, Inc., Paribas Corporation, Salomon Smith Barney Inc., Sal. Oppenheim jr. & Cie. Securities Inc., SG Cowen Securities Corporation, TD Securities (USA) Inc., UBS Warburg LLC, a subsidiary of UBS AG, and WestLB Panmure Securities Inc.

The underwriting agreement provides that the obligations of the underwriters to purchase shares may be terminated under certain circumstances, until 5 p.m. Frankfurt time on June 20, 2000, including the occurrence of certain *force majeure* events. In the event that the underwriting agreement is terminated, an investor who sells shares or ADSs in the expectation of receiving shares or ADSs in the global offering may have a short position in the shares and will have to cover any such short position through open market purchases or otherwise.

The joint global coordinators have also entered into a share lending agreement with KfW that provides that the joint global coordinators may borrow shares up to an amount equal to the maximum number covered by the over-allotment option plus additional shares solely to satisfy delivery obligations in respect of syndicate short positions created in connection with the distribution of the shares until such short positions are covered either through the exercise of the underwriters' over-allotment option or through open market purchases. This option to borrow shares may be exercised at any time until June 19, 2000. The agreement requires that the borrowed shares be returned by July 21, 2000.

Deutsche Bank, Dresdner Kleinwort Benson and Goldman, Sachs & Co. are the joint global coordinators and joint bookrunners for the global offering. KfW and the Federal Republic have determined the offering price and will determine the final allocation to investors in agreement with the joint global coordinators.

Shares sold by the underwriters in the global offering will initially be offered at the offering price or, in the case of certain qualified retail investors in the European retail offering, at the discounted offering price. If the shares are not all sold at the established offering prices, the joint global coordinators and KfW may change the offering prices and the other selling terms.

Deutsche Telekom has agreed with the underwriters that until December 31, 2000 it will not, directly or indirectly, issue, offer or announce the offering of any shares out of authorized capital (*genehmigtes Kapital*), or, until September 30, 2000, any other securities that are convertible into or exchangeable for shares of Deutsche Telekom, other than to employees or directors, in connection with a stock dividend *(Kapitalerhöhung aus Gesellschaftsmitteln)* or, subject to certain limited conditions and restrictions, in connection with an acquisition or a joint venture. Deutsche Telekom has also agreed that until December 31, 2000 it will not initiate a capital increase other than for the purposes of issuing shares to employees or directors, in order to pay a stock dividend or, subject to certain limited conditions and restrictions, in connection with an acquisition or a joint venture. Similar restrictions apply to derivatives transactions that would have an economic effect similar to that of a sale of Deutsche Telekom's shares. In each case these restrictions may be waived if the joint global coordinators consent to the proposed transaction in writing.

Each of the Federal Republic and KfW has agreed severally with the underwriters that until December 31, 2000 it will not, directly or indirectly, cause or permit any new shares of Deutsche Telekom to be issued, offered or announced to be offered (except as may otherwise be permitted under the terms applicable directly to Deutsche Telekom described in the previous paragraph), or to offer, sell or market, directly or indirectly, any shares it continues to hold following the global offering except for sales to a strategic investor who agrees to the selling restrictions imposed on KfW and the Federal Republic or in connection with a business combination of Deutsche Telekom with another entity. Similar restrictions also apply to derivatives or other transactions that would have an economic effect similar to that of a sale of Deutsche Telekom's shares. Each of the Federal Republic and KfW has also agreed severally that until September 30, 2000 it will not, directly or indirectly, cause or permit any other securities or uncertificated rights that are convertible into or exchangeable for shares of Deutsche Telekom to be issued, offered or announced to be offered, or to cause, permit or enter into any transaction (including a derivatives transaction) having a similar economic effect thereto (except as may otherwise be permitted under the terms applicable directly to Deutsche Telekom described in the preceding paragraph). In each case these restrictions may be waived if the joint global coordinators consent to the proposed transaction in writing. These restrictions will not apply to sales of shares by the Federal Republic to KfW, or by KfW to strategic investors that agree to be bound by these restrictions.

In connection with the global offering, the underwriters may purchase and sell shares or ADSs or options or warrants to purchase or to sell, Deutsche Telekom shares in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares or ADSs than they are required to purchase in the offering. Stabilizing transactions consist of certain bids and purchases made for the purpose of preventing or retarding a decline in the market price of the shares or ADSs while the global offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares or ADSs sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the shares or ADSs. As a result, the price of these securities may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on any of the exchanges where the shares or ADSs are listed, in the over-the-counter market or otherwise.

It is general market practice in Germany for underwriters to maintain an orderly market in existing shares, and it is expected that the underwriters will take measures to avoid extreme price fluctuations in the shares during the distribution period and thereafter. As a result of these activities, the underwriters may at any time have a significant short position or long position with respect to the shares or ADSs or other securities that are convertible into or exchangeable for shares or ADSs. To the extent that the underwriters incur a short position in the shares or ADSs, or in other securities that are convertible into or exchangeable for shares, this short position may be covered through exercise of the over-allotment option or by open market purchases by the underwriters. To the extent that the underwriters incur a long position, it may be liquidated at any time.

Deutsche Telekom estimates that its share of the total expenses of the global offering will be approximately EUR 7 million, which is less than 1 percent of the total estimated costs of the global offering to be borne by KfW and the Federal Republic (including the costs for early order discounts and bonus shares, which costs have been calculated based on certain assumptions).

Deutsche Telekom, the Federal Republic and KfW are expected to agree to indemnify the several underwriters against certain liabilities, including liabilities under the U.S. Securities Act of 1933, as amended.

Some of the underwriters have from time to time performed services for Deutsche Telekom, KfW or the Federal Republic, respectively, and maintain normal banking relationships with Deutsche Telekom in the ordinary course of their business.

LEGAL MATTERS

Clifford Chance Pünder, German counsel to Deutsche Telekom, will pass upon the validity of the shares for Deutsche Telekom, Oppenhoff & Rädler Linklaters & Alliance, German counsel to KfW, will pass upon certain legal matters for KfW, and Hengeler Mueller Weitzel Wirtz, German counsel to the underwriters, will pass upon the validity of the shares for the underwriters. Cleary, Gottlieb, Steen & Hamilton will pass upon certain legal matters in connection with the ADSs for Deutsche Telekom and Sullivan & Cromwell will pass upon the validity of the ADSs for the underwriters. Cleary, Gottlieb, Steen & Hamilton will rely on Clifford Chance Pünder and Sullivan & Cromwell will rely on Hengeler Mueller Weitzel Wirtz, without independent verification, as to all matters of German law.

INDEPENDENT PUBLIC ACCOUNTANTS

PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, which carries on the professional services of C&L Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, independent public accountants, have audited the consolidated financial statements of Deutsche Telekom at December 31, 1998 and 1999 and for each of the three years in the period ended December 31, 1999 included in this prospectus, including the notes to those financial statements, as stated in their report.

DEUTSCHE TELEKOM

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Management and Shareholders of Deutsche Telekom AG

We have audited the consolidated balance sheets of Deutsche Telekom AG as of December 31, 1998 and 1999 and the related consolidated statements of income, shareholders' equity and cash flows of Deutsche Telekom AG for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Germany, which are substantially the same as those followed in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Deutsche Telekom AG as of December 31, 1998 and 1999, and the consolidated results of operations, shareholders' equity and cash flows of Deutsche Telekom AG for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles in Germany.

Application of accounting principles generally accepted in the United States would have affected shareholders' equity as of December 31, 1998 and 1999 and net income for each of the years in the three year period ended December 31, 1999 to the extent summarized in Note 36 to the consolidated financial statements.

Frankfurt am Main, March 27, 2000

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dickmann Wirtschaftsprüfer	Laue Wirtschaftsprüfer

CONSOLIDATED STATEMENT OF INCOME

	Note	1999 millions of €	1998 millions of €	1997 millions of €
Net revenue	(1)	35,470	35,144	34,505
Changes in inventories and other own capitalized costs	(2)	947	990	1,514
Total operating performance		36,417	36,134	36,019
Other operating income	(3)	1,871	2,069	1,915
Goods and services purchased	(4)	(8,404)	(6,223)	(6,171)
Personnel costs	(5)	(9,210)	(9,170)	(9,377)
Depreciation and amortization	(6)	(8,466)	(9,037)	(9,509)
Other operating expenses	(7)	(6,135)	(5,385)	(5,195)
Financial income (expense), net	(8)	(2,889)	(3,288)	(4,003)
Results from ordinary business activities		3,184	5,100	3,679
Extraordinary income (losses)	(9)	(240)	—	—
Taxes	(10)	(1,420)	(2,654)	(1,844)
Income after taxes		1,524	2,446	1,835
(Income) losses applicable to minority shareholders	(11)	(271)	(203)	(146)
Net income		1,253	2,243	1,689
Earnings per share in €		0.43	0.82	0.62

The accompanying notes are an integral part of the consolidated financial statements.
The amounts contained herein have been converted into euro at the official rate of 1,95583 DM per euro.

CONSOLIDATED BALANCE SHEET

	Note	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Assets			
Noncurrent assets			
Intangible assets	(12)	15,002	1,081
Property, plant and equipment	(13)	59,036	59,793
Financial assets	(14)	7,945	5,646
		81,983	66,520
Current assets			
Inventories, materials and supplies	(15)	1,046	595
Receivables	(16)	5,666	4,118
Other assets	(17)	2,069	725
Marketable securities	(18)	1,770	1,370
Liquid assets	(19)	1,172	5,086
		11,723	11,894
Prepaid expenses, deferred charges and deferred taxation	(20)	931	877
		94,637	79,291
Shareholders' equity and liabilities			
Shareholders' equity	(21)		
Capital stock	(22)	7,756	7,014
Additional paid-in capital	(23)	24,121	14,250
Retained earnings (deficit)	(24)	1,558	786
Unappropriated net income carried forward from previous year		13	6
Net income		1,253	2,243
Minority interest	(25)	988	765
		35,689	25,064
Accruals			
Pensions and similar obligations	(26)	3,109	3,130
Other accruals	(27)	6,181	5,224
		9,290	8,354
Liabilities	(28)		
Debt		42,337	39,933
Other		6,593	5,547
		48,930	45,480
Deferred income		728	393
		94,637	79,291

The accompanying notes are an integral part of the consolidated financial statements.
The amounts contained herein have been converted into euro at the official rate of 1,95583 DM per euro.

CONSOLIDATED NONCURRENT ASSETS

	Acquisition or production cost							Depreciation, amortization and write-downs							Net carrying amount	
	Jan. 1, 1999	Translation adjustment	Changes in the composition of the Deutsche Telekom group	Additions	Disposals	Reclassifications	Dec. 31, 1999	Jan. 1, 1999	Translation adjustment	Changes in the composition of the Deutsche Telekom group	Additions	Disposals	Reclassifications	Dec. 31, 1999	Dec. 31, 1999	Dec. 31, 1998
								millions of €								
Intangible assets																
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	1,743	(1)	329	714	99	218	2,904	930	0	60	500	98	11	1,403	1,501	813
Goodwill																
from individual company financial statements	1	0	8	0	0	0	9	0	0	8	0	0	0	8	1	1
arising from consolidation	258	334	15	13,247	4	0	13,850	110	11	5	300	3	0	423	13,427	148
Advance payments	119	0	0	75	13	(108)	73	0	0	0	0	0	0	0	73	119
	2,121	333	352	14,036	116	110	16,836	1,040	11	73	800	101	11	1,834	15,002	1,081
Property, plant and equipment																
Land and equivalent rights, and buildings including buildings on land owned by third parties	20,011	(2)	11	364	259	38	20,163	2,354	0	3	601	27	(5)	2,926	17,237	17,657
Technical equipment and machinery	66,804	128	2,540	3,123	1,192	653	72,056	27,706	(1)	726	6,260	865	53	33,879	38,177	39,098
Other equipment, plant and office equipment	4,309	31	601	703	483	7	5,168	2,337	1	335	805	342	(59)	3,077	2,091	1,972
Advance payments and construction in progress	1,084	26	377	903	40	(808)	1,542	18	0	11	0	18	0	11	1,531	1,066
	92,208	183	3,529	5,093	1,974	(110)	98,929	32,415	0	1,075	7,666	1,252	(11)	39,893	59,036	59,793
Financial assets																
Investments in unconsolidated subsidiaries	26	0	0	60	0	0	86	10	0	0	10	0	0	20	66	16
Loans to unconsolidated subsidiaries	25	0	0	55	8	0	72	21	0	0	0	8	0	13	59	4
Investments in associated companies	735	89	(9)	1,180	332	74	1,737	390	32	0	71	2	0	491	1,246	345
Other investments in related companies	3,436	0	0	479	51	(74)	3,790	29	0	0	108	0	0	137	3,653	3,407
Long-term loans to associated and related companies	254	0	1	447	438	0	264	1	0	1	35	1	0	36	228	253
Other investments in noncurrent securities	1,052	0	1	1,312	319	0	2,046	0	0	0	13	0	0	13	2,033	1,052
Other long-term loans	569	0	0	198	107	0	660	0	0	0	0	0	0	0	660	569
	6,097	89	(7)	3,731	1,255	0	8,655	451	32	1	237	11	0	710	7,945	5,646
	100,426	605	3,874	22,860	3,345	0	124,420	33,906	43	1,149	8,703	1,364	0	42,437	81,983	66,520

The accompanying notes are an integral part of the consolidated financial statements.
The amounts contained herein have been converted into euro at the official rate of 1,95583 DM per euro.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	1999 millions of €	1998 millions of €	1997 millions of €
Net income		1,253	2,243	1,689
Income applicable to minority shareholders		271	203	146
Income after taxes		1,524	2,446	1,835
Depreciation and amortization		8,466	9,037	9,509
Income tax expense		1,380	2,477	1,512
Net interest expense		2,546	2,962	3,256
Net losses from the disposition of noncurrent assets		540	516	596
Increase/(decrease) in pension accruals		(26)	35	(123)
Results from associated companies		265	382	777
Other noncash income		28	(50)	(41)
(Increase)/decrease in trade accounts receivable		(885)	5	(215)
(Increase)/decrease in inventories		(273)	57	124
Increase/(decrease) in trade accounts payable		435	246	(388)
Changes in other current assets and liabilities		71	211	(72)
Income taxes paid		(2,040)	(2,012)	(1,827)
Dividends received		172	110	88
Cash generated from operations		12,203	16,422	15,031
Interest paid		(3,100)	(3,403)	(3,755)
Interest received		485	472	300
Net cash provided by operating activities	(29)	9,588	13,491	11,576
Capital expenditures		(5,974)	(4,791)	(6,791)
Acquisitions of businesses		(12,633)	—	—
Purchase of financial assets, net of cash acquired		(3,480)	(2,733)	(801)
Proceeds from sale of noncurrent assets		1,073	715	329
Proceeds from the sale of shares in subsidiaries		2	—	130
Net change in short-term investments and marketable securities		2,328	(701)	1,729
Other		—	(1)	—
Net cash used for investing activities	(30)	(18,684)	(7,511)	(5,404)
Change in short-term borrowing		(1,077)	(4,780)	(5,513)
Issuance of medium and long-term debt		1,833	1,595	136
Repayments of medium and long-term debt		(1,687)	(1,830)	(817)
Dividends		(1,718)	(1,764)	(841)
Changes in minority interests		1	(18)	—
Proceeds from share offering		10,613	—	—
Net cash provided by (used for) financing activities	(31)	7,965	(6,797)	(7,035)
Effect of foreign exchange rate changes on cash and cash equivalents		(55)	6	(3)
Net increase (decrease) in cash and cash equivalents		(1,186)	(811)	(866)
Cash and cash equivalents, at beginning of year		2,064	2,875	3,741
Cash and cash equivalents, at end of year		878	2,064	2,875
Liquid assets as shown in the balance sheet				
Cash and cash equivalents, Dec. 31,		878	2,064	2,875
Temporary cash investments, Dec. 31,		294	3,022	1,858
Total		1,172	5,086	4,733

The accompanying notes are an integral part of the consolidated financial statements.
The amounts contained herein have been converted into euro at the official rate of 1,95583 DM per euro.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Shares issued and outstanding (in thousands)	Capital stock nominal value	Additional paid-in capital	Retained earnings: Difference from currency translation	Retained earnings: Treasury stock	Retained earnings: Other retained earnings (deficit)	Retained earnings: Total	Unappropriated net income carried forward from previous year	Net income	Minority interest	Total
					millions of €						
Balance at Jan. 1, 1997	2,743,700	7,014	14,250	(179)	1	1,185	1,007	46	899	610	23,826
Changes in the composition of the Deutsche Telekom Group				38			38			34	72
Dividends for 1996								(45)	(796)		(841)
Transfer to retained earnings						103	103		(103)		—
Net income									1,689	146	1,835
Difference from currency translation				(227)			(227)			(49)	(276)
Balance at Dec.31, 1997	2,743,700	7,014	14,250	(368)	1	1,288	921	1	1,689	741	24,616
Changes in the composition of the Deutsche Telekom Group										(17)	(17)
Dividends for 1997									(1,684)	(73)	(1,757)
Unappropriated net income carried forward from previous year								5	(5)		—
Net income									2,243	203	2,446
Difference from currency translation				(135)			(135)			(89)	(224)
Balance at Dec. 31, 1998	2,743,700	7,014	14,250	(503)	1	1,288	786	6	2,243	765	25,064
Changes in the composition of the Deutsche Telekom Group										(1)	(1)
Dividends for 1998									(1,683)	(41)	(1,724)
Unappropriated net income carried forward from previous year								7	(7)		—
Transfer to retained earnings						553	553		(553)		—
Increase in nominal value of capital stock		10	(10)								—
Proceeds from share offering	285,904	732	9,881								10,613
Transfer to reserve for treasury stock					13	(13)	—				—
Net income									1,253	271	1,524
Difference from currency translation				219			219			(6)	213
Balance at Dec. 31, 1999	3,029,604	7,756	24,121	(284)	14	1,828	1,558	13	1,253	988	35,689

The accompanying notes are an integral part of the consolidated financial statements
The amounts contained herein have been converted into euro at the official rate of 1,95583 DM per euro.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Summary of accounting policies

Description of business and relationship with the Federal Republic of Germany

The Deutsche Telekom Group (Deutsche Telekom) is a full-service telecommunications provider whose major lines of business include providing network communications, mobile communications, data communications and carrier services, broadcasting and broadband cable services for television and radio stations, value-added services as well as international business. Deutsche Telekom also supplies and services terminal equipment and publishes telephone directories.

Deutsche Telekom's principal business is providing telecommunications services, comprising more than 90% of total operating revenues, operating profits and identifiable assets. Deutsche Telekom's business is conducted predominantly in Germany and is, therefore, within a single geographic area for reporting purposes.

The Company, Deutsche Telekom AG, was registered with the Commercial Registry of the Bonn District Court (Amtsgericht—HRB 6794) on January 2, 1995. The number of Deutsche Telekom shareholders increased considerably once again as a result of Deutsche Telekom's second share offering in 1999. The Federal Republic of Germany (the Federal Republic), formerly the sole shareholder of Deutsche Telekom AG, again did not participate in the capital increase, and its shareholding decreased to approximately 43.18% as of December 31, 1999. An additional 21.6% of the shares are held by a federal corporation, the Kreditanstalt für Wiederaufbau (KfW). As a result, the Federal Republic's direct shareholding as of December 31, 1999 amounts to approximately 64.78%. The Federal Republic administers its shareholding and exercises its rights as a shareholder through a public law entity, the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (the Federal Agency), which, following the dissolution of the Federal Ministry of Posts and Telecommunications (BMPT) on December 31, 1997, is subject to supervision by the Federal Ministry of Finance (BMF).

The Regulatory Authority for Telecommunications and Posts (the Regulatory Authority) commenced its activities on January 1, 1998. The Regulatory Authority, which is under the authority of the Federal Ministry of Economics (BMW), has thus taken the place of the dissolved Federal Ministry of Posts and Telecommunications in supervising the telecommunications sector in Germany, and in this capacity regulates the business activities of Deutsche Telekom.

The Federal Republic and various government departments and agencies are collectively Deutsche Telekom's largest customer. Charges for services provided to the Federal Republic and such departments and agencies are based on Deutsche Telekom's commercial pricing policies. Services provided to any one department or agency do not represent a significant component of Deutsche Telekom's net revenues.

Summary of significant accounting principles

The annual financial statements and the management report of the Deutsche Telekom Group have been prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch—HGB) and German Stock Corporation Law (Aktiengesetz—AktG).

The listing of its shares on the New York Stock Exchange (NYSE) as part of the initial public offering and the related requirement for Deutsche Telekom to file financial statements with the U.S. Securities and Exchange Commission (SEC) have led the Company to prepare its consolidated financial statements in conformity with international financial reporting standards. Accordingly, the Company uses accounting and valuation principles in line with those of U.S. GAAP (generally accepted accounting principles—GAAP) applicable at the balance sheet date, provided options exist under German GAAP to permit such an approach. This also serves to minimize differences between results reported in the reconciliation of German GAAP to U.S. GAAP.

The contents of these consolidated financial statements differ from financial statements prepared in accordance with U.S. GAAP only in those instances where the accounting and disclosure requirements of the HGB cannot be conformed to U.S. GAAP. These differences between German GAAP and U.S. GAAP are shown in a separate reconciliation.

Whereas the HGB requires only one year of comparative figures for the statement of income, the SEC requires the two previous years. The SEC also requires three years of cash flow statements and statements of shareholders' equity.

The consolidated balance sheet and the consolidated statement of income are prepared in accordance with the classification requirements of § 298 HGB, in combination with § 266 and § 275 HGB. The income statement is prepared using the total cost method. All amounts shown, except per share amounts, are in millions of euros (€ / EUR). The consolidated financial statements have been restated from DM into euros using the official fixed conversion rate of EUR 1 = DM 1.95583. Certain items have been combined in order to enhance the informative value and understanding of the consolidated financial statements. These items are shown separately in the notes. In case of changes in presentation, prior-year amounts are reclassified to conform with the current-year presentation. In accordance with § 297 paragraph 1 sentence 2 HGB, the consolidated accounts also include a consolidated statement of cash flows and a segment report; in addition, the consolidated accounts also include a consolidated statement of shareholders' equity. In conformity with international practice, reporting begins with the income statement, and the statement of cash flows and the statement of shareholders' equity precede the notes to the consolidated financial statements. In line with internationally accepted reporting practice, the appropriation of net income is not included in these statements, as of the 1999 financial year. This means that, in contrast to prior years, when the consolidated statement of income and the consolidated balance sheet were prepared taking the (partial) appropriation of net income of the parent company into consideration, there is a change in the method of reporting as of 1999 in that the net income is now shown in the consolidated balance sheet and the appropriation of net income is not included in the consolidated statement of income.

The consolidated financial statements are prepared in accordance with uniform accounting and valuation principles. The accounting policies used in the consolidated financial statements differ from those used in the unconsolidated financial statements of the parent company. Such differences, mostly applied to conform with U.S. GAAP, include the following:

— Property, plant and equipment leased under contracts for which the risks and rewards of ownership have been assumed are capitalized. Scheduled depreciation is recorded over the useful economic life of the asset or over the term of the lease. The present value of payment obligations resulting from future lease payments are included as liabilities.

— Interest incurred while items included in property, plant and equipment were under construction has been added to construction costs.

— Direct pension obligations are measured in accordance with SFAS No. 87, using valuation methods consistent with those used for indirect pension obligations in the unconsolidated financial statements of Deutsche Telekom AG. The increase in the average life expectancy is taken into account in the measurement of all pension obligations in the consolidated financial statements.

— In the measurement of the compensation obligations to the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the additional accruals required according to the new

1998 life expectancy tables by Prof. Klaus Heubeck (''Richttafeln 1998'') were recorded in the 1998 financial year, thus fully affecting net income. In contrast to the unconsolidated financial statements of Deutsche Telekom AG, where the accruals are spread over 4 financial years, this accrual was made in full in the consolidated financial statements.

— Accruals for the internal costs of preparing annual financial statements are not recorded.

— Investment grants received are recorded as reductions of the acquisition costs of assets.

The financial statements of Deutsche Telekom AG as well as the financial statements of the Deutsche Telekom Group, which have an unqualified audit opinion from PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, are published in the Federal Gazette (Bundesanzeiger) and filed under HRB 6794 with the Commercial Registry of the Bonn District Court. This annual report and the Annual Report on Form 20-F, filed with the SEC due to Deutsche Telekom's listing on the NYSE, are available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

Consolidated group

The consolidated financial statements are comprised of the accounts of Deutsche Telekom AG and its subsidiaries.

The subsidiaries, associated companies and other related companies have been included in the consolidated financial statements in accordance with the following criteria:

— Subsidiaries are companies in which Deutsche Telekom directly or indirectly has majority voting rights or management control.

— Associated companies are companies in which Deutsche Telekom directly or indirectly holds between 20% and 50% of the voting rights and exercises a significant influence. Such companies are generally included in the consolidated financial statements using the equity method.

— Companies in which Deutsche Telekom holds less than 20% of the voting rights are carried in the consolidated financial statements at the lower of acquisition cost or market value and classified as other investments in related companies.

The changes in the composition of the Deutsche Telekom Group in 1999 are presented in the following table:

	Domestic	International	Total
Consolidated subsidiaries			
January 1, 1999	32	29	61
Additions	2	34	36
Disposals	3	3	6
Reclassifications	7	1	8
December 31, 1999	38	61	99
Associated companies included at equity			
January 1, 1999	19	16	35
Additions	—	6	6
Disposals	3	—	3
Reclassifications	(1)	—	(1)
December 31, 1999	15	22	37
Other unconsolidated subsidiaries and other investments in related companies (greater than 20%)			
January 1, 1999	47	24	71
Additions	41	13	54
Disposals	3	3	6
Reclassifications	(6)	(1)	(7)
December 31, 1999	79	33	112
Total			
January 1, 1999	98	69	167
Additions	43	53	96
Disposals	9	6	15
Reclassifications	—	—	—
December 31, 1999	132	116	248

The consolidated financial statements include the individual company financial statements of the parent company, Deutsche Telekom AG, as well as 38 (Dec. 31, 1998: 32) domestic and 61 (Dec. 31, 1998: 29) foreign subsidiaries in which Deutsche Telekom AG has a direct or indirect controlling interest.

The most significant subsidiaries consolidated for the first time in 1999 are SIRIS S.A.S., Paris, and Deutsche Telekom Mobile Holdings Limited, London (One 2 One), as well as max.mobil. Telekommunikation Service GmbH, Vienna, and Eurobell (Holdings) PLC, Crawley, which in prior years were included using the equity method.

The changes in the composition of the Deutsche Telekom Group have had the following effects on the consolidated financial statements:

Effects on the consolidated statement of income (in millions of €):

Revenue	1,437
Goods and services purchased	(838)
Personnel costs	(140)
Depreciation and amortization	(467)
Other income/(expenses)	(471)
Income after taxes	**(479)**

Effects on the consolidated balance sheet (in millions of €):

Assets	
Noncurrent assets	16,609
Current assets, prepaid expenses, deferred charges and deferred taxation	(11,213)
	5,396
Shareholders' equity and liabilities	
Shareholders' equity	(318)
Accruals, liabilities and deferred income	5,714
	5,396

Sixty (Dec. 31, 1998: 36) subsidiaries were not included because they were not material to the net worth, financial position and results of the Deutsche Telekom Group. These subsidiaries accounted for less than 1% of consolidated revenue, results and balance sheet total of the Deutsche Telekom Group.

In accordance with § 311 paragraph 1 HGB, 37 (Dec. 31, 1998: 35) companies over which Deutsche Telekom exercises significant influence have been classified as associated companies and are accounted for using the equity method.

Fifty-two (Dec. 31, 1998: 35) associated companies which have little or no effect on the net worth, financial position and results of the Deutsche Telekom Group were classified as other investments in related companies at acquisition cost less applicable write-downs.

The full list of investment holdings is filed with the Commercial Registry of the Bonn District Court (HRB 6794). It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations. Furthermore, the list of investment holdings includes a full list of all subsidiaries which exercise the disclosure simplification option in accordance with § 264 paragraph 3 HGB.

Principal subsidiaries and associated companies

The principal subsidiaries and associated companies whose revenues and results, together with Deutsche Telekom AG, account for more than 90% of the Group are shown in the table below:

Name and registered office	Deutsche Telekom share Dec. 31, 1999	Shareholders' equity Dec. 31, 1999	Revenue 1999	Income after taxes 1999	Employees 1999
	%	millions of €	millions of €	millions of €	annual average
Subsidiaries					
DeTe Immobilien, Deutsche Telekom Immobilien und Service GmbH, Münsler	100.00	153	4,123	134	9,775
DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn	100.00	1,447	4,999	899	6,730
MATAV Magyar Távközlési Rt., Budapest, Hungary(1)(2)	59.53	1,377	1,524	311	15,914
DeTeSystem Deutsche Telekom Systemlösungen GmbH, Frankfurt/Main	100.00	51	1,698	23	1,739
T-Data Gesellschaft für Datenkommunikation mbH, Bonn	100.00	497	485	64	599
DeTeMedien, Deutsche Telekom Medien GmbH, Frankfurt/Main	100.00	26	446	132	302
T-Online International AG, Darmstadt	100.00	36	428	(5)	735
Deutsche Telekom Mobile Holdings Ltd., London(1)	100.00	10,798	544	(377)	4,016
max.mobil. Telekommunikation Service GmbH, Vienna(1)	91.00	51	811	(33)	2,539
SIRIS S.A.S., Paris	100.00	40	113	(81)	388
DeTeLine Deutsche Telekom Kommunikationsnetze GmbH, Berlin	100.00	27	321	8	818
DeTeCSM Deutsche Telekom Computer Service Management GmbH, Darmstadt	100.00	243	1,187	131	4,883
DeTeKabelService Deutsche Telekom Kabel Service GmbH, Bonn(1)	100.00	79	157	9	328
Associated companies					
Atlas Telecommunications S.A., Brussels, Belgium(1)	50.00	110	743	(439)	2,779
HT-Hrvatske telekomunikacije d.d., Zagreb	35.00	1,051	694	83	10,632
MTS, CJSC Mobile TeleSystems gAG, Moscow	44.14	356	338	88	841
Other companies					
Sprint Corporation, Westwood, Kansas, USA(1)(3)	FON 10.99 PCS 11.28	10,648	15,412	373	64,900
France Telecom S.A., Paris, France(1)(3)	2.00	16,991	24,648	2,300	169,099

(1) Consolidated subgroup financial statements

(2) Held through MagyarCom Holding GmbH, Bonn (Deutsche Telekom AG share: 50%)

(3) 1998 financial year

Consolidation principles

Capital consolidation is performed following the book value method under German GAAP. Under this method, the purchase consideration for an acquisition is allocated to the assets and liabilities acquired based on their fair values. Any resulting excess of the purchase consideration over the parent's interest in the fair value of net assets acquired is capitalized as goodwill and amortized over its useful life. Negative goodwill from capital consolidation is included under other accruals.

Profits or losses generated by subsidiaries during their period of affiliation with the Group are included in retained earnings (deficit); furthermore, they include the effects of consolidation and the net income of subsidiaries.

Revenue, income and expenses as well as receivables and liabilities between the consolidated companies are eliminated. **Intercompany profits and losses** and income effects from the **consolidation of intercompany debt** are eliminated in the consolidated financial statements.

The consolidated balance sheets include deferred taxes resulting from the effects of consolidation, provided the tax expense is expected to reverse in later years except where the effects of consolidation relate to the parent company during the periods prior to the end of 1995, when it was essentially exempt from taxation.

The investments in associated companies included **at equity** are accounted for using the book value method by applying Deutsche Telekom's uniform principles of valuation. This method is similar to the method described above for consolidated subsidiaries. The principles used for full consolidation are also applied in treating the differences resulting from the initial consolidation. It was not necessary to eliminate intercompany profits and losses with associated companies, as they were insignificant.

Joint ventures are included in the consolidated financial statements using the equity method.

Foreign currency translation

In the individual company financial statements, foreign currency receivables, cash in banks and liabilities are translated at the exchange rate applicable on the transaction date. Unrealized foreign currency losses due to exchange rate fluctuations through the balance sheet date are recognized in the income statement while unrealized foreign currency gains are not recognized, whereas foreign currency gains from Member States of the European Monetary Union are recognized as income. Where foreign currency items have been hedged by forward exchange contracts, they are valued at the corresponding hedge rate.

Currency translation of foreign subsidiaries is made in accordance with the functional currency method. Thus, the functional currency is the currency in which the foreign subsidiary performs its principal operations. The activities and financial structure as reported in this currency should be reflected in the group accounts. Generally, the functional currency of dependent subsidiaries is identical with that of the parent company. Dependent subsidiaries are translated according to the temporal method. On the other hand, the functional currency of independent subsidiaries is the local currency. Currently all consolidated foreign subsidiaries of Deutsche Telekom conduct their operations independently of the parent company, therefore currency translation is performed according to the modified current rate method. Therefore, in the consolidated financial statements, the translation of all items shown in balance sheets of foreign subsidiaries from foreign currencies into euros is performed using middle rates on the balance sheet date and, for Member States of the European Monetary Union, the official euro conversion rates. The resulting amounts in euros are then converted into DM. Gains and losses resulting from translation are recorded, without affecting net income, in retained earnings (deficit).

The income statements of foreign subsidiaries are translated at the average annual exchange rates. The exchange rates of certain significant currencies are as follows:

	Average annual rate				Rate at balance sheet date		
	1999 €	1999 DM	1998 DM	1997 DM	31.12.1999 €	31.12.1999 DM	31.12.1998 DM
100 Belgian Francs (BEF)	2.47894	4.8484	4.8476	4.8464	2.47894	4.8484	4.8483
100 Swiss Francs (CHF)	62.53170	122.3014	121.4138	119.5045	62.31700	121.8815	122.2000
100 French Francs (FRF)	15.24490	29.8164	29.8291	29.7049	15.24490	29.8164	29.8180
1 Pound Sterling (GBP)	1.51807	2.9691	2.9142	2.8412	1.61240	3.1536	2.7980
100 Hungarian Forints (HUF)	0.39581	0.7741	0.8202	0.9301	0.39269	0.7680	0.7738
100 Indonesian Rupiah (IDR)	0.01213	0.0237	0.0181	0.0631	0.01410	0.0276	0.0209
100 Japanese Yen (JPY)	0.82918	1.6217	1.3482	1.4379	0.97552	1.9080	1.4505
100 Singapore Dollars (SGD)	55.48660	108.5224	105.1300	117.0160	59.92960	117.2121	100.8440
100 Malaysian Ringgit (MYR)	24.75940	48.4252	44.9550	62.7530	26.24250	51.3259	44.0230
100 Philippine Pesos (PHP)	2.40489	4.7036	4.2820	5.9559	2.47451	4.8397	4.2723
1 U.S. Dollar (US$)	0.93879	1.8361	1.7592	1.7348	0.99722	1.9504	1.6730

Accounting and valuation

Net revenues consist of goods and services sold in connection with the ordinary business activities of Deutsche Telekom. Net revenues are recorded net of VAT and sales-related reductions. Revenues due from foreign carriers for international incoming calls are included in revenues in the period in which the calls occur. Revenues from other operating activities are recognized in the period when earned by the delivery of goods or the rendering of services.

Research and development costs are expensed as incurred.

Pension costs for defined benefit plans are actuarially computed using the Projected Unit Credit Method, which is consistent with SFAS No. 87, and are shown in accordance with SFAS No. 132. This method presupposes the total present value of the benefit obligations accumulated during the reporting period and takes into consideration the expected increases in wages and salaries and in retirement benefits. By contrast, the minimum accrual method in accordance with § 6a of the German Income Tax Act (Einkommensteuergesetz) is aimed at the recognition of the expense over the employees' entire working lives and does not take the expected increases in wages and salaries and in retirement benefits into account.

Pension costs include current service cost, interest cost, return on plan assets and amortization of actuarial gains/losses and prior service costs. In addition, the impact of the 1997 realignment of the company pension plan on net income had to be taken into consideration in accordance with SFAS No. 88. The pension costs are accrued in the balance sheet in accordance with SFAS No. 87 and No. 132, whereby the accrual is increased by the expense recognized and decreased by payments made during the year.

The Company is required to make contributions to a pension fund for current and former civil servant employees in annual amounts established by Postreform II, which came into force in 1995, rather than by annual actuarial valuations. The amounts currently due in each period are recognized as an expense in that period.

Advertising costs are charged to expenses as incurred.

Income tax expense includes current payable taxes on income as well as deferred income taxes. Deferred income taxes are recorded for the expected future tax effects attributable to temporary differences in the balance sheets prepared for tax reporting and for financial reporting purposes, except for the effects of those differences that are not expected to reverse in the foreseeable future. Such differences may arise at the individual taxable entity level as well as in consolidation.

Deferred taxes on temporary differences relating to Deutsche Telekom AG have not been included in the consolidated financial statements for periods prior to January 1, 1996 as Deutsche Telekom AG was not taxable prior to January 1, 1995 and benefited from an essentially complete exemption from tax in 1995.

Earnings per share for each period are calculated by dividing net income by the weighted average number of ordinary bearer shares outstanding during that period. The weighted average number of ordinary bearer shares in 1999 was ascertained after giving effect to the issuance of shares by way of a capital increase resulting from the second share offering. This capital increase was completed upon the start of trading with the new shares on June 28, 1999 in Frankfurt am Main and on June 29, 1999 in Tokyo.

Purchased **intangible assets** are valued at acquisition cost and are amortized on a straight-line basis over their estimated useful lives. Acquired goodwill, including goodwill resulting from capital consolidation, is amortized on a straight-line basis over its useful life.

As permitted by Postreform II, **property, plant and equipment** transferred to Deutsche Telekom AG on January 1, 1995 was recorded in the opening balance sheet of Deutsche Telekom AG at fair market values at that date. However, due to the short period of time between the acquisition dates and January 1, 1995, property, plant and equipment acquired during 1993 and 1994 was valued at its remaining book value. The remaining useful lives and the depreciation methods applicable to these assets were not changed. The fair market values shown in the opening balance sheet have been carried forward as the acquisition costs.

Other property, plant and equipment is valued at acquisition or construction cost, less scheduled depreciation. Construction costs include directly allocable costs, an appropriate allocation of material and production overhead and interest accruing during construction. However, general administration expenses are not capitalized.

Property, plant and equipment includes nondeductible capitalized VAT amounts at the level of expected refunds from VAT adjustments pursuant to § 15a of the German Value-Added Tax Act (Umsatzsteuergesetz - UStG) resulting from Deutsche Telekom's full liability for VAT as of 1996. Capitalized VAT is depreciated over a period of four years, starting in 1996.

Nonscheduled write-downs are provided when an impairment in the value of assets occurs. In order to increase the informative value of the financial statements, accelerated depreciation recorded in the individual company financial statements for tax purposes has not been recognized in the consolidated financial statements.

Depreciation of noncurrent assets is carried out using the straight-line method over the following useful lives:

	Years
Intangible assets	3 to 4
Goodwill	5 to 20
Buildings	
Office and residential buildings	50
Telecommunications buildings and towers	25 to 30
Workshop buildings, outdoor installations and facilities	10
Shop improvements and window displays	7
Telephone facilities and terminal equipment	3 to 10
Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment and technical equipment for broadband distribution networks	4 to 10
Broadband distribution networks, outside plant networks and cable conduit lines	15 to 35
Telecommunications power facilities and other	3 to 10
Other equipment, plant and office equipment	3 to 20

Depreciation periods, particularly for copper cables and cable chambers, were extended in the year under review as a result of the reevaluation of the technical and economic lifetime of the outside plant network. Compared with 1998, the useful life of copper cables increased from 15 to 20 years and of cable ducts and conduits from 15 to 35 years.

Additions to real estate property are depreciated beginning in the month the building is placed into service. For assets other than buildings acquired in the first half of a year, a full year of depreciation is provided in the year of acquisition and, for those assets acquired in the second half of the year, a half year of depreciation is provided.

Items with a low acquisition cost are expensed in the year of purchase.

Maintenance and repairs are charged to expenses when incurred.

Upon sale or disposal of noncurrent assets, the related cost and accumulated depreciation are removed from the balance sheet, and a gain or loss is recognized for the difference between the proceeds from the sale and the net carrying amount of the assets.

Financial assets are valued at the lower of cost or market value. Low interest or non-interest bearing loan receivables are recorded at net present value. Nonscheduled write-downs are provided only if impairment of financial assets is assumed to be permanent.

Raw materials and supplies, and **merchandise** purchased and held for resale are valued at acquisition cost, while **work in process and finished goods** are stated at production cost. Based on normal capacity utilization, production cost includes directly allocable costs such as material and labor costs as well as special production costs plus an appropriate allocation of material and production overhead and straight-line depreciation. General administration and selling costs, social amenities expenses as well as voluntary benefits to personnel including pensions are not included in production cost. The carrying amount of inventories is reduced to the lower of cost or market value at the balance sheet date. To the extent that inventory values are impaired, obsolescence provisions are made.

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

Marketable securities are stated at the lower of cost or market value at the balance sheet date.

Pension obligations are calculated using actuarial methods in accordance with the internationally accepted Projected Unit Credit Method, which is consistent with U.S. GAAP (SFAS No. 87), and are shown in accordance with SFAS No. 132.

Provisions for taxes and **other accruals** including those for loss contingencies and environmental liabilities are recorded using best estimates. Sufficient allowance was made for all possible risks when assessing these provisions and accruals.

Deferred taxes are calculated for the expected tax effects of temporary differences between the balance sheets prepared for financial reporting and tax reporting purposes, as well as for the temporary differences arising from consolidation entries. Deferred taxes are netted and either a net deferred tax asset or net deferred tax liability is recorded separately under tax accruals. For purposes of computing deferred taxes, Deutsche Telekom uses the German income tax rate for undistributed earnings for domestic companies and the respective local tax rate for foreign companies.

Cost accruals are only made by Deutsche Telekom when there is an obligation to carry such liabilities on the balance sheet pursuant to § 249 paragraph 1 HGB. This refers mainly to accruals for costs of maintenance related to the financial year, but only incurred within the first three months of the following year. As required by German GAAP, these accruals have been accrued at each period end, which is different from U.S. GAAP requirements.

Accruals, with the exception of pensions and similar obligations as well as Civil Service Health Insurance Fund accruals for future shortfalls, are not discounted.

Liabilities are recorded at their repayment amount. In instances where the repayment amount of a liability is greater than the principal amount, the difference is recorded as an asset and recognized as an adjustment to interest expense over the term of the liability.

Unrealized losses relating to **derivative financial instruments** which do not qualify for hedge accounting are recognized when incurred whereas unrealized gains are deferred until realized.

The preparation of consolidated financial statements in accordance with German GAAP requires the Company to make estimates and assumptions that affect the reported carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

(1) Net revenue(1)

	1999 millions of €	1998 millions of €	1997 millions of €
Network communications	16,737	20,531	21,420
Carrier services	2,884	1,611	1,229
Data communications	2,828	2,536	2,345
Mobile communications	3,919	3,061	2,573
Broadcasting and broadband cable	1,917	1,804	1,597
Terminal equipment	1,207	1,382	1,517
Value-added services	1,903	2,051	2,001
Other services	1,122	772	582
International	2,953	1,396	1,241
	35,470	35,144	34,505

(1) Since the beginning of the 1999 financial year, revenues have been reported in line with the changed organizational structure of group business areas of the Deutsche Telekom Group. The prior year figures have been restated to reflect the new structure. The difference in the figures compared to those stated in prior years is mainly attributable to the deduction of the revenues from the billing of services of other network operators, amounting to approximately EUR 0.5 billion, which were previously shown under other services.

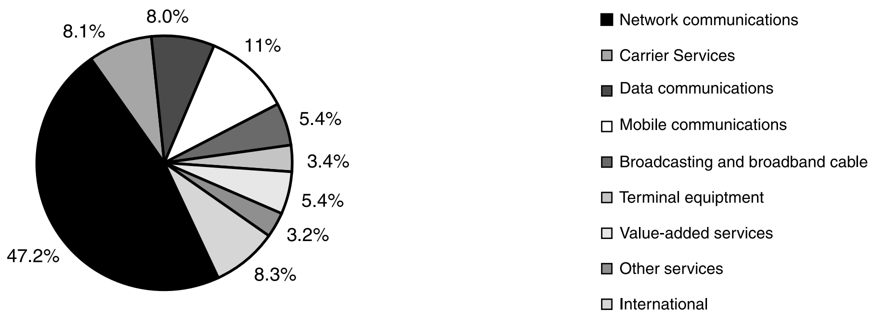
Revenue by geographic area:

	1999	1998	1997
Domestic	31,411	32,758	32,168
International	4,059	2,386	2,337
	35,470	35,144	34,505

Breakdown of international revenues:

	1999	1998	1997
European Union (excluding Germany)	1,906	535	548
Rest of Europe	1,817	1,537	1,413
North America	161	116	126
Latin America	17	27	32
Other	158	171	218
	4,059	2,386	2,337

The percentage of the individual revenue segments in relation to net revenue is as follows:



Other services include revenue from multimedia services and services ancillary to the basic telephone services of Deutsche Telekom, such as rental activities. Value-added services include public telephone and operator services as well as telephone directory publishing and other services.

International revenue is derived from fixed-network international incoming telephone traffic and internationally generated revenues from other business areas.

The increase in net revenue in 1999, as compared with 1998, is attributable to the change in the composition of the Deutsche Telekom Group and the positive development in mobile communications resulting from large growth in the number of customers in the T-D1 network. Despite renewed growth in the number of ISDN access lines, revenue from network communications (formerly telephone network communications) continued to decrease considerably due to intense competition and price reductions. Revenue developments in data communications and carrier services (formerly licensed service providers/carriers), however, were positive. The increase under other services is predominantly a result of the strong growth in revenue from multimedia services (in particular T-Online).

(2) Changes in inventories and other own capitalized costs

	1999	1998	1997
	millions of €	millions of €	millions of €
Increase/(Decrease) in inventories of finished products and work in process	216	41	(313)
Own capitalized costs	731	949	1,827
	947	990	1,514

Own capitalized costs comprise mainly planning and construction costs. They include interest incurred during the construction period of EUR 63 million (1998: EUR 72 million, 1997: EUR 190 million).

(3) Other operating income

	1999 millions of €	1998 millions of €	1997 millions of €
Reversal of accruals	506	408	495
Refund of value-added tax (§ 15a UStG)	379	655	664
Cost reimbursements	248	284	295
Income from the national roaming agreement	154	—	—
Reversal of valuation adjustments of accounts receivable and doubtful accounts	106	80	55
Ancillary services	95	127	79
Income from the disposition of noncurrent assets (including sale of investments)	89	240	56
Insurance compensation	55	57	62
Other income	239	218	209
	1,871	2,069	1,915

Deutsche Telekom AG received a refund of VAT in accordance with § 15a Umsatzsteuergesetz-UStG (Value-Added Tax Act) of EUR 379 million in 1999. The Company recognized depreciation of EUR 667 million on nondeductible VAT capitalized during tax-free periods prior to 1996.

Income from the national roaming agreement relates to income from a basic agreement between DeTeMobil Deutsche Telekom MobilNet GmbH (T-Mobil) and VIAG Interkom under the terms of which VIAG Interkom customers have been able, since July 1999, to use the T-D1 network in areas of Germany where they are not covered by the E2 network.

Other income consists mainly of income from foreign currency gains and from the elimination of liabilities.

Of the total amount of other operating income, EUR 701 million (1998: EUR 826 million, 1997: EUR 606 million) relates to other financial years.

(4) Goods and services purchased(1)

	1999 millions of €	1998 millions of €	1997 millions of €
Goods purchased	**2,625**	**1,571**	**1,508**
Services purchased	**5,779**	**4,652**	**4,663**
of which: domestic network access charges	1,585	968	801
of which: international network access charges	1,626	1,408	1,621
of which: other services	2,568	2,276	2,241
	8,404	6,223	6,171

(1) Since the beginning of the 1999 financial year, reporting has been brought in line with the changed organizational structure. The prior year figures have been restated to reflect the new structure. The difference in the figures compared to those stated in prior years is mainly attributable to the deduction of the revenues from the billing of services of other network operators, amounting to approximately EUR 0.5 billion shown under domestic network access charges in 1998.

The level of goods and services purchased increased compared to 1998, in particular due to the greater use of goods for terminal equipment and increased expenditure for network access charges, also related to the inclusion for the first time of max.mobil. and One 2 One.

Repairs and maintenance expense amounts to EUR 733 million (1998: EUR 606 million, 1997: EUR 523 million) and is included in other services. Other services mainly include costs relating to the maintenance of telecommunications equipment, other equipment and Deutsche Telekom's fleet of vehicles, as well as expenses for software maintenance and utilization of computer capacity from computer companies.

(5) Personnel costs/Average number of employees

	1999	1998	1997
	millions of €	millions of €	millions of €
Wages and salaries:			
Civil servants	2,535	2,779	2,959
Non-civil servants	3,985	3,698	3,665
	6,520	6,477	6,624
Social security contributions and expenses for pension plans and benefits:			
Social security costs	730	712	707
Civil servant pension costs	1,483	1,483	1,483
Non-civil servant pension costs	265	275	349
Pension costs	1,748	1,758	1,832
Active civil servant healthcare costs	193	204	204
Other employee benefits	19	19	10
	2,690	2,693	2,753
	9,210	9,170	9,377

Number of employees (average for the year)

	1999	1998	1997
	Number	Number	Number
Civil servants	76,223	87,573	95,855
Salaried employees	59,699	53,310	51,783
Wage earners	39,238	44,857	49,305
Deutsche Telekom Group(1)	175,160	185,740	196,943
Changes in the composition of the Deutsche Telekom Group	22,846	17,634	19,138
Total Deutsche Telekom Group	198,006	203,374	216,081
Trainees/student interns	6,354	6,165	6,178

(1) Before changes in the composition of the Deutsche Telekom Group (in particular max.mobil. and One 2 One in 1999, in prior years MATÁV).

Pension costs amounted to EUR 1,748 million (1998: EUR 1,758 million, 1997: EUR 1,832 million). Civil servant pension costs are made in accordance with the provisions of Postreform II. The average number of employees decreased by 2.6% compared with 1998—despite the inclusion for the first time of One 2 One and max.mobil.—as a consequence of the Company's workforce reduction program. Personnel costs per employee increased by 3.2% as a result of collectively agreed wage and salary increases, remuneration adjustments related to the eastern German collective bargaining agreements, age-related salary increases and the review of salaries in some areas to bring them in line with market conditions and to promote performance, as well as the payment of a fixed annual amount of approximately EUR 1.5 billion to the Telekom Pensions Service (contributions to civil servant pensions). Overall, the increase in personnel costs was kept down to 0.4% (EUR 9.2 billion).

(6) Depreciation and amortization

	1999	1998	1997
	millions of €	millions of €	millions of €
Amortization of intangible assets	801	412	323
Depreciation of property, plant and equipment	7,665	8,625	9,186
	8,466	9,037	9,509

The decrease in depreciation and amortization of EUR 571 million, as compared with the prior year, is mainly attributable to the extension of depreciation periods in the outside plant network (EUR 0.8 billion). This decrease was offset by an increase of EUR 0.4 billion in amortization in 1999, which is primarily a result of the inclusion for the first time of One 2 One and max.mobil. in the consolidated group. Depreciation of property, plant and equipment is mainly attributable to depreciation of telecommunications equipment.

The main factors leading to the increase in the amortization of intangible assets, besides the changes in the composition of the Deutsche Telekom Group, are the investments made by Deutsche Telekom AG in software products for invoicing and customer administration and Deutsche Telekom AG's amortization of the rights of use for number blocks. Depreciation of EUR 667 million, which is related to nondeductible VAT capitalized prior to 1996, is also included under depreciation and amortization, as was also the case in 1998.

Nonscheduled write-downs of EUR 15 million have been recognized mainly for mobile communications equipment.

(7) Other operating expenses

	1999	1998	1997
	millions of €	millions of €	millions of €
Marketing expenses	1,148	711	694
Losses on disposition of noncurrent assets	629	727	614
Losses on accounts receivable and provision for doubtful accounts	514	656	407
Rental and leasing expenses	513	553	536
Legal and consulting fees	473	496	371
Postal charges	438	374	351
Advertising gifts and commissions	381	313	232
Other employee-related costs	349	352	309
Foreign currency transaction losses	275	105	114
Provisions	238	298	531
Travel and transport expenses	192	178	197
Administrative expenses	184	186	187
License and concession expenses	85	76	67
Losses on disposition of marketable securities	58	10	32
Loan employment and temporary employment expenses	50	32	48
Postal and banking services	13	36	95
Other expenses	595	282	410
	6,135	5,385	5,195

The increase in marketing expenses is mainly due to the increased level of customer canvassing for the T-D1 network and to changes in the composition of the Deutsche Telekom Group. The losses on disposition of noncurrent assets are, as in 1998, mainly attributable to scrapping of outside plant equipment. Other employee-related costs include approximately EUR 75 million (1998: EUR 89 million) for services provided by the Federal Agency as a result of the business contracts for services or works completed in the year 1999.

Of the total amount of other operating expenses, EUR 687 million relates to other accounting periods.

(8) Financial income (expense), net

	1999	1998	1997
	millions of €	millions of €	millions of €
Dividend income from investments	166	105	80
Results related to companies accounted for under the equity method (including amortization of goodwill)	(265)	(382)	(778)
Income (loss) related to subsidiaries, associated and related companies	(99)	(277)	(698)
Income from debt securities and long-term loan receivables	83	84	100
Interest and similar income	420	388	351
Interest and similar expense	(3,049)	(3,434)	(3,707)
Net interest expense	(2,546)	(2,962)	(3,256)
Write-downs on financial assets and marketable securities	(244)	(49)	(49)
	(2,889)	(3,288)	(4,003)

The net financial expense was reduced in 1999, primarily as a result of the scheduled repayment of debts from previous years. Furthermore, the EUR 0.1 billion of the reduction results from the decrease related to losses from companies accounted for under the equity method to EUR 279 million (1998: EUR 382 million). Besides the significant reduction in the risks and the increase in income related to Southeast Asian investments, this decrease in losses is mainly attributable to the positive contribution made by MTS, CJSC Mobile TeleSystems gAG, Moscow (MTS), which is included at equity in the consolidated statements for the first time in 1999. As in 1998, more than half of the total 1999 losses shown for companies accounted for under the equity method is attributable to ''Atlas/Global One''. Income from debt securities and long-term loan receivables consists primarily of interest on receivables from Deutsche Post AG. The write-downs on financial assets, which were nonscheduled, mainly relate to loans and investments in related companies.

(9) Extraordinary income (losses)

This item represents share offering costs from the second share offering of EUR 240 million in 1999.

(10) Taxes

	1999	1998	1997
	millions of €	millions of €	millions of €
Income taxes	1,380	2,477	1,512
Other taxes	40	177	332
	1,420	2,654	1,844

Income taxes

	1999 millions of €	1998 millions of €	1997 millions of €
Current income taxes	1,505	2,526	1,586
Deferred income taxes	(125)	(49)	(74)
	1,380	2,477	1,512

The combined statutory income tax rate, currently approximately 52%, includes corporate income taxes at a rate of 40% for undistributed earnings, trade taxes at an average German national rate, and the solidarity surcharge of 5.5% on corporate income tax (Solidaritätszuschlag). When earnings are distributed, the corporate income tax imposed on such earnings is reduced to 30%. Taxable income was earned primarily in Germany. Corporate income tax refunds resulting from dividends are reflected in the period for which the dividend is paid.

Differences between actual tax expense of EUR 1,380 million and EUR 2,477 million for 1999 and 1998, respectively, and the expected corporate income tax expense (computed using 40% and 45% for 1999 and 1998, respectively, the statutory corporate income tax rate for undistributed earnings) are as follows:

	1999 millions of €	1998 millions of €
Expected corporate income tax at the tax rate applicable for retained earnings	1,162	2,215
Increase (decrease) in corporate income tax due to:		
Nondeductible items	(35)	(110)
Trade taxes	445	567
Taxation on foreign operations	(118)	(117)
Utilization of net operating loss carryforwards	(10)	(108)
Tax credit on dividends	(305)	(360)
Tax expenses related to prior years	—	286
Temporary differences and loss carryforwards for which deferred taxes are not recorded	108	189
Other	133	(85)
Income taxes	1,380	2,477
Effective income tax rate	47.5%	50.3%

In its tax return Deutsche Telekom AG has recognized a goodwill (residual difference between the market value of the Company and the fair value of the individual assets) that is—based on § 7 paragraph 1 EStG—amortized over a period of 15 years. In line with the principle of prudence, as in 1998, goodwill amortization has not been recognized for accounting purposes in the year under review until this approach has been fully approved.

Deferred tax assets result primarily from temporary differences between income determined under German GAAP and under applicable tax law; these tax assets were offset in the year under review by deferred taxation expenses as a result of the lower deferred tax asset due to the changes in statutory tax rates.

At December 31, 1999, Deutsche Telekom had corporate income tax net operating loss carryforwards and similar net operating loss carryforwards amounting to approximately EUR 134 million (1998: EUR 117 million). Deutsche Telekom also had trade tax net operating loss carryforwards amounting to EUR 4 million (1998: EUR 28 million). Substantially all of the net operating loss carryforwards have an unlimited carry forward period under German and local tax law.

(11) (Income) losses applicable to minority shareholders

The income applicable to minority shareholders includes EUR 274 million (1998: EUR 205 million, 1997: EUR 148 million) in gains and EUR 3 million (1998: EUR 2 million, 1997: EUR 2 million) in losses. The gains in 1999 relate, as was also the case in previous years, mainly to MATAV.

NOTES TO THE CONSOLIDATED BALANCE SHEET

(12) Intangible assets

	Dec. 31, 1999 Net carrying amount millions of €	Dec. 31, 1998 Net carrying amount millions of €
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	1,501	813
Goodwill		
from individual company financial statements	1	1
arising from capital consolidation	13,427	148
Advance payments	73	119
	15,002	1,081

Besides the changes in the composition of the Deutsche Telekom Group, the main factors in the increase in concessions, industrial and similar rights and assets, and licenses in such rights and assets is the purchase of rights of use for number blocks and GSM 1800 MHz frequencies. The increase in goodwill arising from capital consolidation is a result of the changes in the composition of the Deutsche Telekom Group, in particular the acquisition of shareholdings in One 2 One, max.mobil., and SIRIS S.A.

The development of intangible assets is shown in the table of consolidated noncurrent assets.

(13) Property, plant and equipment

	Dec. 31, 1999 Net carrying amount millions of €	Dec. 31, 1998 Net carrying amount millions of €
Land and equivalent rights, and buildings including buildings on land owned by third parties	17,237	17,657
Technical equipment and machinery	38,177	39,098
Other equipment, plant and office equipment	2,091	1,972
Advance payments and construction in progress	1,531	1,066
	59,036	59,793

Additions to property, plant and equipment amount to EUR 5,093 million in 1999 and relate mainly to Deutsche Telekom AG and T-Mobil. Capital expenditure in 1999 relates primarily to switching and transmission equipment, the outside plant network and transmitting and receiving systems.

Furthermore, the net carrying amounts of property, plant and equipment increased by EUR 2,454 million as a result of changes in the composition of the Deutsche Telekom Group. This increase is attributable almost exclusively to the inclusion of One 2 One, max.mobil. and Eurobell.

Prior to January 1, 1996, Deutsche Telekom's monopoly services were not subject to VAT. Accordingly, the Company was not able to reclaim, in the normal manner, the full amount of VAT paid on goods and services purchased. Instead, the Company was allowed to immediately reclaim 20% of the VAT paid on goods and services purchased. The VAT paid on capitalized items has been capitalized to the extent recoverable under German tax law (§ 15a UStG) beginning January 1, 1996. At the balance sheet date capitalized VAT, after reduction of scheduled depreciation of EUR 0.7 billion in 1999, has now been fully depreciated. Other operating income includes the EUR 0.4 billion refunds of VAT.

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

Leasing

Minimum lease payments under leases expiring subsequent to December 31, 1999 are shown below (millions of €):

Year	Capital Leases	Operating Leases
2000	73	498
2001	61	422
2002	58	365
2003	56	319
2004	55	279
After 2004	842	1,190
Total minimum lease payments	1,145	3,073
Imputed interest	(488)	
Present value of net minimum lease payments	657	

Capital leases are primarily for office buildings and have terms of up to 25 years.

(14) Financial assets

	Dec. 31, 1999 Net carrying amount millions of €	Dec. 31, 1998 Net carrying amount millions of €
Investments in unconsolidated subsidiaries	66	16
Loans to unconsolidated subsidiaries	59	4
Investments in associated companies	1,246	345
Other investments in related companies	3,653	3,407
Long-term loans to associated and related companies	228	253
Other investments in noncurrent securities	2,033	1,052
Other long-term loans	660	569
	7,945	5,646

The increase of EUR 901 million in the net carrying amount of investments in associated companies resulted, in addition to foreign currency effects not affecting net income of EUR 57 million, primarily from the inclusion at equity for the first time of HT-Hrvatske telekomunikacije d.d., Zagreb, in the amount of EUR 759 million and MTS, in the amount of EUR 77 million. Furthermore, the net carrying amount of investments in associated companies includes additions amounting to EUR 213 million, which are attributable to capital contributions as a result of the realignment of loans and cash capital increases at Atlas Telecommunications S.A., Brussels.

These additions were offset in 1999 by amortization of goodwill amounting to EUR 71 million and net losses related to associated companies totaling EUR 279 million.

The increase in other investments in related companies of EUR 246 million relates primarily to the purchase of additional shares in the FON and PCS divisions of Sprint Corporation, Kansas City, totaling EUR 214 million and a capital increase of EUR 146 million by DT-FT Italian Holding GmbH in Bonn.

Furthermore, additions totaling EUR 119 million were recorded, mainly from shareholdings in SES Société européenne des satellites, Betzdorf, New Skies Satellites, Amsterdam, secunet Security Networks AG, Essen, and Invest-Svajez-Holding ZAO, Moscow.

Significant disposals in other investments in related companies result from the fact that Deutsche Telekom's investments in the capital of the satellite companies INMARSAT, EUTELSAT and INTELSAT are re-valued annually in accordance with utilization.

Nonscheduled write-downs were made on other investments in related companies in 1999 totaling EUR 108 million, relating mainly to ICO Global Communication (Holding) Ltd., Hamilton and VocalTec Communications Ltd., Herzeliya.

Long-term loans primarily include loans to associated and related companies. The largest increases in 1999 were for the loan to Detecon Deutsche Telepost Consulting GmbH, Bonn, which was increased by EUR 180 million, and to Isla Communications Company Inc., Cebu City, amounting to EUR 181 million.

Other investments in noncurrent securities mainly include fixed-interest securities; in addition, they include specialized security funds and debt securities. Of the additions in 1999, EUR 802 million relate to fixed-interest securities acquired by Deutsche Telekom Holding B.V, Amsterdam.

Furthermore, the additions also include further investments in the specialized security funds of Deutsche Telekom AG and reinvestments of EUR 330 million in existing specialized security funds, which are intended to optimize income from medium and long-term liquid reserves.

Other long-term loans include a loan to Deutsche Post AG, loans for construction of buildings and hostels as well as loans to employees.

The development of financial assets is shown in the table of consolidated noncurrent assets.

The full list of investment holdings is filed under HRB 6794 with the Commercial Registry of the Bonn District Court. It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations.

Significant investments in associated companies are shown below:

Name	Deutsche Telekom share	Net carrying amount	of which: Net difference between carrying value and equity in net assets	Deutsche Telekom share	Net carrying amount	of which: Net difference between carrying value and equity in net assets
	(in %)	millions of €	millions of €	(in %)	millions of €	millions of €
HT-Hrvatske telekomunikacije . . .	35.00	755	390	-	-	-
MTS	44.14	156	9	-	-	-
Radiomobil(1)	49.00	96	15	49.00	101	31
TRI	20.99	89	44	20.99	117	71
Atlas S.A.	50.00	39	-	50.00	31	-
Other		111	12		96	14
		1,246	470		345	116

(1) Shareholding of Cmobil B.V.

(15) Inventories, materials and supplies

	Dec. 31, 1999	Dec. 31, 1998
	millions of €	millions of €
Raw materials and supplies	184	181
Work in process	279	88
Finished goods and merchandise	580	316
Advance payments	3	10
	1,046	595

Inventories, materials and supplies increased compared with 1998 by EUR 451 million or 76%. This is primarily the result of the consolidation for the first time of One 2 One and max.mobil.

Raw materials and supplies include data communications equipment, spare parts for transmission equipment, telecommunications cable as well as spare parts and components for other telecommunications equipment.

Work in process is mainly related to customer orders for the installation of private automatic branch exchanges (PABXs).

Inventories of terminal equipment held both for resale and leasing are included under finished goods and merchandise. Besides the changes in the composition of the Deutsche Telekom Group, the main factor in the increase in finished goods and merchandise is the positive revenue development in the GSM market, which led to increased stocks of terminal equipment being held.

Advance payments are comprised mainly of payments which have been made for terminal equipment.

(16) Receivables

	Dec. 31, 1999	Dec. 31, 1998
	millions of €	millions of €
Trade accounts receivable	5,342	3,953
Receivables from unconsolidated subsidiaries	47	14
Receivables from associated and related companies	277	151
	5,666	4,118

Trade accounts receivable relate primarily to the billing of telecommunications services. Besides the changes in the composition of the Deutsche Telekom Group with the addition of One 2 One and max.mobil., the main reason for the increase in trade accounts receivable is the revenue-linked increase in T-D1 mobile telephone services.

All receivables, with the exception of EUR 1 million, are due within one year.

The allowance for doubtful accounts and changes therein are in millions of euros as follows:

	1999	1998	1997
	millions of €	millions of €	millions of €
January 1,	371	329	633
Charged to costs and expenses	173	132	182
Amounts written off/released	(51)	(90)	(486)
December 31,	493	371	329

The Company directly wrote off accounts receivable balances of EUR 341 million in 1999 (Dec. 31, 1998: EUR 524 million).

(17) Other assets

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Tax receivables	1,441	237
Accrued interest	214	198
Receivables from employees	56	65
Receivables from reimbursements and loans receivable	73	30
Miscellaneous	285	195
	2,069	725

Other assets amounting to EUR 2,055 million are due within one year. Of the balance at December 31, 1999, EUR 204 million became legally due only after the balance sheet date and relate to accrued interest and nonchargeable VAT. Tax receivables mainly relate to income tax. The increase compared with 1998 is a consequence of reimbursement claims for income taxes paid. Other tax receivables mainly consist of trade tax reimbursements from previous years resulting from the retroactive changes in the allocation of trade tax.

(18) Marketable securities

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Treasury shares	14	1
Other marketable securities	1,756	1,369
	1,770	1,370

In connection with the Company's global offering in 1996, Deutsche Telekom also introduced an Employee Stock Purchase Plan. The 459,900 shares remaining are included in marketable securities and valued at EUR 1.2 million. Furthermore, the existing level was increased by a further 5,185,278 shares or EUR 13.3 million as a result of the second share offering in the 1999 financial year. Accordingly, the number of shares on December 31, 1999 amounted to 5,645,178, valued at an acquisition cost of EUR 2.56 per share. These shares represent 0.2% of capital stock. These shares are to be included in a new Employee Stock Purchase Plan.

Other marketable securities primarily relate to fixed-interest German securities (EUR 615 million), own bonds held (EUR 565 million) to maintain favorable trading conditions, callable step-up bonds (EUR 415 million) and Portuguese government bonds (EUR 80 million).

(19) Liquid assets

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Checks	2	3
Petty cash and deposits at the Bundesbank	13	8
Cash in banks (including deposits at Deutsche Postbank AG)	1,157	5,075
	1,172	5,086

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Cash and cash equivalents (original maturity less than 3 months)	878	2,064
Temporary cash investments (original maturity longer than 3 months)	294	3,022
	1,172	5,086

Cash and cash equivalents with original maturity of less than 3 months consist primarily of fixed-term bank deposits, checking account balances, deposits at the Bundesbank and Deutsche Postbank AG and petty cash. Temporary cash investments consist of fixed-term bank deposits. The decrease in liquid assets is mainly attributable to the shareholding acquisitions made in the course of the financial year, in particular the acquisition of One 2 One.

(20) Prepaid expenses, deferred charges and deferred taxation

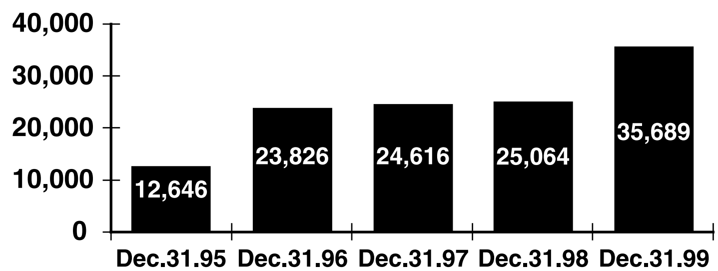
Prepaid expenses and deferred charges of EUR 931 million (Dec. 31, 1998: EUR 877 million) primarily relate to prepaid personnel costs of EUR 164 million (Dec. 31, 1998: EUR 347 million) at Deutsche Telekom AG. Also included are discounts on loans of EUR 59 million (Dec. 31, 1998: EUR 82 million) which are amortized on a straight-line basis over the terms of the related liabilities. In addition, a deferred tax asset of EUR 524 million (Dec. 31, 1998: EUR 404 million) has been included.

(21) Shareholders' equity

At the shareholders' meeting on May 27, 1999, the decision was taken to amend § 5 (Amount and Breakdown of Share Capital) of Deutsche Telekom AG's Articles of Incorporation. Accordingly, the share capital, the approved capital and all other figures in DM were converted to euros at the official conversion rate of EUR 1 = DM 1.95583. Under the conversion of the share capital to euros, the proportional value per share was rounded up to the next full cent, bringing it to EUR 2.56. This amendment to the Articles of Incorporation was registered with the Commercial Registry in Bonn on May 28, 1999.

A detailed account of the development of the consolidated shareholders' equity for the years 1997, 1998 and 1999 is presented in a separate table before the notes to the consolidated financial statements.

The development of the consolidated shareholders' equity from December 31, 1995 to December 31, 1999 is as follows (millions of €):



(22) Capital stock

The capital stock of the consolidated group represents the capital stock of Deutsche Telekom AG.

Under the Articles of Incorporation, the Board of Management was authorized to increase the capital stock of the Company by a further EUR 2,556 million, to a maximum of EUR 7.7 billion, by issuing new shares for cash or noncash consideration through the end of 1999. Of the EUR 2,556 million of approved capital according to Deutsche Telekom AG's Articles of Incorporation, EUR 732 million or 286.3 million individual no par value shares remained after the initial public offering in 1996.

With the agreement of the Supervisory Board, on June 3, 1999, the Deutsche Telekom Board of Management decided—on the basis of this authorization and in conformity with the Articles of Incorporation—to increase the capital stock by issuing up to 279,969,388 new individual no par value bearer shares worth a pro-rata amount of capital stock of EUR 2.56 per share. The Board of Management also decided to exercise the right granted to it in accordance with Article 5 paragraph 2 of the Articles of Incorporation to create employee shares by issuing up to 5,934,646 new individual no par value bearer shares with an accounting par value of EUR 2.56.

In accordance with Article 5 paragraph 1 of the Articles of Incorporation, Deutsche Telekom AG's capital stock totaled EUR 7,756 million at December 31, 1999, representing 3,029.6 million individual no par value bearer shares. Each share entitles the bearer to one vote and to receive payment for a full dividend for the 1999 financial year. After deducting treasury shares held by the Company, capital stock with a dividend entitlement for the 1999 financial year amounted to EUR 7,742.5 million (3,023.9 individual no par value bearer shares).

The Federal Republic, as in 1996, and the federal corporation Kreditanstalt für Wiederaufbau (KfW) forewent their pre-emptive rights and did not participate in the second share offering. Furthermore, the Federal Republic sold approximately 33 million shares to the Kreditanstalt für Wiederaufbau during 1999 and transferred a further 13 million loyalty shares to the shareholders who subscribed during the initial public offering, thus reducing the Federal Republic's direct holding to approximately 43.18% as at December 31, 1999. At December 31, 1999, the Federal Republic held a total of approximately 1,308 million individual no par value shares in Deutsche Telekom AG (EUR 3,381 million) and the Kreditanstalt für Wiederaufbau held approximately 654 million (EUR 1,675 million). In 1998, the Kreditanstalt für Wiederaufbau sold 2%, or approximately 55 million, of Deutsche Telekom AG's individual no par value shares to France Telecom S.A., Paris (approximately EUR 140 million). The remaining shares are widely held.

(23) Additional paid-in capital

The additional paid-in capital of the consolidated group represents the additional paid-in capital of Deutsche Telekom AG.

The additional paid-in capital of EUR 5,774 million results from Deutsche Telekom AG's opening balance sheet from January 1, 1995. Furthermore, in accordance with § 272 paragraph 2 No. 1 HGB, the proceeds from the 1996 and 1999 share issues in excess of capital stock totaling EUR 8,476 million and EUR 9,881 million were recorded in 1996 and 1999, respectively, as additional paid-in capital. As the amounts previously shown in DM were converted to euros, additional paid-in capital was reduced by EUR 10 million in 1999 and capital stock was increased to round off the nominal value of the capital stock.

(24) Retained earnings (deficit)

In addition to the transfers made from Deutsche Telekom AG's net income from prior years, retained earnings (deficit) include the consolidated group's share of the consolidated subsidiaries' net income or losses, provided they were generated by such subsidiaries since being included in the consolidated group, as well as a reserve for treasury shares held by the Company in accordance with § 272 paragraph 4 HGB. This item also includes the cumulative effects of consolidation entries from prior years. Translation adjustments are recorded in a separate component of retained earnings.

(25) Minority interest

Minority interest represents the minority shareholders' proportionate share of the equity of the consolidated subsidiaries and relates primarily to MATÁV.

(26) Pensions and similar obligations

Non-civil servant pension plans

The pension obligations of Deutsche Telekom for non-civil servants are provided for by a range of defined benefit plans. These pensions include direct obligations of Deutsche Telekom and indirect pension commitments made to employees through the VAP (Versorgungsanstalt der Deutschen Bundespost) and the DTBS (Deutsche Telekom Betriebsrenten-Service) as well as obligations under Article 131 of the Basic Law (Grundgesetz—GG) as shown in the following table:

	Dec. 31, 1999	Dec. 31,1998
	millions of €	millions of €
Pension obligations:		
— Direct	284	214
— Indirect	2,810	2,901
Obligations under Article 131 GG	15	15
	3,109	3,130

These pension obligations are fully accrued net of the plan assets at fair value.

The amount of pension obligations was determined using actuarial principles that are consistent with U.S. GAAP SFAS No. 87 and using the assumptions at the respective balance sheet dates as shown in the following table:

	1999	1998	1997
Discount rate	6.25%	6.0%	6.5%
Projected salary increase	2.75-3.5%	2.5%	3.0%
Expected return on assets	4.5-6.0%	5.5%	6.4%
Projected pension increase	1.5%	1.5%	2.0%

The corresponding pension accruals measured in accordance with § 6a of the Income Tax Act (Einkommensteuergesetz—EStG) are EUR 3,061 million (Dec. 31, 1998: EUR 2,947 million).

In 1997, Deutsche Telekom fundamentally changed the structure of the company pension plans. Previously, the pension benefits were mainly provided by the VAP, which was jointly financed by the successor companies of Deutsche Bundespost and other related entities. In a segmentation agreement concluded on December 19, 1997, the current and future benefit recipients as well as the assets of the VAP were individually allocated to the companies. A minor amount of the obligations remained with the VAP. To enable the VAP to meet these obligations, it was funded with the premium reserve required in accordance with its business plan. The result of this reorganization was that the actuarial losses reported before 1997 were largely eliminated.

The VAP benefits, which supplement national social security retirement benefits up to the level specified in the pension benefits formula, are generally calculated on the basis of the level of employee compensation during specific periods of employment. Within the scope of the negotiations on the realignment of the company pension plan, the employer and the trade unions have agreed on arrangements for the protection of vested VAP benefits. Pursuant to this agreement, the benefit obligations due to retirees and employees approaching retirement will remain unchanged. In the case of younger employees with vested benefits, the obligations were converted into an initial amount reflecting the number of years covered. This amount will be credited to a capital account held by the employer (cash balance plan). Deutsche Telekom credits further amounts to this account; when the insured event occurs, the account balance will be paid out in full, in installments or converted into a pension. If the relevant employees had not reached the age of 35 and had been insured for less than ten years, their benefit obligations are due directly from Deutsche Telekom. The DTBS was founded for processing the remaining obligations.

Benefits relating to other direct pension plans are generally determined on the basis of salary levels and years of service; the benefit obligations are usually determined by the amounts credited by Deutsche Telekom to its capital accounts.

	Dec. 31, 1999	Dec. 31, 1998
	millions of €	millions of €
Actuarial present value of benefits:		
Vested	2,913	2,839
Nonvested	398	447
Accumulated benefit obligation	3,311	3,286
Effect of projected future salary increases	78	85
Projected benefit obligation	3,389	3,371
Plan assets at fair value	(320)	(214)
Projected benefit obligation in excess of plan assets	3,069	3,157
Unrecognized net gains (losses)	40	(27)
Accrual for pensions	3,109	3,130

Development of the projected benefit obligation:

	1999	1998
	millions of €	millions of €
Projected benefit obligation, beginning of year	3,371	3,239
Service cost	83	82
Interest cost	194	202
Actuarial (gains)/losses	(61)	39
Total benefits actually paid	(198)	(191)
Projected benefit obligation, end of year	3,389	3,371

Development of plan assets at fair value:

	1999	1998
	millions of €	millions of €
Plan assets at fair value, beginning of year	214	136
Actual return on plan assets	11	31
Contributions by employer	289	232
Benefits actually paid through pension funds	(194)	(185)
Plan assets at fair value, end of year	320	214

Net periodic pension cost is summarized as follows:

	1999	1998	1997
	millions of €	millions of €	millions of €
Service cost	83	82	88
Interest cost	194	202	240
Expected return on plan assets	(12)	(9)	21
Periodic pension cost	265	275	349
Effect of VAP rearrangement (pursuant to SFAS No. 88)	—	—	(218)
Net periodic pension cost	265	275	131

Civil servant retirement arrangements

Deutsche Telekom AG maintains a special pension fund (Unterstützungskasse) for its civil servants. Deutsche Telekom AG is required to assist in funding the German Government's pension and healthcare obligations to Deutsche Telekom AG's current and former civil servant staff and their surviving dependents. Deutsche Telekom AG is legally obligated to make annual contributions to a special pension fund of EUR 1.5 billion for the years 1995 through 1999, and in subsequent years, annual contributions equal to 33% of the gross salaries of active civil servants (including civil servants on unpaid leave). Under Postreform II, the Federal Republic compensates the special pension fund for differences between the ongoing payment obligations of the special pension fund, amounts received from Deutsche Telekom AG and returns on assets, and guarantees that the special pension fund is always in a position to fulfill the obligations it has assumed. The Federal Republic cannot require reimbursement from Deutsche Telekom AG for amounts paid by it to the special fund.

(27) Other accruals

	Dec. 31, 1999	Dec. 31, 1998
	millions of €	millions of €
Taxes	1,265	994
Accruals other than taxes		
Employee benefits		
Civil Service Health Insurance Fund	982	882
Personnel restructuring	247	449
Other obligations	464	459
	1,693	1,790
Outstanding invoices	1,276	590
Risks related to real estate	226	204
Litigation risks	205	268
Restoration commitments	181	106
Environmental remediation	170	193
Investment risks	101	204
Unused telephone units on phone cards sold	48	17
Deferred maintenance	44	37
Other	972	821
	4,916	4,230
	6,181	5,224

More than half, i.e., EUR 574 million, of the increase in accruals is a result of changes to the composition of the Deutsche Telekom Group, in particular One 2 One.

The increase in provisions for taxes is primarily due to trade tax expenses related to prior years. The income tax effect of the proposed dividend of Deutsche Telekom AG of EUR 1,875 million has been provided for in the calculation of corporate income tax.

When Postreform II came into effect, the Civil Service Health Insurance Fund was closed to new members. Due to the ageing of the group of people insured, there is an expected shortfall between the fund's sources of regular income and benefits paid. Deutsche Telekom AG has accrued the actuarially determined present value of this future deficit, taking the new 1998 life expectancy tables by Prof. Klaus Heubeck (''Richttafeln 1998'') into account, which primarily reflect the increase in average life expectancy.

Deutsche Telekom has, in response to competition, announced its intention to reduce its workforce by approximately 60,000 to 170,000 full-time equivalent employees by the end of the year 2000 (excluding employees of subsidiaries first consolidated after January 1, 1995) through natural attrition, early retirement and other programs. The planned reductions include an estimated 38,300 non-civil servants expected to leave under voluntary separation agreements. In 1999, as was the case in prior years, civil servants as well as non-civil servants accepted the Company's offer for early retirement and severance. The early retirement program for civil servants and natural attrition do not result in incremental costs for Deutsche Telekom AG. In 1999, unpaid restructuring costs amounting to EUR 247 million are included in accruals and EUR 14 million are included in other accounts payable.

The table below sets forth the payments made and the related accruals/payables for future payments in respect of these staff reduction measures for the years 1999 and 1998:

	1999	1998
	millions of €	millions of €
Accruals/payables, beginning of year	470	774
Payments made (including payments made against accruals/payables)	(209)	(304)
Accruals/payables, end of year,	261	470

Accruals for environmental remediation of EUR 170 million (Dec. 31, 1998: EUR 193 million) were established for site clean-up costs and asbestos removal costs. There are no further foreseeable material contingencies. Deutsche Telekom expects to incur these costs over the next 1 to 3 years.

Other accruals for 1999 mainly consist of loss contingencies for financial derivatives and accruals for reimbursements to be granted.

(28) Liabilities

	Dec. 31, 1999				Dec. 31, 1998			
		of which due				of which due		
	Total	within one year	in one to five years	after five years	Total	within one year	in one to five years	after five years
	millions of euro							
Debt								
Bonds and debentures	32,787	4,934	25,076	2,777	36,101	5,372	19,779	10,950
Liabilities to banks	9,550	3,989	3,130	2,431	3,832	315	1,936	1,581
	42,337	8,923	28,206	5,208	39,933	5,687	21,715	12,531
Other								
Advances received	59	59	—	—	56	41	15	—
Trade accounts payable	2,853	2,848	3	2	2,054	2,044	10	—
Liabilities on bills accepted and drawn	1	1	—	—	—	—	—	—
Payables to unconsolidated subsidiaries	15	15	—	—	10	10	—	—
Liabilities to other companies in which an equity interest is held	55	55	—	—	55	55	—	—
Other liabilities	3,610	2,490	177	943	3,372	2,257	80	1,035
of which: from taxes	(341)	(341)	—	—	(215)	(215)	—	—
of which: from social security	(76)	(76)	—	—	(60)	(60)	—	—
	6,593	5,468	180	945	5,547	4,407	105	1,035
Total liabilities	48,930	14,391	28,386	6,153	45,480	10,094	21,820	13,566

Bonds and debentures consist primarily of bonds issued by Deutsche Bundespost.

Breakdown of bonds and debentures are in millions of euros as follows:

	Effective interest rate					
Due in	up to 6%	up to 7%	up to 8%	up to 9%	over 9%	Total
2000	1,001	—	324	327	3,282	4,934
2001	1,049	—	—	3,707	571	5,327
2002	—	—	2,761	5,113	—	7,874
2003	—	2,556	—	—	39	2,595
2004	—	3,068	6,212	—	—	9,280
after 2004	2,112	205	460	—	—	2,777
	4,162	5,829	9,757	9,147	3,892	32,787

Liabilities to banks (mainly loan notes and short-term loans) due in the next 5 years and thereafter are in millions of euros as follows:

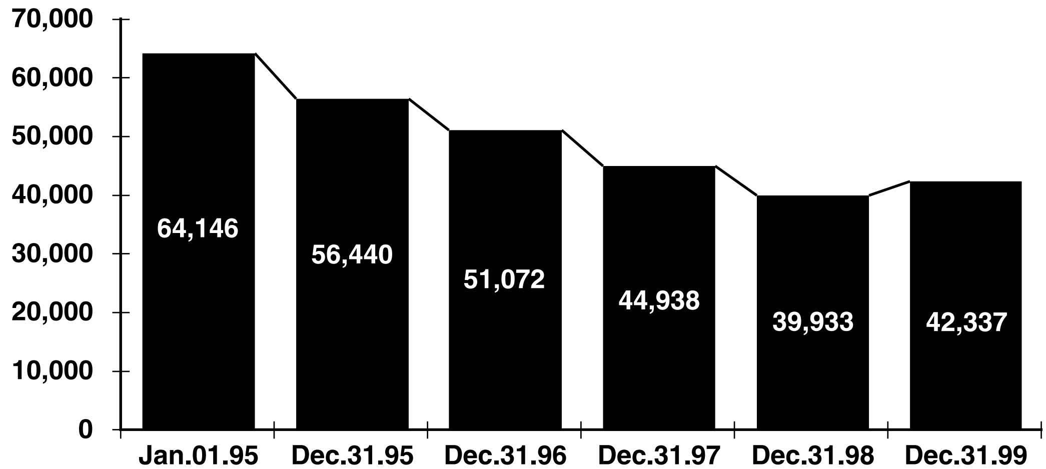
Due in	Amounts
2000	3,989
2001	1,859
2002	403
2003	523
2004	345
after 2004	2,431
	9,550

The average effective interest rate of total debt is for:

Bonds and debentures	7.50% p.a. (1998: 7.64% p.a.)
Liabilities to banks	7.10% p.a. (1998: 7.52% p.a.)

Deutsche Telekom has agreements with a number of banks pursuant to which it can draw on short-term revolving credit facilities up to EUR 8.3 billion at interest rates ranging from 5.5% to 6.0% or at the daily interbank rate plus 0.25%. At December 31, 1999, these credit lines had been drawn upon to the amount of EUR 3.5 billion.

The development of debt from January 1, 1995 to December 31, 1999 is shown in millions of euros as follows:



The Company's original debt was raised principally to finance the development of the communications networks in eastern Germany. The increase in debt in 1999 is a result of the increase in liabilities to banks, mainly due to the changes in the composition of the Deutsche Telekom Group resulting from the acquisition of One 2 One.

Other liabilities

	Dec. 31, 1999	Dec. 31, 1998
	millions of €	millions of €
Interest	1,335	1,407
Rental and leasing obligations	561	563
Loan notes	556	556
Liabilities to employees	131	120
Other	1,027	726
	3,610	3,372

Other liabilities include taxes of EUR 341 million (Dec. 31, 1998: EUR 215 million) and social security liabilities of EUR 76 million (Dec. 31, 1998: EUR 60 million).

Liabilities include borrowings of EUR 4,248 million (Dec. 31, 1998: EUR 421 million) in foreign currencies. Borrowings in euros and euro-member currencies are not shown as borrowings in foreign currencies. The increase in borrowings in foreign currencies in 1999 is mainly attributable to the inclusion for the first time of One 2 One in the consolidated Deutsche Telekom Group.

Liabilities in the amount of EUR 63 million (Dec. 31, 1998: EUR 70 million) payable by subsidiary companies to banks and third parties are collateralized. Deutsche Telekom AG has provided no collateral against its liabilities. In accordance with Postreform II (§ 2 paragraph 4 of the Stock Corporation Transformation Act—Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities which were outstanding at January 1, 1995.

Notes to the consolidated statement of cash flows

The consolidated statement of cash flows has been prepared in conformity with International Accounting Standard No. 7, Cash Flow Statements. Liquid assets and short-term investments with original maturities of less than 3 months at the date of purchase are considered cash equivalents for cash flow reporting purposes. These cash and cash equivalents decreased by EUR 1,186 million in 1999 to EUR 878 million at December 31, 1999.

This is a result of the following developments:

(29) Net cash provided by operating activities

Net cash provided by operating activities amounted to EUR 9,588 million in 1999. This represents a reduction in cash flow of EUR 3,903 million compared with 1998, which is attributable first, to the decrease in revenue as a consequence of price cuts and, second, to the change in working capital which decreased the amount of net cash provided by operating activities. In addition, the amount of income tax paid in 1999 was higher while income tax expense was considerably lower. The costs relating to the second share offering (extraordinary expenses, EUR 240 million) also reduced the level of net cash provided by operating activities.

(30) Net cash used for investing activities

Net cash used for investing activities increased considerably by EUR 11,173 million to EUR 18,684 million in 1999. This is primarily attributable to the acquisitions made by Deutsche Telekom totaling EUR 12,633 million, which were consolidated for the first time in 1999 and are shown in the table below:

	Purchase price	Acquired liquid assets	Net outflow
		millions of €	
One 2 One	10,881	(32)	10,849
max.mobil.	960	(4)	956
SIRIS	732	—	732
Other	115	(19)	96
			12,633

Furthermore, Deutsche Telekom acquired a 35% shareholding in the Croatian telephone company HT-Hrvatske telekomunikacije d.d., which is included at equity in the consolidated financial statements. The purchase price of EUR 759 million is shown under investments in financial assets. The purchase prices were financed with the proceeds of the second share offering, a short-term loan and existing liquid assets.

The considerable reduction in cash in banks having a maturity of longer than three months had an offsetting effect on the level of net cash used for investing activities.

(31) Net cash provided by (used for) financing activities

Net cash provided by financing activities amounted to EUR 7,965 million in 1999 compared with EUR 6,797 million used for financing activities in 1998. This increase is attributable in particular to the proceeds from Deutsche Telekom's second share offering, from which the Deutsche Telekom

Group received an inflow of cash amounting to EUR 10,613 million. In addition, the volume of the debut benchmark bond was further increased in January 1999. Additional short-term borrowings (medium-term notes) were made to finance acquisitions.

Other information

(32) Guarantees and commitments, and other financial obligations

Guarantees and commitments

	Dec. 31, 1999	Dec. 31, 1998
	millions of €	millions of €
Collateral granted against third party liabilities	128	98
Liabilities arising from warranty agreements	59	29
Guarantees	9	180
	196	307

Guarantees and commitments of Deutsche Telekom mainly serve day-to-day business activities and securement of loans.

Other financial obligations

	31.12.1999			31.12.1998		
		of which due			of which due	
	Total	in the following financial year	from the second year after the balance sheet date	Total	in the following financial year	from the second year after the balance sheet date
	millions of €			millions of €		
Present value of payments to special pension fund	10,635	1,028	9,607	11,453	1,483	9,970
Obligations under rental and lease agreements	3,073	498	2,575	3,121	544	2,577
Purchase commitments for capital projects in progress including obligations arising from future expenditure	3,778	1,757	2,021	1,421	1,405	16
Purchase commitments for interests in other companies	2,464	163	2,301	1,651	22	1,629
Commitments arising from transactions not yet settled	1,615	1,182	433	41	38	3
Total other financial obligations	21,565	4,628	16,937	17,687	3,492	14,195

The present value of payments required to be made by Deutsche Telekom AG on the basis of the life expectancy tables by Prof. Klaus Heubeck (‘‘Richttafeln 1998’’), in accordance with Postreform II, to the special pension fund for civil servants amounted to EUR 10,635 million at December 31, 1999, of which EUR 4.7 billion relates to the future service of civil servants still in active service. The reduction in the present value by EUR 818 million was due in part to the reduced effect of the 1999 payment to the special pension fund amounting to EUR 1,483 million, which is offset by an increase in the value from the increasing effect of compounding future contributions.

The increase in purchase commitments for capital projects in progress including obligations arising from future expenditure relates mainly to Deutsche Telekom's international commitments, in particular to the inclusion for the first time of One 2 One.

As part of the MagyarCom joint venture agreement, Ameritech, U.S.A. has the option during the term of the agreement to sell certain or all of its shares in the joint venture to Deutsche Telekom. The exercise price of the put option is the fair market value of the corresponding MATAV shares plus a US$ 60 million control premium. Had the option been exercised, the maximum required at the balance sheet date would have been EUR 2,283 million (1998: EUR 1,627 million) plus interest. Purchase commitments for interests in other companies also rose, due especially to increases in currency exchange rates.

The increase in commitments from transactions not yet settled is primarily attributable to the conclusion of new contracts, in particular for the amount of EUR 538 million signed by T-Mobil.

Deutsche Telekom is a party to a number of lawsuits and other proceedings arising out of the general conduct of its business, including proceedings under laws and regulations related to environmental and other matters. Litigation accruals include the costs of litigation and any probable losses. The Company does not believe that any additional costs will have a material adverse effect on the net worth, financial position and results of the Deutsche Telekom Group.

(33) Financial instruments

Fair value

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following is a summary of the estimated fair value of Deutsche Telekom's financial instruments:

	Dec. 31, 1999		Dec. 31, 1998	
	Fair value	Net carrying amount	Fair value	Net carrying amount
	millions of €			
Assets				
Other investments in related companies	4,603	3,653	4,099	3,407
Other long-term loans	660	660	569	569
Other investments in noncurrent securities	2,321	2,033	1,147	1,052
Receivables	5,666	5,666	4,118	4,118
Liquid assets	1,172	1,172	5,086	5,086
Other investments in marketable securities	1,774	1,770	1,383	1,370
Liabilities				
Bonds and debentures	34,712	32,787	40,340	36,101
Liabilities to banks	9,550	9,550	3,832	3,832
Other	6,593	6,593	5,547	5,547
Derivative financial instruments(1)				
Interest rate swaps	(7)	(6)	(62)	(71)
Interest rate caps purchased	4	4	2	2
Forward rate agreements	(4)	(4)	3	0
Forward forward deposit	0	0	—	—
Interest rate future	0	0	0	0
Swaptions written	—	—	0	(1)
Cross currency interest rate swaps sold	13	5	9	4
Foreign currency forward contracts	(258)	(203)	1	0

(1) Non-bracketed amounts represent assets, bracketed amounts represent liabilities.

Fair values were determined as follows:

The fair value of other investments in noncurrent securities and in marketable securities is based on quoted market prices for those instruments or similar instruments. The net carrying amounts of trade accounts receivable approximate their fair values, due to the short period to maturity. The net carrying amounts of liquid assets also reflect reasonable estimates of fair value due to the relatively short period to maturity of the instruments. The fair value of other investments in marketable securities is based on quoted market prices for those instruments or similar instruments. The net carrying amount is adjusted to market value where market value is less than the original investment.

The fair value of debt which is publicly traded, primarily bonds and debentures, is estimated based on quoted market prices at year end. The book values of commercial paper, liabilities to banks, and other liabilities approximate their fair values.

The fair value of off-balance sheet financial instruments generally reflects the estimated amount the Company would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains and losses of open contracts. The estimated fair values of derivatives used to hedge or modify the Company's risk will vary substantially with future changes in interest rates or with fluctuations in foreign exchange rates. These fair values should not be viewed in isolation, but rather in relation to the fair values of the underlying hedged transactions and the overall reduction in the Company's exposure to adverse fluctuations in interest and foreign exchange rates.

The fair values of investments in associated and related companies, which have carrying values of EUR 3,940 million and EUR 3,664 million at December 31, 1999 and 1998, respectively, were not practicably determinable, except for the investments in SES and VocalTec, because they are not publicly traded or cannot be sold due to contractual restrictions at this point in time. SES and VocalTec are valued at their market values based on share prices. It is not practicable to estimate a fair value for the put option held by Ameritech, U.S.A., because the option provides for the purchase of the shares by Deutsche Telekom at market value plus a US$ 60 million control premium.

Derivative financial instruments

The Company uses derivative financial instruments for the purpose of hedging interest rate and currency exposures which arise from its ongoing business operations. In general the Company's policy is to hold or issue financial instruments for other than trading purposes. Derivative financial instruments are subject to internal controls. Derivatives classified as other than trading are those entered into for the purpose of matching or eliminating risk from potential movements in interest rates and foreign exchange rates inherent in the Company's assets, liabilities and positions. A derivative is designated as a hedge where there is an offset between the effects of potential movements in the derivative and designated underlying asset, liability or position being hedged. Such derivatives are reviewed regularly for their effectiveness as hedges. Derivative instruments designated as hedges are accounted for on the same basis as the underlying position.

The Company uses interest rate swaps, forward rate agreements, and forward forward deposits in particular to reduce its exposure to interest rate and market value volatility on certain debt issues and deposit instruments and manage its interest expense by setting an optimal mix of floating and fixed rate debt and deposit instruments. Interest rate swaps are designated as micro hedges (coupled with individual financial instruments) and macro hedges (coupled with a portfolio of financial instruments).

Gains or losses related to changes in the value of interest rate swaps are generally not recognized. Macro interest rate swaps related to deposit instruments are marked to market and resultant negative values are accrued and included as a component of net interest expense; gains are recognized upon realization. Interest rate swaps which are not designated as either micro or macro hedges (which are mainly hedges of planned future transactions) are assigned to the interest instrument valuation portfolio. Unrealized gains and losses from changes in market value are netted currency for currency and resultant net losses are recognized as a component of net interest expense.

The interest differential to be paid or received on interest rate swaps is recognized in the statement of earnings, as incurred, as a component of net interest expense. Gains or losses on interest rate swaps terminated prior to their maturity are recognized currently as a decrease or increase in net interest expense.

The Company enters into Forward Rate Agreements (FRAs) to manage the interest performance of its deposit portfolios. Deposit portfolio FRAs are marked to market and resultant negative values are accrued. Unrealized losses are recorded as a component of interest expense while unrealized gains are not recorded. The interest differential paid or received is recognized in the statement of earnings, as incurred, as a component of net interest expense.

The Company enters into forward forward deposits to manage its future interest expense. These instruments are marked to market and resultant negative values are accrued. Unrealized gains are not recorded.

The Company uses futures contracts associated with fixed interest investments. Unrealized losses on futures contracts are recognized currently.

Written swaptions are assigned to the interest instrument valuation portfolio. Unrealized gains or losses from changes in market value are netted and resultant net losses are recognized as a component of net interest expense.

The Company uses foreign currency forward contracts to reduce fluctuations in foreign currency cash flows related to revenue and capital expenditure and payments to international third party telecommunications carriers. Foreign currency forward contracts hedging firm commitments to invest in a foreign entity are not valued at the balance sheet date. The investment in the purchased entity is booked using the foreign exchange rate fixed by the foreign currency forward contract. Foreign currency forward contracts hedging other payments and receipts are assigned to foreign currency portfolios categorized by foreign currency type with the related financial instruments. These portfolios are marked to market at the balance sheet date and resultant negative portfolio values are accrued under other liabilities.

Gains and losses resulting from foreign currency forward contracts, which relate to the net investments in foreign entities are recorded in the cumulative translation adjustment account.

The Company purchases options to hedge investments in foreign entities. An option purchased to hedge a firm commitment to invest in a foreign entity is included in other assets and valued at purchase cost. Upon exercise of the option the premium is included in the purchase cost of the asset. An option purchased which hedges a planned transaction is included in foreign currency portfolios referred to above. Upon exercise the option premium is included in the underlying transaction. Options expiring unexercised are recognized currently and assigned to other operating costs or revenues.

The following is a summary of the contract or notional principal amounts outstanding at December 31, 1999 and 1998:

	Dec. 31, 1999		Dec. 31, 1998	
	Maturity	Notional Amount	Maturity	Notional Amount
		millions of €		millions of €
Interest rate swaps (EUR)				
Receive fixed/pay variable	2000-2008	3,018	1999-2008	3,745
Receive variable/pay fixed	2000-2008	1,892	2002-2007	1,892
Interest rate swaps (GBP)				
Receive variable/pay fixed	2002-2004	1,217		
Interest rate swaps (US$)				
Receive fixed/pay variable	2002-2008	424	2002-2008	365
Receive variable/pay fixed	2002-2008	424	2002-2008	365
Interest rate cap purchased	2002-2003	436	2002	153
Forward rate agreements	2000-2001	1,000	1999	971
Forward forward deposit	2000	600		
Future contracts	2000	51	1999	38
Swaptions sold			1999	205
Cross currency interest rate swaps	2001-2011	125	2001-2003	77
Foreign currency forward contracts				
Forward purchases	2000	5	1999	225
Forward sales	2000	8,250	1999	236

The terms of the EUR-receive fixed, pay variable interest rate swaps provide for Deutsche Telekom to receive interest at fixed rates (weighted average 4.5% per annum) and pay interest at variable rates (generally based on the six-month Euribor rate). The terms of the EUR-receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to receive interest at variable rates (generally based on the six-month Euribor rate) and pay interest at fixed rates (weighted average of 5.5% per annum).The terms of the GBP-receive variable, pay fixed interest rate swaps provide for Deutsche Telekom to receive interest at variable rates (generally based on the six-month LIBOR rate) and pay interest at fixed rates (weighted average of 6.5% per annum). Amounts received and paid under all these interest rate swaps, which are dependent on the notional amounts and the contractual interest rates, are settled either annually or semi-annually.

The interest rate caps purchased have three to five-year terms and provide for Deutsche Telekom to receive excesses over a specified reference interest rate. For some of the caps, option contracts were written in order to reduce the premium (purchase of interest rate collars).

The terms of the futures contracts require Deutsche Telekom to pay to or receive from the counterparty losses or gains arising on movements in the quoted contract prices at specified intervals.

The forward rate agreements with a term of six to eighteen months, which are mainly sold, provide an average interest rate of 3.2% based on an interest term of three to six months.

The swaptions sold all had six-month terms. The swaptions expired unexercised by the holders during 1999.

The forward foreign exchange contracts fix amounts the Company is required to pay in the future in EUR for a contractually fixed amount of foreign currencies, generally GBP, HUF and US$.

The notional amounts of the derivative financial instruments do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated by reference to the notional amounts and by the other terms of the derivatives, such as interest rates, exchange rates or other indices.

(34) Information on the Board of Management and the Supervisory Board of Deutsche Telekom AG

The Supervisory Board received no Supervisory Board remuneration or meeting attendance fees for the 1999 financial year. Subject to the approval of the shareholders' meeting on May 25, 2000, Supervisory Board remuneration and meeting attendance fees for the 1999 financial year is to amount to EUR 554,098.00.

Provided that the 1999 financial statements of Deutsche Telekom AG are approved in their current form, the remuneration of the Board of Management of Deutsche Telekom AG will amount to EUR 7,557,167.33. The remuneration to be paid to former members of the Board of Management of Deutsche Telekom AG and their surviving dependents amounts to EUR 482,505.69.

Pension accruals totaling EUR 4,431,869.85 have been established for this group of persons at December 31, 1999. Pension obligations to such persons for which no reserve had to be established amounted to EUR 2,847,686.66 at that date.

The members of the Board of Management and former members of the Board of Management, respectively, have not received any loans from the Company.

(35) Proposal for appropriation of net income of Deutsche Telekom AG

The income statement of Deutsche Telekom AG reflects net income of EUR 9,728,615,958.24. In accordance with § 22 paragraph 3 of the Articles of Incorporation, EUR 4,857,272,871.36 of this net income was transferred to retained earnings. Following inclusion of the unappropriated net income of EUR 13,480,930.44 carried forward from 1998, this gives rise to cumulative unappropriated net income of EUR 4,884,824,017.32.

The Supervisory Board and the Board of Management propose, subject to the approval of the shareholders' meeting, the payment of a dividend of EUR 1,874,854,658.12. This represents a dividend of EUR 0.62 per individual no par value share on the capital stock of EUR 7,741,336,299.68. The Supervisory Board and the Board of Management further propose that the amount of EUR 2,965,492,910.94 be transferred to retained earnings. The remaining balance of EUR 44,476,448.26 will be included in unappropriated net income carried forward from the previous year.

Reconciliation to U.S. GAAP

Due to its listing on the New York Stock Exchange, Deutsche Telekom AG is required to submit, in addition to its local financial statements, annual financial statements in the format of Form 20-F to the SEC. This procedure is in accordance with the foreign integrated disclosure system for foreign companies listed on the stock exchange. In addition to the adjustments which have already been made in the consolidated balance sheet and statement of income in order to comply with U.S. GAAP, further adjustments are required in order to meet the requirements of U.S. GAAP and Form 20-F. These adjustments refer to those cases where application of U.S. GAAP is not permissible under German GAAP. The reconciliation to U.S. GAAP explains how the corresponding values of the German consolidated financial statements after U.S. GAAP adjustments comply with U.S. reporting requirements.

(36) Significant differences between German and United States generally accepted accounting principles

Certain property, plant and equipment on hand as of December 31, 1992 have been valued at fair values rather than at historical cost less depreciation, which is required by U.S. GAAP. The Company has not been able to quantify the effect of the difference in accounting treatment because, prior to January 1, 1993, the predecessor company did not maintain sufficiently detailed historical cost records. The fair market values recorded in the opening balance sheet of Deutsche Telekom AG at January 1, 1995 have been carried forward as the acquisition or construction costs.

(a) Value-added tax

The nondeductible capitalized VAT (capitalized prior to 1996) recorded as property, plant and equipment has, after depreciation in 1999 of EUR 667 million, now been fully depreciated. In addition, in 1999 Deutsche Telekom recovered EUR 379 million of VAT previously paid. German GAAP requires the capitalized VAT to be depreciated and the VAT recoveries to be recorded as other operating income. Under U.S. GAAP, the capitalized VAT is treated as a long-term receivable rather than property, plant and equipment. Therefore, neither depreciation nor other operating income are recognized.

(b) Capitalization of software costs

In preparing its financial statements in accordance with U.S. GAAP, Deutsche Telekom applied the provisions of Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use for the first time in 1999. In accordance with SOP 98-1, in contrast to German GAAP, certain internal and external expenses incurred during the internal project development stage of computer software for internal use are to be capitalized and amortized over its expected useful life.

(c) Personnel restructuring

Under German GAAP, the estimated costs of employee separations have been accrued on the basis of the Company’s announced intention to reduce its workforce. Under U.S. GAAP, these costs are accrued in the period that the employee accepts the offer of termination. The Company has agreed pursuant to its collective bargaining agreements with the unions that it will not unilaterally terminate the employment of its non-civil servant employees due to business reasons before the end of the year 2004. Civil servants may not be involuntarily terminated under the terms of their conditions of employment.

(d) Employee share purchase plans

Employees who participated in an employee share purchase plan during the initial public offering in 1996 and / or the second share offering in 1999 bought shares at a discount of approximately 40%. Under German GAAP, the proceeds of the offering were recorded net of such discounts. Under U.S. GAAP, the discount is treated as compensation expense.

Employees could also participate in a financed share purchase plan. In connection with this plan, Deutsche Telekom agreed to pay banks for their services on a monthly basis (1996 initial public offering) and a yearly basis (1999 second share offering) through December 31, 2001. Under German GAAP, the costs of this plan are recognized as they are paid. Under U.S. GAAP, the costs were fully recognized in 1996 and 1999, respectively.

(e) Deferred income including derivatives

In contrast to German GAAP, under which income from a basic agreement between T-Mobil and VIAG Interkom is to be recognized in accordance with the economic useful life, this income is to be distributed over the duration of the agreement under U.S. GAAP, in accordance with SEC Staff Accounting Bulletin SAB 101.

Under German GAAP, gains and losses resulting from the termination of interest rate swaps are recognized in the year of termination. Under U.S. GAAP, gains and losses on interest rate swaps accounted for as hedges are amortized over the remaining outstanding period of the interest rate swap or the remaining life of the hedged position, whichever is shorter. Under U.S. GAAP , the foreign currency forward contracts and options used to hedge against the currency risk involved with a planned acquisition may not be accounted for as a hedge. The gains resulting from GBP forward exchange contracts and options used by Deutsche Telekom in 1999 therefore have to be recognized as income under U.S. GAAP. Under German GAAP, these gains are recorded, without affecting net income, as an offset against the acquisition costs of the investment.

(f) Maintenance accruals

As required by German GAAP, the costs of maintenance related to the financial year but only incurred within the first three months of the following year have been accrued at each period end. Under U.S. GAAP, the cost of maintenance is recognized in the periods incurred.

(g) Unrealized gains on marketable securities

Under German GAAP, marketable debt and equity securities (including certain securities classified as other investments) are generally carried at historical cost. Under U.S. GAAP, marketable debt and equity securities other than investments accounted for by the equity method, are categorized as either trading, available for sale, or held to maturity. Securities classified as trading or available for sale are reported at fair value at the balance sheet date and held to maturity securities are reported at historical cost. Unrealized gains and losses on trading securities are recorded in net income while unrealized gains and losses on securities categorized as available for sale are recorded, net of income tax, in shareholders' equity.

(h) Share offering costs

In 1999, the Company incurred costs in connection with its second share offering. Such costs are recorded as extraordinary expenses in the income statement in accordance with German GAAP. Under U.S. GAAP, specific incremental costs directly attributable to an offering are charged against the proceeds of the offering.

(i) Other differences

Other differences consist of the various accounting and valuation approaches that are not individually significant, including the treatment of unrealized gains on foreign currency receivables and payables that are not deferred under U.S. GAAP. Other differences related to the 1997 financial year also include the different treatment under German GAAP of foreign currency effects not affecting net income arising from the deconsolidation of subsidiaries.

(j) Income taxes

The determination of income tax expense under German GAAP differs from U.S. GAAP as follows:

- — Under U.S. GAAP, in contrast to German GAAP, deferred tax assets are recognized for the estimated future tax effects attributable to tax loss carryforwards.
- — Under German GAAP, deferred taxes are not recorded for temporary differences which arose during tax free periods. Under U.S. GAAP, the estimated future tax effects related to those temporary differences are recognized.

— Under German GAAP, deferred taxes have not been recognized for those temporary differences which are not expected to reverse in the foreseeable future. Under U.S. GAAP, deferred taxes are generally recognized for all temporary differences.

Deferred taxes are also provided for the income tax effects of valuation differences between U.S. GAAP and German GAAP. Deferred tax assets are measured based on enacted tax law and reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The following table shows the differences between income tax expense determined in accordance with U.S. GAAP and German GAAP:

	1999	1998	1997
	millions of €	millions of €	millions of €
Deferred taxes from the application of U.S. GAAP	(14)	73	(353)
Deferred taxes on U.S. GAAP/German GAAP differences	(230)	130	136
	(244)	203	(217)

(k) Minority interest

Under U.S. GAAP, minority interest is not included in shareholders' equity.

Reconciliation of net income from German GAAP to U.S. GAAP:

	Note	1999 millions of €	1998 millions of €	1997 millions of €
Net income as reported in the consolidated financial statements under German GAAP		1,253	2,243	1,689
Value-added tax	(a)	288	13	3
Software costs	(b)	163	4	1
Personnel restructuring accrual	(c)	(97)	(286)	(252)
Employee share purchase plans	(d)	(17)	4	3
Deferred income/Derivatives	(e)	(61)	20	5
Maintenance accruals	(f)	2	7	(21)
Share offering costs	(h)	238	—	—
Other differences	(i)	(12)	17	45
Income taxes	(j)	(244)	203	(217)
Net income in accordance with U.S. GAAP		1,513	2,225	1,256

Reconciliation of shareholders' equity from German GAAP to U.S. GAAP:

	Note	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Shareholders' equity in accordance with German GAAP		35,689	25,064
Value-added tax	(a)	196	(92)
Software costs	(b)	168	5
Personnel restructuring accrual	(c)	136	234
Employee share purchase plans	(d)	(9)	(8)
Deferred income/Derivatives	(e)	(152)	(35)
Maintenance accruals	(f)	40	34
Unrealized gains on marketable securities	(g)	1,242	800
Other differences	(i)	(31)	39
Income taxes	(j)	1,320	1,581
Minority interest	(k)	(988)	(765)
Shareholders' equity in accordance with U.S. GAAP		37,611	26,857

Changes in shareholders' equity in accordance with U.S. GAAP:

	1999 millions of €	1998 millions of €
Shareholders' equity, beginning of year	26,857	26,137
Net income in accordance with U.S. GAAP	1,513	2,225
Other comprehensive income		
Net change in unrealized gains on marketable securities, net of deferred taxes	232	314
Currency translation	177	(135)
	409	179
Proceeds from share offering (less share offering costs after tax, plus employee discount)	10,515	—
Dividends for 1998 and 1997, respectively	(1,683)	(1,684)
Shareholders' equity, end of year	37,611	26,857

(37) Deferred taxes in accordance with U.S. GAAP:

Deferred tax assets and liabilities arising from temporary differences and net operating losses are as follows:

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Deferred tax assets in accordance with U.S. GAAP		
Current deferred tax assets		
Net operating loss carryforwards	3	42
Other	68	41
Noncurrent deferred tax assets		
Net operating loss carryforwards	193	—
Intangible assets	36	—
Property, plant and equipment	17	—
Personnel restructuring accrual	41	28
Pension accruals	1,433	1,629
Civil servant health insurance accrual	473	440
Other accruals	314	326
Other	67	71
Deferred tax assets in accordance with U.S. GAAP	2,645	2,577
Deferred tax liabilities in accordance with U.S. GAAP		
Current deferred tax liabilities		
Accruals	(36)	(8)
Noncurrent deferred tax liabilities		
Property, plant and equipment	—	(8)
Unrealized gains on marketable securities	(646)	(456)
Other	(1)	—
Deferred tax liabilities in accordance with U.S. GAAP	(683)	(472)
Net current deferred tax asset (liability)	35	76
Net noncurrent deferred tax asset	1,928	2,030
Valuation allowance	(119)	(121)
Net deferred tax asset under U.S. GAAP	1,844	1,985

The following table shows the development of deferred taxes from German GAAP to U.S. GAAP:

	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
Net deferred taxes under German GAAP	524	404
U.S. GAAP adjustments		
Application of U.S. GAAP	2,184	2,142
U.S./German GAAP differences	(864)	(561)
Net deferred taxes under U.S. GAAP	1,844	1,985

(38) Additional information on the financial statements in accordance with U.S. GAAP

Consolidated statement of income

Certain items in the total cost income statement would be classified differently under U.S. GAAP. These items include, in particular, reversals of accruals and allowances for doubtful accounts that would generally be recorded as reductions to the original expense lines under U.S. GAAP rather than separately as income.

	1999	1998	1997
	millions of €	millions of €	millions of €
Results from ordinary business activities/Income before income taxes	3,409	4,719	3,096
Income taxes	(1,624)	(2,274)	(1,729)
Income before (income) losses applicable to minority shareholders	1,785	2,445	1,367
(Income) losses applicable to minority shareholders	(272)	(220)	(111)
Net income in accordance with U.S. GAAP	1,513	2,225	1,256
Earnings per share/ADS in accordance with U.S. GAAP (in €):	0.53	0.81	0.46
Weighted average shares outstanding (in millions)	2,884	2,743	2,743

Consolidated statement of comprehensive income

In addition to the contents of the financial statements which must be disclosed in accordance with German GAAP, comprehensive income must be disclosed under U.S. GAAP. Other comprehensive income covers certain changes to the shareholders' equity not affecting net income and not related to capital payments, dividend payments or similar transactions with the shareholders.

	1999	1998	1997
	millions of €	millions of €	millions of €
Net income in accordance with U.S. GAAP	1,513	2,225	1,256
Other comprehensive income			
Currency translation	177	(135)	(189)
Reclassification of realized currency translation differences	—	—	(38)
Unrealized gains on marketable securities (net of taxes in 1999: € $196 million and 1998: € $416 million)	232	314	26
Other comprehensive income	409	179	(201)
Total income/comprehensive income	1,922	2,404	1,055

Development of other comprehensive income

	Currency translation	Unrealized gains on marketable securities	Other comprehensive income
	millions of €	millions of €	millions of €
January 1, 1997	(179)	5	(174)
Changes	(227)	26	(201)
December 31, 1997	(406)	31	(375)
Changes	(135)	314	179
December 31, 1998	(541)	345	(196)
Changes	177	232	409
December 31, 1999	(364)	577	213

Balance sheet presentation under U.S. GAAP

German GAAP does not require presentation of a classified balance sheet. Under U.S. GAAP, all receivables due after one year and all liabilities payable after one year are classified as noncurrent. Summarized balance sheet information measured and classified in accordance with U.S. GAAP is as follows:

	Dec. 31, 1999	Dec. 31, 1998
	millions of €	millions of €
Assets		
Current assets		
Cash and cash equivalents	880	2,064
Other current assets	11,428	10,889
	12,308	12,953
Noncurrent assets	85,168	68,564
	97,476	81,517
Shareholders' equity and liabilities		
Current liabilities		
Short-term debt	8,914	5,688
Other liabilities	6,254	4,867
Accruals	4,315	3,692
	19,483	14,247
Long-term liabilities		
Long-term debt	33,363	34,163
Other noncurrent liabilities	6,047	5,502
	39,410	39,665
Minority interest	972	748
Shareholders' equity		
Capital stock	7,756	7,014
Additional paid-in capital	23,881	14,108
Retained earnings, unappropriated net income carried forward from previous year and net income	5,775	5,932
Total other comprehensive income	213	(196)
Treasury shares	(14)	(1)
	37,611	26,857
	97,476	81,517

(39) Segment information by group business area in accordance with SFAS No. 131

Deutsche Telekom adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, in the 1998 financial year. This statement requires that companies disclose information on their operational segments in accordance with their internal reporting structures.

Under SFAS No. 131, Deutsche Telekom has the following operational segments for which reporting is required: network communications (1998: telephone network communications), carrier services (1998: licensed service providers and carriers), data communications (1998: data communications/systems solutions), mobile communications, broadcasting and broadband cable, terminal equipment, value-added services (1998: special value-added services) and international (1998: international activities). The two operational segments carrier services and data communications are shown separately for the 1999 financial year for the first time; figures for 1998 have been adjusted accordingly. The segments for which reporting is required are strategic group business areas which differ in their products and services, their relevant sub-markets, the profile of their customers and their regulatory environment.

In the 1997 financial year, considerable development in internal reporting and major changes in the structure of the group business areas occurred. Generating comparable segment figures in accordance with SFAS No. 131 for the years before 1998 would be impracticable. Deutsche Telekom has therefore opted not to present such figures.

Deutsche Telekom does not assign income tax and taxes chargeable as expenses to individual segments in its group segment reporting. Deutsche Telekom had no extraordinary items in the 1998 financial year; income before taxes for 1999 includes extraordinary expenditure amounting to EUR 240 million, which relates exclusively to the costs of the second share offering. With the exception of depreciation and amortization, no major noncash items are assigned to segments.

The valuation methods used for the group segment reporting correspond mainly to those used in the German consolidated financial statements. Deutsche Telekom evaluates the segments' performance based on their income before taxes including extraordinary income (loss). Revenues generated and goods and services exchanged between segments are, as far as possible, calculated on the basis of market prices. Other expense and income items are in principle assigned to the segments by allocation procedure; property, plant and equipment and capital expenditure are predominantly assigned to the segments on the basis of a usage-dependent allocation procedure.

		Net revenue[1]	Revenue between segments	Depreciation and amortization	Net interest expense[2]	Income (loss) related to associated and related companies	Income before taxes	Property, plant and equipment	Capital expenditure on property, plant and equipment
					millions of €				
Network communications	1999	16,737	869	(4,236)	(986)	—	2,276	31,902	1,888
	1998	20,531	1,087	(5,103)	(1,654)	—	4,796	36,997	1,907
Carrier services	1999	2,884	677	(577)	(124)	—	440	4,413	259
	1998	1,611	571	(356)	(119)	—	589	2,571	130
Data communications	1999	2,828	739	(815)	(196)	—	104	5,975	428
	1998	2,536	874	(966)	(315)	—	(61)	6,399	436
Mobile communications	1999	3,919	1,201	(411)	(182)	—	1,033	1,465	771
	1998	3,061	934	(580)	(172)	—	560	1,333	491
Broadcasting and broadband cable	1999	1,917	197	(911)	(355)	—	(86)	6,564	214
	1998	1,804	93	(977)	(359)	—	(329)	7,052	377
Terminal equipment	1999	1,207	228	(196)	(48)	—	19	890	90
	1998	1,382	221	(275)	(70)	—	(114)	1,014	124
Value-added services	1999	1,903	346	(222)	(54)	—	(152)	1,304	77
	1998	2,051	235	(222)	(68)	—	(182)	1,269	64
International	1999	2,863	13	(693)	(393)	—	(339)	4,612	1,020
	1998	1,322	12	(243)	(134)	—	200	1,785	440
Other segments	1999	1,122	2,045	(348)	(236)	(336)	(408)	1,911	346
	1998	772	1,081	(356)	(68)	(323)	(384)	1,373	291
Reconciliation	1999	90	(6,315)	(57)	28	(7)	57	—	—
	1998	74	(5,108)	41	(3)	(3)	25	—	—
Group	1999	35,470	0	(8,466)	(2,546)	(343)	2,944	59,036	5,093
	1998	35,144	0	(9,037)	(2,962)	(326)	5,100	59,793	4,260

1 The prior-year figures for net revenue have been adjusted to the method of reporting for 1999 and revenues from the billing of services of other network operators, amounting to EUR 522 million, which were previously shown under other segments, have been deducted.

2 The net income expense for 1998 has been adjusted to the method of reporting for 1999. In total, EUR 215 million of the net income expense has been assigned to the individual segments.

Network communications

The group business area network communications provides voice telephony and associated services in the fixed network for a broad range of customers. The services are provided mainly within the domestic market and are, in many areas, subject to regulation by the Regulatory Authority for Telecommunications and Posts.

In this segment, Deutsche Telekom generated net revenue in the year under review amounting to EUR 16,737 million. Domestic call charges account for approximately 54% of this revenue, line installation charges, monthly rental charges and other domestic services for approximately 38% and international call charges for approximately 8%.

Accounting for approximately 47% of Deutsche Telekom's entire net revenue, network communications remains the Company's largest revenue driver.

The main causes of the reduction in revenue and income are the price cuts introduced in 1999 and the impact of competition. The decrease in call charges is offset by higher earnings from line installation and rental charges, which are mainly attributable to the approximately 32% increase in the number of ISDN channels. With income before taxes of EUR 2,276 million, the group business area network communications, as in 1998, is still the decisive segment contributing to the Group's results.

Revenue from business with other segments, amounting to EUR 869 million, relates mainly to services provided for the various product packages offered by group business areas other than the group business area network communications, in particular value-added services, carrier services and data communications. The decrease is partly attributable to the price cuts introduced in this group business area, as services provided between segments are generally charged at market prices.

Depreciation in the network communications segment, which accounts for approximately half of Deutsche Telekom's total depreciation and amortization, relates to the allocation of large proportions of property, plant and equipment to this segment. It is for this reason that the extension of depreciation periods in the outside plant network is a particularly strong contributing factor in the reduction of depreciation and amortization.

The net interest expense of EUR 986 million is attributable to the high capitalization ratio in this group business area. This marked decrease in the net interest expense reflects the reduction in the initial level of debts.

Network communications accounts for EUR 31,902 million, approximately 54% of the Group's property, plant and equipment. This includes, in particular, the usage-dependent assignment of significant parts of the network infrastructure and of real estate used for the provision of network communications services.

Carrier services

On the end customer market, Deutsche Telekom's competitors, as customers, are offered comprehensive services by the group business area carrier services. On the domestic market, these are predominantly the provision of interconnection services for fixed and mobile network operators, for carrier-specific transmission path offers and for access to the so-called unbundled local loop. This group business area also covers international inter-carrier business, which includes the termination of incoming international calls.

As a company dominant in sub-markets, Deutsche Telekom is subject to extensive regulation in its group business area carrier services. This is particularly true for services provided on the domestic telecommunications market. The international carrier services business, by contrast, was relieved of regulation to a certain extent in 1999.

Net revenue in the carrier services group business area was determined by the activities of Deutsche Telekom's competitors in the fixed and mobile communications network. In the fixed network, in particular, the number of carriers has continued to increase since the full liberalization of the German telecommunications market. Consequently, the constant demand by carrier services customers for Deutsche Telekom pre-services and the boom in mobile telephony led to an increase in net revenue of 79% to EUR 2,884 million; income before taxes, EUR 440 million, was lower than in 1998 as a result of higher expenditure relating to increased revenue.

The revenue between segments of EUR 677 million relates mainly to services provided for the group business area mobile communications for calls from the mobile communications network to the fixed network and to competitors' networks, as well as to foreign countries.

Depreciation of EUR 577 million reflects the wear and tear on the property, plant and equipment assigned to the group business area carrier services. The net interest expense of EUR 124 million relates mainly to the financing of the assigned property, plant and equipment.

The increase in property, plant and equipment and related capital expenditure in this group business area is mainly a consequence of the usage-dependent assignment of the property, plant and equipment.

Data communications

In the group business area data communications, Deutsche Telekom offers domestic and international customers a broad range of products and services for data communications, based mainly on IP, frame relay and ATM platforms. This includes the provision of leased links and data transmission services (e.g. Datex-P, Frame Link Plus). This group business area combines, as full systems solutions, all the network platforms and services necessary for the realization of customer projects, in particular the generation of complex Internet and Intranet solutions as well as LAN and LAN-to-LAN solutions for business customers. The data communications market has been open to competition for some years and is one of the fastest-growing areas of telecommunications.

With an increase in net revenue of EUR 292 million to EUR 2,828 million, Deutsche Telekom once again benefited most from the growth in the data communications market. Income before taxes in 1999 was clearly positive, EUR 104 million, compared with a loss of EUR 61 million in 1998.

The revenue between segments relates mainly to the use of data communications platforms by other group business areas, in particular multimedia, and the corresponding connection services.

Depreciation in data communications accounts for approximately 10% of Deutsche Telekom's total depreciation and amortization and mainly reflects the wear and tear on the property, plant and equipment assigned to this group business area.

The net interest expense, which decreased by EUR 119 million to EUR 196 million in 1999 is mainly attributable to the financing of property, plant and equipment. The property, plant and equipment assigned to this group business area are predominantly technical equipment.

Mobile communications

The group business area mobile communications provides mobile telephone and paging services for a broad range of customers. The services are provided mainly within the domestic market. In the most important sector of this market, digital mobile telephony, there are currently four mobile communications operators offering their services.

The development of revenue and income is influenced primarily by the generally high level of demand for mobile communications products. The strong growth in the mobile communications market, from which Deutsche Telekom benefited to a large extent, is reflected particularly clearly in the number of subscribers to Deutsche Telekom's digital mobile telephone service (T-D1), which increased by 66% compared with 1998.

The proportion of the net revenue in the mobile communications group business area generated by T-D1 increased correspondingly from 78% to 82%. The proportion generated by the analog mobile telephone service T-C-Tel, by contrast, decreased further from 8% to 4%. The other mobile communications services account for 15% of total revenue generated with third parties, which amounted to EUR 3,919 million.

Revenue from business with other segments amounting to EUR 1,201 million relates mainly to network interconnection services provided by the group business area mobile communications.

Depreciation in the mobile communications segment, which accounts for 5% of Deutsche Telekom's total depreciation and amortization, relates to property, plant and equipment used for mobile communications.

Along with network communications, mobile communications, with income before taxes of EUR 1,033 million, an increase of EUR 473 million over 1998, is a major contributor to the Group's results.

Property, plant and equipment of this group business area consists mainly of network elements and other mobile network equipment as well as buildings.

The increase in property, plant and equipment and in capital expenditure on property, plant and equipment compared to 1998 relates mainly to the expansion of the digital mobile network as a result of the growth in the number of subscribers.

Broadcasting and broadband cable

The group business area broadcasting and broadband cable provides broadcasting services for analog and digital radio and television channels. The services are provided within the domestic market and are subject to the regulations of the regional media supervisory authorities.

Connection charges and monthly cable charges paid by residential cable users along with the transmission charges paid by local cable companies contribute to 75% of the group business area's net revenue. Revenues from the provision of transmission capacities for radio and television broadcasters account for the remaining 25% of the segment's net revenue.

The increase in net revenue and the improvement in income before taxes are attributable primarily to the growth in the number of cable connections in 1999 and the increased charge at the end of 1997, some of which did not take effect until 1999 as a result of advance payments. The group business area generated a loss before taxes of EUR 86 million in 1999. This loss relates exclusively to broadcasting activities. The improvement in income before taxes by EUR 243 million relates primarily to broadband cable activities, which achieved a break-even result in 1999.

As in 1998, depreciation in the group business area broadcasting and broadband cable, which accounts for approximately 11% of Deutsche Telekom's total depreciation and amortization, relates mainly to the cable network.

The net interest expense of EUR 355 million is mainly related to the financing of the segment's property, plant and equipment.

Property, plant and equipment of this group business area consists mainly of technical equipment and real estate, most of which relates to broadband cable.

Terminal equipment

The group business area terminal equipment sells and rents out terminal equipment and private automatic branch exchanges to various target groups. The services are provided mainly within the domestic market. In the sale of terminal equipment, Deutsche Telekom, which has no production facilities of its own, is in direct competition with its suppliers. The market for terminal equipment has been fully open to competition since 1990.

Revenue from business with third parties decreased, mainly due to product streamlining, by EUR 175 million to EUR 1,207 million in 1999. Approximately 62% of revenue is generated by equipment rentals, 38% from sale. Revenue from business with other segments amounting to EUR 228 million relates mainly to terminal equipment used by Deutsche Telekom and services provided for the group business area network communications.

Depreciation in the terminal equipment segment relates to the depreciation of property, plant and equipment allocated to this group business area. The net interest expense of EUR 48 million mainly reflects the financing of property, plant and equipment allocated to this group business area. The group business area generated income before taxes of EUR 19 million in 1999, compared with a loss before taxes of EUR 114 million in 1998. This upturn is mainly as a consequence of the consistent streamlining and increased market orientation of the product portfolio. Property, plant and equipment is allocated to this group business area on a proportional basis in line with usage, in particular of real estate and plant and office equipment. Capital expenditure relates mainly to the additions in property, plant and equipment allocated to this group business area.

Value-added services

The group business area value-added services provides various services based on the telephone network for a broad range of customers. These include directory inquiries, call centers, freecall and shared-cost numbers and public telephones. The publication of telephone directories is also included in this group business area. The products and services are provided mainly within the domestic market and are subject to competition. The decrease in net revenue of EUR 148 million compared to 1998 is mainly attributable to lower revenue from public telephones and directory inquiries. This decrease is offset by higher revenues, for example from freecall and shared-cost numbers.

Revenue from business with other segments amounting to EUR 346 million relates mainly to services provided by this group business area, mainly for network communications and carrier services.

Depreciation in the value-added services segment relates to the property, plant and equipment allocated to the group business area. The net interest expense of EUR 54 million is mainly related to the financing of property, plant and equipment.

In the 1999 financial year, this group business area recorded losses before taxes of EUR 152 million, EUR 30 million less than in 1998. The improvement in the results of the group business area value-added services was influenced by the continued optimization of the concept for locating public telephones. Property, plant and equipment and capital expenditure on property, plant and equipment are allocated to this group business area on a proportional basis in line with usage.

International

For the purposes of segment reporting, the group business area international previously only related to Deutsche Telekom's shareholding in MATÁV, which operates on the Hungarian telecommunications market as a full-service provider of telephone services. Since 1999, this group business area has included, besides MATÁV, the mobile communications operators One 2 One in the United Kingdom and max.mobil. in Austria. Correspondingly, the segment's net revenue relates to the activities of these three companies in the fixed network and mobile communications business. Revenue from business with other segments is minimal, as in 1998. The increase in net revenue, depreciation and amortization and net interest expense, as well as the decrease in income before taxes, is attributable to the inclusion for the first time of One 2 One and max.mobil. in 1999. This was also primarily responsible for the increase in property, plant and equipment and capital expenditure on property, plant and equipment. Property, plant and equipment and capital expenditure on property, plant and equipment relate to MATÁV, One 2 One and max.mobil.

Other segments

Other segments include those operational segments which, in accordance with the requirements of SFAS No. 131, need not be shown individually, and other activities and property, plant and equipment which are not allocated to specific operational segments. The recorded loss reflects the losses attributable to associated and related companies. The losses consist of income from investments and associated companies, as well as write-downs of financial assets and marketable securities. The property, plant and equipment and capital expenditure on property, plant and equipment in this segment include property, plant and equipment and capital expenditure on property, plant and equipment of subsidiaries which are not allocated to specific operational segments. The property, plant and equipment of this segment also includes corporate headquarters.

Reconciliation

The items to be reconciled relate mainly to consolidation measures and differences in the composition of the Deutsche Telekom Group taken as the basis for management reporting and that used for the consolidated financial statements under German GAAP. The net revenues shown in the reconciliation relate to subsidiaries shown in the consolidated financial statements under the international segment.

(40) Other matters

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted from the financial year 2000. Under the provisions of SFAS No. 133, derivative instruments are rights and obligations which meet the definition of assets or liabilities and should be reported in financial statements. They should, in principle, be valued at market value (fair value). Alternative treatment is only permissible if it can be shown that this is attributable to hedging, which satisfies the requirements of the statement with regard to documentation and monitoring of efficiency.

In July 1999, the Financial Accounting Standards Board issued SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, which was effective upon issuance. Under SFAS No. 137, the adoption of SFAS No. 133 can be deferred with the effective date of adoption being for all fiscal quarters of all fiscal years beginning after June 15, 2000. Deutsche Telekom has adopted SFAS No. 137 for the year under review.

Bonn, March 27, 2000

Deutsche Telekom AG
Board of Management

Dr. Ron Sommer	Josef Brauner
Detlev Buchal	Dr. Karl-Gerhard Eick
Jeffrey A. Hedberg	Dr. Hagen Hultzsch
Dr. Heinz Klinkhammer	Gerd Tenzer

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