Consolidated financial statements 1999

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**

Consolidated balance sheet

Assets	Note	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
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	Note	Dec. 31, 1999 millions of €	Dec. 31, 1998 millions of €
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**

Consolidated noncurrent assets

millions of €	Acquisition or production cost Jan. 1, 1999	Translation adjustment	Changes in the composition of the Deutsche Telekom Group	Additions	Disposals	Reclassi-fications	Dec. 31, 1999
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
Goodwill							
from individual company financial statements	1	0	8	0	0	0	9
arising from consolidation	258	334	15	13,247	4	0	13,850
Advance payments	119	0	0	75	13	(108)	73
	2,121	**333**	**352**	**14,036**	**116**	**110**	**16,836**
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
Technical equipment and machinery	66,804	128	2,540	3,123	1,192	653	72,056
Other equipment, plant and office equipment	4,309	31	601	703	483	7	5,168
Advance payments and construction in progress	1,084	26	377	903	40	(808)	1,542
	92,208	**183**	**3,529**	**5,093**	**1,974**	**(110)**	**98,929**
Financial assets							
Investments in unconsolidated subsidiaries	26	0	0	60	0	0	86
Loans to unconsolidated subsidiaries	25	0	0	55	8	0	72
Investments in associated companies	735	89	(9)	1,180	332	74	1,737
Other investments in related companies	3,436	0	0	479	51	(74)	3,790
Long-term loans to associated and related companies	254	0	1	447	438	0	264
Other investments in noncurrent securities	1,052	0	1	1,312	319	0	2,046
Other long-term loans	569	0	0	198	107	0	660
	6,097	**89**	**(7)**	**3,731**	**1,255**	**0**	**8,655**
	100,426	**605**	**3,874**	**22,860**	**3,345**	**0**	**124,420**

Consolidated financial statements

Depreciation, amortization and write-downs							Net carrying amount	
Jan. 1, 1999	Translation adjustment	Changes in the composition of the Deutsche Telekom Group	Additions	Disposals	Reclassi-fications	Dec. 31, 1999	**Dec. 31, 1999**	Dec. 31, 1998
930	0	60	500	98	11	1,403	1,501	813
0	0	8	0	0	0	8	1	1
110	11	5	300	3	0	423	13,427	148
0	0	0	0	0	0	0	73	119
1,040	**11**	**73**	**800**	**101**	**11**	**1,834**	**15,002**	**1,081**
2,354	0	3	601	27	(5)	2,926	17,237	17,657
27,706	(1)	726	6,260	865	53	33,879	38,177	39,098
2,337	1	335	805	342	(59)	3,077	2,091	1,972
18	0	11	0	18	0	11	1,531	1,066
32,415	**0**	**1,075**	**7,666**	**1,252**	**(11)**	**39,893**	**59,036**	**59,793**
10	0	0	10	0	0	20	66	16
21	0	0	0	8	0	13	59	4
390	32	0	71	2	0	491	1,246	345
29	0	0	108	0	0	137	3,653	3,407
1	0	1	35	1	0	36	228	253
0	0	0	13	0	0	13	2,033	1,052
0	0	0	0	0	0	0	660	569
451	**32**	**1**	**237**	**11**	**0**	**710**	**7,945**	**5,646**
33,906	**43**	**1,149**	**8,703**	**1,364**	**0**	**42,437**	**81,983**	**66,520**

Consolidated statement of cash flows

Consolidated financial statements

	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 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**

Consolidated statement of shareholders’ equity

millions of €	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**
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**

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
Shareholder's equity and liabilities	
Shareholder's 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.

Consolidated financial statements

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 millions of €	Revenue 1999 millions of €	Income after taxes 1999 millions of €	Employees 1999 (annual average)
Subsidiaries					
DeTe Immobilien Deutsche Telekom Immobilien und Service GmbH, Münster	100.00	153	4,123	134	9,775
DeTeMobil Deutsche Telekom MobilNet GmbH, Bonn	100.00	1,447	4,999	899	6,730
MATÁV 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	1998	1997	Dec. 31, 1999	Dec. 31, 1999	Dec. 31, 1998
	€	DM	DM	DM	€	DM	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

Consolidated financial statements

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

Consolidated financial statements

(1) Net revenue[1]

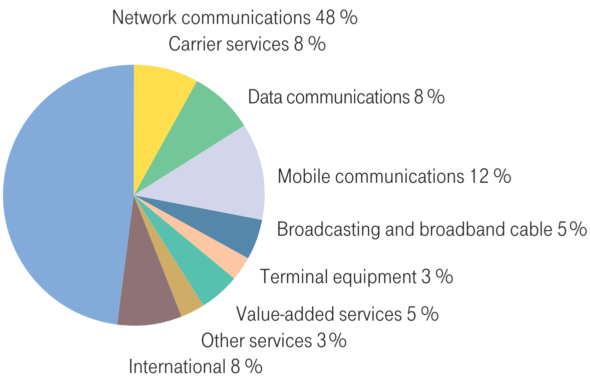
	1999 millions of €	1998 millions of €	1997 millions of €
Network communications	16,737	20,531	21,420
Carrier services	2,884	1,611	1,229
Data communications	2,828	2,536	2,345
Mobile communications	3,919	3,061	2,573
Broadcasting and broadband cable	1,917	1,804	1,597
Terminal equipment	1,207	1,382	1,517
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:			
Domestic	31,411	32,758	32,168
International	4,059	2,386	2,337
	35,470	**35,144**	**34,505**

Breakdown of international revenues:			
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 millions of €	1998 millions of €	1997 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 millions of €	1998 millions of €	1997 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 Number**	1998 Number	1997 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 millions of €	1998 millions of €	1997 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 millions of €	1998 millions of €	1997 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 millions of €	1998 millions of €	1997 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 non-scheduled, 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 millions of €	1998 millions of €	1997 millions of €
Income taxes	1,380	2,477	1,512
Other taxes	40	177	332
	1,420	**2,654**	**1,844**

Income taxes

millions of €	1999	1998	1997
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:

millions of €	1999	1998
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 MATÁV.

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.S.

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	Dec. 31, 1999 Deutsche Telekom share (in %)	Dec. 31, 1999 Net carrying amount millions of €	Dec. 31, 1999 of which: Net difference between carrying value and equity in net assets millions of €	Dec. 31, 1998 Deutsche Telekom share (in %)	Dec. 31, 1998 Net carrying amount millions of €	Dec. 31, 1998 of which: Net difference between carrying value and equity in net assets 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 millions of €	Dec. 31, 1998 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 millions of €	Dec. 31, 1998 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 millions of €	1998 millions of €	1997 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

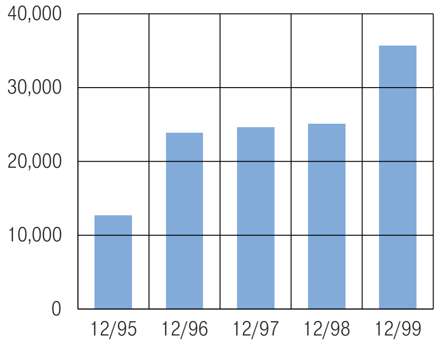
Prepaid expenses and deferred charges of EUR 931 million (Dec. 31, 1998: EUR 877 million) primarily relate to prepaid personnel costs of EUR 164 million (Dec. 31, 1998: EUR 347 million) at Deutsche Telekom AG. Also included are discounts on loans of EUR 59 million (Dec. 31, 1998: EUR 82 million) which 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 €):



Dec. 31, 1995: 12,646
Dec. 31, 1996: 23,826
Dec. 31, 1997: 24,616
Dec. 31, 1998: 25,064
Dec. 31, 1999: 35,689

(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 millions of €	Dec. 31, 1998 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 re-alignment 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 millions of €	Dec. 31, 1998 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 millions of €	1998 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 millions of €	1998 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 millions of €	1998 millions of €	1997 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.

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(27) Other accruals

	Dec. 31, 1999 millions of €	Dec. 31, 1998 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 millions of €	1998 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

millions of €	Dec. 31, 1999 Total	of which due within one year	in one to five years	after five years	Dec. 31, 1998 Total	of which due within one year	in one to five years	after five years
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	up to 6 %	up to 7 %	up to 8 %	up to 9 %	over 9 %	**Total**
Due in						
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.

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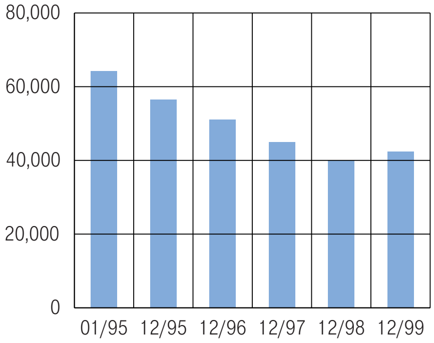
The development of debt from January 1, 1995 to December 31, 1999 is shown in millions of euros as follows:



Jan. 1, 1995:	64,146
Dec. 31, 1995:	56,440
Dec. 31, 1996:	51,072
Dec. 31, 1997:	44,938
Dec. 31, 1998:	39,933
Dec. 31, 1999:	42,337

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 millions of €	Dec.31, 1998 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:

millions of €	Purchase price	Acquired liquid assets	Net outflow
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 millions of €	Dec. 31, 1998 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

millions of €	Dec. 31, 1999 Total	of which due in the following financial year	of which due from the second year after the balance sheet date	Dec. 31, 1998 Total	of which due in the following financial year	of which due from the second year after the balance sheet date
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 MATÁV 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	
millions of €	Fair value	Net carrying amount	Fair value	Net carrying amount
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 millions of €	Maturity	Notional amount 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 millions of €	1998 millions of €	1997 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.

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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**

Consolidated financial statements

(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 millions of €	1998 millions of €	1997 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 millions of €	1998 millions of €	1997 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 in1999: € 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 millions of €	Unrealized gains on marketable securities millions of €	Other comprehensive income 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 millions of €	Dec. 31, 1998 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**

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(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.

1999 (millions of €)	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
Network communications	16,737	869	(4,236)	(986)	–	**2,276**	31,902	1,888
Carrier services	2,884	677	(577)	(124)	–	**440**	4,413	259
Data communications	2,828	739	(815)	(196)	–	**104**	5,975	428
Mobile communications	3,919	1,201	(411)	(182)	–	**1,033**	1,465	771
Broadcasting and broadband cable	1,917	197	(911)	(355)	–	**(86)**	6,564	214
Terminal equipment	1,207	228	(196)	(48)	–	**19**	890	90
Value-added services	1,903	346	(222)	(54)	–	**(152)**	1,304	77
International	2,863	13	(693)	(393)	–	**(339)**	4,612	1,020
Other segments	1,122	2,045	(348)	(236)	(336)	**(408)**	1,911	346
Reconciliation	90	(6,315)	(57)	28	(7)	**57**	–	–
Group	**35,470**	**0**	**(8,466)**	**(2,546)**	**(343)**	**2,944**	**59,036**	**5,093**
1998 (millions of €)								
Network communications	20,531	1,087	(5,103)	(1,654)	–	**4,796**	36,997	1,907
Carrier services	1,611	571	(356)	(119)	–	**589**	2,571	130
Data communications	2,536	874	(966)	(315)	–	**(61)**	6,399	436
Mobile communications	3,061	934	(580)	(172)	–	**560**	1,333	491
Broadcasting and broadband cable	1,804	93	(977)	(359)	–	**(329)**	7,052	377
Terminal equipment	1,382	221	(275)	(70)	–	**(114)**	1,014	124
Value-added services	2,051	235	(222)	(68)	–	**(182)**	1,269	64
International	1,322	12	(243)	(134)	–	**200**	1,785	440
Other segments	772	1,081	(356)	(68)	(323)	**(384)**	1,373	291
Reconciliation	74	(5,108)	41	(3)	(3)	**25**	–	–
Group	**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

Auditors' report

We have audited the consolidated financial statements and the combined management report of Deutsche Telekom AG and the Deutsche Telekom Group for the business year from January 1 to December 31, 1999. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with § 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting. On the whole the combined management report for the Company and the Group provides a suitable understanding of the Group's position and suitably presents the risks of future development.

Frankfurt am Main, March 27, 2000

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Dickmann)	(Laue)
Wirtschaftsprüfer	Wirtschaftsprüfer