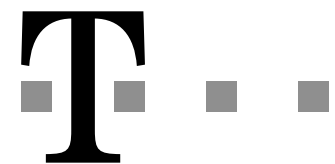
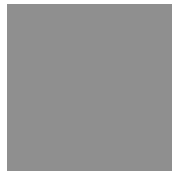


Deutsche Telekom  
Group Report  
January 1 to September 30, 1999



# Highlights

- Continued strong growth in online, mobile communications and ISDN
- T-Mobil surpasses 1998 results after only nine months of 1999
- Revenue decreases resulting from price cuts in the fixed network almost compensated by growth areas and acquisitions
- Lower income due to reduced margins in fixed-network activities in Germany
- Consistent continuation of internationalization strategy with acquisitions in Central and Eastern Europe and in France
- Considerable future contribution to results expected from sale of shares in Sprint
- Consolidation of One 2 One generates additional revenue, but also negative effect on results from goodwill and take-over of on-going losses in fourth quarter
- Partial sale of broadband cable network in first half of 2000, value expected to increase further as result of subsequent flotations

# Ladies and Gentlemen, Dear Shareholders,

The purpose of this report is to give you detailed information about the first nine months of 1999.

The Deutsche Telekom share, the T-Aktie, achieved a significant performance in the period under review. The share

price rose by 39.1 % (September 30, 1999: € 39.16) compared with the last price quoted in 1998 (Xetra closing price: € 28.15); including the cash dividend the performance amounted to 41.3 %. The DAX 30 rose by 2.9 % over the same period.

## Business developments

Deutsche Telekom's revenue overall, including the Austrian mobile communications operator max.mobil., fully consolidated for the first time, and excluding the amounts billed for other network operators, amounted to € 25.6 billion, 1.6 % lower than in the first nine months of 1998.

The revenue trend in the first nine months of the year was, as in the first half of the year, marked by Deutsche Telekom's price reductions, particularly in the long-distance sector. The number of call minutes in Deutsche Telekom's network rose by 1 % over the number recorded in the first nine months of 1998 to 139 billion. Lower numbers of call minutes from domestic long-distance and international calls were offset by increases in other services (in particular T-Online) and in fixed to mobile traffic. Deutsche Telekom's considerable price reductions introduced at the beginning of the year, on April 1

and on June 1, which save customers approximately € 3 billion over the entire year, reduced revenue.

This trend was not compensated by the continuing boom in mobile communications, ISDN access lines and online business. Deutsche Telekom has gained approximately 0.9 million new T-Online customers since the beginning of 1999. This represents a growth of one third compared with the number of customers at the end of 1998. The number of T-D1 subscribers rose by 2.2 million or 40 %. 2.3 million new ISDN channels have been installed since the end of 1998. This represents an increase of 23 %, most of which was in the residential customer segment. With 12.4 million ISDN channels, Deutsche Telekom has a unique position, also in comparison with its international competitors, and has a proven track record in the marketing of new technologies.

Numbers of customers in selected services	Sept. 30, 1999	Dec. 31, 1998	Change	Sept. 30, 1998
	millions	millions	in %	millions
Telephone lines (incl. ISDN channels)	47.4	46.5	1.9	46.1
of which: ISDN channels	12.4	10.1	22.8	9.3
of which: residential customers	5.4	3.9	38.5	3.5
of which: business customers	7.0	6.2	12.9	5.8
T-Online customers	3.6	2.7	33.3	2.4
Mobile phone subscribers (T-D1 and T-C-Tel)	7.9	5.8	36.2	5.2
of which: T-D1 subscribers	7.7	5.5	40.0	4.8

Income before taxes, net revenue and return on sales in accordance with SFAS 131 <sup>1)</sup>	Income before taxes	Income before taxes	Net revenue	Net revenue <sup>2)</sup>	Return on sales	Return on sales
	1st-3rd quarter 1999	Total 1998	1st-3rd quarter 1999	Total 1998	1st-3rd quarter 1999	Total 1998
	millions of €	millions of €	millions of €	millions of €	in %	in %
Telephone						
network communications	2,014	4,796	12,522	20,531	16.1	23.4
Mobile						
communications	707	672	2,734	3,061	25.9	22.0
Broadband cable/						
Broadcasting	(98)	(325)	1,384	1,804	-7.1	-18.0
Terminal equipment	35	(114)	917	1,382	3.8	-8.2
Special value-added services	(80)	(181)	1,405	2,051	-5.7	-8.8
International activities <sup>3)</sup>	180	267	1,660	1,322	10.8	20.2
Other segments	50	(40)	4,900	4,972	1.0	-0.8
Reconciliation <sup>4)</sup>	151	25	54	74	-	-
<b>Total</b>	<b>2,959</b>	<b>5,100</b>	<b>25,576</b>	<b>35,197</b>	<b>11.6</b>	<b>14.5</b>

<sup>1)</sup> As of the consolidated financial statements of December 31, 1998, Deutsche Telekom is using the U.S. Statement of Financial Accounting Standard (SFAS) No. 131 for segment reporting.

<sup>2)</sup> Net revenue shown under 1998 has been adjusted to reflect the 1999 method of reporting. As of January 1, 1999, the amounts billed for other network operators are no longer shown under net revenue.

<sup>3)</sup> max.mobil., fully consolidated for the first time, is shown under international activities. Revenue in this segment increased by € 558 million as a result; income before taxes declined by € 71 million.

<sup>4)</sup> Predominantly consolidation entries and differences between the composition of the Deutsche Telekom Group for management reporting and for financial reporting purposes. The net revenue shown here relates to subsidiaries which are otherwise shown in the consolidated financial statements under international activities.

As in the first half of the year, the price cuts introduced to improve Deutsche Telekom's competitive position in the long term led to decreases in the main revenue driver, telephone network communications, as expected. These decreases were not offset by improvements in other segments. The return on sales in the first nine months of 1999 decreased overall from 14.5 % for the entire 1998 financial year to 11.6 %, having been at 11.1 % in the first half of 1999.

The extension of depreciation periods for copper cables and cable chambers continued to have a positive effect amounting to approximately € 0.6 billion, as did the reduction of net financial expense by ca. € 0.5 billion.

This improvement was offset, however, by increases in goods and services purchased and in other operating expenses, which are mainly attributable to the first full consolidation of the Austrian group max.mobil. (€ 437 million in total) and the cost of goods, advertising and sales at T-Mobil (€ 429 million in total), which is a result of the high growth in the number of subscribers. Despite these increased expenses, T-Mobil generated income before taxes in the first nine months of 1999 which already exceeds the level for the entire 1998 financial year.

Overall, at approximately € 3.2 billion, results from ordinary business activities remained € 564 million below the figure for the first nine months of 1998.

## Outlook

Deutsche Telekom is pushing ahead consistently with its internationalization strategy in the fourth quarter of 1999. On October 4, for example, the company announced the acquisition of a 35 % shareholding in the Croatian telecommunications company Hrvatska Telekomunikacije d.d. for a purchase price of US\$ 850 million. This company will have a monopolist position in the Croatian fixed network until the year 2003 and has approximately 188,000 mobile communications subscribers. The acquisition of several of Media One's shareholdings in Eastern Europe for a total of US\$ 2 billion was announced on October 22. Deutsche Telekom is taking over 22.5 % of Polska Telefonia Cyfrowa Sp. z o.o., thus doubling its shareholding to 45 %. Furthermore, Deutsche Telekom is taking over 49 % of the Hungarian mobile communications operators Westel Radiotelefon 450 and Westel 900. The Hungarian company MATÁV holds the remaining 51 % of Westel 450 and 900. Deutsche Telekom and Ameritech together hold 59.53 % of MATÁV, which is fully consolidated in Deutsche Telekom's financial statements. Deutsche Telekom is also taking over from Media One a controlling majority in RTDC Russian Telecommunications Development Corporation, which has shareholdings in nine regional Russian telecommunications companies. The acquisition of 100 % of the French telecommunications company SIRIS S.A.S. for € 700 million from Unisource N.V. was announced on November 17. SIRIS has a nationwide network infrastructure in France and all necessary licenses as a fixed-network operator.

MCI WorldCom submitted a take-over bid for Sprint on October 5, 1999 which Sprint accepted. If Deutsche Telekom's shareholding in Sprint FON and PCS is valued on the day the bid was submitted, the investment is worth approximately € 8.6 billion, as compared with its book value of approximately € 1.5 billion. Deutsche Telekom intends to withdraw from its shareholding in Sprint.

All of the transactions mentioned are subject to the approval of the appropriate authorities and the relevant supervisory boards and committees.

On August 20, 1999, Deutsche Telekom received initial non-binding offers for all nine regions of the broadband cable network from a number of bidders. Based on these offers, approximately 10 bidders were selected for the due diligence process. Firm offers for the regions North-Rhine/Westphalia and Hesse were invited by November 18, 1999. Deutsche Telekom is already holding intensive negotiations with the most attractive bidders. As the bidders have also indicated their interest in the other regions and have linked their interest with the outcome of the sale process in North-Rhine/Westphalia and Hesse, Deutsche Telekom will invite firm offers for the other regions before the end of December.

In addition, Deutsche Telekom has further refined its concept for a partial sale, in order to optimize the income from the sale. In a first step, approximately 35 % is to be sold to a strategic investor in each region. Deutsche Telekom will keep 25 % plus one share. In a second step, approximately 40 % of the regional companies is to be listed on the stock exchange. The partners holding 35 % will, however, assume strategic leadership and management control in the first step, since the voting rights for the 40 % stakes reserved for later listings will be attached to the stakes held by these partners. The partners holding 35 % will therefore be able to fully consolidate their stakes in the broadband cable network immediately after the first step, which should be completed for almost all regions within the first half of 2000.

Now that all approvals have been given, the British mobile communications company One 2 One will be fully consolidated as at October 1, 1999. For Deutsche Telekom's results in the fourth quarter, this will lead to a proportional contribution to revenue and a negative effect on the results from goodwill and the take-over of on-going losses.

There will be a major impact on the balance-sheet structure, the cash flow and the Group's consolidated statement of income resulting from the consolidation of newly acquired companies, in particular with regard to the goodwill this generates. Deutsche Telekom is determined, however, to push ahead with its growth strategy, concentrating on the four business areas mobile communications, Internet, data/IP and network access, and to focus its investment portfolio accordingly.

# Preparations for the year 2000

Deutsche Telekom was very early in recognizing that the advent of the year 2000 could create major problems in IT and communications systems. In 1997, the Board of Management established a central project management team to oversee the Group's year 2000 conversion processes. This central team is coordinating and controlling the relevant activities of "sub-project" teams in the Group's various units. The sub-projects are basically proceeding along the following lines: inventory, analysis, conversion, test, overall integration test. Deutsche Telekom has completed the conversion and testing, including the overall integration tests, for all systems of critical importance for business. The overall integration tests cover the interaction between the systems. Deutsche Telekom is

working closely together with its suppliers and international partners. Contingency plans have also been drawn up with all parties concerned to deal with problems which may occur during the date change.

The total costs for converting and testing the systems are expected to amount to approximately € 153 million. Furthermore, the possibility cannot be excluded of financial risks resulting from any faults arising in connection with the date change at the beginning of the year 2000. Deutsche Telekom believes, however, that its systems will be capable of making the transition to the year 2000.

## Summary of the consolidated financial statements as at September 30, 1999

The financial statements of the Deutsche Telekom Group for the first nine months of 1999 have been prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Law (Aktiengesetz – AktG).

The Company provides uniform financial reporting to the extent possible by using accounting and valuation principles in line with those of U.S. GAAP (generally accepted account-

ing principles – GAAP) applicable at the balance sheet date, provided options exist under German GAAP (principally as laid down in the HGB) to permit such an approach. The contents of these consolidated financial statements differ from financial statements prepared in accordance with U.S. GAAP only in those instances where the 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.

Consolidated statement of income	1st–3rd quarter 1999 millions of €	1st–3rd quarter 1998 <sup>1)</sup> millions of €	Change in %	Total 1998 <sup>1)</sup> millions of €
<b>Net revenue</b>	25,576	25,992	-1.6	35,197
Changes in inventories and other own capitalized costs	658	733	-10.2	990
<b>Total operating performance</b>	<b>26,234</b>	<b>26,725</b>	<b>-1.8</b>	<b>36,187</b>
Other operating income	1,328	1,459	-9.0	2,069
Goods and services purchased	(5,385)	(4,452)	21.0	(6,276)
Personnel costs	(6,868)	(6,877)	-0.1	(9,170)
Depreciation and amortization	(5,988)	(6,568)	-8.8	(9,037)
Other operating expenses	(4,034)	(3,914)	3.1	(5,385)
Financial income (expense), net	(2,089)	(2,611)	-20.0	(3,288)
of which: net interest expense	(1,884)	(2,300)	-18.1	(2,962)
<b>Results from ordinary business activities</b>	<b>3,198</b>	<b>3,762</b>	<b>-15.0</b>	<b>5,100</b>
Extraordinary income (losses)	(239)	-	-	-
Taxes	(1,511)	(2,052)	-26.4	(2,654)
<b>Income after taxes</b>	<b>1,448</b>	<b>1,710</b>	<b>-15.3</b>	<b>2,446</b>
(Income) losses applicable to minority shareholders	(196)	(156)	25.6	(203)
<b>Net income</b>	<b>1,252</b>	<b>1,554</b>	<b>-19.4</b>	<b>2,243</b>

<sup>1)</sup> Revenue and goods and services purchased shown under 1998 have been adjusted to reflect the 1999 method of reporting. As of January 1, 1999, the amounts billed for other network operators are no longer shown under net revenue and goods and services purchased.

Consolidated balance sheet	Sept. 30, 1999 millions of €	Dec. 31, 1998 millions of €	Change in %	Sept. 30, 1998 millions of €
<b>Assets</b>				
Noncurrent assets	66,865	66,520	0.5	66,468
Current assets <sup>1)</sup>	23,360	12,771	82.9	17,133
	<b>90,225</b>	<b>79,291</b>	<b>13.8</b>	<b>83,601</b>
<b>Shareholders' equity and liabilities</b>				
Shareholders' equity	35,424	25,064	41.3	24,332
Liabilities <sup>2)</sup>	54,801	54,227	1.1	59,269
	<b>90,225</b>	<b>79,291</b>	<b>13.8</b>	<b>83,601</b>
<sup>1)</sup> Including prepaid expenses, deferred charges and deferred taxation.				
<sup>2)</sup> Including accruals and deferred income.				

Consolidated statement of cash flows	1st-3rd quarter 1999 millions of €	1st-3rd quarter 1998 millions of €	Change in %	Total 1998 millions of €
<b>Net cash provided by operating activities</b>	<b>7,040</b>	<b>10,314</b>	<b>-31.7</b>	<b>13,491</b>
<b>Net cash used for investing activities</b>	<b>(11,008)</b>	<b>(7,789)</b>	<b>41.3</b>	<b>(7,511)</b>
<b>Net cash provided by (used for) financing activities</b>	<b>6,909</b>	<b>(2,649)</b>	<b>-</b>	<b>(6,797)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	(45)	(1)	-	6
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,896</b>	<b>(125)</b>	<b>-</b>	<b>(811)</b>

Segment information by group business area for the 1st-3rd quarter 1999 in accordance with SFAS 131 <sup>1)</sup>	Net revenue	Revenue between segments	Depreciation and amortization	Net interest expense	Income (loss) related to associated and related companies	Income before taxes
	millions of €	millions of €	millions of €	millions of €	millions of €	millions of €
Telephone network communications	12,522	616	(3,133)	(815)	-	2,014
Mobile communications	2,734	828	(302)	(138)	-	707
Broadband cable/ Broadcasting	1,384	144	(667)	(273)	-	(98)
Terminal equipment	917	147	(141)	(37)	-	35
Special value-added services	1,405	248	(166)	(44)	-	(80)
International activities <sup>2)</sup>	1,660	11	(319)	(105)	-	180
Other segments	4,900	2,165	(1,250)	(477)	(192)	50
Reconciliation <sup>3)</sup>	54	(4,159)	(10)	5	(13)	151
<b>Group</b>	<b>25,576</b>	<b>0</b>	<b>(5,988)</b>	<b>(1,884)</b>	<b>(205)</b>	<b>2,959</b>

<sup>1)</sup> As of the consolidated financial statements of December 31, 1998, Deutsche Telekom is using the U.S. Statement of Financial Accounting Standard (SFAS) No.131 for segment reporting.

<sup>2)</sup> max.mobil., fully consolidated for the first time, is shown under international activities.

<sup>3)</sup> Predominantly consolidation entries and differences between the composition of the Deutsche Telekom Group for management reporting and for financial reporting purposes. The net revenue shown here relates to subsidiaries which are otherwise shown in the consolidated financial statements under international activities.

# Changes in the composition of the Deutsche Telekom Group

Deutsche Telekom's subsidiary max.mobil. was consolidated in the Group financial statements as at September 30, 1999, having been accounted for using the equity method in prior periods. The effects resulting from the acquisition of the majority shareholding in max.mobil. and the corresponding change in the accounting methods are explained below.

Deutsche Telekom acquired a further 10 % of max.mobil. in the third quarter of 1999. max.mobil. in turn has acquired 100 % of the shares of the Austrian retail chain Niedermeyer. Both these changes have been incorporated in the consolidated statements below.

## Effects on the consolidated statement of income

	millions of €
<b>Net revenue</b>	<b>558</b>
Changes in inventories and other own capitalized costs	6
Other operating income	4
Goods and services purchased	(285)
Personnel costs	(59)
Depreciation and amortization	(124)
Other operating expenses	(152)
Financial income (expense), net	(19)
<b>Income after taxes</b>	<b>(71)</b>
(Income) losses applicable to minority shareholders	1
<b>Net income</b>	<b>(70)</b>

## Effects on the consolidated balance sheet

Assets	millions of €	Shareholders' equity and liabilities	millions of €
Noncurrent assets	1,610	Shareholders' equity	(126)
Current assets <sup>1)</sup>	(885)	Liabilities <sup>2)</sup>	851
	<b>725</b>		<b>725</b>

<sup>1)</sup> Including prepaid expenses, deferred charges and deferred taxation. These effects are the result of the consolidation of assets and the payment of the purchase price.

<sup>2)</sup> Including accruals and deferred income.

## Effects on the consolidated statement of cash flows

	millions of €
Net cash provided by operating activities	27
Net cash used for investing activities	(1,096)
Net cash provided by financing activities	69
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,000)</b>

## Pro-forma consolidated balance sheet with inclusion of One 2 One

Deutsche Telekom acquired 100 % of the shares of the British mobile communications operator One 2 One on October 1, 1999. One 2 One will be fully consolidated for the first time from October 1, 1999. The pro-forma consolidated balance

sheet indicates the effect the acquisition would have had, had it taken place on September 30, 1999 (pro-forma calculation).

Assets	millions of €	Shareholders' equity and liabilities	millions of €
Noncurrent assets <sup>1)</sup>	79,879	Shareholders' equity	35,424
Current assets <sup>2)</sup>	13,677	Liabilities <sup>3)</sup>	58,132
	<b>93,556</b>		<b>93,556</b>

<sup>1)</sup> This includes goodwill of € 11.2 billion from the first-time consolidation of One 2 One. This goodwill will be amortized on a straight-line basis over a period of fifteen years.

<sup>2)</sup> Including prepaid expenses, deferred charges and deferred taxation. These effects are the result of the consolidation of assets and the payment of the purchase price.

<sup>3)</sup> Including accruals and deferred income.

# Revenue

	1st–3rd quarter 1999 millions of €	1st–3rd quarter 1998 millions of €	Change in %	Total 1998 millions of €
Telephone network communications	12,522	15,453	-19.0	20,531
Licensed service providers/Carriers	1,972	970	103.3	1,611
Data communications	2,123	1,893	12.2	2,536
Mobile communications	2,734	2,272	20.3	3,061
Broadband cable/Broadcasting	1,384	1,358	1.9	1,804
Terminal equipment <sup>1) 2)</sup>	917	1,024	-10.4	1,382
Special value-added services	1,405	1,526	-7.9	2,051
Other services <sup>1) 2)</sup>	804	458	75.5	825
International activities	1,715	1,038	65.2	1,396
<b>Total</b>	<b>25,576</b>	<b>25,992</b>	<b>-1.6</b>	<b>35,197</b>
Billing of services of other network operators <sup>3)</sup>	-	248	-	522
<b>Total including billing of services of other network operators<sup>3)</sup></b>	<b>-</b>	<b>26,240</b>	<b>-</b>	<b>35,719</b>

<sup>1)</sup> One of the main changes in the organizational structure of the group business areas for the 1999 financial year is that certain revenues from support services for terminal equipment are no longer shown under terminal equipment, but under other services. The figures for the 1998 financial year have therefore been adjusted accordingly. Revenue from support services totaling € 120 million for the entire 1998 financial year and revenue of € 87 million for the first nine months of 1998 have been reclassified.

<sup>2)</sup> A further important change in the organizational structure of the group business areas for the 1999 financial year is that revenues generated by one subsidiary are no longer shown under other services but under data communications. Revenues amounting to € 27 million for the entire 1998 financial year and € 16 million for the first nine months of 1998 have therefore been reclassified accordingly.

<sup>3)</sup> As of January 1, 1999, the amounts billed for other network operators are no longer shown under net revenue.

Net revenue of the Deutsche Telekom Group excluding the amounts billed for other network operators totaled € 25,576 million in the first nine months of 1999. If the amounts billed for other network operators are excluded from the figures for the first nine months of 1998, the decrease in revenue compared to the same period last year is 1.6 %. Net revenue of the Deutsche Telekom Group includes € 558 million shown under international activities, which was generated by max.mobil., fully consolidated for the first time. Without the inclusion of max.mobil., net revenue of the Deutsche Telekom Group would have decreased by 3.7 % compared with the same period in 1998.

Deutsche Telekom's largest source of revenue, telephone network communications, generated revenue of € 12,522 million in the first nine months of 1999. This drop in revenue was mainly attributable to the price cuts since January 1, 1999 and to the influence of competition in this area, the main effect of which has only been felt more intensely since the second quarter of 1998. This affected domestic and international long-distance calls in particular. The further growth in the number of ISDN access lines had a positive effect on the revenue generated in telephone network communications. With a total of 12.4 million ISDN channels as at September 30, 1999, Deutsche Telekom has recorded growth of 22.8 % in the 1999 financial year to date. Overall, however, revenue from telephone network communications fell by 19.0 % in the first nine months of 1999. The decrease in telephone network communications was compensated in part by increased revenue from data communications (including revenue from systems solutions) and, in particular, by significant growth in the revenue from interconnection services.

Revenue from mobile communications increased by 20.3 % in the first nine months of 1999 over the same period in 1998. Significant revenue growth was recorded by the T-D1 services. This was attributable to the dynamic development in the number of subscribers, which grew by 40.0 % to 7.7 million at September 30, 1999. On the other hand, revenue from the analog T-C-Tel service fell according to plan as the number of subscribers continued to decrease.

Revenue in the group business area broadband cable/broadcasting increased by 1.9 % to € 1,384 million as a result of the increase in the number of customers, whereas revenue in the terminal equipment group business area decreased by 10.4 % compared to the first nine months of 1998 to € 917 million as a result of streamlining the product portfolio. Revenue from the group business area special value-added services decreased by 7.9 % compared with the first nine months of 1998 to € 1,405 million. This reduction was attributable to a drop in revenue from public telephones and directory inquiries.

The success of T-Online as Europe's largest online service is reflected, for example, in the continued revenue growth in other services to € 804 million, of which € 326 million relate to T-Online. The number of T-Online customers rose by 33.3 % to 3.6 million at September 30, 1999.

Revenue of € 1,715 million from international activities in the first nine months of 1999 is mainly accounted for by the Hungarian telecommunications company MATÁV, which contributed 11.3 % more to the net revenue of the Deutsche Telekom Group than in the first nine months of 1998, and by revenue from max.mobil., which was fully consolidated for the first time.

# Personnel

Personnel costs	1st–3rd quarter 1999 millions of €	1st–3rd quarter 1998 millions of €	Change in %	Total 1998 millions of €
Wages and salaries	4,854	4,857	-0.1	6,477
Social security contributions and expenses for pension plans and benefits	2,014	2,020	-0.3	2,693
<b>Total</b>	<b>6,868</b>	<b>6,877</b>	<b>-0.1</b>	<b>9,170</b>



Deutsche Telekom continued to reduce the size of its workforce in the first nine months without compulsory redundancies. The number of employees (before changes in the composition of the Deutsche Telekom Group) decreased in the first nine months of 1999 by 2.5 % (or 4,466) to 174,703 at September 30, 1999. By contrast, personnel costs fell only slightly. This is attributable to the collectively agreed wage and salary increase from April 1, 1999, a collectively agreed one-time payment for the first quarter of 1999 and to a remuneration adjustment related to the eastern German

collective bargaining agreements. The level of personnel costs was also affected by age-related salary increases and the review of salaries in some areas to bring them in line with market conditions. Personnel costs in the first nine months of 1999 were reduced overall, despite the addition of € 59 million as a result of the first-time consolidation of max.mobil. Personnel costs in 1999 include for the last time annual contributions to civil servant pensions of € 1,483 million (DM 2,900 million) which are not linked to the number of employees.

Average number of employees	1st-3rd quarter 1999 Number	1st-3rd quarter 1998 Number	Change in %	Total 1998 Number
Civil servants	78,663	88,379	-11.0	87,573
Salaried employees	57,632	52,795	9.2	53,310
Wage earners	39,447	45,643	-13.6	44,857
<b>Deutsche Telekom Group<sup>1)</sup></b>	<b>175,742</b>	<b>186,817</b>	<b>-5.9</b>	<b>185,740</b>
Changes in the composition of the Deutsche Telekom Group (in particular MATÁV and max.mobil.)				
	18,664	17,839	4.6	17,634
<b>Deutsche Telekom Group</b>	<b>194,406</b>	<b>204,656</b>	<b>-5.0</b>	<b>203,374</b>
Trainees/student interns	6,057	5,900	2.7	6,165

<sup>1)</sup> Before changes in the composition of the Deutsche Telekom Group of prior years and the current financial year.

Number of employees at balance sheet date	Sept. 30, 1999 Number	Dec. 31, 1998 Number	Change in %	Sept. 30, 1998 Number
Civil servants	75,396	83,848	-10.1	86,578
Salaried employees	60,709	54,008	12.4	53,662
Wage earners	38,598	41,313	-6.6	43,887
<b>Deutsche Telekom Group<sup>1)</sup></b>	<b>174,703</b>	<b>179,169</b>	<b>-2.5</b>	<b>184,127</b>
Changes in the composition of the Deutsche Telekom Group (in particular MATÁV and max.mobil.)				
	18,373	16,707	10.0	17,298
<b>Deutsche Telekom Group</b>	<b>193,076</b>	<b>195,876</b>	<b>-1.4</b>	<b>201,425</b>
Trainees/student interns	7,534	6,932	8.7	6,846

<sup>1)</sup> Before changes in the composition of the Deutsche Telekom Group of prior years and the current financial year.

The number of employees (before changes in the composition of the Deutsche Telekom Group) was decreased through the Group's workforce reduction program of avoiding compulsory redundancies by 4,466 to 174,703 in the course of the first nine months of 1999. As the situation currently stands,

Deutsche Telekom's goal of reducing its workforce to about 170,000 (before changes in the composition of the Deutsche Telekom Group) by the end of the year 2000 will be fulfilled ahead of time.

## Depreciation and amortization

	1st-3rd quarter 1999 millions of €	1st-3rd quarter 1998 millions of €	Change in %	Total 1998 millions of €
Depreciation and amortization	5,988	6,568	-8.8	9,037

In the period under review, depreciation and amortization fell by 8.8 % or € 580 million compared to the first nine months of 1998 to € 5,988 million. The extension of depreciation periods for the outside plant network was responsible for a reduction of approximately € 0.6 billion. This adjustment followed a reevaluation of the physical and economic useful life of the equipment. The first full consolidation of max.mobil. produced the opposite effect, resulting in an increase of

€ 124 million in depreciation and amortization compared with the same period in 1998. In total, approximately 76.3 % or € 4.6 billion of the depreciation and amortization in the Deutsche Telekom Group is attributable to depreciation of technical equipment and machinery. Nonscheduled write-downs amounting to € 12 million were recognized in the first nine months of 1999.

# Changes in net income

The Group's results from ordinary business activities in the first nine months of 1999 amounted to € 3,198 million and were thus € 564 million lower than in the same period last year. This is the result of the following developments: As a consequence of the price reductions in telephone network communications, revenue in the first nine months of 1999 fell by € 416 million despite the inclusion of revenue from max.mobil. for the first time. This decrease in revenue was not fully offset by reductions in costs. The level of goods and services purchased increased by € 933 million compared to the first nine months of 1998. This increase was due in particular to an increase in the level of materials used and an increase in expense for network access charges. Of this

€ 933 million, € 285 million is attributable to the inclusion of max.mobil. Personnel costs remained slightly below the level for the first nine months of 1998, despite the addition of € 59 million as a result of the first-time consolidation of max.mobil. Depreciation and amortization decreased by € 580 million compared with the same period last year. This is mainly attributable to the extension of depreciation periods in the outside plant network. Financial expense was reduced by a total of € 522 million, mainly as a result of the scheduled decrease in interest expense. The first full consolidation of max.mobil. led, overall, to a decrease of € 71 million in the Group's results from ordinary business activities.

	millions of €
Decrease in revenue	(416)
Increase in goods and services purchased	(933)
Decrease in personnel costs	9
Decrease in depreciation and amortization	580
Changes in financial income (expense)	522
of which: changes in net interest expense	416
Changes in other income and expense items	(326)
<b>Total changes to results from ordinary business activities</b>	<b>(564)</b>

The expenses incurred in the course of the capital increase amounting to € 239 million are shown under extraordinary income (losses). The decrease in tax expense by a total of € 541 million compared to the first nine months of 1998 is mainly attributable to the lower level of income before taxes

compared to last year. Furthermore, a tax refund and the reversal of accruals made for other taxes reduced the total level of tax expense. Thus, net income of the Group after extraordinary income (losses) amounted to € 1,252 million, € 302 million lower than in the same period in 1998.

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

	1st-3rd quarter 1999 millions of €	1st-3rd quarter 1998 millions of €	Change in %	Total 1998 millions of €
<b>Net income as reported in the consolidated financial statements under German GAAP</b>	<b>1,252</b>	<b>1,554</b>	<b>-19.4</b>	<b>2,243</b>
Personnel restructuring accrual	(89)	(233)	-	(286)
Other differences	560	74	-	65
Income taxes	(485)	138	-	203
<b>Net income in accordance with U.S. GAAP</b>	<b>1,238</b>	<b>1,533</b>	<b>-19.2</b>	<b>2,225</b>

As at September 30, 1999 shareholders' equity in accordance with U.S. GAAP amounted to € 36,957 million (Dec. 31, 1998: € 26,857 million).

## Investments

	1st-3rd quarter 1999 millions of €	1st-3rd quarter 1998 millions of €	Change in %	Total 1998 millions of €
Intangible assets <sup>1)</sup>	1,218	185	558.4	528
Property, plant and equipment	3,223	2,835	13.7	4,260
Financial assets	2,479	1,324	87.2	2,738
<b>Total</b>	<b>6,920</b>	<b>4,344</b>	<b>59.3</b>	<b>7,526</b>

<sup>1)</sup> Including € 955 million of goodwill in the first nine months of 1999, from the first-time consolidation of max.mobil.

Additions to property, plant and equipment, which relate mainly to Deutsche Telekom AG, T-Mobil and MATÁV, amounted to € 3,223 million in the first nine months of 1999, compared with € 2,835 million in the same period last year. After the completion at the end of 1997 of the digitization of the network's switching and transmission equipment, as well as of the development program for eastern Germany, capital expenditure on property, plant and equipment remained at a low level as planned. max.mobil., fully consolidated for the first time, invested € 172 million in property, plant and equipment in the period under review. Additions to intangible assets

in the Deutsche Telekom Group amounted to € 1,218 million, of which € 955 million is attributable to the goodwill from the acquisition of max.mobil. (including the increase in the shareholding in the course of the third quarter). Investments in financial assets amounted to € 2,479 million, € 714 million of which are attributable to investments in associated and related companies. Deutsche Telekom invested a further € 1,298 million in noncurrent securities, € 982 million of which were invested in fixed-interest securities and € 316 million in specialized securities funds (mostly U.S. dollar funds).

## Financial liabilities

	Sept. 30, 1999 millions of €	Dec. 31, 1998 millions of €	Change in %	Sept. 30, 1998 millions of €
Debt	38,503	39,933	-3.6	44,047
Debt (excluding MATÁV and max.mobil.)	37,174	39,260	-5.3	43,387
Net financial liabilities <sup>1)</sup>	24,150	33,477	-27.9	33,540

<sup>1)</sup> Financial liabilities after deduction of liquid assets and marketable securities

In order to broaden its sources of funding, Deutsche Telekom increased the volume of its debut benchmark bond floated in May 1998 by approximately € 1.0 billion to a total of € 2.0 billion on January 12, 1999. Financial liabilities are being repaid according to plan; the redemption structure of Deutsche Telekom's indebtedness is such that repayment of debt will total a further € 3 billion in the fourth quarter of the year. At the end of September 1999, total debt amounted to approximately € 38.5 billion, as compared with € 39.9 billion at December 31, 1998. Future repayment of debt (before chan-

ges in the composition of the Deutsche Telekom Group) will continue as planned; the goal is to reduce debt to approximately € 33 billion by the end of the year 2000. In the event of new acquisitions, this target may have to be adjusted. Net financial liabilities, after taking liquid assets of € 11.6 billion and marketable securities of € 2.7 billion into account, amounted to € 24.2 billion at September 30, 1999. The considerable decrease in net financial liabilities is attributable to the inflow of cash from the capital increase.

## Cash flows

### Net cash provided by operating activities

Net cash provided by operating activities amounted to € 7,040 million in the first nine months of this year. The decrease of € 3,274 million compared with the same period last year 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. max.mobil. was included in the statement of cash flows for the first time. As a result, net cash provided by operating activities increased by € 27 million.

### Net cash used for investing activities

Net cash used for investing activities increased by € 3,219 million compared with the first nine months of 1998 to € 11,008 million. This increase is attributable in part to the acquisition of the majority shareholding in max.mobil. and also increased levels of investment in financial assets. Also, temporary fixed-

term bank deposits and marketable securities were increased significantly.

### Net cash provided by (used for) financing activities

The first nine months of 1999 saw an inflow of cash provided by financing activities of € 6,909 million compared with an outflow of € 2,649 million in the same period in 1998. This is attributable in particular to Deutsche Telekom's capital increase, from which the Deutsche Telekom Group received an inflow of cash amounting to approximately € 10.6 billion in total. In addition, the volume of the debut benchmark bond was increased in January 1999. This was offset by the considerably higher repayment of short-term debt by the Deutsche Telekom Group than in the same period in 1998. The cash outflow resulting from dividend payments remained unchanged compared with the same period in 1998.

Bonn, November 1999  
Deutsche Telekom AG

Board of Management

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