

Deutsche Telekom  
Group Report  
January 1 to March 31, 2000



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# Highlights

- **Successful offering of T-Online despite difficult market environment**
- **Joint venture planned with debis makes Deutsche Telekom second-largest systems house in Europe**
- **Revenue increases despite continued competitive pressure**
- **Net income taken on a comparable basis remains at previous year's level**
- **Growth in mobile communications, online and ISDN accelerates**
- **Continuation of internationalization strategy with purchase of 99.9 % of Club Internet in France and majority shareholding in Radiomobil in the Czech Republic, as well as increased shareholding in max.mobil.**
- **Sale of shares in Global One generates tax-free proceeds of EUR 2.9 billion in the first quarter**
- **Sale of majority shareholdings in the broadband cable network in North-Rhine/Westphalia and Hesse**

# Ladies and Gentlemen, Dear Shareholders,

The purpose of this report is to give you detailed information about the first three months of 2000.

The Deutsche Telekom share, the T-Share, achieved a significant performance in the period under review. The share price rose by 18.3 % (March 31, 2000: EUR 84.00) compared with the last price quoted in 1999 (Xetra closing price: EUR 71.00). The DAX 30 rose by 9.2 % over the same period. Both Deutsche Telekom's share price and the DAX 30 have come under considerable pressure since March 31.

## Business developments

Group revenue in the first three months of 2000 increased by 15 % compared with the same period last year to EUR 9.54 billion after inclusion of max.mobil., One 2 One and SIRIS. Excluding the effects of these newly consolidated companies, revenue increased by more than 4 %. The decrease in revenue from network communications was more than compensated by the growth areas mobile communications, data communications, T-Online and carrier services.

The first three months of 2000 were marked by booming subscriber growth in mobile communications, T-Online and ISDN. The number of mobile communications subscribers served by companies in which Deutsche Telekom holds a majority shareholding increased by 2.9 million compared with December 31, 1999 to 18.6 million as at March 31, 2000. The number of T-D1 subscribers alone increased by 1.8 million, a growth of almost 20 %. T-Online also gained 1.1 million new subscribers with the inclusion of Club Internet. This represents an in-

crease of more than 26 % compared with December 31, 1999. Excluding Club Internet, this increase would have been approximately 19 %. 1.0 million new ISDN channels have been activated since the end of 1999. This is an increase of 7.5 %, approximately a third of which is attributable to residential customers and two thirds to business customers, a sector which now includes small and medium-sized enterprises. With a total of 14.3 million ISDN channels in operation, Deutsche Telekom is in a unique position, even in comparison with international competitors and has a proven track record of successfully marketing new technologies.

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

| Numbers of<br>customers<br>in selected<br>services | March 31, 2000 | Dec. 31, 1999 | Change | March 31, 1999 |
|----------------------------------------------------|----------------|---------------|--------|----------------|
|                                                    | millions       | millions      | in %   | millions       |
| Mobile phone subscribers                           | 18.6           | 15.7          | 18.5   | 9.7            |
| of which: T-D1                                     | 10.9           | 9.1           | 19.8   | 6.5            |
| of which: One 2 One                                | 5.0            | 4.2           | 19.0   | 2.3            |
| of which: max.mobil.                               | 1.6            | 1.5           | 6.7    | 0.9            |
| of which: Westel*                                  | 1.1            | 0.9           | 22.2   | 0.7            |
| T-Online customers                                 | 5.3 **         | 4.2           | 26.2   | 3.0            |
| Telephone lines (incl. ISDN channels)              | 48.2           | 47.8          | 0.8    | 46.9           |
| of which: ISDN channels                            | 14.3           | 13.3          | 7.5    | 10.9           |
| of which: residential customers***                 | 6.3            | 6.0           | 5.0    | 4.5            |
| of which: business customers***                    | 8.0            | 7.3           | 9.6    | 6.4            |

\* Directly and indirectly held by MATÁV.

\*\* Including the agreed acquisition of Club Internet.

\*\*\* In 2000, small and medium-sized enterprises were reallocated to the business customer segment.

| Income before taxes, net revenue and return on sales <sup>1)</sup> | Income before taxes<br>1 <sup>st</sup> quarter 2000<br>millions of € | Income before taxes<br>1 <sup>st</sup> quarter 1999<br>millions of € | Net revenue<br>1 <sup>st</sup> quarter 2000<br>millions of € | Net revenue <sup>2)</sup><br>1 <sup>st</sup> quarter 1999<br>millions of € | Return on sales<br>1 <sup>st</sup> quarter 2000<br>in % | Return on sales<br>1 <sup>st</sup> quarter 1999<br>in % |
|--------------------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|
| Network communications                                             | 908                                                                  | 892                                                                  | 3,981                                                        | 4,355                                                                      | 22.8                                                    | 20.5                                                    |
| Carrier services                                                   | 109                                                                  | 102                                                                  | 896                                                          | 568                                                                        | 12.2                                                    | 18.0                                                    |
| Data communications                                                | 152                                                                  | 47                                                                   | 741                                                          | 623                                                                        | 20.5                                                    | 7.5                                                     |
| Mobile communications                                              | (310)                                                                | 235                                                                  | 1,888                                                        | 849                                                                        | -16.4                                                   | 27.7                                                    |
| Broadcasting and broadband cable                                   | 46                                                                   | (75)                                                                 | 465                                                          | 472                                                                        | 9.9                                                     | -15.9                                                   |
| Terminal equipment                                                 | 22                                                                   | 8                                                                    | 273                                                          | 309                                                                        | 8.1                                                     | 2.6                                                     |
| Value-added services                                               | 20                                                                   | 90                                                                   | 435                                                          | 476                                                                        | 4.6                                                     | 18.9                                                    |
| International                                                      | 30                                                                   | 67                                                                   | 461                                                          | 347                                                                        | 6.5                                                     | 19.3                                                    |
| Other segments                                                     | (388)                                                                | (170)                                                                | 373                                                          | 252                                                                        | -104.0                                                  | -67.5                                                   |
| Reconciliation <sup>3)</sup>                                       | (121)                                                                | (13)                                                                 | 26                                                           | 12                                                                         | -                                                       | -                                                       |
| <b>Total</b>                                                       | <b>468</b>                                                           | <b>1,183</b>                                                         | <b>9,539</b>                                                 | <b>8,263</b>                                                               | <b>4.9</b>                                              | <b>14.3</b>                                             |
| Special effects                                                    | 1,821                                                                | -                                                                    | -                                                            | -                                                                          | -                                                       | -                                                       |
| <b>Total including special effects</b>                             | <b>2,289</b>                                                         | <b>1,183</b>                                                         | <b>9,539</b>                                                 | <b>8,263</b>                                                               | <b>24.0</b>                                             | <b>14.3</b>                                             |

<sup>1)</sup> Excluding the special effects allocated to the segments.

<sup>2)</sup> Net revenue shown under 1999 has been adjusted to reflect the 2000 reporting structure. The revenue and results of One 2 One and max.mobil. are included in the mobile communications segment from the first quarter of 2000.

<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 primarily in the consolidated financial statements under international business.

Income before taxes in the first three months of 2000 – including special effects – amounted to EUR 2.289 billion and was thus considerably higher than in the first quarter of 1999 (EUR 1.183 billion). In order to make the figures easier to compare, special effects have been eliminated from the table above – within the segments, but the newly consolidated companies (One 2 One, max.mobil., SIRIS, etc.) have been

included in order to show the current returns. In the table below, for the sake of better comparability, the results are shown excluding the newly consolidated companies and excluding special effects down to the net income. From this table it is apparent that the net income on a comparable basis has remained constant at approximately EUR 0.5 billion.

| Net income on a comparable basis                          | 1 <sup>st</sup> quarter 2000<br>millions of € | 1 <sup>st</sup> quarter 1999<br>millions of € |
|-----------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|
| Income before taxes, total                                | 2,289                                         | 1,183                                         |
| Taxes/(Income) losses applicable to minority shareholders | (329)                                         | (648)                                         |
| <b>Net income</b>                                         | <b>1,960</b>                                  | <b>535</b>                                    |
| Changes in the composition of the Deutsche Telekom Group  | 370                                           | -                                             |
| Special effects                                           | (1,821)                                       | -                                             |
| <b>Net income on a comparable basis</b>                   | <b>509</b>                                    | <b>535</b>                                    |

## Outlook

On April 17, Deutsche Telekom made a successful start to its stock market activities for the year 2000 with the flotation of T-Online shares, despite the extremely difficult market environment, in particular the negative state of the US technology stock exchange Nasdaq immediately before the issue. The trading price of the T-Online share on May 8 was EUR 42.25 (Xetra closing price), which represents an increase of 56.5 % over the issue price of EUR 27.

The agreement for the planned strategic joint venture between Deutsche Telekom and DaimlerChrysler was announced on March 27, according to which Deutsche Telekom will acquire 50.1 % of the shares in debis Systemhaus as part of a capi-

tal increase amounting to approximately EUR 5.3 billion. DaimlerChrysler will contribute the entire debis systems solutions business. Deutsche Telekom will thus rise to the position of second-largest systems house in Europe and will greatly expand its strategic pillar of data/IP/systems solutions in order to offer its customers comprehensive solutions for the area of information technology and telecommunications under one roof. Deutsche Telekom has the option to acquire the remaining 49.9 % of the debis Systemhaus shares between January 1, 2002 and January 1, 2005 and DaimlerChrysler has the right to sell these shares. This agreement is subject to the approval under EU law and by other bodies.

On March 30, Deutsche Telekom announced that it would increase its shareholding in the Czech mobile communications operator Radiomobil from 41.4 % to a majority shareholding of 51.4 % by exercising an option to the value of US\$ 765 million. In accordance with the process defined in the option agreement, the transfer of the additional shares will not take effect until the first half of 2001. The transaction underlines the continuation of Deutsche Telekom's consistent internationalization and the strategy of taking majority and operational control of associated companies. On April 4, T-Mobil increased its shareholding in the Austrian mobile communications operator max.mobil. by 9 % to 100 %.

On February 22, and March 31, 2000 Deutsche Telekom announced the sale of 55 % of the broadband cable network in North-Rhine/Westphalia and 65 % in Hesse respectively. With approximately 5.5 million homes connected to the broadband cable network, these two regions represent approximately 30 % of the existing total customer base. The business hand-over is scheduled for July 1, subject to the approval of the anti-trust authorities. Further partial sales are planned for this year.

The year 2000 as a whole will be marked by two main effects. First, the considerable positive effects on the results are expected to continue, such as the sale of further majority shareholdings in the broadband cable network. Second, there will be pressure on net income from new consolidations and the amortization of goodwill as a result of the Deutsche Telekom Group's transformation towards the four strategic pillars. Furthermore, the EBITDA margin will decrease in the short term due to the usual start-up losses and high subscriber acquisition costs in the growth drivers mobile communications and online. The EBITDA margin for the first three months of 2000 is 59.2 %. If the special effects are not included, the EBITDA margin excluding changes in the composition of the Deutsche Telekom Group is 38.6 % and 35.6 % including changes in the composition of the Deutsche Telekom Group. The EBITDA margin for the first three months of 1999 was 46.9 %.

## Summary of the consolidated financial statements as at March 31, 2000

The financial statements of the Deutsche Telekom Group for the first three months of 2000 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 quarter 2000<br>millions of € | 1st quarter 1999<br>millions of € | Change<br>in % | Total 1999<br>millions of € |
|-----------------------------------------------------------|-----------------------------------|-----------------------------------|----------------|-----------------------------|
| <b>Net revenue</b>                                        | <b>9,539</b>                      | <b>8,263</b>                      | <b>15.4</b>    | <b>35,470</b>               |
| Changes in inventories and other own<br>capitalized costs | 232                               | 284                               | -18.3          | 947                         |
| <b>Total operating performance</b>                        | <b>9,771</b>                      | <b>8,547</b>                      | <b>14.3</b>    | <b>36,417</b>               |
| Other operating income                                    | 3,338                             | 372                               | 797.3          | 1,871                       |
| Goods and services purchased                              | (2,588)                           | (1,370)                           | 88.9           | (7,667)                     |
| Personnel costs                                           | (2,346)                           | (2,295)                           | 2.2            | (9,210)                     |
| Depreciation and amortization                             | (2,551)                           | (1,909)                           | 33.6           | (8,466)                     |
| Other operating expenses                                  | (2,527)                           | (1,378)                           | 83.4           | (6,872)                     |
| Financial income (expense), net                           | (761)                             | (784)                             | -2.9           | (2,889)                     |
| of which: net interest expense                            | (713)                             | (681)                             | 4.7            | (2,546)                     |
| <b>Results from ordinary business activities</b>          | <b>2,336</b>                      | <b>1,183</b>                      | <b>97.5</b>    | <b>3,184</b>                |
| Extraordinary income (losses)                             | (47)                              | -                                 | -              | (240)                       |
| Taxes                                                     | (265)                             | (594)                             | -55.4          | (1,420)                     |
| <b>Income after taxes</b>                                 | <b>2,024</b>                      | <b>589</b>                        | <b>243.6</b>   | <b>1,524</b>                |
| (Income) losses applicable to minority shareholders       | (64)                              | (54)                              | 18.5           | (271)                       |
| <b>Net income</b>                                         | <b>1,960</b>                      | <b>535</b>                        | <b>266.4</b>   | <b>1,253</b>                |
| <b>Earnings per share in €</b>                            | <b>0.65</b>                       | <b>0.20</b>                       | <b>225.0</b>   | <b>0.43</b>                 |

| Consolidated<br>balance sheet               | March 31, 2000<br>millions of € | Dec. 31, 1999<br>millions of € | Change<br>in % | March 31, 1999<br>millions of € |
|---------------------------------------------|---------------------------------|--------------------------------|----------------|---------------------------------|
| <b>Assets</b>                               |                                 |                                |                |                                 |
| Noncurrent assets                           | 83,336                          | 81,983                         | 1.7            | 65,855                          |
| Current assets <sup>1)</sup>                | 18,141                          | 12,654                         | 43.4           | 14,001                          |
|                                             | <b>101,477</b>                  | <b>94,637</b>                  | <b>7.2</b>     | <b>79,856</b>                   |
| <b>Shareholders' equity and liabilities</b> |                                 |                                |                |                                 |
| Shareholders' equity                        | 37,709                          | 35,689                         | 5.7            | 25,642                          |
| Liabilities <sup>2)</sup>                   | 63,768                          | 58,948                         | 8.2            | 54,214                          |
|                                             | <b>101,477</b>                  | <b>94,637</b>                  | <b>7.2</b>     | <b>79,856</b>                   |

<sup>1)</sup> Including prepaid expenses, deferred charges and deferred taxation.

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

| Consolidated<br>statement of<br>cash flows                              | 1st quarter 2000<br>millions of € | 1st quarter 1999<br>millions of € | Change<br>in % | Total 1999<br>millions of € |
|-------------------------------------------------------------------------|-----------------------------------|-----------------------------------|----------------|-----------------------------|
| <b>Net cash provided by operating activities</b>                        | <b>1,028</b>                      | <b>1,626</b>                      | <b>-36.7</b>   | <b>9,588</b>                |
| <b>Net cash used for investing activities</b>                           | <b>(536)</b>                      | <b>(877)</b>                      | <b>-38.8</b>   | <b>(18,684)</b>             |
| <b>Net cash provided by (used for) financing activities</b>             | <b>2,778</b>                      | <b>(933)</b>                      | <b>-</b>       | <b>7,965</b>                |
| Effect of foreign exchange rate changes on<br>cash and cash equivalents | 1                                 | 2                                 | -              | (55)                        |
| <b>Net increase (decrease) in cash and cash<br/>equivalents</b>         | <b>3,271</b>                      | <b>(182)</b>                      | <b>-</b>       | <b>(1,186)</b>              |

| Segment<br>information by<br>group business<br>area for the<br>1st quarter 2000<br>in accordance<br>with SFAS 131 <sup>1)</sup> | Net revenue                       | Revenue<br>between<br>segments    | Depreciation<br>and<br>amortization | Net interest<br>expense           | Income (loss)<br>related to<br>associated<br>and related<br>companies | Income<br>before<br>taxes         | Income<br>before<br>taxes <sup>3)</sup> |
|---------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-----------------------------------------------------------------------|-----------------------------------|-----------------------------------------|
|                                                                                                                                 | I/2000<br>I/1999<br>millions of € | I/2000<br>I/1999<br>millions of € | I/2000<br>I/1999<br>millions of €   | I/2000<br>I/1999<br>millions of € | I/2000<br>I/1999<br>millions of €                                     | I/2000<br>I/1999<br>millions of € | I/2000<br>millions of €                 |
| Network communications                                                                                                          | 3,981<br>4,355                    | 166<br>198                        | (1,048)<br>(1,043)                  | (5)<br>(323)                      | -<br>-                                                                | 482<br>892                        | 908                                     |
| Carrier services                                                                                                                | 896<br>568                        | 236<br>133                        | (286)<br>(120)                      | (13)<br>(34)                      | -<br>-                                                                | (99)<br>102                       | 109                                     |
| Data communications                                                                                                             | 741<br>623                        | 160<br>146                        | (262)<br>(194)                      | (19)<br>(52)                      | -<br>-                                                                | (20)<br>47                        | 152                                     |
| Mobile communications                                                                                                           | 1888<br>849                       | 345<br>221                        | (453)<br>(87)                       | (272)<br>(37)                     | -<br>-                                                                | (339)<br>235                      | (310)                                   |
| Broadcasting and<br>broadband cable                                                                                             | 465<br>472                        | 14<br>30                          | (201)<br>(219)                      | (67)<br>(96)                      | -<br>-                                                                | 19<br>(75)                        | 46                                      |
| Terminal equipment                                                                                                              | 273<br>309                        | 51<br>46                          | (47)<br>(38)                        | (5)<br>(14)                       | -<br>-                                                                | 12<br>8                           | 22                                      |
| Value-added services                                                                                                            | 435<br>476                        | 90<br>70                          | (53)<br>(51)                        | (3)<br>(15)                       | -<br>-                                                                | 2<br>90                           | 20                                      |
| International                                                                                                                   | 461<br>347                        | 0<br>3                            | (99)<br>(62)                        | (18)<br>(33)                      | -<br>-                                                                | 30<br>67                          | 30                                      |
| Other segments                                                                                                                  | 373<br>252                        | 494<br>378                        | (98)<br>(92)                        | (302)<br>(80)                     | 13<br>(105)                                                           | 2,323<br>(170)                    | (388)                                   |
| Reconciliation <sup>2)</sup>                                                                                                    | 26<br>12                          | (1,556)<br>(1,225)                | (4)<br>(3)                          | (9)<br>3                          | (61)<br>2                                                             | (121)<br>(13)                     | (121)                                   |
| <b>Group</b>                                                                                                                    | <b>9,539<br/>8,263</b>            | <b>-<br/>-</b>                    | <b>(2,551)<br/>(1,909)</b>          | <b>(713)<br/>(681)</b>            | <b>(48)<br/>(103)</b>                                                 | <b>2,289<br/>1,183</b>            | <b>468</b>                              |

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

<sup>2)</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 primarily in the consolidated financial statements under international business.

<sup>3)</sup> Excluding special effects.

The following table shows EBITDA<sup>1)</sup> figures on a comparable basis (excluding special effects):

|                                  | 1 <sup>st</sup> quarter 2000<br>millions of € | 1 <sup>st</sup> quarter 1999<br>millions of € | 1 <sup>st</sup> quarter 2000<br>Margin in % | 1 <sup>st</sup> quarter 1999<br>Margin in % |
|----------------------------------|-----------------------------------------------|-----------------------------------------------|---------------------------------------------|---------------------------------------------|
| Network communications           | 1,792                                         | 2,258                                         | 45.0                                        | 51.8                                        |
| Carrier services                 | 296                                           | 256                                           | 33.0                                        | 45.1                                        |
| Data communications              | 343                                           | 293                                           | 46.3                                        | 47.0                                        |
| Mobile communications            | 415                                           | 359                                           | 22.0                                        | 42.3                                        |
| Broadcasting and broadband cable | 307                                           | 240                                           | 66.0                                        | 50.8                                        |
| Terminal equipment               | 74                                            | 60                                            | 27.1                                        | 19.4                                        |
| Value-added services             | 70                                            | 156                                           | 16.1                                        | 32.8                                        |
| International                    | 147                                           | 162                                           | 31.9                                        | 46.7                                        |
| Other segments                   | (1)                                           | 107                                           | -0.3                                        | 42.5                                        |
| <b>Group</b>                     | <b>3,397</b>                                  | <b>3,876</b>                                  | <b>35.6</b>                                 | <b>46.9</b>                                 |

<sup>1)</sup> Earnings before interest, taxes, depreciation and amortization.

## Changes in the composition of the Deutsche Telekom Group

Deutsche Telekom pushed ahead with its national and international expansion in 1999. Shareholdings were acquired in various German and foreign companies in the course of 1999. None of these companies (One 2 One, max.mobil., SIRIS, Eurobell, TeleCash and Datus) was included in the financial

statements as at March 31, 1999. In order to allow a more accurate comparison with the financial statements as at March 31, 1999, the following shows separately the effects of these new acquisitions on the consolidated statement of income of March 31, 2000.

Effects of new acquisitions made in 1999 on the consolidated statement of income

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

## Revenue

|                                  | 1 <sup>st</sup> quarter 2000<br>millions of € | 1 <sup>st</sup> quarter 1999<br>millions of € | Change<br>in % | Total 1999 <sup>1)</sup><br>millions of € |
|----------------------------------|-----------------------------------------------|-----------------------------------------------|----------------|-------------------------------------------|
| Network communications           | 3,981                                         | 4,355                                         | -8.6           | 16,737                                    |
| Carrier services                 | 896                                           | 568                                           | 57.7           | 2,884                                     |
| Data communications              | 741                                           | 623                                           | 19.0           | 2,828                                     |
| Mobile communications            | 1,888                                         | 849                                           | 122.4          | 5,274                                     |
| Broadcasting and broadband cable | 465                                           | 472                                           | -1.4           | 1,917                                     |
| Terminal equipment               | 273                                           | 309                                           | -11.6          | 1,207                                     |
| Value-added services             | 435                                           | 476                                           | -8.6           | 1,903                                     |
| International                    | 487                                           | 359                                           | 35.7           | 1,598                                     |
| Other services                   | 373                                           | 252                                           | 48.0           | 1,122                                     |
| <b>Total</b>                     | <b>9,539</b>                                  | <b>8,263</b>                                  | <b>15.4</b>    | <b>35,470</b>                             |

<sup>1)</sup> Net revenue shown under 1999 has been adjusted to reflect the 2000 reporting structure. The revenue and results of One 2 One and max.mobil. are included in mobile communications from the first quarter of 2000.

Net revenue of the Deutsche Telekom Group totaled EUR 9,539 million in the first three months of 2000. This represents an increase of 15.4 %. The newly acquired foreign subsidiaries, in particular One 2 One, max.mobil. and SIRIS, made the largest contribution to this increase, EUR 920 million. Excluding the newly consolidated companies, revenue increased by 4.3 %, which is mainly due to the growth areas mobile communications, data communications and carrier services.

Network communications, still Deutsche Telekom's largest source of revenue, generated revenue of EUR 3,981 million in the first three months of 2000. This drop in revenue was mainly attributable to the price cuts implemented since April 1, 1999, most recently in February 2000 for international calls and at the beginning of March 2000 for domestic long-distance calls. The further growth in the number of ISDN access lines had a positive effect on the revenue generated in network communications. With a total of 14.3 million ISDN channels as at March 31, 2000, Deutsche Telekom has recorded growth of 7.5 % in the first three months of 2000. Overall, however, revenue from network communications fell by 8.6 % in the first three months of 2000. The decrease in revenue from network communications was more than compensated by increased revenue from mobile communications and data communications in particular and interconnection services.

The marked growth in revenue from mobile communications compared with the first three months of 1999 is mainly attributable to the first-time full consolidation of One 2 One and max.mobil. T-Mobil and the two new subsidiaries benefited from the increase in the number of subscribers in their respective markets. Revenue from mobile communications totaled EUR 1,888 million, of which One 2 One and max.mobil. accounted for EUR 840 million. One 2 One and max.mobil.

were not included in the financial statements as at March 31, 1999. Overall, mobile communications accounted for 19.7 % of Deutsche Telekom's revenue in the first three months of 2000, compared with 10.9 % in the same period last year.

Revenue from data communications increased by 19 % compared with the first three months of 1999 to EUR 741 million. This is mainly attributable to the trend towards comprehensive systems solutions. Revenue in the group business area broadcasting and broadband cable decreased slightly by 1.4 % to EUR 465 million. Revenue from terminal equipment decreased by 11.6 % compared to the first three months of 1999 to EUR 273 million as a result of streamlining the product portfolio and the reduction in revenue from equipment rental. Revenue from the group business area value-added services decreased by 8.6 % compared with the first three months of 1999 to EUR 435 million. This reduction was attributable to a drop in revenue from public telephones and directory inquiries.

Revenue from other services increased by 48.0 % to EUR 373 million. This is mainly attributable to the 85.5 % increase in revenue from T-Online to a consolidated revenue of EUR 167 million. The number of T-Online subscribers in Germany rose by 64.0 % as compared with March 31, 1999 to 4.9 million as at March 31, 2000.

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

## Personnel

| Personnel costs                                                           | 1st quarter 2000<br>millions of € | 1st quarter 1999<br>millions of € | Change<br>in % | Total 1999<br>millions of € |
|---------------------------------------------------------------------------|-----------------------------------|-----------------------------------|----------------|-----------------------------|
| Wages and salaries                                                        | 1,779                             | 1,625                             | 9.5            | 6,520                       |
| Social security contributions and expenses for pension plans and benefits | 567                               | 670                               | -15.4          | 2,690                       |
| <b>Total</b>                                                              | <b>2,346</b>                      | <b>2,295</b>                      | <b>2.2</b>     | <b>9,210</b>                |

Deutsche Telekom's personnel costs increased slightly in the first three months of 2000 by 2.2 % compared with the same period last year. This is attributable in part to the increase in the average number of employees by 0.7 % to 195,841 (excluding trainees and student interns) compared with the first three months of 1999, which in turn is due to the first-time full consolidation of newly acquired companies (a total of 8,480 full-time staff) and offsets reductions elsewhere in the Deutsche Telekom Group. A further reason for the increase in personnel

costs is the change in the proportion of civil servants relative to salaried employees. Together with age-related salary increases and the collectively agreed wage and salary increase from April 1, 1999 and the review of salaries in some areas to bring them in line with market conditions, this resulted in an increase in personnel costs. At the same time, social security contributions and expenses for pension plans and benefits decreased by EUR 135 million as a result of changes to the requirements relating to civil servant pension contributions.

| Average number of employees   | 1st quarter 2000<br>Number | 1st quarter 1999<br>Number | Change<br>in % | Total 1999<br>Number |
|-------------------------------|----------------------------|----------------------------|----------------|----------------------|
| Civil servants                | 69,031                     | 81,537                     | -15.3          | 76,223               |
| Salaried employees            | 85,772                     | 72,676                     | 18.0           | 77,991               |
| Wage earners                  | 41,038                     | 40,342                     | 1.7            | 43,792               |
| <b>Deutsche Telekom Group</b> | <b>195,841</b>             | <b>194,555</b>             | <b>0.7</b>     | <b>198,006</b>       |
| Trainees/student interns      | 6,540                      | 6,022                      | 8.6            | 6,354                |

| Number of employees at balance sheet date | March 31, 2000<br>Number | Dec. 31, 1999<br>Number | Change<br>in % | March 31, 1999<br>Number |
|-------------------------------------------|--------------------------|-------------------------|----------------|--------------------------|
| Civil servants                            | 68,380                   | 71,123                  | -3.9           | 80,727                   |
| Salaried employees                        | 86,719                   | 83,215                  | 4.2            | 72,846                   |
| Wage earners                              | 40,901                   | 41,450                  | -1.3           | 40,079                   |
| <b>Deutsche Telekom Group</b>             | <b>196,000</b>           | <b>195,788</b>          | <b>0.1</b>     | <b>193,652</b>           |
| Trainees/student interns                  | 6,292                    | 7,480                   | -15.9          | 5,941                    |

The number of employees (adjusted to reflect full-time jobs and excluding trainees and student interns) increased by 0.1 % compared with December 31, 1999 to 196,000 as at March 31, 2000.

## Depreciation and amortization

|                               | 1 <sup>st</sup> quarter 2000<br>millions of € | 1 <sup>st</sup> quarter 1999<br>millions of € | Change<br>in % | Total 1999<br>millions of € |
|-------------------------------|-----------------------------------------------|-----------------------------------------------|----------------|-----------------------------|
| Depreciation and amortization | 2,551                                         | 1,909                                         | 33.6           | 8,466                       |

In the period under review, depreciation and amortization increased considerably compared with the first three months of 1999. This is attributable to two factors. First, the companies newly acquired in 1999 have an impact with scheduled depreciation and amortization and the amortization of goodwill (EUR 377 million). Second, there were nonscheduled write-downs amounting to EUR 383 million in the outside plant net-

work on parts of the old network architecture resulting from the accelerated conversion to fiber-optic technology. These effects were compensated in part by the lower total level of depreciation and amortization. Overall, depreciation and amortization increased by EUR 642 million compared with the first three months of 1999.

## Changes in net income

The Group's results from ordinary business activities in the first three months of 2000 amounted to EUR 2,336 million and were thus EUR 1,153 million higher than in the same period last year. This improvement is the result of various factors. In the first three months of 2000, Deutsche Telekom generated EUR 2,864 million as proceeds from the sale of its shares in Global One to France Telecom. The companies fully consolidated for the first time in 1999, in particular One 2 One, max.mobil. and SIRIS, contributed EUR 920 million to the increase in revenue. T-Mobil and the segments carrier services and data communications accounted for further increases in revenue. The level of goods and services purchased increased compared with the first three months of 1999. This increase was due in particular to an increase in the level of goods purchased and an increase in expense for network access charges, as well as the first-time full consolidation of the newly acquired companies. Depreciation and amortization was also affected by the first-time full consolidation of the

companies acquired in 1999. The main effect was the amortization of goodwill on the new acquisitions, amounting to EUR 232 million, and the scheduled depreciation of the non-current assets of these companies, in total EUR 377 million. Furthermore, nonscheduled write-downs on long-distance cables replaced by fiber-optic technology amounting to EUR 383 million also increased the overall level of depreciation and amortization. The change in financial expense is a result of considerable improvement in the loss related to subsidiaries and associated and related companies, which was offset partially by the increase in net interest expense. Other operating expenses increased due to the extra expense from the newly consolidated companies, amounting to EUR 322 million, and the increased losses on the disposition of noncurrent assets, EUR 433 million, as well as additional expenses of approximately EUR 180 million relating to additions to accruals for our international investments as well as for litigation risks.

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

Share offering costs of EUR 47 million were included in the extraordinary losses. The decrease in tax expense by a total of EUR 329 million compared to the first three months of 1999 is mainly attributable to the tax-free profits of the sale

of Deutsche Telekom's shares in Global One. Thus, net income of the Group after extraordinary income (losses) amounted to EUR 1,960 million, EUR 1,425 million higher than in the same period in 1999.

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

|                                                                                          | 1 <sup>st</sup> quarter 2000<br>millions of € | 1 <sup>st</sup> quarter 1999<br>millions of € | Change<br>in % | Total 1999<br>millions of € |
|------------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|----------------|-----------------------------|
| <b>Net income as reported in the consolidated financial statements under German GAAP</b> | <b>1,960</b>                                  | <b>535</b>                                    | <b>266.4</b>   | <b>1,253</b>                |
| Personnel restructuring accrual                                                          | (18)                                          | (27)                                          | -              | (97)                        |
| Other differences                                                                        | 34                                            | 87                                            | -              | 601                         |
| Income taxes                                                                             | 143                                           | (185)                                         | -              | (244)                       |
| <b>Net income in accordance with U.S. GAAP</b>                                           | <b>2,119</b>                                  | <b>410</b>                                    | <b>416.8</b>   | <b>1,513</b>                |

As at March 31, 2000 shareholders' equity in accordance with U.S. GAAP amounted to EUR 40,158 million (Dec. 31, 1999: EUR 37,611 million).

## Investments

|                               | 1 <sup>st</sup> quarter 2000<br>millions of € | 1 <sup>st</sup> quarter 1999<br>millions of € | Change<br>in % | Total 1999<br>millions of € |
|-------------------------------|-----------------------------------------------|-----------------------------------------------|----------------|-----------------------------|
| Intangible assets             | 962                                           | 39                                            | 2,366.6        | 14,036                      |
| Property, plant and equipment | 1,308                                         | 795                                           | 64.5           | 5,093                       |
| Financial assets              | 1,436                                         | 647                                           | 121.9          | 3,731                       |
| <b>Total</b>                  | <b>3,706</b>                                  | <b>1,481</b>                                  | <b>150.2</b>   | <b>22,860</b>               |

Deutsche Telekom invested EUR 3,706 million in the first three months of 2000. The first quarter was dominated by the purchase of MediaOne's activities in Poland and Hungary. Investments in financial assets amounted to EUR 1,436 million, of which EUR 1,329 million relates to increases in investments in associated companies (in particular the Polish company PTC) and other related companies. Additions to in-

tangible assets in the Deutsche Telekom Group amounted to EUR 962 million, of which EUR 883 million is attributable to the goodwill from the acquisition of the remaining shares in Westel 450 and Westel 900 (indirectly via MediaOne). The increase in investments in property, plant and equipment amounted to EUR 1,308 million. This relates mainly to the property, plant and equipment of Deutsche Telekom AG.

# Financial liabilities

|                                         | March 31, 2000<br>millions of € | Dec. 31, 1999<br>millions of € | Change<br>in % | March 31, 1999<br>millions of € |
|-----------------------------------------|---------------------------------|--------------------------------|----------------|---------------------------------|
| Debt                                    | 45,214                          | 42,337                         | 6.8            | 39,009                          |
| Net financial liabilities <sup>1)</sup> | 39,150                          | 39,395                         | -0.6           | 33,231                          |

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

Debt increased in the first three months of 2000 by 6.8 % compared with December 31, 1999. This increase did not, however, affect the level of net financial liabilities, as liquid assets and marketable securities also increased. The increase in debt is mainly attributable to borrowings to finance the capi-

tal increase of T-Online and to finance One 2 One. The proceeds from the sale of Global One had a positive effect on liquid assets. Overall, this resulted in a slight decrease in net financial liabilities.

## Cash flows

### Net cash provided by operating activities

Net cash provided by operating activities amounted to EUR 1,028 million in the first three months of 2000. This represents a decrease of EUR 598 million compared with the same period last year. The Group's income after taxes was EUR 1,435 million higher than in the first three months of 1999, but this is mainly attributable to the proceeds from the sale of Global One, which are shown under net cash used for investing activities. The amount of income tax paid was higher while income tax expense was considerably lower, which had a negative effect on net cash provided by operating activities. The considerably higher level of depreciation and amortization, which did not result in an outflow of cash, had a negative effect on the Group's results. One positive effect was a result of the change in working capital, in particular from the reduction in trade accounts receivable.

### Net cash used for investing activities

Net cash used for investing activities decreased compared with the first three months of 1999 by EUR 341 million to EUR 536 million. This is attributable to the following effects: A considerably higher level of liquid assets was used for investing activities than in the first three months of 1999 (increase of EUR 2,173 million), mainly for the acquisition of additional shares in Westel 450 and Westel 900 and PTC, amounting to a total of EUR 2,049 million. This effect was offset by cash inflows of EUR 2,934 million, predominantly from the sale of Global One.

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

Net cash provided by financing activities in the first three months of 2000 was marked by a net cash inflow of EUR 2,778 million, mainly from short-term borrowings, compared with a EUR 933 million reduction in debt in the first three months of 1999.

Bonn, May 2000  
Deutsche Telekom AG

Board of Management

Further information on Deutsche Telekom is available from:

**Deutsche Telekom AG**

Group Communications

Postfach 20 00

D-53105 Bonn

Phone + 49 2 28 1 81-49 49

Fax + 49 2 28 1 81-9 40 04

Internet: [www.telekom.de/international](http://www.telekom.de/international)

**Investor Relations**

Phone + 49 2 28 1 81-8 88 80

Fax + 49 2 28 1 81-8 80 09

E-Mail: [Investor.Relations@telekom.de](mailto:Investor.Relations@telekom.de)

New York Office

Phone + 1-212-424-29 51

Fax + 1-212-424-29 77

**Additional copies of this report are available at:**

Phone + 49 9 21 18-10 21

Fax + 49 9 21 18-10 29

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**The German version of this Report is legally binding.**